Partnership.
Opportunity.
Growth.

LEAGUE SAVINGS AND MORTGAGE COMPANY
ANNUAL REPORT 2020

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

About League Savings and Mortgage Company

League Savings and Mortgage Company is an OSFI federally regulated financial institution incorporated under the Trust and Loan Companies Act (Canada). The company has been a trusted credit union partner providing a broad range of products and services to help support credit union growth and their members achieve financial success since 1966.

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

In addition, League Savings is:

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

CHAIR'S MESSAGE

The ability to lead and adapt in times of disruption ensures an organization's success and the well-being of its employees. League Savings successfully navigated 2020, one of the most disruptive years for business in recent history and emerged strong. This was largely due to the dedicated efforts of the management team and staff, who worked tirelessly to ensure League Savings continued to operate smoothly and support credit unions and their members. I commend their leadership, resilience, hard work and commitment during an incredibly challenging time.

We remained focused on our priorities throughout the year and met weekly with the Management team to evaluate risks and adjust course as necessary. Even though our plan to venture into new markets was impacted by the global pandemic, our new business model has been designed to ensure stable performance through periods of volatility due to our access to broader channels for revenue generation. Our financial resiliency was put to the test in 2020, and the results prove that we chose the right direction for League Savings. I'm proud of the work we've done to ensure the sustainability of the company's business well into the future. We are a stronger company and a more valuable partner to credit unions.

We achieved significant results with our CMB program, with more than $750 million of CMB assets secured in our off-balance sheet, our most successful year to date. We continued to strengthen our relationship with key partners, MCAP and People's Trust, and worked well with both to manage our mortgage portfolio throughout the pandemic.

A key part of League Savings' strategy is to raise new capital to help grow our business and increase our profitability. I am pleased to say that the company raised $2 million in new share capital in 2020 and an additional $10 million to come in January 2021. I would like to thank the credit unions that invested in League Savings – their trust and confidence in our company is much appreciated, and we look forward to supporting credit unions and creating even more value for them in the years to come.

Our first Sustainability Report was issued in 2020 and I'm proud to share that significant work was completed on our joint CSR Strategy with Atlantic Central. Launched in 2019, the strategy ensures we conduct our business in a way that aligns with our values. In keeping with our strategy, I'm pleased to say that League Savings entered the Affordable Housing market and successfully approved two deals worth $21.8 million in 2020. It took significant effort to be able to enter this space and I want to congratulate the team on their dedication to making it a success. We are excited to do more work in this area in 2021, and look forward to helping create healthy, successful communities.

We will continue to expand our business offerings to provide opportunities for credit unions to grow their business. The partnerships we've built nationally have significant potential to increase our profitability, improve returns to credit unions and bring value to their members. I look forward to what the future holds for League Savings and the Atlantic credit union system.

The past year brought unexpected change for us all. As an organization we responded responsibly, strategically, and successfully. But it's our people who drive our purpose – they are the heart of League Savings. On behalf of the board, I want to thank the management team and staff for showing up every day, committed to supporting our company, our credit unions, and their members. We are immensely proud of you and the work you do.

Jim MacFarlane Chair
League Savings and Mortgage Company Board of Directors

CEO'S MESSAGE

The year began full of promise and opportunity for League Savings. Our new operating model was fully implemented, and our new national partners were fully engaged. The company had an ambitious business plan – we expected to explore several different markets, raise capital, and showcase the value of our business model by offering new assets to credit unions to help diversify your balance sheets and improve your earnings. And then COVID-19 happened, disrupting everyone and everything, including League Savings.

I want to begin by recognizing our team for their amazing response to the pandemic and subsequent lockdown. With the upheaval that created challenges both personally and professionally, you transitioned seamlessly to a work-from-home model, as committed as ever to the work we do, to provide value and support to credit unions. I realize that it probably was not seamless from your perspective, but from my perspective, the professionalism you displayed made it appear effortless. I appreciate what a tremendous challenge that must have been.

The markets we planned to enter in 2020 were significantly disrupted and, as a result, we relied more heavily on our mortgage business than expected. Mortgage volumes remained strong and our use of on-balance sheet securitization programs to secure funding, continued to be important. We also secured considerably higher volumes of off-balance sheet multi-residential securitization assets, significantly boosting profitability.

As part of our transition to the new model, we committed to maintaining our traditional business of accepting mortgage and deposit referrals. To enable this, we partnered with MCAP for mortgage administration in 2019. While the initial launch came with challenges and many learnings, I was very pleased to see a significant increase in credit union satisfaction with our mortgage referral business in 2020; from 64% in 2019 to 83% in 2020. Mortgage brokers participated in the survey for the first time in 2020, and their satisfaction rating was 86%. We hope these increased results reflects our work to improve your experience over the past two years, and we look forward to continuing to serve you in the years to come.

One of the most important initiatives planned for 2020 was raising capital. As we discussed in our regular webinars throughout the year, the business model is focused on accessing new markets to improve our profitability. Having sufficient capital to grow the business is a key part of the strategy. League Savings has not typically needed new capital as our balance sheet remained fairly stable for many years, so, this was a relatively novel venture for us. We are very thankful to the credit unions that subscribed to the capital opportunity, which was oversold by more than 50%. We are confident that we will have the capital needed to grow the business well into 2022.

...it is clear to me that our progressive vision for League Savings, one where the company explores new markets nationally and significantly diversifies its business, is the right one.

I am very pleased with the work completed on our joint CSR strategy with Atlantic Central, which is designed to ensure that our operations reflect our values. In exploring the strategy for League Savings, we realized that our long history in the cooperative housing and multi-unit residential financing markets made addressing the affordable housing crisis in our region a logical opportunity. We made good progress in 2020, approving more than $20 Million in affordable housing projects, and this is just the beginning.

In reviewing our performance for 2020, it is clear to me that our progressive vision for League Savings, one where the company explores new markets nationally and significantly diversifies its business, is the right one. If part of our business suffers due to market volatility, other dimensions of the business can support us. As in most things financial, diversification is a good thing, and the new model facilitates that. As a result, the company exceeded its budget expectation, a significant feat given the level of disruption we all experienced, and good news for our credit unions too.

Finally, as we expand our markets, we need to continue to evolve our skills to ensure we prudently manage the business, at both management and board levels. The management team has done significant work to expand our analytics and risk capabilities. In 2021, the board is welcoming a new director position, specifically designed to bring additional skills and experience to the board table. We look forward to announcing this director in 2021.

I want to say a special thank you to our team – it was a tremendously difficult year for all of us. As always, I am so grateful for your commitment, which was on full display in 2020.

To our directors, thank you for your patience and guidance. In such uncertain times it was comforting to have your unwavering support, even in the midst of substantial changes to our plans. Our results are a testament to the great work we did together in 2020.

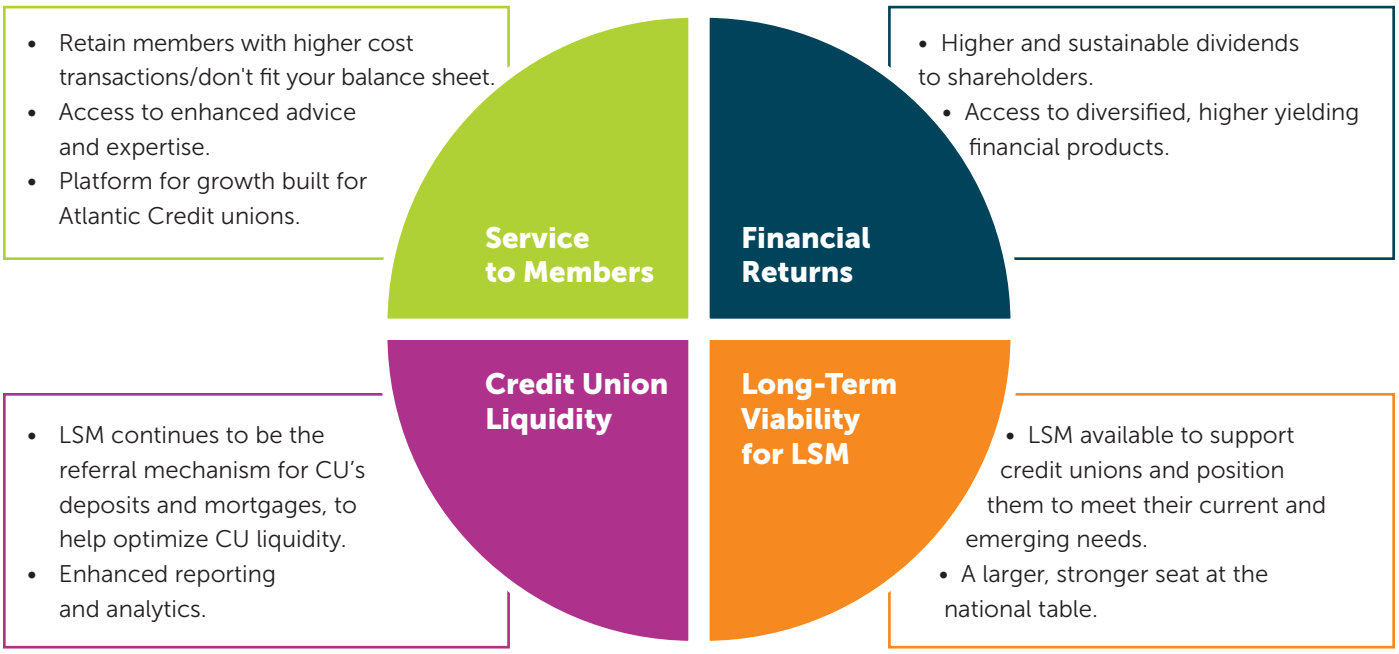
Finally, to our credit union shareholders and partners, League Saving is healthy and growing. Our new model is now firmly in place and we are ready to help you grow your business in innovative and exciting ways.

Michael Leonard
President and CEO
League Savings and Mortgage Company

BUSINESS MODEL

League Savings' business model has evolved from a primarily residential mortgage and deposit company to a national wholesale financial services provider for credit unions. Increased opportunities to tap into new and more profitable business channels made possible through League's strong relationships with system partners across the country, creates significantly more value for credit unions and other key stakeholders.

League Savings' business model is designed to deliver four dimensions of value to credit unions.



Our survey results indicate the vast majority (90%+) of credit unions agreed that each of the four dimensions of League Savings' business model will add value for their credit union.

SNAPSHOT OF KEY RESULTS

OUR BALANCE SHEET IS STRONG

$715.3M
Assets ($704.2 in 2019)

$372.2M
Deposits ($404.2M in 2019)

$59.4M
Total Regulatory Capital ($52.1M in 2019)

16.7%
CETi Ratio

491%
Liquidity Coverage Ratio

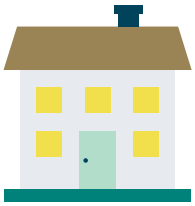
CAPITAL INVESTMENT

$12M

Raised in new CET1 (common share) capital to support business growth and to help enable LSM to enter new asset markets.

NEW BUSINESS

Affordable Housing



$22M
Approved

$6.2M
Advanced by year end

Securitization Program

	2019	2020
Mulit-residential insured securitization	$609M	**$767M**
Total CMB off-balance sheet assets generated returns to LSM	$1.6B $3.2M	**$2.4B** **$4.4M**
Total MBS funding	$224M	**$269M**

Mortgage Volumes

Residential	2019	2020
Advances	$61.9M	**$77.4M**
Renewal retention average	85%	**87%**

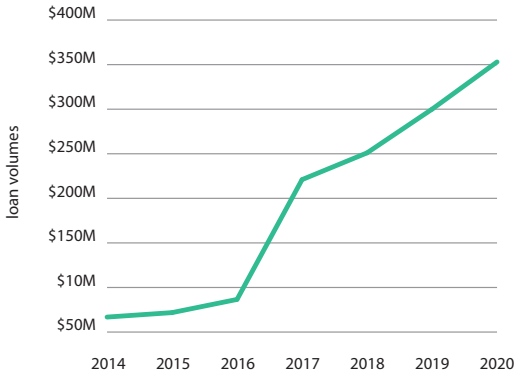
Commercial	2019	2020
Advances	$43.5M	**$77M** including affordable housing

SNAPSHOT OF KEY RESULTS

NEW BUSINESS

Syndication Portfolio Continues to Deliver Results!

League Savings partners with Atlantic Central and credit unions to provide opportunities to invest in larger-scale commercial developments. This enables credit unions greater access to the real estate market and a higher return on their investment.



Grew to

$353M

$295M in 2019

$7.7M

Net interest revenue to credit unions ($7.3M in 2019)

$5M

To other system partners ($4.3M in 2019)

BETTER EARTH™ PORTFOLIO

Through our partnership with Desjardins we are proud to offer this green investment option to credit unions. It was re-launched in 2020 and includes a diverse portfolio of best-in-class companies actively committed to reducing the environmental impact of their operations.

My member was very happy with the rate of return (6.77% as an annual 2-year compound rate).

This type of investment will really be of interest to our organic farming community.

EFFICIENCY RATIO

44%
2020

47%
2019

CUSTOMER SATISFACTION SURVEY

Relationship satisfaction

8.1
2020

6.4
2019

Service performance

8.2
2020

6.8
2019

PANDEMIC SUPPORT

League Savings in collaboration with Atlantic Central played a key role in rolling out important government support programs to help credit unions support individual and business members financially impacted by the COVID-19 pandemic.

- CEBA
- Nova Scotia Small Business Loan Guarantee Program
- BCAP
- PEI Fisheries Loan Program

Payment Deferral Program

LSM Payment deferrals in place at the height of the pandemic:

14.5%
of residential borrowers

27%
of commercial borrowers

100%
of borrowers resumed regular payment schedules by year end

You make things easy and simple...just the way we like it!

Love working with League Savings and Atlantic Central. The turnaround is fantastic!

LSM Payment delinquency at year end:

- Commercial – 0%
- Residential – 0.25% (industry standard is 0.60%)

Significant effort was spent working with provincial regulators and credit unions to implement a payment deferral process to enable credit unions to deliver guaranteed loans. A total of 142 members received guaranteed loans.

MANAGEMENT TEAM

Michael Leonard
President & CEO

Don Noyes
VP Finance

Kim Walker
Chief Operating Officer

Brenda Roberts-Harmon
VP Corporate Services
& Chief Risk Officer

Paul Paruch
VP Digital & Payments

CORPORATE GOVERNANCE

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

BOARD COMPOSITION

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

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

In 2021, the board will be appointing an additional director to fill the need for identified competencies.

The following individuals currently serve on the board:

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

The board and each committee meet at least once each fiscal quarter, and the board holds an annual strategic planning session. The board meets at other times when matters requiring its approval or consideration are raised and it is not possible or prudent to wait for the next regularly scheduled meeting. The board met eleven times in 2020.

COMMITTEES OF THE BOARD

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

Audit, Risk and Conduct Review Committees

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

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

Co-operative Social Responsibility Committee

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

(Joint) Committee Members: Gary O'Brien (Chair), Pat Duffield, Sarah Millar, William Timmons, and Thomas Vickers (AC).

Executive/Human Resources Committee

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

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

Governance Committee

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

Committee Members: Jim MacFarlane (Chair), Tammy Christopher, Pat Duffield, Carol Ripley, and George Smith.

MANDATE OF THE BOARD OF DIRECTORS

While the board's fundamental responsibility is to oversee the management of the business and affairs of League Savings, any responsibility that is not specifically delegated to the President and CEO remains with the board. In particular, the board oversees League Savings' strategic direction to ensure it serves the organization, Central's member credit unions, employees, and communities of New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island. The board assumes overall stewardship with respect to League Savings' purpose and values, its long-term objectives and the approval of corporate strategies. Specifically, the board is responsible for:

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

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The board 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 2020:

Name	Board and Planning Session	Audit, Risk & Conduct Review Committees	Co-operative Social Responsibility Committee	Executive/HR Committee	Governance Committee
Jim MacFarlane*	10/11			15/15	4/4
Tammy Christopher*	9/11			13/15	4/4
Pat Duffield	11/11		7/7		4/4
William Marr	8/11	4/4			
Sarah Millar	10/11		7/7	14/15	
Paul Newman	11/11	4/4			
Gary O'Brien	8/11		6/7		
Carol Ripley	11/11	4/4			2/2
George Smith	10/11	4/4			2/2
Raymond Surette	11/11				
William Timmons	10/11		6/7	15/15	

*Table Officer


Jim MacFarlane, Chair


Tammy Christopher, Vice-Chair


Pat Duffield


William Marr


Sarah Millar


Paul Newman


Gary O'Brien


Carol Ripley


George Smith


Raymond Surette


William Timmons

BOARD EVALUATIONS

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

EVOLVING GOVERNANCE PRACTICES

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

League Savings and Mortgage Company

Financial Statements
December 31, 2020

(expressed in Canadian dollars)

March 3, 2021

Management's Responsibility for Financial Statements

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

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

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

Michael Leonard
President and CEO

Donald M. Noyes, CPA, CA
Vice President Finance

Independent auditor's report

To the Shareholders of League Savings and Mortgage Company

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of League Savings and Mortgage Company (the Company) as at December 31, 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's financial statements comprise:

- the balance sheet as at December 31, 2020;
- the statement of income for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in shareholders' equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Halifax, Nova Scotia
March 3, 2021

League Savings and Mortgage Company

Balance Sheet

As at December 31, 2020

	Note	2020 $	2019 $
Assets			
Cash and cash equivalents		31,544	4,403,746
Restricted cash		1,200,808	1,280,049
Investments	6	29,122,308	28,035,697
Loans and mortgages	7	591,373,570	604,605,159
Accrued interest		1,448,298	1,382,233
Deferred tax assets	14	781,501	619,526
Securitization assets	8	86,716,469	58,913,513
Capital tax receivable		20,219	-
Other assets		4,665,762	5,046,007
		715,360,479	704,285,930
Liabilities			
Borrowings	16	5,663,241	-
Deposits	9	372,221,116	404,242,079
Accrued interest		3,159,239	3,810,239
Accounts payable and accrued liabilities		10,240,373	6,897,175
Servicing liabilities		28,519,061	15,112,145
Capital tax payable		-	125,846
Income tax payable		48,332	283,751
Mortgage backed securities	8	238,696,173	223,614,772
		658,547,535	654,086,007
Shareholders' equity			
Capital stock	10	25,873,258	23,058,613
Contributed surplus		1,785,887	1,785,887
Retained earnings		28,494,167	25,331,597
Accumulated other comprehensive income		659,632	23,826
		56,812,944	50,199,923
		715,360,479	704,285,930
Commitments and contractual obligations	13		

Approved on Behalf of the Board

Michael Leonard	*Jim MacFarlane*	*Carol Ripley*
President and CEO	Chair	Director

League Savings and Mortgage Company

Statement of Income

For the year ended December 31, 2020

	Note	2020 $	2019 $
Financial income			
Income from investments		837,700	627,375
Interest on loans and mortgages		22,025,059	21,099,331
		22,862,759	21,726,706
Financial expense		12,832,367	12,184,075
Gross financial margin		10,030,392	9,542,631
Provision for credit losses		713,933	429,461
Net financial margin		9,316,459	9,113,170
Securitization gains	8	4,445,689	3,169,065
Non-interest expense	18	(1,306,533)	(982,263)
		12,455,615	11,299,972
Operating expenses			
Management fees	12	4,676,990	4,467,025
Office expense		342,848	374,729
Democracy		161,368	243,534
Professional fees		117,417	120,810
Other expenses		175,754	113,982
		5,474,377	5,320,080
Operating income		6,981,238	5,979,892
Initiatives and restructuring expenses	19	168,760	-
Income before income taxes		6,812,478	5,979,892
Capital tax	14	1,114,935	863,846
Income taxes	14	1,720,328	1,587,019
Net income for the year		3,977,215	3,529,027

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

League Savings and Mortgage Company

Statement of Comprehensive Income

For the year ended December 31, 2020

	Note	2020 $	2019 $
Net income for the year		3,977,215	3,529,027
Other comprehensive income **("OCI")**			
Items that will be reclassified subsequently to income			
Net change in unrealized gains (losses) on investments at fair value through OCI			
Net unrealized gains on mark to market investments		1,159,388	140,070
Reclassification of net realized gains to net income		(257,553)	-
Income tax expense	14		
On unrealized gains on mark to market investments		(342,007)	(43,422)
On reclassification of net realized gains to net income		75,978	-
Other comprehensive income		635,806	96,648
Comprehensive income		4,613,021	3,625,675

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

League Savings and Mortgage Company

Statement of Changes in Shareholders' Equity

For the year ended December 31, 2020

	Common shares $ (note 10)	Contributed surplus $	Retained earnings $	Accumulated other comprehensive income (loss) $	Total equity $
Year ended December 31, 2020					
Balance – Beginning of year	23,058,613	1,785,887	25,331,597	23,826	50,199,923
Net income	-	-	3,977,215	-	3,977,215
Other comprehensive income, net of tax	-	-	-	635,806	635,806
Comprehensive income	-	-	3,977,215	635,806	4,613,021
Shares issued	2,000,000	-	-	-	2,000,000
Shares redeemed	-	-	-	-	-
Stock dividend	814,645	-	(814,645)	-	-
Balance – End of year	25,873,258	1,785,887	28,494,167	659,632	56,812,944
Year ended December 31, 2019					
Balance – Beginning of year	22,101,613	1,785,887	22,759,570	(72,822)	46,574,248
Net income	-	-	3,529,027	-	3,529,027
Other comprehensive loss, net of tax	-	-	-	96,648	96,648
Comprehensive income (loss)	-	-	3,529,027	96,648	3,625,675
Shares issued	-	-	-	-	-
Shares redeemed	-	-	-	-	-
Stock dividend	957,000	-	(957,000)	-	-
Balance – End of year	23,058,613	1,785,887	25,331,597	23,826	50,199,923

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

League Savings and Mortgage Company

Statement of Cash Flows

For the year ended December 31, 2020

	2020 $	2019 $
Cash provided by (used in)		
Operating activities		
Net income for the year	3,977,215	3,529,027
Charges (credits) to income not involving cash		
Loans and mortgages, net	13,231,588	(80,899,869)
Deposits, net	(32,020,963)	84,334,125
Mortgage backed securities, net	15,081,401	21,038,504
Interest receivable/payable, net	(717,065)	1,793,073
Income taxes receivable/payable, net	(235,419)	283,751
Deferred tax assets, net	(161,975)	(88,310)
Other items, net	(10,818,661)	(20,554,477)
	(11,663,879)	9,435,824
Financing activities		
Net proceeds from issuance (redemption) of capital	2,000,000	-
Investing activities		
Investments, net	(450,805)	(271,026)
Net change in cash and cash equivalents	(10,114,684)	9,164,798
Cash and cash equivalents – Beginning of year	5,683,795	(3,481,003)
Cash and cash equivalents – End of year	(4,430,889)	5,683,795
Cash and cash equivalents include		
Cash and balances with financial institutions	31,544	4,403,746
Restricted cash	1,200,808	1,280,049
Cash from borrowings	(5,663,241)	-
	(4,430,889)	5,683,795
Supplemental disclosure of cash flow information		
Interest received	22,784,100	19,411,541
Dividends received	12,594	29,521
Interest paid	13,483,367	9,454,076
Income taxes paid, net of refunds	2,381,006	1,435,000

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

1 Reporting entity

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

Atlantic Central (Central) owns 100% of the common shares. Central is the continuance of Credit Union Central of Nova Scotia and is owned by credit unions in the Atlantic provinces.

The financial statements were authorized for issue by the Board of Directors on March 3, 2021.

2 Basis of presentation

The financial statements are presented in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of the financial statements are set out in note 4. The financial statements have been prepared on the historical cost basis except for certain financial instruments as indicated in note 4.

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

3 Changes in accounting standards

Changes in accounting policies during the year

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

Future changes in accounting policies

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

4 Summary of significant accounting policies

Cash and cash equivalents

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

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

Financial instruments

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

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

Measurement methods – Amortized cost and effective interest rate

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

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

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

Interest income

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

Initial recognition and measurement

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

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

Classification and subsequent measurement

Assets carried at amortized cost are measured as outlined above.

Investments

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

Debt instruments

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

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

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

Business model

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

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

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

SPPI

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

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

Equity instruments

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

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

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

Impairment

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

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

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

Modifications of loans

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

- if the borrower is in financial difficulty, where the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- significant extension of the loan term when the borrower is not in financial difficulty;
- significant change in the interest rate;
- change in the currency the loan is denominated in;

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

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

Derecognition other than on a modification

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

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

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

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

Financial liabilities

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

Mortgage backed securities

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

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

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

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

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

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

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

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

Derecognition

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

Securitization retained interests and servicing liabilities

In certain cases, the Company has purchased pools of mortgages for subsequent sale into the CMB program where the Company's exposure to risks and rewards from the securitized assets is quite limited. In these transactions, the Company retains the rights to the future excess interest spread and the liability associated with servicing the assets sold, with very little exposure to variable cash flows.

The Company accounts for its retained interests and servicing liabilities on the balance sheet, in securitization assets and accounts payable and other accrued liabilities, respectively. During the life of the securitization, as cash is received, the retained interest and the servicing liability are amortized and recognized in the statement of income under interest on loans and mortgages and non-interest income (securitization expenses), respectively.

Gains on securitization

When these assets are derecognized, the gains or losses on the transactions are recorded in securitization gains and are dependent in part on the previous carrying amount of the financial assets involved in the transfer. The proceeds of the sale are allocated between the assets sold and the retained interests, based on their relative fair value at the date of transfer and net of transaction costs.

Deposits

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

Revenue recognition

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

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

Income taxes

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

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

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

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

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

Initiatives and restructuring

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

Critical accounting estimates and assumptions

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

On March 11, 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The Canadian economy experienced significant disruption and market volatility related to the pandemic. The overall impact of the pandemic continues to be uncertain and is dependent on actions taken by Canadian governments, businesses and individuals to limit spread of COVID-19, as well as government economic response and support efforts.

Due to the unprecedented nature of the pandemic, developing reliable estimates and applying judgment has become more difficult. Accounting for ECL has become particularly difficult in the current circumstances. Consideration is given both to the effects of COVID-19 and the significant government support measures, however, significant measurement uncertainty exists in determining ECLs and measurement is subject to significant judgment.

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

Fair value of financial instruments

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

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

ECL allowance

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

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

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

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

Derecognition of loans and mortgages

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

Income taxes

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

5 Risk management

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

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

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

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

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

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

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

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

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

Credit risk

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

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

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

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

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

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

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

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

ECL measurement

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

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

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

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

Significant increase in credit risk (SICR)

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

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

- for consumer and residential loans:
  - contractual cash flow obligations are more than 30 days past due, and/or;
  - available information at the reporting date indicates that the ability of the borrower to fulfill its contractual cash flow obligations will be reduced (i.e. using internal watch lists for monitoring the credit risk of borrowers); and

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

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

Definition of default and credit-impaired assets

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

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

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

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

Measuring ECL — Explanation of inputs, assumptions and estimation techniques

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

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

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

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

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

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

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

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

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

Collateral held and other credit risk enhancements

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

Assets obtained by the Company, by taking possession of collateral held as security against loans and advances, are included in other assets. The balance held as at December 31, 2020 was $645,820 (2019 – $1,059,468).

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; and
- performing scenario testing and contingency planning.

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

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

Market risk

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity prices and commodity prices. Market risk exposures are managed through policies, standards and limits established by the Board, which are formally reviewed and approved annually. This includes limits on the mismatch of foreign currency assets and liabilities, and limits on the amount of equity investments permitted in the securities portfolio. The Company has no exposure to commodity prices.

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

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

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

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

	2020 $	2019 $
100 basis point increase	(510,110)	(199,220)
100 basis point decrease	(77,290)	189,060

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 income at risk were within this limit.

6 Investments

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

	2020		2019	
	Cost $	Market value $	Cost $	Market value $
Government debt	28,042,640	28,847,783	27,857,864	27,740,872
Co-operative equities	4,025	4,025	4,025	4,025
Corporate equities	50,000	270,500	50,000	290,800
	28,096,665	29,122,308	27,911,889	28,035,697

7 Loans and mortgages

As at December 31, 2020, loans are presented net of ECLs totalling $2,620,896 (2019 – $2,072,547). Loans are initially measured at fair value and are subsequently measured at amortized cost.

	Total loans $	Allowance for credit losses $	Net loans $
2020			
Consumer loans	3,904,892	188,594	3,716,298
Residential insured	308,489,200	80,524	308,408,676
Residential uninsured	92,053,180	544,992	91,508,188
Multi-residential insured	10,818,103	3,505	10,814,598
Multi-residential uninsured	79,961,493	582,941	79,378,552
Non-residential	98,767,598	1,220,340	97,547,258
	593,994,466	2,620,896	591,373,570

2019			
Consumer loans	2,296,189	86,516	2,209,673
Residential insured	309,603,301	68,796	309,534,505
Residential uninsured	144,520,455	674,909	143,845,546
Multi-residential insured	10,064,690	2,609	10,062,081
Multi-residential uninsured	70,683,303	459,159	70,224,144
Non-residential	69,509,768	780,558	68,729,210
	606,677,706	2,072,547	604,605,159

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

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
2020				
Consumer loans	3,898,528	4,656	1,708	3,904,892
Residential insured	307,183,688	1,022,051	283,460	308,489,200
Residential uninsured	91,881,459	171,721	-	92,053,180
Multi-residential insured	10,818,103	-	-	10,818,103
Multi-residential uninsured	79,961,493	-	-	79,961,493
Non-residential	98,767,598	-	-	98,767,598
	592,510,869	1,198,428	285,168	593,994,466
2019				
Consumer loans	2,285,892	10,297	-	2,296,189
Residential insured	308,229,313	975,077	398,911	309,603,301
Residential uninsured	144,341,423	179,032	-	144,520,455
Multi-residential insured	10,064,690	-	-	10,064,690
Multi-residential uninsured	70,489,617	-	193,686	70,683,303
Non-residential	69,389,150	-	120,618	69,509,768
	604,800,085	1,164,406	713,215	606,677,706

Loss allowance

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

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

- financial assets derecognized during the period and the write-offs of allowances related to assets that were written off during the period.

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

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Consumer loans				
Balance as at December 31, 2019	80,965	5,551	-	86,516
Gross write-offs	(28,109)	(1,200)	(134)	(29,443)
Recoveries	9,537	407	45	9,989
Remeasurement	121,230	(1,495)	1,797	121,532
Balance as at December 31, 2020	183,623	3,263	1,708	188,594
Residential insured				
Balance as at December 31, 2019	62,153	1,402	5,241	68,796
Transfer to (from)				
Stage 1	(1,487)	1,487	-	-
Stage 2	-	(113)	113	-
Stage 3	870	-	(870)	-
Recoveries	-	-	2,996	2,996
Remeasurement [(a)]	15,878	(939)	(6,207)	8,732
Balance as at December 31, 2020	77,414	1,837	1,273	80,524
Residential uninsured				
Balance as at December 31, 2019	668,983	5,926	-	674,909
Transfer to (from)				
Stage 1	(5,959)	5,959	-	-
Stage 2	3,667	(3,667)	-	-
Gross write-offs	-	-	(2)	(2)
Remeasurement [(a)]	(128,641)	(1,276)	2	(129,915)
Balance as at December 31, 2020	538,050	6,942	-	544,992

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Multi-residential insured				
Balance as at December 31, 2019	2,609	-	-	2,609
Remeasurement [(a)]	896	-	-	896
Balance as at December 31, 2020	3,505	-	-	3,505
Multi-residential uninsured				
Balance as at December 31, 2019	411,193	-	47,966	459,159
Remeasurement [(a)]	171,748	-	(47,966)	123,782
Balance as at December 31, 2020	582,941	-	-	582,941
Non-residential				
Balance as at December 31, 2019	659,940	-	120,618	780,558
Gross write-offs	-	-	(154,758)	(154,758)
Recoveries	-	-	3,000	3,000
Remeasurement [(a)]	560,400	-	31,140	591,540
Balance as at December 31, 2020	1,220,340	-	-	1,220,340
Total allowance as at December 31, 2020	2,605,873	12,042	2,981	2,620,896

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

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

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

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

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

			2020
	Balance	Collateral value	Allowance
	$	$	$
Consumer loans	1,708	-	1,708
Residential insured	283,460	320,000	1,273
	285,168	320,000	2,981

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

8 Mortgage backed securities

Balances relating to MBS under the NHA MBS Program are as follows:

a) Transferred assets that do not qualify for derecognition

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

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

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

	2020			**2019**		
Carrying value	**Market MBS $**	**CMB $**	**Total $**	**Market MBS $**	**CMB $**	**Total $**
NHA MBS assets	161,221,644	77,919,298	239,140,942	155,931,145	68,186,401	224,117,546
Associated liabilities	160,905,150	77,791,023	238,696,173	155,632,819	67,981,953	223,614,772

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

Assets pledged as collateral

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

b) Transferred assets that have been derecognized

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

	2020 $	2019 $
Mortgages sold	766,884,757	608,660,057
Gain on sales	4,445,689	3,169,065
Cumulative balance of mortgages sold and derecognized	2,375,068,860	1,608,184,103
Related balances as at December 31		
Retained interests	86,716,469	58,913,513
Servicing liabilities	28,519,061	15,112,145

9 Deposits

	2020 $	2019 $
Registered	7,512,817	6,629,400
Other demand	2,815,634	2,695,337
Total demand deposits	10,328,451	9,324,737
Registered	133,458,528	136,955,705
Other term	228,434,137	257,961,637
Total term deposits	361,892,665	394,917,342
	372,221,116	404,242,079

10 Capital stock

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

	2020		2019	
	Shares #	Amount $	Shares #	Amount $
Common shares				
No par value, voting	25,873,257	25,873,257	23,058,613	23,058,613

In 2020, the Company issued $2,000,000 in common shares and an additional $814,645 (2019 – $957,000) in common shares in the form of a non-cash stock dividend.

In January 2021, the Company issued $10,000,000 in common shares.

The consideration for any shares issued or redeemed is cash.

11 Financial instruments

a) Interest rate risk

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

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

(Reported in $000's)	Within 3 months $	3 months to 1 year $	1 year to 5 years $	Over 5 years $	Non-interest sensitive $	Total $	Average rate %
2020							
Assets							
Cash and investments	-	4,285	13,202	10,555	2,313	30,355	1.64
Loans and mortgages	36,792	132,317	423,506	1,380	(2,621)	591,374	3.53
Other assets	-	-	-	-	93,631	93,631	-
	36,792	136,602	436,708	11,935	93,323	715,360	
Liabilities and equity							
Borrowings	5,663	-	-	-	-	5,663	1.95
Deposits							
Fixed	46,274	201,179	114,440	-	-	361,893	1.71
Variable	10,328	-	-	-	-	10,328	0.75
Mortgage backed securities	6,846	43,939	188,356	-	(445)	238,696	1.81
Other liabilities	-	-	-	-	41,967	41,967	-
Equity	-	-	-	-	56,813	56,813	-
	69,111	245,118	302,796	-	98,335	715,360	
Subtotal	(32,319)	(108,516)	133,912	11,935	(5,012)	-	
Prepayment estimate	15,933	47,800	(63,526)	(207)	-	-	
Excess (deficiency)	(16,386)	(60,716)	70,386	11,728	(5,012)	-	
2019							
Assets							
Cash and investments	-	2,003	14,061	11,796	5,859	33,719	1.64
Loans and mortgages	59,801	155,416	391,294	167	(2,073)	604,605	2.74
Other assets	-	-	-	-	65,962	65,962	-
	59,801	157,419	405,355	11,963	69,748	704,286	
Liabilities and equity							
Deposits							
Fixed	48,007	200,513	146,397	-	-	394,917	1.58
Variable	9,325	-	-	-	-	9,325	1.00
Mortgage backed securities	2,861	35,043	186,214	-	(503)	223,615	1.91
Other liabilities	-	-	-	-	26,229	26,229	-
Equity	-	-	-	-	50,200	50,200	-
	60,193	235,556	332,611	-	75,926	704,286	
Subtotal	(392)	(78,137)	72,744	11,963	(6,178)	-	
Prepayment estimate	14,680	44,039	(58,694)	(25)	-	-	
Excess (deficiency)	14,288	(34,098)	14,050	11,938	(6,178)	-	

b) Index linked deposits

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

To offset the risk of this variable interest rate, the Company enters into agreements, whereby the Company pays a fixed rate of interest for the term of each index linked deposit based on the face value of the deposits sold. At the end of the term, the Company receives an amount equal to the amount that will be paid to the depositors. As at December 31, 2020, the balance of outstanding index linked deposits was $4,371,666 (2019 – $2,266,621).

c) Fair value

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

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

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

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

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

The Company's policy is to recognize transfers into and out of the fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer. During the year ended December 31, 2020, the Company had no transfers between fair value hierarchy levels.

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

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

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

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

The carrying value of cash and cash equivalents, accrued interest on assets and liabilities, and borrowings, approximates their fair value as they are short-term in nature or are receivable on demand.

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

	Level 1 $	Level 2 $	Level 3 $	Total fair value $	Total carrying value $
2020					
Assets					
Investments	270,500	28,847,783	4,025	29,122,308	29,122,308
Loans and mortgages	-	603,463,651	-	603,463,651	591,373,570
Liabilities					
Deposits	-	376,420,991	-	376,420,991	372,221,116
Mortgage backed securities	-	239,805,367	-	239,805,367	238,696,173
2019					
Assets					
Investments	290,800	27,740,872	4,025	28,035,697	28,035,697
Loans and mortgages	-	600,026,642	-	600,026,642	604,605,159
Liabilities					
Deposits	-	401,677,304	-	401,677,304	404,242,079
Mortgage backed securities	-	217,045,136	-	217,045,136	223,614,772

There were no changes in the measurement of Level 3 investments in 2020 or 2019.

12 Related party transactions

a) Parent

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

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

	2020 $	2019 $
Expenses and fees related to the management contract	4,539,390	4,316,225
Interest expense	846,825	1,044,528
Interest income	20,766	40,828
Rental and other expenses	121,194	118,473
Dividends	814,645	957,000
Borrowings from Central	5,663,241	-
Deposits from Central	44,690,916	49,263,293
Amounts payable to Central	747,714	801,128
Balances relating to mortgages sold		
Interest, net of administration fees	64,407	64,547
Mortgages under administration	2,083,584	2,513,056
Monthly remittances payable	27,520	29,942

b) Associates

In the ordinary course of business, the Company transacts business with League Data Limited, a related company by virtue of common ownership. The following transactions and balances are measured at the exchange amount:

	2020 $	2019 $
Services and equipment purchases from League Data Limited	186,733	211,018
Term deposits with League Savings	14,086,694	14,043,074
Accounts payable to League Data Limited	13,257	14,878

c) Key management personnel

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

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

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

	2020 $	2019 $
Short-term employee benefits	1,251,149	1,157,299
Contributions to group savings for retirement program	88,746	76,045
Variable compensation	263,933	155,849
Deposit balances due to key management	928,899	917,829

[(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:

	2020 **$**	**2019** **$**
Remuneration	94,928	91,913
Payments for reimbursement of expenses	15,966	34,807

13 Commitments and contractual obligations

a) Management fees

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

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

b) Approved loans and mortgages

As at December 31, 2020, the Company had approved mortgages in the amount of $67,851,044 (2019 – $18,349,934) which have not been advanced.

14 Income taxes

The components of tax expense are as follows:

	2020 $	2019 $
Current tax expense		
Federal and provincial	1,882,303	1,675,329
Capital and large corporate tax	1,114,935	863,846
	2,997,238	2,539,175
Deferred tax expense		
Origination and reversal of deductible temporary differences	(161,975)	(88,310)
	2,835,263	2,450,865

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

	2020 $	2019 $
Income before income taxes	6,812,478	5,979,892
Statutory income tax rate	29.50%	31.00%
Expected income tax	2,009,681	1,853,766
Effect on income tax of		
Non-taxable dividends	(3,715)	(3,750)
Permanent tax differences	1,242	3,232
Capital and large corporate tax	786,044	596,054
Future tax reduction	39,969	-
Other	2,042	1,563
Total income tax expense	2,835,263	2,450,865

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

	Balance	Recognized in		Balance	Recognized in		Balance
	2018	Net income	OCI	2019	Net income	OCI	2020
	$	$	$	$	$	$	$
Deferred tax assets							
Property and equipment	25,131	(1,233)	-	23,898	(2,604)	-	21,294
Allowance for impaired loans	505,930	89,543	-	595,473	164,579	-	760,052
Losses carried forward	155	-	-	155	-	-	155
	531,216	88,310	-	619,526	161,975	-	781,501

15 Capital requirements

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

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

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

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

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

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

	2020 $	2019 $
Risk-weighted assets for		
Credit risk	314,422,000	252,247,000
Operational risk	26,675,000	21,700,000
Total	341,097,000	273,947,000
Capital elements		
Common shares	25,873,000	23,059,000
Contributed surplus	1,786,000	1,786,000
Accumulated OCI	660,000	24,000
Retained earnings	28,494,000	25,332,000
CET1	56,813,000	50,201,000
Total Tier 1 capital	56,813,000	50,201,000
Stage 1 and Stage 2 allowance	2,621,000	1,901,000
Total Tier 2 capital	2,621,000	1,901,000
Total regulatory capital	59,434,000	52,102,000
	%	%
Ratios		
CET1	16.7	18.4
Total Tier 1	16.7	18.4
Total capital	17.4	19.1
Leverage Ratio	7.8	7.2
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.

16 Credit facilities

The Company has established an unsecured operating line of credit with Central, bearing interest at prime, up to an amount of $20,000,000. As at December 31, 2020, the amount outstanding on this facility was $5,663,241 (2019 – $nil).

On January 29, 2019, the Company entered into a line of credit agreement with Concentra Bank bearing interest at 3-month CDOR plus 1.00%, up to an amount of $25,000,000. The facility is secured by a charge over insured residential mortgages covering 110% of the loan facility. As at December 31, 2020 and 2019, there were no amounts outstanding on this facility.

17 Assets under administration

a) Mortgages under administration

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

	2020 $	2019 $
Mortgages under administration	84,148,625	90,217,088

18 Non-interest income (expense)

Non-interest income includes the following:

	2020 $	2019 $
Securitization expenses	(472,927)	(360,657)
Other lending service fees	303,307	407,450
Lending service expenses	(985,388)	(972,620)
Investment service fees	23,075	27,177
Investment service expenses	(209,923)	(150,000)
Other	35,323	66,387
	(1,306,533)	(982,263)

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

19 Initiatives and restructuring

In 2020, Management made the decision to restructure its deposit administration function. The costs relating to this restructuring are reported in initiatives and restructuring expenses.

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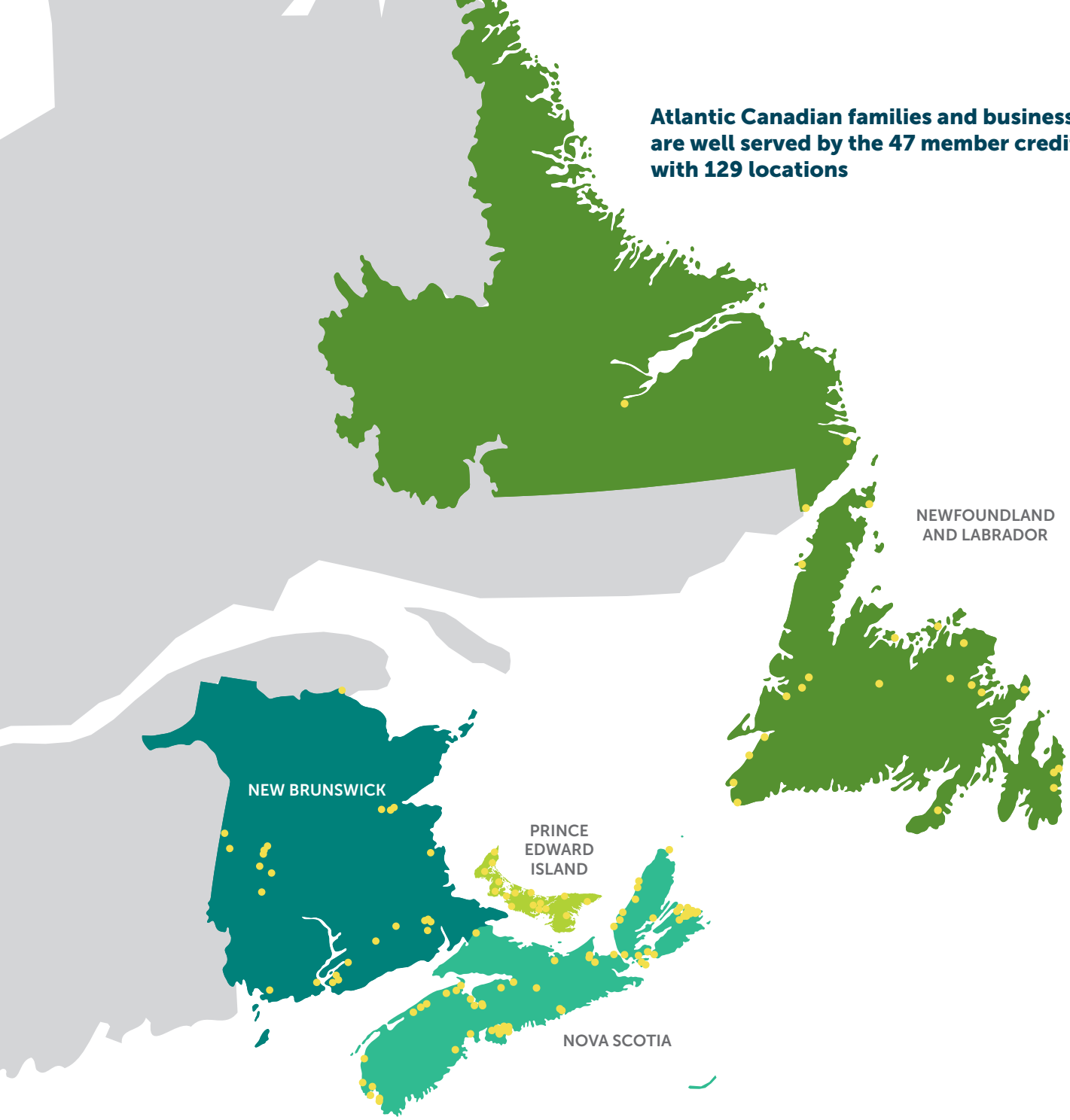

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