LUTHERAN CHURCH–CANADA, EAST DISTRICT CORPORATION
ÉGLISE LUTHÉRIENNE DU CANADA, DISTRICT DE L'EST

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LC–C EAST DISTRICT CORPORATION
CHURCH EXTENSION FUND (CEF)
DEPOSITOR INFORMATION

Introduction

This Pamphlet is intended to provide information regarding deposits in the CEF.
It provides the following:

1) A description of the Issuer - LCC East District Corporation, and its principal activities.
2) Who are eligible depositors.
3) The options offered for depositing money with the CEF.
4) How the money in the fund is used
5) The various risk factors to consider when depositing money in the CEF
6) How the money is invested
7) The return objectives of the CEF Investment Portfolio.

1) Organization and Principal Activities

As a charitable corporation under the Canada Not-for-Profit Corporations Act, the Issuer, Lutheran Church–Canada, East District Corporation, is subject to the Articles of Incorporation and Bylaws of the Lutheran Church–Canada, East District Corporation.

The Issuer's primary purpose is to make funds available through loans to congregations for Church extension activities which include providing financing for the acquisition of church sites, the construction or renovation of church facilities, and the purchase of church buildings and equipment. A secondary purpose, as funds permit, is to support mission and ministry initiatives within the East District through grants to Lutheran Church–Canada (LCC) or other organizations within the LCC family (e.g. seminaries, LSOs, etc.). The funding for the mission support is derived by investing the deposits in a diversified portfolio with the intension of earning more income in the portfolio than is required to pay the interest to the depositors for the capital that is invested.

2) Eligible Depositors

Depositors are limited to persons or congregations who are members of the Lutheran Church–Canada, East District Corporation or to persons who are members of LCC congregations within the East District or other persons who are ancestors, descendants, or successors in interest to such persons or congregations and other organizations affiliated with the Lutheran Church–Canada family. Any fiduciary for an individual depositor other than a custodial depositor shall be deemed to be a depositor.

3) Deposit Options

- Savings Account 1.5%
- 1 Year Promissory Note 2.25%
- 3 Year Promissory Note 2.75%
- 5 Year Promissory Note 3.25%

(all promissory notes require a minimum deposit of $1,000)

4) Use of Funds

The Issuer will use the funds received from depositors primarily to carry on Church Extension activities within the geographical boundaries of the East District through loan disbursements. The Issuer will also use a portion of the funds for operating expenses. Loans are made to congregations and other East District or Synodical Corporations, and Auxiliary Organizations. Loans are generally reviewed by the CEF committee, a subcommittee of the Board of Directors of the Corporation, who make recommendations to the Board of Directors regarding loan approvals.
Funds not immediately used by the Issuer for loans or operating expenses may be invested in short, intermediate and long-term interest-bearing obligations and equity investments.
Upon approval of the Issuer's Board of Directors, portions of the year's operating surplus may be distributed in the following year as grants to LCC or other organizations within the LCC family, for church-related activities.

5) Risk Factors

The risk to investors is that the Lutheran Church–Canada, East District Corporation may not earn enough income to pay investors their promised interest and the possibility exists that depositors could experience a loss in their deposited capital. Depositors who are uncomfortable with this risk should withdraw their funds. The following are some of the risk factors that should be considered.

1. *Unsecured Obligations*: The Notes will be unsecured obligations of the Issuer and are not insured by the Canada Deposit Insurance Corporation or any other insurance fund or other governmental agency. Depositors will be dependent upon the general financial condition of the Issuer for repayment of principal and interest. No sinking fund or trust indenture has been or will be established. The fund is not underwritten by any party and no party receives a commission or discount on the deposits.

No public market exists for the Notes and the Notes are non-negotiable and therefore the transferability of the Notes is limited and restricted.

2. *Interest Rate Change*: Upon maturity of a Note, if the Depositor does not elect to redeem the Note, the Note will be automatically renewed upon the interest terms set out in a notice provided by the Issuer. If the Issuer's offered interest rates have changed from the date of the original note through the maturity date, a Depositor will receive a new rate of return on the renewed Note.

3. *Charitable Deduction/Taxable Interest*: The purchase of a Note will not entitle the Depositor to a charitable deduction for federal or provincial income tax purposes. Interest paid or payable on the Note will be taxable as ordinary income to an Depositor, regardless of whether the interest is paid out or retained and compounded.

4. *Changes in Laws*: Changes in the laws of the various provinces in which the Issuer offers its Notes may make it more difficult or costly for the Issuer to offer and sell such Notes in the future; A decrease in the sales of its Notes could affect the Issuer's ability to meet its obligations if it did become necessary to rely on these sales.

5. *Unique Borrowers*: The relationship of the Issuer to its borrowers cannot be compared to that of a normal commercial lender. Because of the unique relationship to its borrowers, the Issuer's loan eligibility and approval criteria may be more flexible than might be applied by a typical lending institution. In view of its relationship to its borrowers, the Issuer also may be willing to accept partial, deferred or late payments.

6. *Loan Repayments*: The Issuer will have a portion of its loan portfolio outstanding to borrowers. The ability of each borrower to repay its loan will generally depend upon the amount of contributions it receives from its members. Accordingly, a primary factor in the Issuer's loan approval process is the history of contributions to the borrowing entity. In the case of congregations, the number of members of each congregation and the per capita contribution has fluctuated in the past and will continue to fluctuate. To the extent that a congregation granted a loan experiences a decrease in revenues, payments on that loan may be affected adversely. A secondary factor in loan approvals is the value of the collateral security for the loan, it being understood that while major loans are generally secured by first mortgages on the borrowers' properties, such properties are improved for church, charitable or educational uses and may or may not have a market value equal to the amounts loaned.

7. *Pre-Maturity Redemptions*. The Issuer is not required to redeem any Note prior to its maturity. However, as a matter of policy and practice, the issuer will consider redeeming Notes prior to maturity on the following basis: 1) The interest paid on notes redeemed early will be based on the current pass book savings account interest rate 2) Early redemptions over $50,000, in aggregate, may take up to 30 days to complete.

8. *Market Rate Risk*. Since a portion of the deposits is invested in stocks, bonds and mortgage funds, deposits will be subject to various market risks, and losses of interest and/or capital could result from a drop in market values.

6) Investments

The Issuer uses the services of Investment Managers to invest surplus funds not required within a one-year period. The Board of Directors approves the investment policies of the Issuer. The investment policy provides direction to the Investment Manager by quantifying the asset mix and market risk constraints they are to use for managing the Issuer's investment portfolio. On a day to day basis, the Business Manager of the Issuer is responsible for the managerial oversight of the investment portfolio through interaction with the Investment Manager. In general, the issuer invests in bonds, equities, and mortgage funds.

CEF investments will be made with the intention of providing a stable income base, without exposing the CEF to an inappropriate level of investment risk. All investments of the Fund are made with a risk/return trade-off in mind. The most important technique used to reduce the level of risk, without reducing the rate of return earned on the portfolio, is diversification spreading assets among a number of different types of instruments/securities and issuers whose market performance is less likely to be affected by the behaviour of another issuer's securities/instruments.

Diversification reduces risk and has positive attributes to overall portfolio yield and liquidity.
The investments of the Fund shall be diversified by type of investment, by issuer, by location, and by industry, where appropriate. The Issuer's detailed investment policy is included in the Corporation's Policy and Procedures Manual and is available upon request.

7) Return Objectives of the Investment Portfolio

The primary objective of the portfolio is to provide a stable source of income for the CEF and a reasonable investment return of at least 2.00% in excess of the Canadian Consumer Price Index (CPI) on a five-year moving average or over a complete market cycle.
Further, the CEF is expected to earn a “spread” of 2.0% over the rate of interest paid to CEF depositors. Cash flow matching of assets (investments) and liabilities (deposits) is monitored and assessed on a regular basis. The degree of mismatch between asset and liability cash flows provides a measure of the interest rate risk. There is opportunity to exercise market timing strategies in investment decisions. Guidelines set out to monitor the cash flow mismatch tolerance parameters acceptable to the Board of Directors include: a comparison of the average term to maturity for the assets and liabilities of the Fund and a comparison of the yield earned on the assets to the rate of interest being paid on the liabilities of the Fund.
The Board of Directors recognizes that the returns earned on the investment portfolio will vary from year to year, reflecting the various economic and market conditions existing at any particular point in time. Due diligence is necessary in order to achieve the long-term investment objectives and to protect the interest and well-being of the Fund.

8) Other Information

1) Loans - The issuer's policies and procedures regarding the granting of loans are available upon request and are part of the Corporation's Policy and Procedures Manual.
2) The Corporation's Annual audited statements are available upon request and include information regarding the current loans.
3) Financial information regarding the fund is provided to depositors annually as part of the annual report to depositors.