FINANCIAL STATEMENTS

iNova Credit Union Limited
December 31, 2019

Miles · T · Sweeney Limited
Chartered Professional Accountants

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MILES · T · SWEENEY LIMITED
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Directors of
iNova Credit Union Limited

Opinion
We have audited the financial statements of iNova Credit Union Limited (the "Credit Union"), which comprise the statement of financial position as at December 31, 2019, and the statements of net income, comprehensive income and retained earnings, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2019, and its results of operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Credit Union'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 Credit Union'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 Credit Union'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 Credit Union 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.

Miles Sweeney Limited

Chartered Professional Accountants

Dartmouth, Nova Scotia
March 30, 2020

iNova Credit Union Limited

STATEMENT OF FINANCIAL POSITION

December 31

	2019	2018
Assets		
Cash resources (Note 6)	$ 5,087,263	$ 5,265,622
Accrued receivables (Note 8)	6,399	22,321
Income taxes receivable	-	3,940
Prepaid expenses	25,500	26,346
Members' loans (Note 7)	30,285,174	28,620,018
Long-term investments (Note 9)	751,874	747,101
Capital assets (Note 10)	331,222	362,951
Right-of-use asset building (Note 19)	924,694	-
	$ 37,412,126	$ 35,048,299
Liabilities		
Payables and accruals	$ 63,626	$ 117,434
Patronage rebate payable	-	66,384
Members' deposits (Note 11)	31,559,268	30,379,891
Deposit interest payable	139,844	89,649
Income taxes payable	13,223	-
Deferred income taxes (Note 13)	9,920	16,882
Lease liability (Note 19)	940,800	-
	32,726,681	30,670,240
Members' equity		
Members' shares (Note 12)	90,432	49,142
Retained earnings	4,595,013	4,328,917
	4,685,445	4,378,059
	$ 37,412,126	$ 35,048,299

Approved by the Board

____________________ Director ____________________ Director

(See accompanying notes to the financial statements)

iNova Credit Union Limited
STATEMENTS OF NET INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

Year ended December 31	2019	% of Income	2018	% of Income
Income				
Loan interest	$ 1,423,744	74.3	$ 1,289,426	73.8
Investment income	156,198	8.2	92,297	5.3
	1,579,942	82.5	1,381,723	79.1
Interest expenses				
Distributions to members:				
Interest on deposits	306,990	16.0	229,024	13.1
Financial margin	1,272,952	66.5	1,152,699	66.0
Other income				
Discretionary rebate income	3,135	0.2	3,565	0.2
Revenue from contracts (Note 18)	315,840	16.5	330,833	18.9
Other	16,729	0.9	31,219	1.8
	335,704	17.6	365,617	20.9
Income before operating expenses	1,608,656	84.1	1,518,316	86.9
Operating expenses				
Administrative (see schedule)	283,041	14.7	270,331	15.4
Amortization of capital assets	112,820	5.9	39,734	2.3
Central service charges	114,365	6.0	115,049	6.6
Occupancy (see schedule)	102,511	3.6	152,379	8.7
Salaries, benefits, contracted services	663,877	34.7	580,746	33.2
Deposit insurance	27,322	1.4	24,461	1.4
Loan impairment losses (recovery)	11,888	0.6	(981)	(0.1)
Total operating expenses	1,315,824	66.9	1,181,719	67.5
Income before patronage rebate	292,832	17.2	336,597	19.4
Patronage rebate	-	-	60,000	3.4
Income before provision for income taxes	292,832	17.2	276,597	16.0
Provision for income taxes (Note 13)				
Current	33,698	1.8	20,294	1.2
Future (recovery)	(6,962)	(0.4)	19,021	1.1
	26,736	1.4	39,315	2.3
Net income and comprehensive income	266,096	15.8	237,282	13.7
Retained earnings, beginning	$ 4,328,917		$ 4,062,647	
Net income and comprehensive income	266,096		237,282	
Change in accounting policy (Note 2)	-		28,988	
Retained earnings, ending	$ 4,595,013		$ 4,328,917	

(See accompanying notes to the financial statements)

iNova Credit Union Limited
STATEMENT OF CASH FLOWS
Year ended December 31

	2019	2018
Cash generated from (used in) operating activities		
Loan interest received	$ 1,418,816	$ 1,287,137
Investment income received	160,972	97,029
Other income received	16,729	31,219
Rebates received	3,135	3,565
Revenue from contracts received	315,840	330,833
Increase (decrease) in members' deposits	1,179,377	578,448
Bad loans recovered	4,207	2,612
Interest paid on members' deposits	(256,795)	(221,301)
(Increase) decrease in members' loans	(1,665,173)	(1,976,492)
Patronage rebate paid	(66,384)	(53,616)
Payments to suppliers	(580,383)	(514,608)
Payments to employees	(663,877)	(580,746)
Income taxes paid	(16,356)	(277)
	(149,892)	(1,016,197)
Cash generated from (used in) investing activities		
Purchase of investments	(4,773)	(27,390)
Purchase of capital assets	(5,605)	(1,653)
	(10,378)	(29,043)
Cash generated from (used in) financing activities		
Principal payments on lease liability	(59,379)	-
Proceeds from issue of shares (net of redemptions)	41,290	41,232
	(18,089)	41,232
Net increase (decrease) in cash flows	(178,359)	(1,004,008)
Cash and cash equivalents, beginning of year	5,265,622	6,269,630
Cash and cash equivalents, end of year (Note 6)	$ 5,087,263	$ 5,265,622

(See accompanying notes to the financial statements)

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

1. REPORTING ENTITY

iNova Credit Union Limited (the "Credit Union") is incorporated under the Nova Scotia Companies Act. The operation of the Credit Union is subject to the Nova Scotia Credit Union Act. Products and services offered to its members include loans, mortgages, chequing and savings accounts, MasterCards, RRSP's, term deposits, online and telephone banking and financial planning. The Credit Union is located at 6150 Almon Street, Halifax, Nova Scotia.

On March 30, 2020, the Credit Union`s Board of Directors approved and authorized for issue the financial statements for the year ended December 31, 2019.

2. CHANGES IN ACCOUNTING POLICIES

IFRS 9 - Financial Instruments

The Credit Union has adopted IFRS 9 which replaced IAS 39, *Financial Instruments: Recognition and Measurement (IAS 39)*. IFRS 9 was completed in three separate phases:

- Classification and measurement: This phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This phase has been implemented on January 1, 2019.
- Impairment methodology: This phase replaces the incurred loss model for impairment of financial assets with an expected credit loss model. This phase was implemented on January 1, 2018, with a restatement of opening retained earnings.
- Hedge accounting: This phase replaces the rule-based hedge accounting requirements with guidance that more closely aligns the accounting with an entity's risk management activities. At present, the Credit Union has no hedged investments.

The Credit Union has elected to restate its 2018 comparative financial information for the effect of applying the classification and measurement phase of IFRS 9.

The adoption of IFRS 9 has resulted in changes to the Credit Union's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Credit Union. Further details of the specific IFRS 9 accounting policies applied in the current year are described in Note 4.

Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 Financial Instruments: Recognition and Measurement and IFRS 9 at January 1, 2019 are compared as follows:

2. CHANGES IN ACCOUNTING POLICIES (Continued)

	IAS 39		IFRS 9	
	Measurement category	**Carrying amount**	**Measurement category**	**Carrying amount**
Financial assets				
Cash and cash equivalents	Amortized cost (Loans and receivables)	$ 5,087,263	Amortized cost	$ 5,087,263
Member's loans	Amortized cost (Loans and receivables)	$ 30,285,174	Amortized cost	$ 30,285,174
Long-term Investments	Available-for-sale	$ 751,874	FVTOCI	$ 751,874

IFRS 16 - Leases

The Credit Union has adopted IFRS 16 *Leases*, with a transition date of January 1, 2019, which resulted in changes in accounting policies. The Credit Union did not early adopt any of the elements of IFRS 16 in previous years.

As permitted by the transitional provisions of IFRS 16, the Credit Union elected not to restate comparative figures.

Prior to the adoption of IFRS 16, lease payments under an operating lease were recognized as an expense. No right of use asset or lease liability was recorded on the Statement of Financial Position.

The adoption of IFRS 16 resulted in the recognition of a $1,000,179 right of use asset and a $1,000,179 lease liability on January 1, 2019. The right of use asset is depreciated on a straight-line basis over the lease term. The lease liability is reduced by lease payments made, net of interest.

3. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

These financial statements were prepared under the historical cost principal using a going concern basis, with the exception of available-for-sale financial assets which have been measured at fair value.

3. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (Continued)

Functional currency

These statements are denominated in Canadian dollars which is the Credit Union's functional currency.

Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Credit Union's accounting policies. Changes in assumptions may have a significant impact on the financial statement in the year the assumptions changed.

Significant estimates made in the preparation of these financial statements include, but are not limited to the following areas, with further information contained in the applicable accounting policy note.

- Measurement of the expected credit loss (ECL) allowance

  The Credit Union 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 FVTOCI is an area that requires the use of models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of members defaulting and resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 4.

  A number of signficant judgments are also required in applying the accounting requirements for measuring ECL, such as:
  - determining criteria for significant increase in credit risk;
  - choosing appropriate models and assumptions for the measurement of ECL; and
  - establishing groups of similar financial assets for the purpose 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.

- Fair value of available-for-sale securities

  The fair values of available-for-sale securities where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In each instance, management has reviewed the attributes of its investments and determined that fair value was liquidation value for each investment as there is no ability to otherwise sell the investments. Management also determined that liquidation value approximated historical cost.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents include cash on hand, and short-term highly liquid securities which are readily convertible into known amounts of cash. The Credit Union considers securities with original maturities of three months or less as meeting the definition of convertible to known amounts of cash.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Members' loans and foreclosed assets

Members' loans result from the delivery of cash or other assets by the Credit Union (lender) to a member (borrower) in return for a promise to repay on a specific date or dates, or on demand, usually with interest. Loans are accounted for at amortized cost plus accrued interest, less allowances for impairment for probable losses on ultimate realization of the loan portfolio. Loans considered uncollectible are written off.

Real estate held for resale is carried at the lower of the carrying value of the loan or mortgages foreclosed, adjusted for revenues received and costs incurred subsequent to foreclosure and the estimated net proceeds from the sale of assets.

Allowance for impaired loans

The Credit Union applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all members' loans.

To measure the expected credit losses, loans have been grouped based on shared credit risk characteristics and the days past due. Impairment of a loan is determined when there is objective evidence that a loss event is likely to occur, such as when there has been a deterioration in credit quality to the extent that the Credit Union no longer has reasonable assurance of timely collection of the full amount of the principal and interest.

Loss rates are applied to members' loans pooled into groups with similar risk characteristics that are expected to behave in similar fashions to identified loss events. The expected loss rates are based on historical loss rates adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the members' to settle the loans. The Credit Union has identified unemployment rates, prime rate, and inflation to be the most relevant factors, and accordingly adjusted the historical loss rates based on expected changes in these factors.

Bad debts are written off from time to time when there is no reasonable expectation of recovery as determined by management. If a provision for bad debts on the loan has been previously recognized the bad debt is written off against the provision, if no provision was recognized the write off is recognized in net income.

Revenue recognition

Interest on loans and advances is recognized on an accrual basis using the effective interest rate method. Revenue from the provision of services is recognized when earned and the ability to collect is reasonably assured.

Contracts with members have performance obligations as set out in the contract. Revenue is recognized when the performance obligations have been met and collection is reasonably assured.

Financial instruments

- *Financial assets and liabilities - IFRS 9*

  From January 1, 2019, the Credit Union has applied IFRS 9 and classifies its financial instruments in the following measurement categories: fair value through profit and loss (FVTPL); fair value through other comprehensive income (FVTOCI); or amortized cost. Management determines the classification of its financial instruments at initial recognition. The accounting policies from January 1, 2019 related to these financial assets and liabilities are as follows:

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Measurement methods*

Amortized cost and effective interest rate
Amortized cost is the amount at which financial assets and financial liabilities are 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. its amortized cost before any loan loss allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. When the Credit Union revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in net income and comprehensive income.

- *Interest income*

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

- *Initial recognition and measurement*

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. At initial recognition, the Credit Union measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expenses in net income. At the first reporting date after initial recognition, an ECL allowance is recognized for financial assets measured at amortized cost and investment in debt instruments measured at FVTOCI, which results in an accounting loss being recognized in net income and comprehensive income when an asset is originated.

- *Classification and subsequent measurement*

The Credit Union classifies its financial assets using the following measurement categories:

- FVTOCI
- Amortized cost

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Investments*

The classification requirements for debt and equity investment are as follows:

Debt instruments
Debt instruments are those instruments that meet the defintion of a financial liability from the issuer's perspective and would include term deposits held by the Credit Union. Classification and subsequent measurement of debt instruments depend on the business model for managing the asset and cash flow characteristics of the asset.

Business model
The business model reflects how the Credit Union manages the assets in order to generate cash flow. That is, whether the Credit Union's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these are applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVTPL. Factors considered by the Credit Union in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is reported to key management personnel and how risks are assessed and managed.

Sole payments of principal and interest ("SPPI")
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Credit Union assesses whether each financial instrument's cash flows in the portfolio represent SPPI. In making this assessment, the Credit Union considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI. Based on these factors, the Credit Union classifies its debt instruments into one of the following measurement categories:

- Amortized cost : Financial assets that are held for collection of contractual cash flows, where the assets' cash flows represent SPPI and that are not designated at FVTPL, are measured at amortized cost.
- FVTOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flow represent SPPI and that are not designated at FVTPL, are measured at FVTOCI. Changes in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of expected credit losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost, which are recognized in net income and comprehensive income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to net income and comprehensive income.
- FVTPL: Assets that do not meet the critieria for amortized cost or FVTOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL and is not part of a hedging relationship is recognized in net income and comprehensive income and presented in the statement of net income and comprehensive income within "investment income" in the year in which it arises.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Credit Union reclassifies debt instruments when, and only when, its business model for managing those assets changes. The reclassification takes place from the start of the first reporting year following the change. Such changes are expected to be very infrequent and none have 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 Credit Union subsequently measures all equity investments at FVTPL, except where the Credit Union's management has elected, at initial recognition, to irrevocably designate an equity investment at FVTOCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to net income, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in net income as investment income when the Credit Union's right to receive payments is established. Gains and losses on equity investments at FVTPL are included in "investment income" in the statement of net income and comprehensive income.

- *Modification of loans*

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

- If the borrower is in financial difficulty, whether 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;
- Change in the currency the loan is denominated in; or
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Credit Union 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 Credit Union 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 Credit Union 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 puchases or originated credit-impaired financial assets).

- *Financial liabilities - IFRS 9*

The Credit Union designates members' deposits, accounts payable and secured borrowing as other financial liabilities. In both the current and prior year, other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital assets

Capital assets are recorded at cost. Amortization is based on their estimated useful life using the following rates and terms:

Right-of-use assets	straight-line	term of lease plus two renewal terms
Leasehold improvements	straight-line	term of lease plus two renewal terms
Furniture & equipment	declining balance	20%
Computer equipment	declining balance	33%
Vaults	declining balance	10%
Sign	declining balance	20%

Residual values and useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date of a lease, the Credit Union recognizes a right-of-use asset and a lease liability in the Statement of Financial Position. The lease liability is initially measured at the present value of lease payments that are not paid at that date.

The right-of-use asset is measured at cost. The cost of a right-of-use asset is comprised of:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of any dismantling and site restoration costs to be incurred by the lessee.

After the commencement date, the lease liability is measured by:
- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made;
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

The right-of-use asset is subsequently measured at cost:
- less any accumulated depreciation and any accumulated impairment losses; and
- adjusted for any remeasurement of the lease liability.

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 items recognized directly in equity or in other comprehensive income.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 or paid to the Canada Revenue Agency. 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 liabillities are recognized where the carrying value of an asset or liability differs from its tax base. Recognition of deferred taxes 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.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less. Trade payables are recognized at historical cost which is a reasonable estimate of fair value.

Cash flow statement

The cash flow statement is prepared using the direct method.

Shares

Savings shares, which are included in members' deposits, are in practice withdrawable on demand. Common shares and surplus shares, which are classified as equity, represent a residual interest in the equity of the Credit Union. They are not covered by deposit insurance. Common shares are redeemable upon request of the member and approval of the directors.

Dividends to members

Provision for dividends on savings shares represents the amount recommended by the Board of Directors. The recommended dividend is included in the statement of financial position as an accrued liability under payables and accruals. In the statement of income, these dividends are deducted as an expense under interest and loan related expenses in determining net income for the year.

Foreign currency translation

Assets and liabilities which are denominated in foreign currencies (US dollars) are translated at the exchange rate prevailing at the year end date. Revenues and expenses denominated in foreign currencies are translated at the exchange rate prevailing on the transaction date. Exchange differences are charged or credited to income.

Employee future benefit plans

The Credit Union uses defined contribution accounting for its Canadian Credit Union Employees Pension Plan.

5. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies of the Credit Union's finance function. The Board of Directors receives quarterly reports from the general manager through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The following are the significant risks that the Credit Union is exposed to through its financial instruments:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Providing credit facilities to qualified members is one of the Credit Union's primary sources of earnings and is the area where the Credit Union is exposed to the most significant risk. Approval of these facilities is based on the members' ability to repay principal and interest over the term of the facility which is determined by following Board approved policies and procedures, which include assessing the members' credit history, character, collateral and debt servicing capacity.

In addition, the Credit Union provides to its employees comprehensive training to ensure compliance with Credit Union lending policies and procedures. As well, formal policies governing approval of credit facilities including acceptable risk assessment and security requirements are in place.

Overdue loan accounts, or lending delinquency, is closely monitored and reported to senior management on a timely and frequent basis to ensure that all allowances for potential loan losses are adequately provided for and written off when collection efforts have been exhausted. Credit risk is mitigated primarily by the nature and quality of the underlying security as prescribed by the Credit Union's lending agreements.

The Credit Union's loan portfolio is focused in two main areas; consumer loans and mortgages, and commercial loans, the latter to small and mid-size companies. Commercial loans to larger companies are available through a syndication process with other Credit Unions in order to appropriately mitigate the Credit Union's credit risk. Consumer mortgages are made available on a conventional basis up to eighty percent of the appraised value of a residential property with all mortgages in excess of that amount being insured through a third party, for example Canada Mortgage and Housing Corporation or Genworth Financial Corporation. Other credit facilities provided include personal overdrafts, and MasterCard accounts that have no recourse to the Credit Union.

The Credit Union uses the expected loss model to record an allowance against members' loans. The allowance is broken into three stages. Stage 1 contains all loans that are not delinquent and do not have any known additional risk. Stage 2 contains all loans delinquent between 60 and 90 days, and any loan that has been assessed to have additional risk. Stage 3 contains all loans delinquent over 90 days, bankruptcy, and foreclosure. Each stage is broken down into pools of members' loans that have similar risk characteristics. The probability of default, risk adjustment and loss given default are used to determined the expected credit loss for each pool of members' loans.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Credit Union uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Credit Union's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

5. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

The Credit Union's maximum exposure to credit risk at the reporting date was:

	2019	2018
Cash resources	$ **5,087,263**	$ 5,265,622
Members' loans	**30,285,174**	28,620,018
	$ **35,372,437**	$ 33,885,640

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Credit Union is exposed to this risk through traditional banking activities, such as deposit taking and lending. The Credit Union`s goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

Interest rate sensitivity

The Credit Union's major source of income is the financial margin between the income earned on investments and loans to members, and the interest paid on their deposits. The objective of "interest rate sensitivity" management is to keep interest sensitive assets and interest sensitive liabilities in balance by amount and term to maturity, thus monitoring fluctuations of income during periods of changing interest rates.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates due or payable on demand are classified as maturing in the first three months, regardless of maturity. A significant amount of loans can be settled before maturity without penalty, on mortgages and deposits a penalty will be levied. No adjustments have been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

Expected Repricing or Maturity Date	**Weighted Average Interest Rate Assets**	**Weighted Average Interest Rate Liabilities**	**Assets (000's)**	**Liabilities (000's)**	**Net Asset Liability Mismatch (000's)**
0 to 3 months	4.89	.60	$ 10,466	$ 18,384	$ (7,918)
4 to 6 months	3.62	2.43	2,493	1,195	1,298
7 to 9 months	3.13	2.38	1,742	1,246	496
10 to 12 months	3.60	2.31	2,282	1,998	284
1 to 2 years	3.57	2.38	3,085	1,789	1,296
2 to 3 years	3.61	2.39	5,067	741	4,326
3 to 4 years	4.19	2.34	6,066	497	5,569
4 to 5 years	4.43	2.98	4,212	789	3,423
Over 5 years	4.15	n/a	288	-	288
Not interest sensitive	n/a	n/a	1,711	10,773	(9,062)
			$ 37,412	$ 37,412	$ -

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors. As a matter of policy, the Credit Union will limit the short term exposure to a maximum of a negative .2% of the Credit Union's assets, based on a 1% fluctuation in interest rates.

5. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Foreign exchange risk

The Credit Union`s foreign exchange risk is related to United States dollar deposits and cash on hand denominated in United States dollars. At year end, the Credit Union`s holdings in foreign currency were 0.80% (2018 - 0.52%) of the total members` deposits portfolio.

The Credit Union limits its exposure to foreign exchange risk by maintaining only minimal levels of US dollar deposits and cash on hand.

There have been no significant changes from the previous year in the exposure to foreign exchange risk or procedures used to limit the risk.

Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in meeting obligations associated with financial liabilities as they come due. Liquidity risk is inherent in any financial institution and could result from entry level circumstances and/or market events.

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

The Credit Union is required to maintain 10% of members deposits in liquid investments of which 90% must be held with Atlantic Central Credit Union. The Credit Union was in compliance with this requirement at December 31, 2019.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity ratios monthly.

The Board of Directors receives quarterly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union`s liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the year.

The Credit Union`s maximum exposure to liquidity risk at the reporting date was:

	2019	2018
Required liquidity	$ **3,155,927**	$ 3,037,989
Liquid assets	**(5,469,013)**	(5,664,452)
Excess liquidity	$ **(2,313,086)**	$ (2,626,463)
Liquid assets comprise:		
Cash held at Atlantic Central	$ **431,513**	$ 464,235
Liquidity and short-term deposits held at Atlantic Central	**4,655,750**	4,801,387
Shares held at Atlantic Central	**381,750**	398,830
	$ **5,469,013**	$ 5,664,452

6. CASH RESOURCES

	2019	2018
Cash on hand and in current account	$ 431,513	$ 464,235
Atlantic Central Deposits (Market value = cost)	4,655,750	4,801,387
	$ 5,087,263	$ 5,265,622

7. MEMBERS' LOANS

Loans by purpose

	2019	2018
Consumer loans	$ 8,770,439	$ 8,421,382
Consumer lines of credit	3,088,866	3,383,350
Consumer mortgages	12,170,991	10,521,056
Commercial loans	3,495,453	3,927,162
Commercial lines of credit	1,053,748	1,163,795
Commercial mortgages	1,047,949	750,631
Commercial loans - participation	744,308	544,164
Overdrafts	6,495	17,521
	30,378,249	28,729,061
Accrued interest	47,732	42,804
	30,425,981	28,771,865
Less : Allowance for impaired loans	140,807	151,847
Net loans	$ 30,285,174	$ 28,620,018

Members' loans can have either variable or fixed rates of interest and they mature within 1 month to 5 years. The rates offered to members are determined by the type of security offered, the members' credit worthiness, competition from other lenders and the current prime rate.

Commerical loans that are not subject to a government guarantee are secured by collateral ranging from specific assets to a general security agreement or personal guarantee. Consumer loans also are secured by collateral such as vehicles, investments and property.

Syndicated loans consist of commercial mortgages maturing within five years and secured by commercial property. The Credit Union receives monthly amounts from the loan administrators which represent blended payments of principal and interest equal to its percentage interests in the loans, less an administration fee.

Members' loans from mortgage pools earn interest at 2.87% to 7.99%. The Credit Union receives monthly amounts from the loan administrators which represent blended payments of principal and interest equal to its percentage interests in the loans, less an administration fee. The loan pools are comprised of conventional residential mortgages maturing within five years and secured by residential property.

	2019	2018
Maturity analysis:		
Scheduled for repayment:		
Overdrafts and line of credit facilities	$ 4,149,400	$ 4,564,730
Within one year	4,894,000	4,543,500
One to three years	8,152,600	6,465,700
Over three years	13,182,249	13,155,131
	$ 30,378,249	$ 28,729,061

7. MEMBERS' LOANS (Continued)

Allowance for impaired loans

Balance at December 31, 2019	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount of members' loans	$ 28,975,785	$ 1,312,397	$ 90,067	**$ 30,378,249**
Loss allowance	$ 27,081	$ 44,007	$ 69,719	**$ 140,807**

Balance at December 31, 2018	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount of members' loans	$ 27,549,869	$ 933,541	$ 245,651	$ 28,729,061
Loss allowance	$ 26,693	$ 52,990	$ 72,164	$ 151,847

The following tables explain the changes in the loss allowance between the beginning and end of the year.

Balance at December 31, 2019	Stage 1	Stage 2	Stage 3	2019 Total
Allowance beginning	$ 26,693	$ 52,990	$ 72,164	**$ 151,847**
Recoveries	-	-	4,207	**4,207**
Write-offs	-	-	(27,134)	**(27,134)**
Net remeasurement of loss allowance	388	(8,983)	20,482	**11,887**
Allowance ending	$ 27,081	$ 44,007	$ 69,719	**$ 140,807**

Balance at December 31, 2018	Stage 1	Stage 2	Stage 3	2018 Total
Allowance beginning	$ 37,466	$ 60,057	$ 114,600	$ 212,123
Recoveries	-	-	2,612	2,612
Write-offs	-	-	(61,907)	(61,907)
Net remeasurement of loss allowance	(10,773)	(7,067)	16,859	(981)
Allowance ending	$ 26,693	$ 52,990	$ 72,164	$ 151,847

The following is an analysis of loans in arrears based on the age of repayments outstanding:

	2019	2018
31 to 60 days	**$ 60,737**	$ 33,297
61 to 90 days	**15,842**	10,070
91 to 180 days	**790**	2,520
Over 180 days	**61,411**	23,730
	$ 138,780	$ 69,617

8. ACCRUED RECEIVABLES

	2019	2018
Accrued receivables	**$ 161**	$ 11,309
Interest receivable	**6,238**	11,012
	$ 6,399	$ 22,321

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9. LONG-TERM INVESTMENTS

		2019	2018
Shares in unlisted entities (at cost):			
Atlantic Central common shares	$	**298,750**	$ 315,830
Atlantic Central provincial shares		**83,000**	83,000
League Savings and Mortgage Limited		**358,054**	336,201
League Data Limited - class B preference shares		**11,970**	11,970
Nova Scotia Co-operative Council		**100**	100
	$	**751,874**	$ 747,101

The Credit Union's long-term equity investments are not held for trading or contingent consideration from a business combination. Long-term equity investments are irrevocably measured at FVTOCI. The investments do not have a quoted market price in an active market. In each instance, management has reviewed the attributes of its investments and determined that fair value was liquidation value for each investment as there is no ability to otherwise sell the investments. Management also determined that liquidation value approximates historical cost.

10. CAPITAL ASSETS

	Leasehold Improvements	Computer Equipment	Furniture & Fixtures	Sign	Vault	Total
Cost						
Balance at January 1, 2018	$ 404,423	$ 30,896	$ 191,357	$ 26,450	$ 48,372	$ 701,498
Additions	-	1,653	-	-	-	1,653
Disposals	-	-	-	-	-	-
Balance on December 31, 2018	404,423	32,549	191,357	26,450	48,372	703,151
Additions	-	5,605	-	-	-	5,605
Disposals	-	-	-	-	-	-
Balance on December 31, 2019	$ 404,423	$ 38,154	$ 191,357	$ 26,450	$ 48,372	$ 708,756
Accumulated depreciation						
Balance at January 1, 2018	$ 109,869	$ 23,141	$ 127,570	$ 18,650	$ 21,237	$ 300,467
Depreciation expense	19,787	2,828	12,843	1,560	2,713	39,731
Disposals	-	-	-	-	-	-
Balance on December 31, 2018	129,656	25,969	140,413	20,210	23,950	340,198
Depreciation expense	20,353	3,103	10,189	1,247	2,442	37,334
Disposals	-	-	-	-	-	-
Balance on December 31, 2019	$ 150,009	$ 29,072	$ 150,602	$ 21,457	$ 26,392	$ 377,532
Net book value						
December 31, 2018	$ 274,767	$ 6,580	$ 50,944	$ 6,240	$ 24,422	$ 362,951
December 31, 2019	**$ 254,414**	**$ 9,082**	**$ 40,755**	**$ 4,993**	**$ 21,980**	**$ 331,222**

11. MEMBERS' DEPOSITS

	2019	2018
Chequing	$ 10,709,475	$ 10,496,818
Demand, no penalty on withdrawal	9,249,636	9,187,605
RRSP and RRIF	5,424,886	5,587,967
Term deposits	6,175,271	5,107,501
	$ 31,559,268	$ 30,379,891
Maturity analysis:		
At call	$ 20,900,868	$ 20,666,591
Not longer than 3 months	6,843,100	6,013,500
Longer than 3 months and not longer than 12 months	2,529,600	2,930,100
Longer than 1 year and not longer than 5 years	1,285,700	769,700
	$ 31,559,268	$ 30,379,891

12. MEMBERS' SHARES

Each member must hold 1 common share with a par value of $5. Common shares and surplus shares may be withdrawn on demand or withdrawal from membership, subject to the Credit Union meeting capital adequacy requirements and the discretion of the Board of Directors.

	2019	2018
Authorized:		
An unlimited number of common shares with par value of $5 each.		
An unlimited number of surplus shares with par value of $1 each.		
Issued:		
Common shares		
Balance, beginning of year (1,582 shares)	$ 8,180	$ 7,910
Add: shares issued during year (158)	505	790
	8,685	8,700
Less: shares redeemed during year (104)	(725)	(520)
Balance, end of year (1,636 shares)	7,960	8,180
Surplus shares		
Balance, beginning of year	40,962	-
Add: distributions to members	66,384	53,616
Less: shares redeemed during year	(24,874)	(12,654)
Balance, end of year	82,472	40,962
Total equity shares	$ 90,432	$ 49,142

13. INCOME TAX

The components of tax expense (benefit) were as follows:

	2019	2018
Current income tax expense in respect of current year	$ 33,698	$ 20,294
Deferred income taxes relating to the origination and reversal of temporary differences	(6,962)	19,021
Total income tax expense	$ 26,736	$ 39,315

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:

	2019	2018
Income before income taxes	$ 292,832	$ 276,597
Combined Canadian basic federal and provincial income tax rate	12.0%	13.0%
Expected income tax	35,140	35,958
Effect on income tax of:		
Temporary differences	(5,781)	5,158
Permanent differences	(2,623)	(1,801)
Total income tax expense	$ 26,736	$ 39,315

The components of deferred income tax balances are as follows:

	2019	2018
Deferred income tax assets (liabilities)		
Allowance for impaired loans	$ 4,614	$ 5,097
Right-of-use assets	1,933	-
Capital assets	(6,507)	(11,189)
Atlantic Central Shares	(9,960)	(10,790)
Deferred income tax asset (liability)	$ (9,920)	$ (16,882)
Deferred tax assets (liabilities) to be recovered (settled) > 12 months	$ (9,920)	$ (16,882)

Deferred tax assets are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and their respective tax bases. Deferred tax assets are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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14. RELATED PARTY TRANSACTIONS

Loans to management and personnel

At year end, members of the Board of Directors, Credit Committee, Audit Committee, management, employees and spouses had loans owing to the Credit Union totalling $1,098,493 (2018 - $776,632) and had deposits with the Credit Union totalling $519,710 (2018 - $526,559).

The loans were granted using the normal credit granting process and were subject to discounted rates depending on the circumstances. Interest rates on deposits and dividends on shares were at identical rates offered to all members of the Credit Union.

Compensation of key management personnel

The remuneration of key management personnel during the year was as follows:

	2019	2018
Direct compensation	$ 263,798	$ 281,611
Contributions to defined contribution plan	22,293	23,683
Total salaries and benefits	$ 286,091	$ 305,294

The remuneration of key management personnel is determined by the Board of Directors having regard to the performance of individuals and market trends.

Group RRSP plan

The Credit Union sponsors a group RRSP plan. The plan provides the Credit Union with flexibility in that the percentage contributed to the employees' plan can be modified. The Credit Union contributed 9% of base salaries to the employees' plan. Staff also contributed 6% of their base salary to the plan. Current service costs totalled $41,989 ($39,044 in 2018) and were included in salaries, benefits and contracted services expense on the statement of income.

15. FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair values of the Credit Union's financial instruments are set out below. Fair value represents the amount at which a financial investment could be exchanged in an orderly transaction between market participants at the measurement date.

Fair value amounts disclosed represent point in time estimates that may change in subsequent reporting periods due to market conditions or other factors. Where there is no quoted market value, fair value is determined using a variety of valuation techniques and assumptions. The Credit Union has estimated fair values taking into account changes in interest rates and credit risk that have occurred since the assets and liabilities were acquired. These calculations represent management's best estimates based on a range of methods and assumptions; since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the instruments. Interest rate changes are the main cause of changes in the fair value of the Credit Union's financial instruments. The carrying value is a reasonable approximation of fair value for the Credit Union's cash resources, demand deposits, certain other assets and certain other liabilities, due to their short-term nature.

The fair value of financial instruments are as follows:

15. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Loans:
In determining the fair value of loans, the Credit Union incorporates the following assumptions:

- For fixed rate performing loans, fair values are determined by discounting remaining contractual cash flows at current market interest rates offered for loans with similar terms.
- For floating rate performing loans, changes in interest rates have minimal impact on the fair value since loans reprice to market. On that basis, fair value is assumed to equal carrying value.
- The total value of loans determined using the above assumptions is reduced by the allowance for impaired loans to determine the fair value of the Credit Union's loan portfolio.

Deposits:
In determining the fair value of deposits, the Credit Union incorporates the following assumptions:

- For fixed rate and fixed maturity deposits, the Credit Union discounts the remaining contractual cash flows, at market interest rates offered for deposits with similar terms and risks.
- For floating rate deposits, changes in interest rates have minimal impact on the fair value since deposits reprice to market. On that basis fair value is assumed to equal carrying value.

The Credit Union categorizes valuation methods used for financial instruments carried at fair value under a hierarchy of valuation techniques based on whether inputs are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Credit's Union market assumptions. These two inputs create the following fair value hierarchy:

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

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

	2019	2018
Fair Value Hierarchy		
Level 1	$ -	$ -
Level 2	**751,874**	-
Level 3	-	-
	$ 751,874	$ 940,800

Fair value of loans and deposits:

	2019		2018	
	Book Value	**Estimated Fair Value**	Book Value	Estimated Fair Value
Members' loans	**$ 30,285,174**	**$ 30,587,665**	$ 28,620,018	$ 28,558,149
Members' deposits	**$ 31,559,268**	**$ 31,591,265**	$ 30,379,891	$ 30,314,318

15. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The differences between the book values and fair values of the Credit Union's loans, deposits and other financial instruments are due primarily to changes in interest rates.

16. CREDIT FACILITY

The Credit Union has an approved operating line of credit with Atlantic Central with a limit of $850,000 to cover shortfalls in cash resources. The line of credit is secured by an assignment of book debts, bears interest at prime and is to be reviewed on an annual basis. At December 31, 2019 the line of credit was not drawn upon.

17. CAPITAL REQUIREMENTS

The Credit Union's plan to manage equity is designed to establish a strong base for future growth, to pay dividends on the equity shares and to provide a cushion in the event of market instability. Members' equity consists of equity shares and retained earnings. In accordance with the Credit Union Act, iNova Credit Union shall establish and maintain equity at a level equal to 5% of its assets. At December 31, 2019, equity was 12.52% (2018 - 12.49%) of its assets. Members` equity ratios are monitored regularly and reported to the Board monthly. The Credit Union`s equity ratios have been in compliance with the regulatory requirements throughout the year.

18. REVENUE FROM CONTRACTS

The Credit Union derives revenue from the transfer of goods and services over time and at a point in time in the following products and services:

	Account and transaction fees	Commissions	Total
Balance at December 31, 2019	$ 296,021	$ 19,819	$ **315,840**
Timing:			
At point in time	$ 62,504	$ 19,819	$ **82,323**
Over time	233,517	-	**233,517**
	$ 296,021	$ 19,819	$ **315,840**

	Account and transaction fees	Commissions	Total
Balance at December 31, 2018	$ 308,050	$ 22,783	$ 330,833
Timing:			
At point in time	$ 66,410	$ 22,783	$ 89,193
Over time	241,640	-	241,640
	$ 308,050	$ 22,783	$ 330,833

Revenue from contracts with members comes from savings and current accounts, and the related fees as well as commissions on the sale of insurance products.

19. LEASES

The Credit Union has a lease agreement with Westwood Development Limited for building space.
Terms of lease:

- Commencement date - April 1, 2012
- End date: March 31, 2022
- Renewal: Option to renew for a further four (4) consecutive five (5) year terms.

On January 1, 2019, the Credit Union recognized a lease liability measured at the present value of lease payments not yet paid in accordance with IFRS 16. The measurement reflects an expectation to renew the lease for an additional two (2) consecutive five (5) year terms.

A right to use asset was recognized at the initial amount of the lease liability.

Lease payments will continue to be made to Westwood Developments Limited in equal monthly installments of $7,823.74, including an implicit interest rate, until the end of the lease term.

Changes to the lease liability and right to use asset balances are illustrated in the following table:

	Right-of-use Asset	Lease Liability
Carrying amount at inital recognition - January 1, 2019	$ 1,000,179	$ 1,000,179
2019 Amortization expense	(75,485)	-
2019 Interest expense	-	34,506
2019 Lease payments	-	(93,885)
Carrying amount - December 31, 2019	$ 924,694	$ 940,800

20. SUBSEQUENT EVENT

On January 1, 2020, the Credit Union was amalgamated with Electragas Credit Union Limited. The new entity will continue as iNova Credit Union Limited.

iNova Credit Union Limited

SCHEDULES OF ADMINISTRATIVE AND OCCUPANCY EXPENSES

Year ended December 31		2019	% of Income		2018	% of Income
Administrative expenses						
Advertising and promotion	$	**11,596**	**0.6**	$	17,703	1.0
Accounting and audit		**24,725**	**1.3**		24,150	1.4
Atlantic Central dues		**34,407**	**1.8**		30,739	1.8
Data processing		**95,926**	**5.0**		76,795	4.4
Donations		**2,690**	**0.1**		9,310	0.5
Dues, fees and courier		**10,072**	**0.5**		9,850	0.6
Equipment repairs and maintenance		**12,579**	**0.7**		16,346	0.9
Insurance - general and bonding		**22,685**	**1.2**		21,256	1.2
Legal, collection and foreclosed property		**8,023**	**0.4**		5,024	0.3
Meeting expenses		**25,580**	**1.3**		23,775	1.4
Miscellaneous		**3,578**	**0.2**		6,037	0.3
Office, stationery and postage		**23,634**	**1.2**		23,156	1.3
Telephone		**6,042**	**0.3**		5,716	0.3
Travel		**1,504**	**0.1**		474	-
	$	**283,041**	**14.7**	$	270,331	15.4
Occupancy expenses						
Heat, lights and water	$	**10,555**	**0.6**	$	10,549	0.6
Interest on lease liability	$	**34,506**	**1.8**	$	-	-
Repairs and maintenance		**17,211**	**0.9**		13,422	0.8
Rent and common area costs		**40,239**	**2.1**		128,408	7.3
	$	**102,511**	**3.6**	$	152,379	8.7

(See accompanying notes to the financial statements)