
**INOVA CREDIT
UNION**

**ANNUAL REPORT
2021**



iNOVA

AGM

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AGENDA

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3. MOMENT OF SILENCE IN MEMORY OF DECEASED MEMBERS
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5. APPROVAL OF AGENDA
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ANNUAL GENERAL MEETING

85th iNova Credit Union Virtual Annual General Meeting Tuesday, April 20, 2021 at 6:00 pm

1. Opening Remarks - Gina Green reviewed the procedures for the virtual meeting.

2. Quorum - Gina Green confirmed there were 18 members in attendance therefore a quorum was established.

3. Call to Order - At 6:01pm the meeting was called to order by Wayne Pace, Chair of the Board of Directors.

4. Moment of Silence – Wayne Pace asked that a moment of silence be observed in memory of our members who had passed away in 2020.

5. Adoption of Agenda – Wayne Pace asked that the agenda for the 85th Annual General Meeting be adopted as presented.

Motion 20-01: It was moved by Dave Moffatt, seconded by Jayme Melrose, that the agenda for the 85th Annual General Meeting be adopted as presented. Carried

6. Approval of the 84rd AGM Meeting Minutes - Minutes were reviewed from the 84th Annual General Meeting held November 10, 2020.

Motion 20-02: It was moved by Dan Welch, seconded by Jayme Melrose, that the minutes of the 84th Annual General Meeting be approved. Carried

7. Nomination Report – Karla MacKeen stated that a call for nominations was posted in the branch and on our website for a period of 30 days. 3 members were nominated for the 3 vacancies. Shaun Carvery, Mike Ansari and Angela Franklin were elected by acclamation.

8. Chair and General Managers Report – Wayne Pace and Karla MacKeen presented their joint report. Highlights in 2020 included continued asset and deposit growth and operating profit before taxes of \$314,402. There is significant change on the horizon with new digital services and enhanced cyber security. Adapting new digital technologies to address the needs of our members and to grow iNova have been our key focus and will continue to be in the years ahead.

Motion 20-03: It was moved by Angela Franklin, seconded by Shaun Carvery, that the Chair and General Managers Report be accepted. Carried

9. External Auditors Report – Miles Sweeney, Chartered Accountant for Miles T. Sweeney Inc. reviewed the Credit Union's income and expenses, comparing 2019 and 2020. Also reviewed were the statements of net income, comprehensive income and retained earnings, cash flows for the year end, and notes to the financial statements, including a summary of significant accounting policies. In summary Miles highlighted a number of strengths including asset growth to \$49M, an increase in net income to \$311k (\$45k higher than 2019) and equity at 10.2% compared to the 5% required. Current challenges include membership growth along with loan interest and other income growth. To improve profitability the Credit Union needs to continue to manage operating expenses and grow the loan portfolio with quality loans.

Motion 20-04: It was moved by Dan Welch, seconded by Dave Moffatt, that the External Auditors Report be accepted. Carried

10. Audit Committee Report - Mike Ansari, Chair of the Audit Committee presented his report. Mike reviewed the Committee responsibilities and reported they are confident the Credit Union's financial reporting systems and controls are adequate to meet regulatory and statutory requirements. Mike thanked his fellow committee Dan Welch and Justin Sampson for their contributions over the past year.

Motion 20-05: It was moved by Mitchell Wells, seconded by Dave Moffatt, that the Audit Committee Report be accepted. Carried

11. Credit Committee Report – Angela Franklin, Chair of the Credit Committee presented the Credit Committee report with an overview of the committee's responsibilities and stated that the Board was satisfied with the reporting and adherence to policy. Angela thanked her fellow committee members as well as Thomas Redden who acts as the staff resource.

Motion 20-06: It was moved by Jayme Melrose, seconded by Chad Fowler, that the Credit Committee Report be accepted. Carried

12. Appointment of Auditors for 2021 - Mike Ansari, Chair of the Audit Committee recommended the re-appointment of Miles T. Sweeney Inc. as the auditors for 2021.

Motion 20-07: It was moved by Angela Franklin, seconded by Mitchell Wells, to accept the re-appointment of Miles T. Sweeney Inc. as the external auditors for 2021. Carried

13. New Business – No new business

14. Adjournment – At 6:31 Wayne expressed appreciation to the members and guests attending the virtual AGM and the staff's contribution in making the meeting a success and asked for a motion to adjourn the meeting.

Motion 20-08: It was moved by Jayme Melrose to adjourn the meeting. Carried

Submitted by

Angela Franklin
Board Secretary

Wayne Pace
Board Chair

Service Award

We are proud to present Angie Fong with her 20-year service award, Dave Moffatt with his 10-year service award and Thomas Redden with his 5-year service award. On behalf of the board, your coworkers and the membership we thank you for your service and your continuing support.



Election of Directors

There were three, 3-year term positions on the Board of Directors available this year. A call for nominations was made on March 3rd, 2022 and closed on March 31, 2022 resulting in a slate of 3 candidates. With there being 3 nominations for the 3 vacancies the candidates elected by acclamation are Jayme Melrose, Justin Sampson and Suzy Hanson.



Jayme Melrose has served on the board for 2 previous terms. Jayme runs a small business in the community and has a lot of community connections to share.



Justin Sampson is a Chartered Professional Account with 10 years experience in senior accounting roles. He joined the board 2 years ago as part of the amalgamation with Electragas CU and is looking forward to serving another term.



Suzy Hansen is new to the board. Suzy is the current MLA for Halifax Needham and through her extensive community work and experience has built relationships with many leaders in our community. Suzy's experience with cross community engagement provides her with the foundational knowledge to work in a varying degree of settings. Suzy is looking forward to being part of a collective team that aspires to help build a better community.

Chair of the Board of Directors and General Manager's Report

This evening marks our credit union's 86th annual general meeting and we are pleased to report on the past year and look ahead to some of the things on the horizon for next year.

iNova Credit Union had a successful year recording a net income of \$324,427, \$13k higher than last year. Our total assets increased 11.6% to nearly \$55 million and member deposits grew over \$5 million for a 13% increase for the year. In 2021 we continued to experience pressure on our financial margin as the Bank of Canada elected to keep the prime rate unchanged resulting in lower interest revenue and investment revenue. We did however manage our expenses and are very pleased with our outcomes for 2021.

Your Board of Directors met in the Fall of 2021 to set a course for iNova's strategic focus around current trends and decisions facing the credit union over the next three years. Branch usage has been declining for some time as members are increasingly using digital channels to transact and manage their money. COVID-19 has accelerated this shift and has changed the competitive landscape for iNova. It is with this context that your Board met to review its strategic plan and consider how best prepare and position your Credit Union for growth in a post-COVID world.

A significant investment in digital services over the next couple of years is expected and will challenge our bottom line. With this in mind, your board has elected to forgo paying out patronage for the 2021 year. Decisions will have to be made in the upcoming years when considering the level of investment needed to meet the expectations and needs of our members.

The Bank of Canada is forecasted to increase prime a number of times in 2022 which should help alleviate the pressure we have been experiencing on our financial margins but we must continue to grow our loan portfolio with quality loans and good security to minimize loan write offs and increase our income.

As always, giving back to our communities is very important to us and our team at iNova. We continued to demonstrate a strong commitment to our communities throughout 2021 with the following initiatives

- Back to school supplies and cash donation to Parker St Food Bank
- Smitten for Mittens
- Jean day fundraiser for the cancer society
- Support for the arts with a Bus Stop Theatre sponsorship

In addition, iNova is proud to continue supporting local initiatives such as the NEST program, which in 2021 provided 4 micro loans to small businesses in the North End. We also provided financing to some interesting new businesses, ranging from tree houses to tiny homes to everything in between. Notable small business startups included specialty coffee locations, outdoor adventure promoters and many new small businesses in the wellness industry. iNova continues to hold a diverse small business portfolio that maintains the unique vibe and culture in Halifax and surrounding areas.

I am incredibly blessed to work with a very efficient and dedicated group of colleagues without whom I could not function and I want to thank them for the effort and work they put in every day.

I would like to also thank your Board of Directors for providing outstanding support and working hard on your behalf to ensure long-term success of your Credit Union.

On behalf of the Board, Management and Staff we wish to thank you for choosing us as your Financial Institution. We would not be here without your loyalty and advocacy.

Wayne Pace
Board Chair

Karla MacKeen
General Manager

2021 Financial Statements

FINANCIAL STATEMENTS

iNova Credit Union Limited
December 31, 2021

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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 balance sheet as at December 31, 2021, and the statements of comprehensive income, 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, 2021, and the financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS)

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 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 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 Credit Union'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 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.

(continues)

Independent Auditor's Report To the Directors of iNova Credit Union Limited (*continued*)

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

Dartmouth, Nova Scotia
March 28, 2022

CHARTERED PROFESSIONAL
ACCOUNTANTS

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iNova Credit Union Limited
STATEMENT OF FINANCIAL POSITION

December 31	2021	2020
Assets		
Cash resources (Note 6)	\$ 18,590,995	\$ 16,135,794
Accrued receivables (Note 8)	32,242	55,069
Income taxes receivable	-	30,243
Prepaid expenses	19,349	23,738
Members' loans (Note 7)	33,942,652	30,809,658
Long-term investments (Note 9)	1,199,523	890,676
Capital assets (Note 10)	273,358	307,880
Right-of-use asset - building (Note 19)	773,724	849,209
	<u>\$ 54,831,843</u>	<u>\$ 49,102,267</u>
Liabilities		
Payables and accruals	\$ 69,587	\$ 63,496
Members' deposits (Note 11)	48,490,951	43,007,833
Deposit interest payable	76,374	119,663
Income taxes payable	37,484	-
Deferred income taxes (Note 13)	8,386	10,024
Lease liability (Note 19)	813,691	878,345
	<u>49,496,473</u>	<u>44,079,361</u>
Members' equity		
Members' shares (Note 12)	69,044	81,007
Contributed surplus	35,752	35,752
Retained earnings	5,230,574	4,906,147
	<u>5,335,370</u>	<u>5,022,906</u>
	<u>\$ 54,831,843</u>	<u>\$ 49,102,267</u>

Approved by the Board

_____ Director _____ Director

(See accompanying notes to the financial statements)

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iNova Credit Union Limited				
STATEMENTS OF COMPREHENSIVE INCOME AND RETAINED EARNINGS				
Year ended December 31	2021	% of Income	2020	% of Income
Income				
Loan interest	\$ 1,319,769	72.3	\$ 1,312,505	70.6
Investment income	<u>124,339</u>	<u>6.8</u>	<u>152,527</u>	<u>8.2</u>
	<u>1,444,108</u>	<u>79.1</u>	<u>1,465,032</u>	<u>78.8</u>
Interest expenses				
Distributions to members:				
Interest on deposits	<u>200,977</u>	<u>11.0</u>	<u>292,635</u>	<u>15.7</u>
Financial margin	<u>1,243,131</u>	<u>68.1</u>	<u>1,172,397</u>	<u>63.1</u>
Other income				
Discretionary rebate income	692	-	37,834	2.0
Revenue from contracts (Note 18)	354,463	19.5	317,973	17.2
Other	<u>26,312</u>	<u>1.4</u>	<u>37,846</u>	<u>2.0</u>
	<u>381,467</u>	<u>20.9</u>	<u>393,653</u>	<u>21.2</u>
Income before operating expenses	<u>1,624,598</u>	<u>89.0</u>	<u>1,566,050</u>	<u>84.3</u>
Operating expenses				
Administrative (see schedule)	290,949	15.9	255,700	13.8
Amortization of capital assets	110,007	6.0	110,575	5.9
Central service charges	128,419	7.0	120,444	6.5
Occupancy (see schedule)	97,183	5.3	105,590	5.7
Salaries, benefits, contracted services	610,046	33.4	584,115	31.4
Deposit insurance	35,133	1.9	30,083	1.6
Loan impairment losses (recoveries)	<u>(11,851)</u>	<u>(0.6)</u>	<u>41,933</u>	<u>2.3</u>
Total operating expenses	<u>1,259,886</u>	<u>68.9</u>	<u>1,248,440</u>	<u>67.2</u>
Loss on capital asset disposal	-	-	2,908	0.2
Income before provision for income taxes	<u>364,712</u>	<u>20.1</u>	<u>314,702</u>	<u>16.9</u>
Provision for income taxes (Note 13)				
Current	41,923	2.3	3,464	0.2
Future (recovery)	<u>(1,638)</u>	<u>(0.1)</u>	<u>104</u>	-
	<u>40,285</u>	<u>2.2</u>	<u>3,568</u>	<u>0.2</u>
Net income and comprehensive income	<u>324,427</u>	<u>17.9</u>	<u>311,134</u>	<u>16.7</u>
Retained earnings, beginning	4,906,147		4,595,013	
Net income and comprehensive income	<u>324,427</u>		<u>311,134</u>	
Retained earnings, ending	<u>\$ 5,230,574</u>		<u>\$ 4,906,147</u>	

(See accompanying notes to the financial statements)

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iNova Credit Union Limited

STATEMENT OF CASH FLOWS

Year ended December 31

	2021	2020
Cash generated from (used in) operating activities		
Loan interest received	\$ 1,319,895	\$ 1,314,076
Investment income received	110,228	150,928
Other income received	26,312	37,846
Rebates received	692	1,009
Revenue from contracts received	354,463	317,973
Increase in members' deposits	5,483,118	11,448,565
Bad loans recovered	23,405	25,401
Interest paid on members' deposits	(244,266)	(312,816)
Increase in members' loans	(3,107,572)	(603,888)
Payments to suppliers	(541,203)	(514,242)
Payments to employees	(610,211)	(582,194)
Income taxes received (paid)	25,804	(46,930)
	<u>2,840,665</u>	<u>11,235,728</u>
Cash generated from (used in) investing activities		
Purchase of investments	(308,847)	(138,802)
Purchase of capital assets	-	(14,657)
	<u>(308,847)</u>	<u>(153,459)</u>
Cash generated from (used in) financing activities		
Principal payments on lease liability	(64,654)	(62,455)
Proceeds from issue of shares (net of redemptions)	(11,963)	28,717
	<u>(76,617)</u>	<u>(33,738)</u>
Net increase (decrease) in cash flows	2,455,201	11,048,531
Cash and cash equivalents, beginning of year	16,135,794	5,087,263
Cash and cash equivalents, end of year (Note 6)	\$ 18,590,995	\$ 16,135,794
Supplemental cash flow information		
Interest received from investments	\$ 85,260	123,115

(See accompanying notes to the financial statements)

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

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 28, 2022, the Credit Union's Board of Directors approved and authorized for issue the financial statements for the year ended December 31, 2021.

2. NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

IFRS 17 - Insurance Contracts

IFRS 17 was issued in May 2017 and establishes recognition, measurement, presentation and disclosure requirements of insurance contracts. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The standard is effective for annual periods beginning on or after January 1, 2023.

The Credit Union does not anticipate this new standard will impact its financial statements. The Credit Union does not issue or hold insurance contracts as defined in IFRS 17.

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 principle using a going concern basis, with the exception of available-for-sale financial assets which have been measured at fair value.

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.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

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

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 fair value through other comprehensive income (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 significant 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.

Members' loans and foreclosed assets

Members' loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred. Members' loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment losses.

Members' loans are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest is accounted for on the accrual basis for all loans.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Allowance for impaired loans

The Credit Union recognizes a loss allowance for the expected credit losses associated with its members' loans. Expected credit losses are measured to reflect the probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those members' loans for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union assesses at each balance sheet date whether there is objective evidence that a members' loan or group of members' loans is impaired. A members' loan or group of members' loans is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the members' loan (a "loss event") and that loss event (events) has an impact on the estimated future cash flows of the members' loan or group of members' loans that can be reliably estimated.

The criteria the Credit Union uses to determine whether there is objective evidence of an impairment loss includes:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the member;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the member's competitive position; and
- Deterioration in the fair value of collateral.

For members' loans assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses. Loss allowances for expected credit losses are deducted from the gross carrying amount of the members' loans in the statement of financial position.

Members' loans are written off when the Credit Union has no reasonable expectation of recovering all or any portion thereof.

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.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Members' deposits

All members' deposits are initially recognized at fair value, net of any transaction costs directly attributable to the issuance of the instrument. Members' deposits are subsequently measured at amortized cost, using the effective interest rate method.

Financial assets

The Credit Union recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit and loss (FVTPL) are expensed in profit and loss when incurred.

On initial recognition, financial assets are classified and subsequently measured at amortized cost, FVOCI or FVTPL. The Credit Union determines the classification of its financial assets, including any derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Debt instruments are classified as follows:

- Amortized cost - assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit and loss.
- FVOCI - assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at FVOCI. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial asset are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit and loss.
- Mandatory FVTPL - assets that do not meet the criteria to be measured at amortized cost, or FVOCI, are measured at FVTPL. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss.
- Designated FVTPL - on initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at FVTPL in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring the assets or liabilities or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss.

The Credit Union measures equity instruments at FVTPL, except where the Credit Union has irrevocably elected on initial recognition to present in other comprehensive income the fair value gains and losses of an equity instrument that is neither held for trading purposes nor contingent consideration acquired in a business combination. In such cases, the cumulative gains and losses recognized in other comprehensive income are not reclassified to profit or loss on derecognition of the investment.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business model assessment

The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way in which the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives and how performance of the portfolio is evaluated.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Credit Union considers factors that would alter the timing amount of cash flows such as prepayment and extension features, terms that might limit the Credit Union's claim to cash flows, and any features that modify consideration for the time value of money.

Reclassifications

The Credit Union reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

Derecognition of financial assets

A financial asset is derecognized when the contractual rights to the cash flows from the asset have expired, or the Credit Union 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 Credit Union has transferred all the risks and rewards of ownership of the asset to a third party.

Financial liabilities

The Credit Union recognizes financial liabilities when it becomes party to the contractual provisions of the instrument. At initial recognition, the Credit Union measures all financial liabilities at fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses related a financial liability are recognized in profit and loss.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

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NOTES TO THE FINANCIAL STATEMENTS
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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Credit Union has classified its financial instruments as follows:

FINANCIAL ASSET/LIABILITY	CLASSIFICATION	SUBSEQUENT MEASUREMENT
Cash resources	Amortized cost	Amortized cost
Deposits with Atlantic Central	Amortized cost	Amortized cost
Long term investments	FVOCI	FVOCI
Members' loans (inc. accrued interest) and rebates receivable	Amortized cost	Amortized cost
Members' deposits (inc. accrued interest), borrowings and payables	Amortized cost	Amortized cost

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.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 liabilities 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 comprehensive 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.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee future benefit plans

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

Government grants

Unconditional government grants are recognized in profit or loss as other income when the grant becomes receivable. Other government grants are initially recognized as deferred income at fair value if there is reasonable assurance that they will be received and the Credit Union will comply with the conditions associated with the grant; they are then recognized in profit or loss as other income on a systematic basis over the useful life of the asset.

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.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2021

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

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 31 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 determine 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.

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

	2021	2020
Cash resources	\$ 18,590,995	\$ 16,135,794
Members' loans	<u>33,942,652</u>	<u>30,809,658</u>
	<u>\$ 52,533,647</u>	<u>\$ 46,945,452</u>

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.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2021

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

Expected Repricing or Maturity Date	Weighted Average Interest Rate		Assets (000's)	Liabilities (000's)	Net Asset Liability Mismatch (000's)
	Assets	Liabilities			
0 to 3 months	3.05	0.20	\$ 13,805	\$ 27,872	\$ (14,067)
4 to 6 months	1.58	0.97	7,437	1,550	5,887
7 to 9 months	1.30	1.10	3,486	1,579	1,907
10 to 12 months	1.76	0.98	4,036	1,608	2,428
1 to 2 years	2.27	1.45	9,930	1,782	8,148
2 to 3 years	3.64	2.52	3,141	1,078	2,063
3 to 4 years	3.76	2.39	5,488	386	5,102
4 to 5 years	3.85	1.00	8,909	105	8,804
Over 5 years	5.19	n/a	194	-	194
Not interest sensitive	n/a	n/a	(1,594)	18,872	(20,466)
			<u>\$ 54,832</u>	<u>\$ 54,832</u>	<u>\$ -</u>

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.

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 0.23% (2020 - 0.64%) 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 entity 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, 2021.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

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

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:

	2021	2020
Liquid assets	\$ 19,226,885	\$ 16,600,084
Required liquidity	<u>4,849,095</u>	<u>4,300,783</u>
Excess liquidity	<u>\$ 14,377,790</u>	<u>\$ 12,299,301</u>
Liquid assets comprise:		
Cash held at Atlantic Central	\$ (64,302)	\$ 1,526,344
Liquidity and short-term deposits held at Atlantic Central	<u>18,655,297</u>	<u>14,609,450</u>
Shares held at Atlantic Central	<u>635,890</u>	<u>464,290</u>
	<u>\$ 19,226,885</u>	<u>\$ 16,600,084</u>

6. CASH RESOURCES

	2021	2020
Cash on hand and in current account	\$ (64,302)	\$ 1,526,344
Atlantic Central Deposits (Market value = cost)	<u>18,655,297</u>	<u>14,609,450</u>
	<u>\$ 18,590,995</u>	<u>\$ 16,135,794</u>

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

7. MEMBERS' LOANS

Loans by purpose	2021	2020
Consumer loans	\$ 9,634,450	\$ 9,327,657
Consumer lines of credit	2,023,773	2,371,947
Consumer mortgages	12,746,986	12,605,314
Commercial loans	5,900,840	4,121,542
Commercial lines of credit	1,308,774	740,589
Commercial and participation mortgages	1,540,164	997,933
Commercial loans - participation	901,829	785,918
Overdrafts	15,330	4,718
	<u>34,072,146</u>	<u>30,955,618</u>
Accrued interest	46,036	46,162
	<u>34,118,182</u>	<u>31,001,780</u>
Less : Allowance for impaired loans	<u>175,530</u>	<u>192,122</u>
Net loans	<u>\$ 33,942,652</u>	<u>\$ 30,809,658</u>

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.

Commercial 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.

	2021	2020
Maturity analysis:		
Scheduled for repayment:		
Overdrafts and line of credit facilities	\$ 3,348,610	\$ 3,117,400
Within one year	4,576,000	4,466,200
One to three years	7,938,200	10,355,900
Over three years	<u>18,209,336</u>	<u>13,016,118</u>
	<u>\$ 34,072,146</u>	<u>\$ 30,955,618</u>

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

7. MEMBERS' LOANS (Continued)

Allowance for impaired loans

Assessment of credit risk

Members' loans are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

The Credit Union considers members' loans to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists.

Changes in credit risk are assessed on the basis of the risk that a default will occur over the contractual lifetime of the members' loan rather than based on changes in the amount of expected credit losses or other factors. The Credit Union takes into account all reasonable and supportable information, including forward-looking information, available without undue cost or effort in making this assessment. The Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings, such as requests for loan modifications.

Members' loans with an acceptable credit risk consistent with that upon origination of the loan are considered to be Stage 1. The credit risk of a loan is deemed to have significantly increased since initial recognition when contractual payments have exceeded 30 days past due, or other information becomes available to management (e.g., through the course of regular credit reviews, communication with the borrower or forecasting processes which consider macroeconomic conditions expected to have a future impact on borrowers, such as the COVID-19 pandemic). The increase in credit risk designates the loan to be Stage 2.

The Credit Union identifies credit-impaired members' loans through regular review of past due balances and credit assessment of its customers. Loans greater than 90 days past due are considered credit impaired. Credit impaired loans are classified as Stage 3.

Measurement of expected credit losses

The Credit Union measures expected credit losses of members' loans receivable on a group basis. These assets are grouped on the basis of their shared credit risk characteristics such as loan type (residential mortgages, commercial mortgages, other secured loans or non-secured loans). Otherwise, expected credit losses are measured on an individual basis.

Forward looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its customers and other publicly available information and considering the effects such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit impaired loan.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of members' loans. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that forward looking information may have on the historical data used to measure expected credit losses. The Credit Union has identified forecasted unemployment rates and prime interest rates to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors (e.g. higher unemployment rates due to COVID-19).

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

7. MEMBERS' LOANS (Continued)

Write-offs

Members' loans are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid. Where an asset has been written off but is still subject to enforcement activity, the asset is written off but remains on a list of delinquent accounts. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

The following tables set out information about the members' loans classified based on the credit quality of financial assets assessed for impairment under IFRS 9 for 2020 and 2021. The gross carrying amount of members' loans represent the maximum exposure to credit risk.

	Stage 1	Stage 2	Stage 3	Total
Balance at December 31, 2021				
Gross carrying amount of members' loans	\$ 32,745,055	\$ 1,260,998	\$ 66,093	\$ 34,072,146
Loss allowance	\$ 45,817	\$ 63,874	\$ 65,839	\$ 175,530

Balance at December 31, 2020				
Gross carrying amount of members' loans	\$ 29,707,840	\$ 1,119,348	\$ 128,430	\$ 30,955,618
Loss allowance	\$ 35,678	\$ 52,262	\$ 104,182	\$ 192,122

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

	Stage 1	Stage 2	Stage 3	Total
Balance at December 31, 2021				
Allowance beginning	\$ 35,678	\$ 52,262	\$ 104,182	\$ 192,122
Recoveries	224	-	23,181	\$ 23,405
Write-offs	(1,080)	-	(27,066)	\$ (28,146)
Net remeasurement of loss allowance	<u>10,995</u>	<u>11,612</u>	<u>(34,458)</u>	<u>\$ (11,851)</u>
Allowance ending	<u>\$ 45,817</u>	<u>\$ 63,874</u>	<u>\$ 65,839</u>	<u>\$ 175,530</u>

Balance at December 31, 2020				
Allowance beginning	\$ 27,081	\$ 44,007	\$ 69,719	\$ 140,807
Recoveries	2,000	-	23,400	25,400
Write-offs	(3,215)	-	(22,427)	(25,642)
Transferred from Electragas	-	-	9,624	9,624
Net remeasurement of loss allowance	<u>9,812</u>	<u>8,255</u>	<u>23,866</u>	<u>41,933</u>
Allowance ending	<u>\$ 35,678</u>	<u>\$ 52,262</u>	<u>\$ 104,182</u>	<u>\$ 192,122</u>

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iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

7. MEMBERS' LOANS (Continued)

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

	2021	2020
31 to 60 days	\$ 66,682	\$ 67,427
61 to 90 days	2,000	50,054
91 to 180 days	-	5,271
Over 180 days	<u>43,201</u>	<u>80,442</u>
	<u>\$ 111,883</u>	<u>\$ 203,194</u>

The comparative figures in the analysis of loans in arrears have been restated to include all loans and lines of credit in arrears at December 31, 2020.

Canada Emergency Business Account (CEBA) loans

The Credit Union is participating in the CEBA loan program announced by the government of Canada. As of December 31, 2021, the Credit Union was administering, on behalf of Export Development Canada, commercial loans totaling \$2,613,536 (2020 - \$2,480,400). As these loans do not belong to the Credit Union, they are not included in these financial statements.

8. ACCRUED RECEIVABLES

	2021	2020
Accrued receivables	\$ 760	\$ 37,863
Interest receivable	<u>31,482</u>	<u>17,206</u>
	<u>\$ 32,242</u>	<u>\$ 55,069</u>

9. LONG-TERM INVESTMENTS

	2021	2020
Shares in unlisted entities (at cost):		
Atlantic Central common shares	\$ 534,890	\$ 363,290
Atlantic Central provincial shares	101,000	101,000
Central 1 - class B shares	100	-
League Savings and Mortgage Limited	551,463	414,316
League Data Limited - class B preference shares	11,970	11,970
Nova Scotia Co-operative Council	<u>100</u>	<u>100</u>
	<u>\$ 1,199,523</u>	<u>\$ 890,676</u>

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2021

9. LONG-TERM INVESTMENTS (Continued)

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, 2020	\$ 404,423	\$ 38,154	\$ 191,357	\$ 26,450	\$ 48,372	\$ 708,756
Additions	-	7,379	7,278	-	-	14,657
Disposals	-	(30,896)	-	-	-	(30,896)
Balance on December 31, 2020	404,423	14,637	198,635	26,450	48,372	692,517
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance on December 31, 2021	\$ 404,423	\$ 14,637	\$ 198,635	\$ 26,450	\$ 48,372	\$ 692,517
Accumulated depreciation						
Balance at January 1, 2020	\$ 150,009	\$ 29,072	\$ 150,602	\$ 21,457	\$ 26,392	\$ 377,532
Depreciation expense	20,353	3,390	8,151	998	2,200	35,092
Disposals	-	(27,987)	-	-	-	(27,987)
Balance on December 31, 2020	170,362	4,475	158,753	22,455	28,592	384,637
Depreciation expense	20,353	3,856	7,537	798	1,978	34,522
Disposals	-	-	-	-	-	-
Balance on December 31, 2021	\$ 190,715	\$ 8,331	\$ 166,290	\$ 23,253	\$ 30,570	\$ 419,159
Net book value						
December 31, 2020	\$ 234,061	\$ 10,162	\$ 39,882	\$ 3,995	\$ 19,780	\$ 307,880
December 31, 2021	\$ 213,708	\$ 6,306	\$ 32,345	\$ 3,197	\$ 17,802	\$ 273,358

11. MEMBERS' DEPOSITS

	2021	2020
Chequing	\$ 23,084,884	\$ 18,192,425
Demand, no penalty on withdrawal	13,764,975	13,251,237
RRSP and RRIF	5,510,616	5,366,886
Term deposits	6,130,476	6,197,285
	\$ 48,490,951	\$ 43,007,833

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iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

11. MEMBERS' DEPOSITS (Continued)

Maturity analysis:		
At call	\$ 38,036,551	\$ 32,284,333
Within one year	7,104,300	6,366,500
One to three years	2,859,200	3,092,000
Over three years	<u>490,900</u>	<u>1,265,000</u>
	\$ 48,490,951	\$ 43,007,833

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.

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.

	2021	2020
Issued:		
Common shares		
Balance, beginning of year (2,049 shares)	\$ 10,245	\$ 7,960
Add: shares issued during year (91)	<u>455</u>	<u>3,095</u>
	10,700	11,055
Less: shares redeemed during year (244)	<u>(1,220)</u>	<u>(810)</u>
Balance, end of year (1,896 shares)	<u>9,480</u>	<u>10,245</u>
Surplus shares		
Balance, beginning of year (70,762 shares)	70,762	82,472
Add: distributions to members (0)	-	-
Less: shares redeemed during year (11,198)	<u>(11,198)</u>	<u>(11,710)</u>
Balance, end of year (59,564 shares)	<u>59,564</u>	<u>70,762</u>
Total equity shares	\$ 69,044	\$ 81,007

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

13. INCOME TAX

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

	2021	2020
Current income tax expense in respect of current year	\$ 41,923	\$ 3,464
Deferred income taxes relating to the origination and reversal of temporary differences	<u>(1,638)</u>	<u>104</u>
Total income tax expense	<u>\$ 40,285</u>	<u>\$ 3,568</u>

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:

	2021	2020
Income before income taxes	\$ 364,712	\$ 314,702
Combined Canadian basic federal and provincial income tax rate	<u>11.50 %</u>	<u>11.62 %</u>
Expected income tax	41,942	36,659
Effect on income tax of:		
Temporary differences	(63)	2,596
Permanent differences	<u>(1,594)</u>	<u>(35,687)</u>
Total income tax expense	<u>\$ 40,285</u>	<u>\$ 3,568</u>

The components of deferred income tax balances are as follows:

	2021	2020
Deferred income tax assets (liabilities)		
Allowance for impaired loans	\$ 6,761	\$ 5,964
Right-of-use assets	4,596	3,386
Capital assets	(8,128)	(7,638)
Atlantic Central Shares	<u>(11,615)</u>	<u>(11,736)</u>
Deferred income tax asset (liability)	<u>\$ (8,386)</u>	<u>\$ (10,024)</u>
Deferred tax assets (liabilities) to be recovered (settled) > 12 months	<u>\$ (8,386)</u>	<u>\$ (10,024)</u>

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.

Net capital losses totalling \$10,537 were transferred on the amalgamation with Electragas which are available to reduce taxable capital gains in future periods.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2021

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 \$1,596,112 (2020 - \$1,481,802) and had deposits with the Credit Union totalling \$1,220,045 (2020 - \$863,317).

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:

	2021	2020
Direct compensation	\$ 182,900	\$ 195,703
Contributions to defined contribution plan	<u>14,702</u>	<u>16,377</u>
Total salaries and benefits	<u>\$ 197,602</u>	<u>\$ 212,080</u>

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 contributed 6% of their base salary to the plan. Current service costs totalled \$38,561 (2020 - \$37,233) 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.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

15. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

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:

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.

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iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2021

15. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Fair value of investments:

	2021	2020
Fair Value Hierarchy		
Level 1	\$ -	\$ -
Level 2	1,199,523	890,676
Level 3	-	-
	<u>\$ 1,199,523</u>	<u>\$ 890,676</u>

Fair value of loans and deposits:

	<u>2021</u>		<u>2020</u>	
	<u>Book Value</u>	<u>Estimated Fair Value</u>	<u>Book Value</u>	<u>Estimated Fair Value</u>
Members' loans	\$ 33,942,652	\$ 33,669,754	\$ 30,809,658	\$ 30,711,668
Members' deposits	\$ 48,490,951	\$ 48,497,261	\$ 43,007,833	\$ 42,719,114

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 \$1,228,000 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, 2021 the line of credit balance was \$334,605 and bears interest at 1.95% per annum.

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, 2021, equity was 9.73% (2020 - 10.23%) 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.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

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, 2021	<u>\$ 329,208</u>	<u>\$ 25,255</u>	<u>\$ 354,463</u>
Timing:			
At point in time	\$ 81,826	\$ 25,255	\$ 107,081
Over time	<u>247,382</u>	<u>-</u>	<u>247,382</u>
	<u>\$ 329,208</u>	<u>\$ 25,255</u>	<u>\$ 354,463</u>
Balance at December 31, 2020	<u>\$ 294,055</u>	<u>\$ 23,918</u>	<u>\$ 317,973</u>
Timing:			
At point in time	\$ 69,301	\$ 23,918	\$ 93,219
Over time	<u>224,754</u>	<u>-</u>	<u>224,754</u>
	<u>\$ 294,055</u>	<u>\$ 23,918</u>	<u>\$ 317,973</u>

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 consecutive five-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 consecutive five-year terms.

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

On October 20, 2021, the lease was renewed for a period of three years, commencing on September 1, 2022 and expiring on August 31, 2025. The basic monthly rent during the renewal period remains at \$23.50 per square foot plus HST. The lease renewal does not impact the measurement of the lease liability and right-of-use asset recorded in these financial statements.

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:

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

19. LEASES (Continued)

	Right-of-use Asset	Lease Liability
Balance at December 31, 2021		
Carrying amount - beginning of year	\$ 849,209	\$ 878,345
Amortization expense	(75,485)	-
Interest expense	-	29,231
Lease payments	-	(93,885)
	<u> </u>	<u> </u>
Carrying amount - end of year	<u>\$ 773,724</u>	<u>\$ 813,691</u>
Balance at December 31, 2020		
Carrying amount - beginning of year	\$ 924,694	\$ 940,800
Amortization expense	(75,485)	-
Interest expense	-	31,430
Lease payments	-	(93,885)
	<u> </u>	<u> </u>
Carrying amount - end of year	<u>\$ 849,209</u>	<u>\$ 878,345</u>

20. IMPACT OF COVID-19

Beginning in early March 2020, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders.

The Credit Union's cash position remains high due to funds received for the federal Canadian Emergency Business Account program (CEBA), as well as members continuing to hold onto cash. Mortgage and interest rates remain low, which affects the Credit Union's financial revenue and investment revenue.

The hospitality sector remains fragile as a result of public health restrictions. There were no loan write offs related to COVID-19 during the current year. However, the Credit Union will be focusing on mitigating risk by ensuring it has a diversified loan portfolio.

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iNova Credit Union Limited

SCHEDULES OF ADMINISTRATIVE AND OCCUPANCY EXPENSES

Year ended December 31

2021 % of Income 2020 % of Income

Administrative expenses

Advertising and promotion	\$ 8,482	0.5	\$ 9,086	0.5
Accounting and audit	27,950	1.5	25,992	1.4
Atlantic Central dues	43,564	2.4	37,098	2.0
Data processing	105,828	5.8	76,663	4.1
Donations	1,721	0.1	5,353	0.3
Dues, fees and courier	6,281	0.3	6,296	0.4
Equipment repairs and maintenance	13,626	0.7	13,576	0.7
Insurance - general and bonding	27,621	1.5	28,144	1.5
Legal, collection and foreclosed property	6,014	0.3	3,451	0.2
Meeting expenses	19,724	1.1	11,676	0.6
Miscellaneous	(360)	-	7,822	0.4
Office, stationery and postage	23,764	1.3	24,854	1.4
Telephone	6,692	0.4	5,637	0.3
Travel	42	-	52	-
	<u>\$ 290,949</u>	<u>15.9</u>	<u>\$ 255,700</u>	<u>13.8</u>

Occupancy expenses

Heat, lights and water	\$ 8,969	0.5	\$ 12,817	0.7
Interest on lease liability	29,231	1.6	31,430	1.7
Repairs and maintenance	15,242	0.8	21,392	1.2
Rent and common area costs	43,741	2.4	39,951	2.1
	<u>\$ 97,183</u>	<u>5.3</u>	<u>\$ 105,590</u>	<u>5.7</u>

(See accompanying notes to the financial statements)

Audit and Risk Committee Report

For the year ended December 31, 2021

Your Audit and Risk Committee meets at least quarterly to:

- a. Review and report on interim financial reports and key performance indicators.
- b. Review and report on the audited year end financial statements and follow up on all recommendations
- c. Review correspondence from our regulators follow up on any audit irregularities
- d. Review the Enterprise Risk Management measures
- e. Randomly select and review of loan files

I am pleased to report that the Committee is confident the Credit Union's financial reporting systems and controls are adequate to meet regulatory and statutory requirements.

I would like to thank my fellow committee members Dan Welch and Justin Sampson for their contributions over the past year.

Respectfully submitted,

Mike Ansari
Chair, Audit & Risk Committee

Credit Committee Report

Credit Committee Report for the year ended December 31, 2021

The responsibilities of Credit Unions are dictated by the Credit Union Act which are the basis of iNova Credit Union's policies. The committee meets on a quarterly basis to ensure the loan policy is respected.

The committee reviews the loan diversification, delinquencies, the allowance for doubtful loans, loan rewrites and extensions, loans to staff and directors that are in arrears as well as approving write-offs. The minutes of the meeting and the findings are presented to the Board on a quarterly basis, and I am pleased to report to the membership that the Board was satisfied with the reporting and the adherence to policy.

The other members of the credit committee are Gary Blackburn, Arthur Rudge, Irvine Carvery and Shaun Carvery. I would like to thank the members of the committee for their support during the year. In addition, I would like to thank Thomas Redden, who prepares the reports and provides answers to our questions.

Respectfully Submitted,

Angela Franklin
Chair, Credit Committee

Appointment of Auditors

On behalf of the Board of Directors of iNova Credit Union, I recommend that the auditing firm of Miles T. Sweeney Limited, Chartered Accountants, or their successor as independent auditors, be reappointed as the auditors for iNova Credit Union for the fiscal year of 2022

Mike Ansari,
Chair, Audit and Risk Committee
