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**INOVA CREDIT  
UNION**

**ANNUAL REPORT  
2022**



**iNOVA**

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**AGM**

# **PAGES**

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**AGENDA- 87TH ANNUAL GENERAL MEETING**

**MEETING MINUTES- 86TH ANNUAL GENERAL MEETING (PG. 1-3)**

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## AGENDA

1. WELCOME AND CALL TO ORDER
2. DETERMINATION OF QUORUM
3. MOMENT OF SILENCE IN MEMORY OF DECEASED MEMBERS
4. RULES OF ORDER
5. APPROVAL OF AGENDA
6. APPROVAL OF APRIL 19, 2022 AGM MINUTES
7. SERVICE AWARDS
8. ELECTION OF DIRECTOR
9. REPORTS
  - CHAIR AND GENERAL MANAGER'S JOINT REPORT
  - AUDITOR'S REPORT AND FINANCIAL STATEMENTS
  - AUDIT COMMITTEE REPORT
  - CREDIT COMMITTEE REPORT
10. APPOINTMENT OF AUDITORS
11. NEW BUSINESS
12. ADJOURNMENT

## ANNUAL GENERAL MEETING

### 86th iNova Credit Union Virtual Annual General Meeting April 19, 2022 at 6:00 pm

1. Opening Remarks – Wayne Pace welcomed all attending
2. Quorum – Thomas Redden confirmed there were 21 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 2021.
5. Adoption of Agenda – Wayne Pace asked that the agenda for the 86th Annual General Meeting be adopted as presented.

Motion 22-01: It was moved by Angela Franklin, seconded by Jaclyn Doublett, that the agenda for the 86th Annual General Meeting be adopted as presented. **Carried**

6. Approval of the 85th AGM Meeting Minutes - Minutes were reviewed from the 85th Annual General Meeting held April 20, 2021.

Motion 22-02: It was moved by Mitchell Wells, seconded by Jayme Melrose, that the minutes of the 85th Annual General Meeting be approved. **Carried**

7. Service Awards – Karla MacKeen presented 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.

8. Election of Directors – Karla MacKeen presented the Nomination Committee report stating that there were 3 nominations for the 3 vacancies and that Jayme Melrose, Justin Sampson and Suzy Hanson were elected by acclamation.

Motion 22-03: It was moved by Kyle Blandin, seconded by Jaclyn Doublett, that the Nomination Committee report be approved. **Carried**

9. Chair and General Managers Report – Wayne Pace and Karla MacKeen presented their joint report. Highlights in 2021 included continued asset and deposit growth and a net income of \$324,427. Increasing use of digital channels to transact and enhanced cyber security continue to be our focus as well as giving back to our community. Karla and Wayne thanked the Board, Management and Staff for their effort and support throughout the year

Motion 22-04: It was moved by Angela Franklin, seconded by Jayme Melrose, that the Chair and General Managers Report be accepted. **Carried**

10. External Auditors Report – Miles Sweeney, Chartered Accountant for Miles T. Sweeney Inc. reviewed the Credit Union’s income and expenses, comparing 2020 and 2021. 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. 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 22-05: It was moved by Erin Hancock, seconded by Jaclyn Doublett, to accept the External Auditors Report. **Carried**

11. 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 22-06: It was moved by Jayme Melrose, seconded by Angela Franklin, that the Audit Committee Report be accepted. **Carried**

12. 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 22-07: It was moved by Jaclyn Doublett, seconded by Kaylon Fraser, that the Credit Committee Report be accepted. **Carried**

13. Appointment of Auditors for 2022 - Mike Ansari, Chair of the Audit Committee recommended the re-appointment of Miles T. Sweeney Inc. as the auditors for 2022.

Motion 22-08: It was moved by Justin Sampson, seconded by Erin Hancock, to accept the re-appointment of Miles T. Sweeney Inc. as the external auditors for 2022. **Carried**

14. New Business –

a. Board Appointment – the board appointed Mariah Pelley Smith to fill a vacancy that was left when a director stepped down in March 2022.

Motion 22-09: It was moved by Kaylon Fraser, seconded by Jayme Melrose, to approve the appointment of Mariah Pelley Smith to the Board of Directors. **Carried**

15. No New Business from the floor

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16. Adjournment – At 6:33 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 22-10: It was moved by Jaclyn Doublett to adjourn the meeting. **Carried**

Submitted by

Jayne Melrose  
Board Secretary

Wayne Pace  
Board Chair

### Service Award

We are proud to present Karla MacKeen with her 25 - year service award, and Jaclyn Doublett with her 10 - 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, 2023 and closed on March 31, 2023 resulting in a slate of 3 candidates. With there being 3 nominations for the 3 vacancies the candidates re-elected by acclamation are Wayne Pace, Erin Hancock, and Mitchell Wells.

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

This evening marks our credit union's 87th annual general meeting and we are pleased to present the past years results and to highlight what is on the horizon for your Credit Union in the year to come.

For many years the Credit Union has endured a low interest rate environment with decreasing profit margins and has had to operate prudently and with responsible fiscal management in mind. In 2022 we saw the Bank of Canada aggressively raise the policy interest rate throughout the year to slow down inflation nationwide. This interest rate change increased the rate we charged on loans which helped ease the pressure we had been experiencing on our financial margin for so many years. With this in mind we are happy to report we had a very successful year recording a net income of \$393,099 which is \$69,000 higher than last year. Due of this success your board has approved a patronage rebate for 2022 in the amount of \$150,000.00 to be paid back to all members in good standing in proportion to the amount of business you have with us. You will see this patronage rebate deposited to your '05' account.

For an update on operations going forward. We are preparing for the replacement of our banking platform early next year as the existing one will no longer be supported past August 2024. League Data and Atlantic Central have been working hard to develop a platform that will greatly improve the service we offer you, the membership. This will impact not only us but the whole Atlantic System of Credit Unions. This new platform replacement does come with a large cost that will be amortized over several years and will significantly impact our bottom line. Be assured that your Credit Union will continue to show fiscal responsibility as we deal with these increased costs well into the future.

Your Board of Directors have been busy throughout 2022 attending monthly board of director meetings, committee meetings and an annual planning session to review iNova's strategic focus over the next three years. We continue to steer our focus on growing our membership, maintaining financial stability, and investing in our people to ensure the right number of resources are available to support upcoming changes over the next few years. We have an active and engaged staff and are well positioned going forward,

In today's world where so much is done online, cyber security threats evolve as we continue to improve our capability to detect and respond to new and emerging threats. In 2022, iNova, along with many other Atlantic Credit Unions, instituted two step verification, a secure addition to our online banking platform along with promoting e-transfer Auto Deposit and Member Alerts. We take cyber security very seriously and have partnered with an IT cybersecurity specialist firm to ensure your data is safeguarded with the highest standards.

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 and developed new partnerships throughout 2022.

We were able to provide support to HRM schools, the Africville Genealogy Society, Mulgrave Park Caring and Learning Centre, the Bus Stop Theatre, Parker Street Food Bank and various sport teams. We supported small business workshops, financial literacy seminars with various groups, gave away 1000 seedlings in honor of Earth Day and sponsored a Co-op social.

I am incredibly fortunate to work with a very efficient and dedicated group of colleagues without whom I could not function. I want to thank them for their outstanding work ethic in providing member service as it is not only vital to our success but our reason for existing.



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

I would like to also thank your Board of Directors for providing outstanding support and leadership, working hard on your behalf to ensure the long-term success of iNova Credit Union. Their concern for our staff as well as their desire for the long-term success of the credit union and its membership is always top of mind in every decision they make.

Lastly, on behalf of the Board, Management and Staff I would like to thank our members. Our success would not be possible without your continued loyalty, advocacy, and support.

Wayne Pace  
Board Chair

Karla MacKeen  
General Manager

FINANCIAL STATEMENTS

iNova Credit Union Limited  
December 31, 2022

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## INDEPENDENT AUDITOR'S REPORT

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To the Members 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, 2022, and the statements of 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, 2022, 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.

(continues)

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

*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.



Dartmouth, Nova Scotia  
March 27, 2023

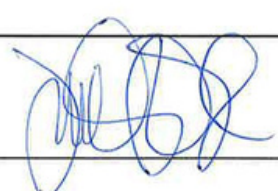
CHARTERED PROFESSIONAL  
ACCOUNTANTS

iNova Credit Union Limited  
**STATEMENT OF FINANCIAL POSITION**  
 December 31

	2022	2021
<b>Assets</b>		
Cash resources (Note 6)	\$ 14,891,801	\$ 18,590,995
Accrued receivables (Note 8)	70,469	32,242
Prepaid expenses (Note 20)	126,080	19,349
Members' loans (Note 7)	37,840,633	33,942,652
Long-term investments (Note 9)	1,231,916	1,199,523
Capital assets (Note 10)	253,412	273,358
Right-of-use asset - building (Note 19)	<u>698,239</u>	<u>773,724</u>
	<b>\$ 55,112,550</b>	<b>\$ 54,831,843</b>
<b>Liabilities</b>		
Payables and accruals	\$ 106,534	\$ 69,587
Patronage rebate payable	150,000	-
Members' deposits (Note 11)	48,220,490	48,490,951
Deposit interest payable	106,191	76,374
Income taxes payable	51,743	37,484
Deferred income taxes (Note 13)	7,844	8,386
Lease liability (Note 19)	<u>746,762</u>	<u>813,691</u>
	<b>49,389,564</b>	<b>49,496,473</b>
<b>Members' equity</b>		
Members' shares (Note 12)	63,561	69,044
Contributed surplus	35,752	35,752
Retained earnings	<u>5,623,673</u>	<u>5,230,574</u>
	<b>5,722,986</b>	<b>5,335,370</b>
	<b>\$ 55,112,550</b>	<b>\$ 54,831,843</b>

Approved by the Board  


Director



Director

(See accompanying notes to the financial statements)

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iNova Credit Union Limited				
<b>STATEMENTS OF COMPREHENSIVE INCOME AND RETAINED EARNINGS</b>				
Year ended December 31	2022	% of Income	2021	% of Income
<b>Income</b>				
Loan interest	\$ 1,528,137	69.5	\$ 1,319,769	72.3
Investment income	<u>275,593</u>	<u>12.5</u>	<u>124,339</u>	<u>6.8</u>
	<u>1,803,730</u>	<u>82.0</u>	<u>1,444,108</u>	<u>79.1</u>
<b>Interest expenses</b>				
Distributions to members:				
Interest on deposits	<u>215,952</u>	<u>9.8</u>	<u>200,977</u>	<u>11.0</u>
<b>Financial margin</b>	<u>1,587,778</u>	<u>72.2</u>	<u>1,243,131</u>	<u>68.1</u>
<b>Other income</b>				
Discretionary rebate income	15,794	0.7	692	-
Revenue from contracts (Note 18)	338,799	15.5	354,463	19.5
Other	<u>41,261</u>	<u>1.9</u>	<u>26,312</u>	<u>1.4</u>
	<u>395,854</u>	<u>18.1</u>	<u>381,467</u>	<u>20.9</u>
<b>Income before operating expenses</b>	<u>1,983,632</u>	<u>90.3</u>	<u>1,624,598</u>	<u>89.0</u>
<b>Operating expenses</b>				
Administrative (see schedule)	334,831	15.4	290,949	16.1
Amortization of capital assets	112,668	5.1	110,007	6.0
Central service charges	131,755	6.0	128,419	7.0
Occupancy (see schedule)	93,643	4.3	97,183	5.3
Salaries, benefits, contracted services	662,495	30.1	610,046	33.4
Deposit insurance	38,876	1.8	35,133	1.9
Loan impairment losses (recoveries)	<u>15,064</u>	<u>0.7</u>	<u>(11,851)</u>	<u>(0.6)</u>
<b>Total operating expenses</b>	<u>1,389,332</u>	<u>63.4</u>	<u>1,259,886</u>	<u>69.1</u>
<b>Rebate to members</b>	<u>150,000</u>	<u>6.8</u>	<u>-</u>	<u>-</u>
<b>Income before provision for income taxes</b>	<u>444,300</u>	<u>20.1</u>	<u>364,712</u>	<u>19.9</u>
<b>Provision for income taxes (Note 13)</b>				
Current	51,743	2.4	41,923	2.3
Future (recovery)	<u>(542)</u>	<u>-</u>	<u>(1,638)</u>	<u>(0.1)</u>
	<u>51,201</u>	<u>2.4</u>	<u>40,285</u>	<u>2.2</u>
<b>Net income and comprehensive income</b>	<u>393,099</u>	<u>17.7</u>	<u>324,427</u>	<u>17.7</u>
<b>Retained earnings, beginning</b>	5,230,574		4,906,147	
<b>Net income and comprehensive income</b>	<u>393,099</u>		<u>324,427</u>	
<b>Retained earnings, ending</b>	<u>\$ 5,623,673</u>		<u>\$ 5,230,574</u>	

(See accompanying notes to the financial statements)

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

	2022	2021
<b>Cash generated from (used in) operating activities</b>		
Loan interest received	\$ 1,506,933	\$ 1,319,895
Investment income received	247,854	110,228
Other income received	39,591	26,312
Rebates received	15,794	692
Revenue from contracts received	338,799	354,463
Increase in members' deposits	(270,461)	5,483,118
Bad loans recovered	8,972	23,405
Interest paid on members' deposits	(186,135)	(244,266)
Increase in members' loans	(3,909,629)	(3,107,572)
Payments to suppliers	(693,642)	(541,203)
Payments to employees	(637,746)	(610,211)
Income taxes received	(37,484)	25,804
	<u>(3,577,154)</u>	<u>2,840,665</u>
<b>Cash used in investing activities</b>		
Purchase of investments	(32,392)	(308,847)
Purchase of capital assets	(17,236)	-
	<u>(49,628)</u>	<u>(308,847)</u>
<b>Cash used in financing activities</b>		
Principal payments on lease liability	(66,929)	(64,654)
Proceeds from issue of shares (net of redemptions)	(5,483)	(11,963)
	<u>(72,412)</u>	<u>(76,617)</u>
<b>Net increase (decrease) in cash flows</b>	<b>(3,699,194)</b>	<b>2,455,201</b>
<b>Cash and cash equivalents, beginning of year</b>	<b><u>18,590,995</u></b>	<b><u>16,135,794</u></b>
<b>Cash and cash equivalents, end of year (Note 6)</b>	<b><u>\$ 14,891,801</u></b>	<b><u>\$ 18,590,995</u></b>
<b>Supplemental cash flow information</b>		
Interest received from investments	\$ 210,741	85,260

(See accompanying notes to the financial statements)



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iNOVA CREDIT UNION LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2022

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### 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, MasterCard's, 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 27, 2023, the Credit Union's Board of Directors approved and authorized for issue the financial statements for the year ended December 31, 2022.

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### 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.

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### 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.

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.

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iNOVA CREDIT UNION LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2022

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

#### 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.

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### 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.

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 costs 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.

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iNOVA CREDIT UNION LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2022

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#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

##### *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, FVTOCI 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.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- FVTOCI - 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 FVTOCI. 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 FVTOCI, 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.

**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.

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#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method.

Interest, gains and losses related to 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.

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	FVTOCI	FVTOCI
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.

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#### 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.

##### *Employee future benefit plans*

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

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#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### *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.

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.

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**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:

	2022	2021
Cash resources	\$ 14,891,801	\$ 18,590,995
Members' loans	<u>37,840,633</u>	<u>33,942,652</u>
	<u>\$ 52,732,434</u>	<u>\$ 52,533,647</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.

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	4.06	0.40	\$ 15,666	\$ 26,399	\$ (10,733)
4 to 6 months	3.81	2.18	4,541	1,521	3,020
6 to 12 months	3.90	3.19	8,609	4,377	4,232
1 to 2 years	2.63	2.81	6,181	1,659	4,522
2 to 3 years	3.89	3.21	8,190	843	7,347
3 to 4 years	3.39	2.08	6,977	44	6,933
4 to 5 years	3.80	4.49	4,907	794	4,113
Over 5 years	5.19	n/a	79	-	79
Not interest sensitive	n/a	n/a	<u>(37)</u>	<u>19,476</u>	<u>(19,513)</u>
			<u>\$ 55,113</u>	<u>\$ 55,113</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 0.34% (2021 - 0.23%) of the total members' deposits portfolio.



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

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, 2022.

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:

	2022	2021
Liquid assets	\$ 15,534,331	\$ 19,226,885
Required liquidity	<u>4,822,049</u>	<u>4,849,095</u>
Excess liquidity	<u>\$ 10,712,282</u>	<u>\$ 14,377,790</u>
Liquid assets comprise:		
Cash held at Atlantic Central	\$ 1,144,695	\$ (64,302)
Liquidity and short-term deposits held at Atlantic Central	13,747,106	18,655,297
Shares held at Atlantic Central	<u>642,530</u>	<u>635,890</u>
	<u>\$ 15,534,331</u>	<u>\$ 19,226,885</u>

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**6. CASH RESOURCES**

	2022	2021
Cash on hand and in current account	\$ 1,144,695	\$ (64,302)
Atlantic Central Deposits (Market value = cost)	<u>13,747,106</u>	<u>18,655,297</u>
	<u>\$ 14,891,801</u>	<u>\$ 18,590,995</u>

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**7. MEMBERS' LOANS****Loans by purpose**

	2022	2021
Consumer loans	\$ 11,355,636	\$ 9,634,450
Consumer lines of credit	1,377,485	2,023,773
Consumer mortgages	12,776,292	12,746,986
Commercial loans	7,928,647	5,900,840
Commercial lines of credit	1,771,246	1,308,774
Commercial and participation mortgages	1,709,882	1,540,164
Commercial loans - participation	1,009,289	901,829
Overdrafts	<u>19,001</u>	<u>15,330</u>
	37,947,478	34,072,146
Accrued interest	<u>67,240</u>	<u>46,036</u>
	38,014,718	34,118,182
Less : Allowance for impaired loans	<u>174,085</u>	<u>175,530</u>
Net loans	<u>\$ 37,840,633</u>	<u>\$ 33,942,652</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.

	2022	2021
Maturity analysis:		
Scheduled for repayment:		
Overdrafts and line of credit facilities	\$ 7,210,400	\$ 3,348,610
Within one year	7,102,105	4,576,000
One to three years	12,111,323	7,938,200
Over three years	<u>11,523,650</u>	<u>18,209,336</u>
	<u>\$ 37,947,478</u>	<u>\$ 34,072,146</u>

**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

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iNOVA CREDIT UNION LIMITED  
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#### 7. MEMBERS' LOANS (Continued)

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 member's 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 to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in these factor (e.g. higher unemployment rates due to COVID-19).

##### *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 2021 and 2022. The gross carrying amount of members' loans represent the maximum exposure to credit risk.

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**7. MEMBERS' LOANS (Continued)**

	Stage 1	Stage 2	Stage 3	Total
Balance at December 31, 2022				
Gross carrying amount of members' loans	\$ 36,842,367	\$ 903,237	\$ 201,874	\$ 37,947,478
Loss allowance	\$ 60,233	\$ 35,857	\$ 77,995	\$ 174,085
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

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, 2022				
Allowance beginning	\$ 45,817	\$ 63,874	\$ 65,839	\$ 175,530
Recoveries	108	-	8,864	8,972
Write-offs	(226)	-	(25,255)	(25,481)
Net remeasurement of loss allowance	<u>14,534</u>	<u>(28,017)</u>	<u>28,547</u>	<u>15,064</u>
Allowance ending	<u>\$ 60,233</u>	<u>\$ 35,857</u>	<u>\$ 77,995</u>	<u>\$ 174,085</u>
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>

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

	2022	2021
31 to 60 days	\$ 17,109	\$ 66,682
61 to 90 days	2,102	2,000
91 to 180 days	3,801	
Over 180 days	<u>66,974</u>	<u>43,201</u>
	<u>\$ 89,986</u>	<u>\$ 111,883</u>

**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, 2022, the Credit Union was administering, on behalf of Export Development Canada, commercial loans totaling \$2,338,071 (2021 - \$2,613,536). As these loans do not belong to the Credit Union, they are not included in these financial statements.

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**8. ACCRUED RECEIVABLES**

	2022	2021
Accrued receivables	\$ 11,249	\$ 760
Interest receivable	<u>59,220</u>	<u>31,482</u>
	<u>\$ 70,469</u>	<u>\$ 32,242</u>

**9. LONG-TERM INVESTMENTS**

	2022	2021
Shares in unlisted entities (at cost):		
Atlantic Central common shares	\$ 541,530	\$ 534,890
Atlantic Central provincial shares	101,000	101,000
Central 1 - class B shares	100	100
League Savings and Mortgage Limited	577,216	551,463
League Data Limited - class B preference shares	11,970	11,970
Nova Scotia Co-operative Council	<u>100</u>	<u>100</u>
	<u>\$ 1,231,916</u>	<u>\$ 1,199,523</u>

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
<b>Cost</b>						
Balance at January 1, 2021	\$ 404,423	\$ 14,637	\$ 198,635	\$ 26,450	\$ 48,372	\$ 692,517
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance on December 31, 2021	<u>404,423</u>	<u>14,637</u>	<u>198,635</u>	<u>26,450</u>	<u>48,372</u>	<u>692,517</u>
Additions	-	17,236	-	-	-	17,236
Disposals	-	-	-	-	-	-
<b>Balance on December 31, 2022</b>	<u>\$ 404,423</u>	<u>\$ 31,873</u>	<u>\$ 198,635</u>	<u>\$ 26,450</u>	<u>\$ 48,372</u>	<u>\$ 709,753</u>
<b>Accumulated depreciation</b>						
Balance at January 1, 2021	\$ 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	<u>190,715</u>	<u>8,331</u>	<u>166,290</u>	<u>23,253</u>	<u>30,570</u>	<u>419,159</u>
Depreciation expense	20,353	4,925	6,927	3,197	1,780	37,182
Disposals	-	-	-	-	-	-
<b>Balance on December 31, 2022</b>	<u>\$ 211,068</u>	<u>\$ 13,256</u>	<u>\$ 173,217</u>	<u>\$ 26,450</u>	<u>\$ 32,350</u>	<u>\$ 456,341</u>
<b>Net book value</b>						
December 31, 2021	<u>\$ 213,708</u>	<u>\$ 6,306</u>	<u>\$ 32,345</u>	<u>\$ 3,197</u>	<u>\$ 17,802</u>	<u>\$ 273,358</u>
December 31, 2022	<u>\$ 193,355</u>	<u>\$ 18,617</u>	<u>\$ 25,418</u>	<u>\$ -</u>	<u>\$ 16,022</u>	<u>\$ 253,412</u>

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**INOVA CREDIT UNION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
 December 31, 2022
 

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**11. MEMBERS' DEPOSITS**

	2022	2021
Chequing	\$ 22,740,955	\$ 23,084,884
Demand, no penalty on withdrawal	12,972,102	13,764,975
RRSP and RRIF	5,293,477	5,510,616
Term deposits	<u>7,213,956</u>	<u>6,130,476</u>
	<u>\$ 48,220,490</u>	<u>\$ 48,490,951</u>
 Maturity analysis:		
At call	\$ 36,790,303	\$ 38,036,551
Within one year	8,090,239	7,104,300
One to three years	2,501,948	2,859,200
Over three years	<u>838,000</u>	<u>490,900</u>
	<u>\$ 48,220,490</u>	<u>\$ 48,490,951</u>

**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.

	2022	2021
<b>Issued:</b>		
<b>Common shares</b>		
Balance, beginning of year (1,896 shares)	\$ 9,480	\$ 10,245
Add: shares issued during year (140)	<u>700</u>	<u>455</u>
	10,180	10,700
Less: shares redeemed during year (132)	<u>(660)</u>	<u>(1,220)</u>
Balance, end of year (1,904 shares)	<u>9,520</u>	<u>9,480</u>
<b>Surplus shares</b>		
Balance, beginning of year (59,564 shares)	59,564	70,762
Add: distributions to members (0)	-	-
Less: shares redeemed during year (5,523)	<u>(5,523)</u>	<u>(11,198)</u>
Balance, end of year (54,041 shares)	<u>54,041</u>	<u>59,564</u>
<b>Total equity shares</b>	<u>\$ 63,561</u>	<u>\$ 69,044</u>

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INOVA CREDIT UNION LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
 December 31, 2022

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**13. INCOME TAX**

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

	2022	2021
Current income tax expense in respect of current year	\$ 51,743	\$ 41,923
Deferred income taxes relating to the origination and reversal of temporary differences	<u>(542)</u>	<u>(1,638)</u>
Total income tax expense	<u>\$ 51,201</u>	<u>\$ 40,285</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:

	2022	2021
Income before income taxes	\$ 444,300	\$ 364,712
Combined Canadian basic federal and provincial income tax rate	<u>11.50 %</u>	<u>11.62 %</u>
Expected income tax	51,095	36,659
Effect on income tax of:		
Temporary differences	648	2,596
Permanent differences	<u>-</u>	<u>(35,687)</u>
Total income tax expense	<u>\$ 51,743</u>	<u>\$ 3,568</u>

The components of deferred income tax balances are as follows:

	2022	2021
Deferred income tax assets (liabilities)		
Allowance for impaired loans	\$ 8,236	\$ 6,761
Right-of-use assets	5,580	4,596
Capital assets	(10,045)	(8,128)
Atlantic Central Shares	<u>(11,615)</u>	<u>(11,615)</u>
Deferred income tax asset (liability)	<u>\$ (7,844)</u>	<u>\$ (8,386)</u>
Deferred tax assets (liabilities) to be recovered (settled) > 12 months	<u>\$ (7,844)</u>	<u>\$ (8,386)</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.

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iNOVA CREDIT UNION LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
 December 31, 2022

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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 \$2,120,941 (2021 - \$1,596,112) and had deposits with the Credit Union totalling \$1,378,877 (2021 - \$1,220,045).

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:

	2022	2021
Direct compensation	\$ 174,027	\$ 182,900
Contributions to defined contribution plan	<u>14,151</u>	<u>14,702</u>
Total salaries and benefits	<u>\$ 188,178</u>	<u>\$ 197,602</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 \$40,516 (2021 - \$38,561) and were included in salaries, benefits and contracted services expense on the statement of income.

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#### 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.



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iNOVA CREDIT UNION LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2022

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### 15. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

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 current 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.

Fair value of investments:

	2022	2021
Fair Value Hierarchy		
Level 1	\$ -	\$ -
Level 2	1,231,916	1,199,523
Level 3	-	-
	<u>\$ 1,231,916</u>	<u>\$ 1,199,523</u>

Fair value of loans and deposits:

	<u>2022</u>		<u>2021</u>	
	<u>Book Value</u>	<u>Estimated Fair Value</u>	<u>Book Value</u>	<u>Estimated Fair Value</u>
Members' loans	\$ 37,840,633	\$ 35,465,384	\$ 33,942,652	\$ 33,669,754
Members' deposits	\$ 48,220,490	\$ 47,972,536	\$ 48,490,951	\$ 48,497,261

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iNOVA CREDIT UNION LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**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.

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**16. CREDIT FACILITY**

The Credit Union has an approved operating line of credit with Atlantic Central with a limit of \$1,373,000 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, 2022 the line of credit balance was \$nil and bears interest at 5.95% per annum.

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**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, 2022, equity was 10.38% (2021 - 9.73%) 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.

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**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, 2022	\$ 317,194	\$ 21,605	\$ 338,799
Timing:			
At point in time	\$ 70,105	\$ 21,605	\$ 91,710
Over time	247,089	-	247,089
	<u>\$ 317,194</u>	<u>\$ 21,605</u>	<u>\$ 338,799</u>
Balance at December 31, 2021	\$ 329,208	\$ 25,255	\$ 354,463
Timing:			
At point in time	\$ 81,826	\$ 25,255	\$ 107,081
Over time	247,382	-	247,382
	<u>\$ 329,208</u>	<u>\$ 25,255</u>	<u>\$ 354,463</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.

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INOVA CREDIT UNION LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
 December 31, 2022

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**19. LEASES**

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

Terms of lease:

- Original lease term: September 1, 2012 - August 31, 2022
- Current lease term: September 1, 2022 - August 31, 2025
- Renewal: Option to renew for a further 3 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-of-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:

	Right-of-use Asset	Lease Liability
Balance at December 31, 2022		
Carrying amount - beginning of year	\$ 773,724	\$ 813,691
Amortization expense	(75,485)	-
Interest expense	-	26,956
Lease payments	-	(93,885)
Carrying amount - end of year	<u>\$ 698,239</u>	<u>\$ 746,762</u>
	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)
Carrying amount - end of year	<u>\$ 773,724</u>	<u>\$ 813,691</u>

**20. PREPAID EXPENSES**

	2022	2021
Honeybee implementation costs	\$ 110,371	\$ -
Other prepaid expenses	<u>15,709</u>	<u>19,349</u>
	<u>\$ 126,080</u>	<u>\$ 19,349</u>

The honeybee Mission is the overall brand name for League Data projects related to core banking, digital services and cyber security service. These projects include transitioning the current HORIZON core system to a new Mambu core banking platform by 2024.

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iNOVA CREDIT UNION LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2022

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**20. PREPAID EXPENSES (Continued)**

The Credit Union's portion of The honeybee Mission costs will be invoiced according to the following payment schedule:

- June 31, 2022 \$110,371
- January 31, 2023 \$137,964
- June 30, 2023 \$137,964
- January 31, 2024 \$165,556

These up-front payments are recorded as a prepaid asset. The prepaid asset will be amortized over the term of the honeybee service contract, which will be determined by League Data and the member Credit Unions.

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## iNova Credit Union Limited

**SCHEDULES OF ADMINISTRATIVE AND OCCUPANCY EXPENSES**

Year ended December 31

	2022	% of Income	2021	% of Income
<b>Administrative expenses</b>				
Advertising and promotion	\$ 27,722	1.3	\$ 8,482	0.5
Accounting and audit	21,330	1.0	27,950	1.5
Atlantic Central dues	48,825	2.2	43,564	2.4
Data processing	111,115	5.1	105,828	5.8
Donations	1,735	0.1	1,721	0.1
Dues, fees and courier	5,505	0.3	6,281	0.4
Equipment repairs and maintenance	13,288	0.6	13,626	0.7
Insurance - general and bonding	27,991	1.3	27,621	1.5
Legal, collection and foreclosed property	2,126	0.1	6,014	0.3
Meeting expenses	29,748	1.4	19,724	1.1
Miscellaneous	7,305	0.3	(360)	-
Office, stationery and postage	28,688	1.3	23,764	1.4
Telephone	8,795	0.4	6,692	0.4
Travel	658	-	42	-
	<u>\$ 334,831</u>	<u>15.4</u>	<u>\$ 290,949</u>	<u>16.1</u>
<b>Occupancy expenses</b>				
Heat, lights and water	\$ 10,672	0.5	\$ 8,969	0.5
Interest on lease liability	26,956	1.2	29,231	1.6
Repairs and maintenance	15,075	0.7	15,242	0.8
Rent and common area costs	40,940	1.9	43,741	2.4
	<u>\$ 93,643</u>	<u>4.3</u>	<u>\$ 97,183</u>	<u>5.3</u>

(See accompanying notes to the financial statements)

## **Audit and Risk Committee Report**

For the year ended December 31, 2022

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

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 Justin Sampson, Suzy Hansen and Kyle Blandin 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, 2022

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 Mariah Pelley Smith, Gary Blackburn, Arthur Rudge and Irvine 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 2023 fiscal year.

Mike Ansari,  
Chair, Audit and Risk Committee

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## **Cooperative Social Responsibility Committee**

Cooperative Social Responsibility Committee Report for the year ended December 31, 2022

Our credit union has the responsibility as well as the privilege to give back to our community. The Cooperative Social Responsibility Committee meets every two months to further this goal. The committee looks into initiatives in the community that the credit union can support, as well as review and approve donation requests to individuals and organizations that benefit the North End Halifax and beyond. iNova has supported The Mulgrave Caring and Learning Centre's breakfast program, Parker Street Food and Furniture Bank's back to school program, The Africville Genealogy Society, The Bus Stop Theatre Cooperative, various schools in the HRM, and more over the past year.

The committee had a busy year in 2022, and is looking forward to an even busier 2023.

I would like to thank my fellow committee members Jayme Melrose, Suzy Hansen, Mariah Pelley- Smith, Jaclyn Doublett and Thomas Redden for their contributions over the past year.

Respectfully Submitted,  
Erin Hancock  
Chair, Cooperative Social Responsibility Committee

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PITCH COMPETITION      SEPTEMBER 10, 2022

**BLACK**  
ENTREPRENEURS

**WOMEN**  
HALIFAX HIGHLIGHT

*Blk Women in Excellence (BWIE) is hosting its first Pitch competition, for all Black women entrepreneurs in Atlantic Canada.*

WWW.BWIECANADA.COM





## **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 2023 fiscal year.

Mike Ansari,  
Chair, Audit and Risk Committee

