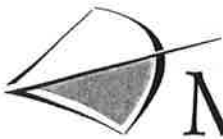


FINANCIAL STATEMENTS

iNova Credit Union Limited
December 31, 2017

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MILES · T · SWEENEY LIMITED
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Members of
iNova Credit Union Limited

We have audited the accompanying financial statements of iNova Credit Union Limited which comprise the statement of financial position as at December 31, 2017, and the statements of income, retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of iNova Credit Union Limited as at December 31, 2017, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards.

Dartmouth, Nova Scotia
February 26, 2018

Chartered Professional Accountants
Licensed Public Accountants

iNova Credit Union Limited
STATEMENT OF FINANCIAL POSITION

December 31

2017

2016

Assets

Cash resources (Note 5)	\$ 6,269,630	\$ 6,603,057
Accrued receivables (Note 7)	82,170	136,959
Income taxes receivable	23,956	-
Prepaid expenses	15,827	18,395
Members' loans (Note 6)	26,558,764	23,729,105
Long-term investments (Note 8)	719,711	707,321
Capital assets (Note 9)	401,032	444,164
Deferred income taxes (Note 12)	2,139	-
	<u>\$ 34,073,229</u>	<u>\$ 31,639,001</u>

Liabilities

Payables and accruals	\$ 59,304	\$ 95,835
Members' deposits (Note 10)	29,801,443	27,594,313
Deposit interest payable	81,926	77,314
Income taxes payable	-	33,493
Deferred income taxes (Note 12)	-	3,468
	<u>29,942,673</u>	<u>27,804,423</u>

Commitments (Note 14)

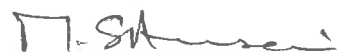
Members' equity

Members' shares (Note 11)	67,910	7,875
Retained earnings	4,062,646	3,826,703
	<u>4,130,556</u>	<u>3,834,578</u>
	<u>\$ 34,073,229</u>	<u>\$ 31,639,001</u>

Approved by the Board



Director



Director

(See accompanying notes to the financial statements)

iNova Credit Union Limited
STATEMENTS OF INCOME AND RETAINED EARNINGS

Year ended December 31	2017	% of Income	2016	% of Income
Income				
Loan interest	\$ 1,174,918	70.9	\$ 1,191,621	71.5
Investment income	<u>84,697</u>	<u>5.1</u>	<u>61,706</u>	<u>3.7</u>
	<u>1,259,615</u>	<u>76.0</u>	<u>1,253,327</u>	<u>75.2</u>
Interest expenses				
Distributions to members:				
Interest on deposits	225,984	13.6	245,466	14.7
Loan interest	<u>-</u>	<u>-</u>	<u>195</u>	<u>-</u>
	<u>225,984</u>	<u>13.6</u>	<u>245,661</u>	<u>14.7</u>
Financial margin	<u>1,033,631</u>	<u>62.4</u>	<u>1,007,666</u>	<u>60.5</u>
Other income				
Discretionary rebate income	25,303	1.5	29,847	1.8
Service charges	248,426	15.0	263,087	15.8
Fees, commissions and other	<u>124,516</u>	<u>7.5</u>	<u>120,119</u>	<u>7.2</u>
	<u>398,245</u>	<u>24.0</u>	<u>413,053</u>	<u>24.8</u>
Income before operating expenses	<u>1,431,876</u>	<u>86.4</u>	<u>1,420,719</u>	<u>85.3</u>
Operating expenses				
Administrative (see schedule)	243,672	15.0	243,722	14.6
Amortization of capital assets	45,409	2.7	51,907	3.1
Central service charges	122,146	7.4	126,366	7.6
Occupancy (see schedule)	161,129	9.7	154,791	9.3
Salaries, benefits, contracted services	544,728	32.9	553,777	33.2
Deposit insurance	23,022	1.4	27,863	1.7
Loan impairment losses (recovery)	<u>(25,000)</u>	<u>(1.5)</u>	<u>(26,554)</u>	<u>(1.6)</u>
Total operating expenses	<u>1,115,106</u>	<u>67.6</u>	<u>1,131,872</u>	<u>67.9</u>
Income before patronage rebate	316,770	18.8	288,847	17.4
Patronage rebate	<u>60,000</u>	<u>3.6</u>	<u>-</u>	<u>-</u>
Income before provision for income taxes	<u>256,770</u>	<u>15.2</u>	<u>288,847</u>	<u>17.4</u>
Provision for income taxes (Note 12)				
Current	26,434	1.6	50,360	3.0
Future (recovery)	<u>(5,607)</u>	<u>(0.3)</u>	<u>2,250</u>	<u>0.1</u>
	<u>20,827</u>	<u>1.3</u>	<u>52,610</u>	<u>3.1</u>
Net income	<u>235,943</u>	<u>13.9</u>	<u>236,237</u>	<u>14.3</u>
Retained earnings, beginning	\$ 3,826,703		\$ 3,590,466	
Net income	<u>235,943</u>		<u>236,237</u>	
Retained earnings, ending	\$ <u>4,062,646</u>		\$ <u>3,826,703</u>	

(See accompanying notes to the financial statements)

iNova Credit Union Limited
STATEMENT OF CASH FLOWS

Year ended December 31

2017

2016

Cash generated from (used in) operating activities

Loan interest received	\$ 1,164,299	\$ 1,194,502
Investment income received	85,745	62,258
Fees, commissions and other income received	124,515	120,119
Rebates received	25,303	29,847
Service charges received	248,426	263,087
Increase (decrease) in members' deposits	2,207,130	827,120
Bad loans recovered	7,309	149,327
Interest paid on members' deposits	(221,371)	(266,910)
(Increase) decrease in members' loans	(2,747,608)	383,322
Loan interest paid	-	(14,976)
Payments to suppliers	(583,932)	(530,181)
Payments to employees	(544,728)	(552,986)
Income taxes paid	(83,883)	(20,335)
	<u>(318,795)</u>	<u>1,644,194</u>

Cash generated from (used in) investing activities

Purchase of investments	(12,390)	-
Purchase of capital assets	(2,277)	-
	<u>(14,667)</u>	<u>-</u>

Cash generated from (used in) financing activities

Repayment of Atlantic Central loan	-	(750,000)
Proceeds from issue of shares (net of redemptions)	35	(515)
	<u>35</u>	<u>(750,515)</u>

Net increase (decrease) in cash flows

(333,427) 893,679

Cash and cash equivalents, beginning of year6,603,057 5,709,378**Cash and cash equivalents, end of year (Note 5)**\$ 6,269,630 \$ 6,603,057

(See accompanying notes to the financial statements)

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

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 February 26, 2018, the Credit Union's Board of Directors approved and authorized for issue the financial statements for the year ended December 31, 2017.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

Statement of compliance

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

Basis of measurement

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

Functional currency

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

Critical accounting estimates and judgments

The Credit Union makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Credit Union has no critical accounting judgments. The following are the estimates and judgments applied by management that most significantly affect the Credit Union's financial statements.

- Impairment losses on members loans

The Credit Union reviews the loans in its loan portfolio to assess impairment regularly. In determining whether an impairment loss should be recorded in the statement of income the Credit Union makes judgments as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from a loan. This evidence may include observable data indicating that there has been an adverse change in the payment status of a member, or local economic conditions that correlate with defaults on assets held by the Credit Union. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)

- 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.

3. 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 property

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

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

Allowance for impaired loans

Loans are continuously monitored by management taking into account the payment history, security pledges and the financial condition of the borrower. Impairment of a loan is determined when there is objective evidence that a loss event has occurred such as when there has been a deterioration in credit quality to the extent that the Credit Union no longer has reasonable assurance of timely collection of the full amount of the principal and interest.

The Credit Union first assesses whether objective evidence of impairment exists on an individual loan basis, if the evidence does exist this loan is placed directly in the allowance. If it is determined that no evidence of impairment exists for individually assessed members' loans then assets are pooled into groups with similar risk characteristics that are expected to behave in similar fashions to identified loss events. A collective allowance is determined for each pool.

Bad debts are written off from time to time as determined by management. Accounts under \$5,000 are approved for write off by management and over this amount are approved by the Board of Directors. If a provision for bad debts on the loan has been previously recognized the bad debt is written off against the provision, if no provision was recognized the write off is recognized in net income.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Financial assets and financial liabilities (financial instruments)

The Credit Union classifies its financial assets and financial liabilities according to their characteristics and management's intentions related thereto for the purpose of ongoing measurements. Financial assets and financial liabilities are initially recognized at fair value regardless of classification choice and are subsequently accounted for based on classifications described below.

Financial assets are classified as either fair value through profit or loss, available-for-sale, held-to-maturity or loans and receivables. Financial liabilities are classified as either fair value through profit or loss or other financial liability. All financial instruments, including any derivatives, are subsequently measured on the statement of financial position at fair value except for loans and receivables, held-to-maturity financial assets and other financial liabilities which are measured at amortized cost.

Changes in fair values of financial assets and financial liabilities classified as fair value through profit or loss are recognized in net income, while changes in fair values of available-for-sale financial assets are recognized in other comprehensive income until the financial asset is disposed of or becomes impaired, at which time the cumulative gain or loss is transferred to net income.

Accumulated other comprehensive income is reported on the statement of financial position as a separate component of members' equity (net of tax), and includes any unrealized gains or losses on available-for-sale financial assets. The Credit Union has classified its equity investments as available-for-sale. However the Credit Union has not recorded any comprehensive income related to these investments because there is no active market for them.

The Credit Union has classified its financial instruments as follows:

<u>FINANCIAL ASSET/LIABILITY</u>	<u>CLASSIFICATION</u>	<u>SUBSEQUENT MEASUREMENT</u>
Cash on hand	Fair value through profit or loss	Fair value
Deposits with Atlantic Central	Loans and receivables	Amortized cost
Long term investments		
Shares	Available-for-sale	Fair value
Debentures	Held-to-maturity	Amortized cost
Members' loans (inc. accrued interest) and rebates receivable	Loans and receivables	Amortized cost
Members' deposits (inc. accrued interest), borrowings and payables	Other financial liability	Amortized cost

Transaction costs other than those related to financial instruments classified as fair value through profit or loss, which are expensed as incurred, are added to the fair value of the financial asset or liability on initial recognition and amortized using the effective interest rate.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Effective interest method

The Credit Union uses the effective interest method to recognize investment income or expense which includes premiums or discounts earned on financial instruments.

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating investment income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (other than premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Capital assets

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

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.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade payables

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

Cash flow statement

The cash flow statement is prepared using the direct method.

Shares

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

Dividends to members

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

Foreign currency translation

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

Employee future benefit plans

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

New and revised IFRSs issued but not yet effective

IFRS 9 - Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 - Financial Instruments to replace the classification and measurement, impairment and hedge accounting phases of IAS 39 - Financial Instruments: Recognition and Measurement. The new standard includes requirements of the classification and measurement of financial assets and liabilities, expected credit losses model that replaces the incurred loss impairment model used currently and the final hedging part of IFRS 9 that was issued in November 2013. The standard supersedes all previous versions of IFRS 9, is applied retroactively, and is effective for periods beginning on or after January 1, 2018. The Credit Union is evaluating the impact the standard will have on its financial statements.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 15 - Revenue from contracts with members

In May 2014, the IASB issued IFRS 15 - Revenue from Contracts with Members which provides a single, principles based five-step model to be applied to all contracts with members. The model specifies that revenue should be recognized when an entity transfers control of goods or services to a customer at the amount the entity expects to be entitled to receive. The standard provides guidance on the point at which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract, and various related matters. The revenue arising from financial instruments is not subject to the revenue requirements in IFRS 15. The standard is effective for annual reporting periods beginning on or after January 1, 2018 with early application permitted. The Credit Union is evaluating the impact of the standard on its financial statements.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 - Leases which provides for a single model for classification of leases. Under the new model an asset and liability will be recorded for the majority of leases that are currently classified as operating leases. Exemptions are provided for short-term and low value leases. The asset will be amortized over the shorter of its useful life or lease term. The obligation will be measured using amortized cost. The standard is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain situations. The Credit Union is evaluating the impact of the standard on its financial statements.

4. 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.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2017

4. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

In addition, the Credit Union provides to its employees comprehensive training to ensure compliance with Credit Union lending policies and procedures. In addition, 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 maintains both specific and collective allowances for credit losses. Specific allowances are established on an account by account basis using management's knowledge of the account and prevailing conditions. In addition, accounts delinquent greater than ninety days are included in the specific allowance. Collective allowances are maintained to cover any impairment in the loan portfolio that cannot yet be associated with specific loans and includes factors such as market conditions, concentration of credit risk for member accounts as well the state of the economy.

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

	2017	2016
Cash resources	\$ 6,269,630	\$ 6,603,057
Members' loans	<u>26,558,764</u>	<u>23,729,105</u>
	<u>\$ 32,828,394</u>	<u>\$ 30,332,162</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.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2017

4. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

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	4.58	.48	\$ 12,305	\$ 18,102	\$ (5,797)
4 to 6 months	2.47	1.46	1,382	1,171	211
7 to 9 months	3.07	1.30	2,348	1,446	902
10 to 12 months	2.77	1.47	1,082	903	179
1 to 2 years	4.79	1.82	1,760	2,355	(595)
2 to 3 years	3.90	1.86	4,228	981	3,247
3 to 4 years	3.84	1.64	3,468	298	3,170
4 to 5 years	3.40	1.95	6,468	243	6,225
Over 5 years	7.50	n/a	64	-	64
Not interest sensitive	n/a	n/a	<u>968</u>	<u>8,574</u>	<u>(7,606)</u>
			<u>\$ 34,073</u>	<u>\$ 34,073</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 0.91% (2016 - 2.09%) 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.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2017

4. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Liquidity risk

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

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

The Credit Union is required to maintain 10% of members deposits in liquid investments of which 90% must be held with Atlantic Central Credit Union. The Credit Union was in compliance with this requirement at December 31, 2017.

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:

	2017	2016
Required liquidity	\$ 2,980,144	\$ 2,759,431
Liquid assets	\$ <u>(6,640,670)</u>	\$ <u>(6,961,707)</u>
Excess liquidity	\$ <u>(3,660,526)</u>	\$ <u>(4,202,276)</u>
Liquid assets comprise:		
Cash held at Atlantic Central	\$ 561,261	\$ 1,175,939
Liquidity and short-term deposits held at Atlantic Central	5,708,369	5,427,118
Shares held at Atlantic Central	<u>371,040</u>	<u>358,650</u>
	\$ <u>6,640,670</u>	\$ <u>6,961,707</u>

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2017

5. CASH RESOURCES

	2017	2016
Cash on hand and in current account	\$ 561,261	\$ 1,175,939
Atlantic Central Deposits (Market value = cost)	<u>5,708,369</u>	<u>5,427,118</u>
	<u>\$ 6,269,630</u>	<u>\$ 6,603,057</u>

6. MEMBERS' LOANS

Loans by purpose

	2017	2016
Consumer loans	\$ 8,209,267	\$ 7,827,040
Consumer lines of credit	3,892,233	4,581,652
Consumer mortgages	9,234,769	6,725,823
Commercial loans	3,521,761	3,396,897
Commercial lines of credit	911,795	1,152,161
Commercial mortgages	956,197	299,696
Overdrafts	<u>33,338</u>	<u>18,831</u>
	<u>26,759,360</u>	<u>24,002,100</u>
Accrued interest	<u>40,515</u>	<u>29,896</u>
	<u>26,799,875</u>	<u>24,031,996</u>
Less : Allowance for impaired loans		
Specific	111,042	128,816
Collective	<u>130,069</u>	<u>174,075</u>
	<u>241,111</u>	<u>302,891</u>
Net loans	<u>\$ 26,558,764</u>	<u>\$ 23,729,105</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.

	2017	2016
Maturity analysis:		
Scheduled for repayment:		
Overdrafts and line of credit facilities	\$ 4,837,366	\$ 5,752,643
Within one year	3,464,600	2,725,511
One to three years	5,737,900	5,170,510
Over three years	<u>12,719,494</u>	<u>10,353,436</u>
	<u>\$ 26,759,360</u>	<u>\$ 24,002,100</u>

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2017

6. MEMBERS' LOANS (continued)

Allowance for impaired loans

	Specific	Collective	Total
Balance at January 1, 2017	\$ 128,816	\$ 174,075	302,891
Increase (decrease) in provision	19,006	(44,006)	(25,000)
Loans written off during the year	(44,089)	-	(44,089)
Loans recovered during the year	7,309	-	7,309
Balance at December 31, 2017	<u>\$ 111,042</u>	<u>\$ 130,069</u>	<u>\$ 241,111</u>

	Specific	Collective	Total
Balance at January 1, 2016	\$ 238,888	\$ 140,311	\$ 379,199
Increase (decrease) in provision	(125,801)	33,764	(92,037)
Loans written off during the year	(133,598)	-	(133,598)
Loans recovered during the year	149,327	-	149,327
Balance at December 31, 2016	<u>\$ 128,816</u>	<u>\$ 174,075</u>	<u>\$ 302,891</u>

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

	2017	2016
31 to 60 days	\$ -	\$ 55,103
61 to 90 days	12,823	26,716
91 to 180 days	182,081	117,987
Over 180 days	82,304	12,832
	<u>\$ 277,208</u>	<u>\$ 212,638</u>

7. ACCRUED RECEIVABLES

	2017	2016
Accrued receivables	\$ 131,909	\$ 185,650
Interest receivable	15,744	16,792
Allowance for doubtful accounts	<u>(65,483)</u>	<u>(65,483)</u>
	<u>\$ 82,170</u>	<u>\$ 136,959</u>

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
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8. LONG-TERM INVESTMENTS

	2017	2016
Shares in unlisted entities (at cost):		
Atlantic Central common shares	\$ 288,040	\$ 275,650
Atlantic Central provincial shares	83,000	83,000
League Savings and Mortgage Limited	336,201	336,201
League Data Limited - class B preference shares	11,970	11,970
Nova Scotia Co-operative Council	<u>500</u>	<u>500</u>
	<u>\$ 719,711</u>	<u>\$ 707,321</u>

The investments do not have a quoted market price in an active market. The Credit Union has determined that the fair value of these investments cannot be measured accurately and therefore measures these investments at cost.

9. CAPITAL ASSETS

Cost	Leasehold Improvements	Computer Equipment	Furniture & Fixtures	Sign	Vault	Total
Balance at January 1, 2016	\$ 411,573	\$ 30,896	\$ 189,080	\$ 26,450	\$ 48,372	\$ 706,371
Additions	-	-	-	-	-	-
Disposals	<u>(7,150)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,150)</u>
Balance on December 31, 2016	404,423	30,896	189,080	26,450	48,372	699,221
Additions	-	-	2,277	-	-	2,277
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance on December 31, 2017	<u>\$ 404,423</u>	<u>\$ 30,896</u>	<u>\$ 191,357</u>	<u>\$ 26,450</u>	<u>\$ 48,372</u>	<u>\$ 701,498</u>
Accumulated depreciation						
Balance at January 1, 2016	\$ 75,083	\$ 13,469	\$ 92,615	\$ 14,262	\$ 14,872	\$ 210,301
Depreciation expense	21,017	5,808	19,293	2,438	3,350	51,906
Disposals	<u>(7,150)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,150)</u>
Balance on December 31, 2016	88,950	19,277	111,908	16,700	18,222	255,057
Depreciation expense	20,918	3,864	15,662	1,950	3,015	45,409
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance on December 31, 2017	<u>\$ 109,868</u>	<u>\$ 23,141</u>	<u>\$ 127,570</u>	<u>\$ 18,650</u>	<u>\$ 21,237</u>	<u>\$ 300,466</u>
Net book value						
December 31, 2016	\$ 315,473	\$ 11,619	\$ 77,172	\$ 9,750	\$ 30,150	\$ 444,164
December 31, 2017	<u>\$ 294,555</u>	<u>\$ 7,755</u>	<u>\$ 63,787</u>	<u>\$ 7,800</u>	<u>\$ 27,135</u>	<u>\$ 401,032</u>

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2017

10. MEMBERS' DEPOSITS

	2017	2016
Chequing	\$ 9,858,007	\$ 8,507,436
Demand, no penalty on withdrawal	9,611,749	8,983,027
RRSP and RRIF	5,514,853	5,675,187
Term deposits	<u>4,816,834</u>	<u>4,428,663</u>
	<u>\$ 29,801,443</u>	<u>\$ 27,594,313</u>
Maturity analysis:		
At call	\$ 20,505,520	\$ 18,586,451
Not longer than 3 months	5,419,800	5,070,377
Longer than 3 months and not longer than 12 months	3,335,400	3,655,884
Longer than 1 year and not longer than 5 years	<u>540,723</u>	<u>281,601</u>
	<u>\$ 29,801,443</u>	<u>\$ 27,594,313</u>

11. 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.

	2017	2016
Authorized:		
An unlimited number of common shares with par value of \$5 each.		
An unlimited number of surplus shares with par value of \$1 each.		
Issued:		
Common shares		
Balance, beginning of year (1,575 shares)	\$ 7,875	\$ 8,390
Add: shares issued during year (126)	<u>630</u>	<u>325</u>
	8,505	8,715
Less: shares redeemed during year (119)	<u>(595)</u>	<u>(840)</u>
Balance, end of year (1,582 shares)	<u>7,910</u>	<u>7,875</u>
Surplus shares		
Balance, beginning of year	-	-
Add: shares issued during year	<u>60,000</u>	<u>-</u>
Balance, end of year	<u>60,000</u>	<u>-</u>
Total equity shares	<u>\$ 67,910</u>	<u>\$ 7,875</u>

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2017

12. INCOME TAX

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

	2017	2016
Current income tax expense in respect of current year	\$ 26,434	\$ 50,360
Deferred income taxes relating to the origination and reversal of temporary differences	<u>(5,607)</u>	<u>2,250</u>
Total income tax expense	<u>\$ 20,827</u>	<u>\$ 52,610</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:

	2017	2016
Income before income taxes	\$ 256,770	\$ 288,847
Combined Canadian basic federal and provincial income tax rate	<u>13.5%</u>	<u>13.5%</u>
Expected income tax	34,664	38,994
Effect on income tax of:		
Temporary differences	(12,053)	15,125
Permanent differences	<u>(1,784)</u>	<u>(1,509)</u>
Current income tax	<u>20,827</u>	<u>52,610</u>
Total income tax expense	<u>\$ 20,827</u>	<u>\$ 52,610</u>

The components of deferred income tax balances are as follows:

	2017	2016
Deferred income tax assets (liabilities)		
Allowance for impaired loans	\$ 19,058	\$ 12,998
Capital assets	(5,714)	(5,261)
Atlantic Central Shares	<u>(11,205)</u>	<u>(11,205)</u>
Deferred income tax asset (liability)	<u>\$ 2,139</u>	<u>\$ (3,468)</u>
Deferred tax assets (liabilities) to be recovered (settled) > 12 months	<u>\$ 2,139</u>	<u>\$ (3,468)</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.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2017

13. 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 \$802,377 (2016 - \$762,419) and had deposits with the Credit Union totalling \$523,065 (2016 - \$315,187).

The loans were in the normal course of business with interest rates at regular rates offered to all members of the Credit Union. 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:

	2017	2016
Direct compensation	\$ 274,097	\$ 258,216
Contributions to defined contribution plan	<u>23,263</u>	<u>23,065</u>
Total salaries and benefits	<u>\$ 297,360</u>	<u>\$ 281,281</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 also contributed 6% of their base salary to the plan. Current service costs totalled \$29,934 (\$35,640 in 2016) and were included in salaries, benefits and contracted services expense on the statement of income.

14. COMMITMENTS

The Credit Union has entered into an operating lease for premises on April 1, 2012 for a term of ten years plus four five year renewal options. The rent and an estimation of the Credit Union's proportionate share of operating expenses and municipal tax is as follows:

Less than one year	\$ 136,538
Between 1 and 5 years	<u>443,747</u>
	<u>\$ 580,285</u>

During the year ended December 31, 2017, and amount of \$136,037 (2016 - \$134,947) was recognized as an expense through the statement of income in respect of operating leases.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2017

15. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

The fair value of financial instruments are as follows:

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.

iNova Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
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15. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	2017	2016
Fair Value Hierarchy		
Level 1	\$ -	\$ -
Level 2	719,711	707,321
Level 3	-	-
	<u>\$ 719,711</u>	<u>\$ 707,321</u>

Fair value of loans and deposits:

	<u>2017</u>		<u>2016</u>	
	<u>Book Value</u>	<u>Estimated Fair Value</u>	<u>Book Value</u>	<u>Estimated Fair Value</u>
Members' loans	\$ 26,558,764	\$ 26,485,071	\$ 23,729,105	\$ 23,613,382
Members' deposits	\$ 29,801,443	\$ 29,802,094	\$ 27,594,313	\$ 27,594,313

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 \$790,000 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, 2017 the line of credit was not drawn upon.

17. CAPITAL REQUIREMENTS

The Credit Union's plan to manage equity is designed to establish a strong base for future growth, to pay dividends on the equity shares and to provide a cushion in the event of market instability. Members' equity consists of equity shares and retained earnings. In accordance with the Credit Union Act, iNova Credit Union shall establish and maintain equity at a level equal to 5% of its assets. At December 31, 2017, equity was 12.12% (2016 - 12.12%) of its assets. Members' equity ratios are monitored regularly and reported to the Board monthly. The Credit Union's equity ratios have been in compliance with the regulatory requirements throughout the year.

18. COMPARATIVE FIGURES

In some cases, the comparative figures have been reclassified to conform with the current year's presentation.

The prior year comparative figures were audited by another firm of public accountants.

iNova Credit Union Limited
SCHEDULES OF ADMINISTRATIVE AND OCCUPANCY EXPENSES

Year ended December 31	2017	% of Income	2016	% of Income
Administrative expenses				
Advertising and promotion	\$ 8,305	0.5	\$ 7,391	0.4
Accounting and audit	25,875	1.6	18,095	1.1
Atlantic Central dues	30,964	1.9	34,163	2.1
Data processing	64,195	3.9	63,348	3.8
Donations	2,811	0.2	3,072	0.2
Dues, fees and courier	9,408	0.6	9,656	0.6
Equipment repairs and maintenance	21,395	1.3	20,950	1.3
Insurance - general and bonding	19,180	1.2	23,978	1.4
Legal, collection and foreclosed property	2,985	0.2	5,402	0.3
Meeting expenses	24,487	1.5	24,611	1.5
Miscellaneous	3,172	0.2	2,268	0.1
Office, stationery and postage	22,385	1.4	22,461	1.3
Telephone	5,259	0.3	5,651	0.3
Travel	3,251	0.2	2,676	0.2
	<u>\$ 243,672</u>	<u>15.0</u>	<u>\$ 243,722</u>	<u>14.6</u>
Occupancy expenses				
Heat, lights and water	\$ 11,724	0.7	\$ 9,808	0.6
Repairs and maintenance	13,368	0.8	10,036	0.6
Rent	136,037	8.2	134,947	8.1
	<u>\$ 161,129</u>	<u>9.7</u>	<u>\$ 154,791</u>	<u>9.3</u>

(See accompanying notes to the financial statements)