FINANCIAL STATEMENTS

Victory Credit Union Limited
December 31, 2017

Miles · T · Sweeney Limited
Chartered Professional Accountants

CONTENTS

MILES·T·SWEENEY LIMITED
CHARTERED PROFESSIONAL ACCOUNTANTS

MILES · T · SWEENEY LIMITED
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Members of
Victory Credit Union Limited

We have audited the accompanying financial statements of Victory 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 Victory 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.

Miles T Sweeney Limited

Chartered Professional Accountants
Licensed Public Accountants

Dartmouth, Nova Scotia
March 1, 2018

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Victory Credit Union Limited
STATEMENT OF FINANCIAL POSITION

December 31	2017	2016
Assets		
Cash resources (Note 5)	$ 7,281,928	$ 6,800,124
Rebates receivable	34,913	26,669
Income taxes receivable	-	8,381
Prepaid expenses	53,995	34,489
Customer-owners' loans (Note 6)	40,185,739	40,001,718
Long-term investments (Note 8)	3,986,510	2,017,205
Capital assets (Note 9)	1,903,427	2,047,369
Deferred income taxes (Note 14)	10,742	3,803
	$ 53,457,254	$ 50,939,758
Liabilities		
Payables and accruals (Note 7)	$ 71,177	$ 85,823
Customer-owners' deposits (Note 10)	48,610,660	46,200,751
Income taxes payable	6,536	-
	48,688,373	46,286,574
Commitments (Note 16)		
Customer-owners' equity		
Equity shares (Note 11)	232,442	234,988
Retained earnings	4,536,439	4,418,196
	4,768,881	4,653,184
	$ 53,457,254	$ 50,939,758

Approved by the Board

__________________ Director __________________ Director

(See accompanying notes to the financial statements)

MILES · T · SWEENEY LIMITED
CHARTERED PROFESSIONAL ACCOUNTANTS

Victory Credit Union Limited
STATEMENTS OF INCOME AND RETAINED EARNINGS

Year ended December 31	2017	% of Income	2016	% of Income
Income				
Loan interest	$ 1,724,321	67.8	$ 1,806,858	70.0
Investment income	89,812	3.5	73,408	2.8
	1,814,133	71.3	1,880,266	72.8
Interest and loan related expenses				
Distributions to customer-owners:				
Interest on deposits	193,987	7.6	208,156	8.1
Loan impairment losses	65,000	2.6	130,175	5.0
Loan interest	75	-	87	-
	259,062	10.2	338,418	13.1
Financial margin	1,555,071	61.1	1,541,848	59.7
Other income				
Discretionary rebate income	34,913	1.4	26,669	1.0
Service charges	441,724	17.4	426,030	16.5
Fees, commissions and other	254,031	10.0	249,125	9.6
	730,668	28.8	701,824	27.1
Income before operating expenses	2,285,739	89.9	2,243,672	86.8
Operating expenses				
Administrative (see schedule)	811,579	32.1	847,860	32.8
Amortization of capital assets	112,909	4.4	116,616	4.5
Central service charges	71,486	2.8	72,261	2.8
Occupancy (see schedule)	124,671	5.0	132,467	5.1
Salaries, benefits, contracted services	944,416	37.1	945,750	36.6
CUDIC assessment	48,225	1.9	49,384	1.9
Total operating expenses	2,113,286	83.3	2,164,338	83.7
Income before impairment of capital asset	172,453	6.6	79,334	3.1
Impairment of capital assets (Note 9)	36,911	1.5	-	-
Income before income taxes	135,542	8.1	79,334	3.1
Provision for income taxes (Note 14)	17,299	0.7	10,189	0.4
Net income	118,243	7.4	69,145	2.7
Retained earnings, beginning	$ 4,418,196		$ 4,349,051	
Net income	118,243		69,145	
Retained earnings, ending	$ 4,536,439		$ 4,418,196	

(See accompanying notes to the financial statements)

MILES · T · SWEENEY LIMITED
CHARTERED PROFESSIONAL ACCOUNTANTS

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

	2017	2016
Cash generated from (used in) operating activities		
Loan interest received	$ 1,713,717	$ 1,806,161
Investment income received	101,947	73,488
Fees, commissions and other income received	254,031	249,125
Rebates received	26,669	37,592
Service charges received	441,724	426,030
Increase (decrease) in customer-owners' deposits	2,409,909	(219,811)
Bad loans recovered	27,724	13,454
Interest paid on customer-owners' deposits	(199,777)	(230,911)
Increase in customer-owners' loans	(266,141)	(1,372,624)
Loan interest paid	(75)	(87)
Payments to suppliers	(1,080,407)	(1,097,216)
Payments to employees	(949,333)	(945,750)
Income taxes paid	(9,321)	(19,661)
	2,470,667	(1,280,210)
Cash generated from (used in) investing activities		
Net proceeds on sale of investments (net purchases)	(1,980,440)	1,447,160
Purchase of capital assets	(5,877)	(49,983)
	(1,986,317)	1,397,177
Cash generated from (used in) financing activities		
Net redemption of equity shares	(2,546)	(5,534)
Net increase in cash flows	481,804	111,433
Cash and cash equivalents, beginning of year	6,800,124	6,688,691
Cash and cash equivalents, end of year (Note 5)	$ 7,281,928	$ 6,800,124

(See accompanying notes to the financial statements)

MILES · T · SWEENEY LIMITED
CHARTERED PROFESSIONAL ACCOUNTANTS

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

1. REPORTING ENTITY

Victory Credit Union Limited (the "Credit Union") is incorporated under the Nova Scotia Companies Act. The operation of the Credit Union is subject to the Nova Scotia Credit Union Act. Products and services offered to its members include loans, mortgages, chequing and savings accounts, MasterCards, RRSP's, term deposits, online and telephone banking and financial planning. The Credit Union's head office is located at 41 Gerrish Street, Windsor, Nova Scotia.

On March 1, 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 customer-owners' loans

  The Credit Union reviews the losses 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 customer-owner, 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.

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.

Customer-owners' loans and foreclosed property

Customer-owners' loans result from the delivery of cash or other assets by the Credit Union (lender) to a customer-owner (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 ocurred 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 customer-owners' 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 $15,000 are approved for write off by management and over this amount are approved by the Board of Directors. Bad debts are charged against the allowance for doubtful loans.

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 customer-owners' 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:

FINANCIAL ASSET/LIABILITY	CLASSIFICATION	SUBSEQUENT MEASUREMENT
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
Customer-owners' loans (inc. accrued interest) and rebates receivable	Loans and receivables	Amortized cost
Customer-owners' 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.

Victory 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:

Building	declining balance	5%
Furniture & equipment	declining balance	20%
Computer equipment	declining balance	45%
Vaults	declining balance	20%
Paving	declining balance	8%

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

Impairment of tangible assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount at the cash-generating unit level. Management assessed that there was only one cash-generating unit and that it encompasses all operations of the Credit Union. Therefore, the Credit Union is the cash-generating unit.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 customer-owners' 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 customer-owner and approval of the directors.

Dividends to customer-owners

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee future benefit plans

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

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.

IFRS 15 - Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15 - Revenue from Contracts with Customers which provides a single, principles based five-step model to be applied to all contracts with customers. 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:

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

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 customer-owners 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 customer-owner's 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 customer-owner's 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. 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 customer-owner 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	**$ 7,281,928**	$ 6,800,124
Customer-owners' loans	**40,185,739**	40,001,718
	$ 47,467,667	$ 46,801,842

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.

Victory 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 customer-owners, and the interest paid on their deposits. The objective of "interest rate sensitivity" management is to keep interest sensitive assets and interest sensitive liabilities in balance by amount and term to maturity, thus monitoring fluctuations of income during periods of changing interest rates.

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

Expected Repricing or Maturity Date	Weighted Average Interest Rate Assets	Weighted Average Interest Rate Liabilities	Assets (000's)	Liabilities (000's)	Net Asset Liability Mismatch (000's)
0 to 3 months	4.08	.32	$ 17,086	$ 37,068	$ (19,982)
4 to 6 months	3.69	1.06	3,466	1,720	1,746
7 to 9 months	3.49	1.09	4,232	3,581	651
10 to 12 months	3.22	.83	2,753	578	2,175
1 to 2 years	3.56	1.48	6,585	1,101	5,484
2 to 3 years	3.66	1.74	6,175	159	6,016
3 to 4 years	3.56	1.56	5,561	224	5,337
4 to 5 years	3.56	1.59	4,402	20	4,382
Over 5 years	3.14	n/a	207	-	207
Not interest sensitive	n/a	n/a	2,990	9,006	(6,016)
			$ 53,457	$ 53,457	$ -

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 .20% 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 0.07% (2016 - 0.07%) of the total customer-owners` 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.

Victory 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 customer-owner 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	**$ 4,861,066**	$ 4,620,075
Liquid assets	**$ (7,882,678)**	$ (7,419,434)
Excess liquidity	**$ (3,021,612)**	$ (2,799,359)
Liquid assets comprise:		
Cash held at Atlantic Central	**$ 1,102,475**	$ 1,360,160
Liquidity and short-term deposits held at Atlantic Central	**6,179,453**	5,439,964
Shares held at Atlantic Central	**600,750**	619,310
	$ 7,882,678	$ 7,419,434

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

5. CASH RESOURCES

	2017	2016
Cash on hand and in current account	$ 1,102,475	$ 1,360,160
Demand and short-term deposits (Market value = cost)	6,179,453	5,439,964
	$ 7,281,928	$ 6,800,124

6. *CUSTOMER-OWNERS' LOANS*

Loans by purpose

	2017	2016
Personal loans	$ 6,067,044	$ 6,272,362
Residential mortgages	25,665,936	25,684,428
Commercial loans	973,059	1,624,453
Commercial mortgages	2,205,899	933,485
Lines of credit	5,395,409	5,556,938
Overdrafts	26,801	32,121
	40,334,148	40,103,787
Accrued interest	49,612	39,008
	40,383,760	40,142,795
Less : Allowance for impaired loans		
Specific	105,576	53,078
Collective	92,445	87,999
	198,021	141,077
Net loans	$ 40,185,739	$ 40,001,718

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

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

	2017	2016
Maturity analysis:		
Scheduled for repayment:		
Overdrafts and line of credit facilities	$ 5,422,210	$ 5,589,059
Not longer than 3 months	2,960,800	2,708,400
Longer than 3 and not longer than 12 months	7,526,200	8,082,100
Longer than 1 year and not longer than 5 years	24,332,738	23,512,028
Longer than 5 years	92,200	212,200
	$ 40,334,148	$ 40,103,787
Total approved line of credit exposure	$ 7,542,568	$ 7,171,533

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6. CUSTOMER-OWNERS' LOANS (continued)

Allowance for impaired loans

	Specific	Collective	Total
Balance at January 1, 2017	$ 53,078	$ 87,999	141,077
Increase (decrease) in provision	60,554	4,446	65,000
Loans written off during the year	(35,780)	-	(35,780)
Loans recovered during the year	27,724	-	27,724
Balance at December 31, 2017	$ 105,576	$ 92,445	$ 198,021

	Specific	Collective	Total
Balance at January 1, 2016	$ 42,219	$ 70,970	$ 113,189
Increase (decrease) in provision	113,146	17,029	130,175
Loans written off during the year	(115,741)	-	(115,741)
Loans recovered during the year	13,454	-	13,454
Balance at December 31, 2016	$ 53,078	$ 87,999	$ 141,077

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

	2017	2016
31 to 60 days	$ **327,823**	$ 364,725
61 to 90 days	**224,882**	247,958
91 to 180 days	**498,315**	128,946
Over 180 days	**18,083**	36,127
	$ **1,069,103**	$ 777,756

7. PAYABLES AND ACCRUALS

	2017	2016
Accrued interest on deposits	$ **53,506**	$ 59,293
Trade payables	**17,671**	26,530
	$ **71,177**	$ 85,823

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8. LONG-TERM INVESTMENTS

	2017	2016
In Credit Union movement at cost. Market value = cost.		
Debenture maturing March 19, 2018, bearing interest at 1.190%	$ 500,000	$ -
Term deposit maturing February 5, 2018, bearing interest at 1.120%	1,000,000	-
Term deposit maturing January 15, 2018, bearing interest at 1.080%.	500,000	-
Debenture maturing March 27, 2017, bearing interest at 2.5%.	-	1,000,000
Debenture maturing June 2, 2020, bearing interest at 1.60%.	500,000	-
Debenture maturing November 27, 2019, bearing interest at 1.90%.	500,000	-
	3,000,000	1,000,000
Shares in unlisted entities (at cost):		
Atlantic Central common shares	463,750	482,310
Atlantic Central provincial shares	137,000	137,000
League Savings and Mortgage Limited	347,818	347,818
League Data Limited - class B preference shares	25,670	25,670
Healthwise Holdings Co-operative Limited	5,000	5,000
CEDA	10	10
Nova Scotia Enterprises Co-operative	500	500
	979,748	998,308
Accrued interest receivable	6,762	18,897
	$ 3,986,510	$ 2,017,205

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.

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9. CAPITAL ASSETS

Cost	Land	Buildings	Furniture & Fixtures	Paving	Computer Equipment	Vault	Total
Balance at January 1, 2016	$ 502,360	$1,861,938	$ 616,831	$ 171,917	$ 545,888	$ 163,167	$3,862,101
Additions	-	-	49,983	-	-	-	49,983
Disposals	-	-	-	-	-	-	-
Balance at December 31, 2016	502,360	1,861,938	666,814	171,917	545,888	163,167	3,912,084
Additions	-	4,900	-	-	977	-	5,877
Impairment	-	(35,146)	-	(1,765)	-	-	(36,911)
Balance at December 31, 2017	$ 502,360	$1,831,692	$ 666,814	$ 170,152	$ 546,865	$ 163,167	$3,881,050
Accumulated depreciation							
Balance at January 1, 2016	$ -	$ 563,919	$ 485,583	$ 66,975	$ 531,221	$ 100,605	$1,748,303
Amortization expense		64,904	31,992	8,394	6,601	4,521	116,412
Disposals	-	-	-	-	-	-	-
Balance at December 31, 2016	-	628,823	517,575	75,369	537,822	105,126	1,864,715
Amortization expense		60,021	29,847	7,582	3,850	11,608	112,908
Disposals	-	-	-	-	-	-	-
Balance at December 31, 2017	$ -	$ 688,844	$ 547,422	$ 82,951	$ 541,672	$ 116,734	$1,977,623
Net book value							
December 31, 2016	$ 502,360	$1,233,115	$ 149,239	$ 96,548	$ 8,066	$ 58,041	$2,047,369
December 31, 2017	**$ 502,360**	**$1,142,848**	**$ 119,392**	**$ 87,201**	**$ 5,193**	**$ 46,433**	**$1,903,427**

The Credit Union has recorded an impairment loss related to a building and paving located on the Kempt Shore. The building is vacant and sits on publicly-owned land. Management has not been able to sell the building and plans to demolish it in 2018. Management has determined that the recoverable amount for the assets is $0, based on the estimated fair value (salvage value) less costs of disposal. The valuation method used to determine the fair value of the assets falls within level 3 of the fair value hierarchy, as disclosed in Note 17.

10. CUSTOMER-OWNERS' DEPOSITS

	2017	2016
Chequing	**$ 20,486,593**	$ 19,018,378
Demand, no penalty on withdrawal	**18,691,272**	17,956,863
RRSP and RRIF	**3,806,557**	3,993,560
Term deposits	**5,626,238**	5,231,950
	$ 48,610,660	$ 46,200,751
Maturity analysis:		
At call	**$ 40,477,920**	$ 38,197,200
Not longer than 3 months	**752,000**	1,416,200
Longer than 3 months and not longer than 12 months	**5,878,300**	4,877,000
Longer than 1 year and not longer than 5 years	**1,502,440**	1,710,351
	$ 48,610,660	$ 46,200,751

Concentra Financial is the trustee of the Registered Retirement Savings Plan offered to the customer-owners. Under the agreement with Concentra Financial, customer-owners' contributions to these funds as well as the income earned thereon are deposited to the Credit Union.

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11. EQUITY SHARES

Each customer-owner must hold 10 common shares with a par value of $5 each, except for customer-owners under 19 and students, who must hold 1 share. 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 (44,392 shares)	$ 221,962	$ 226,817
Add: shares issued during year (1,512)	7,560	7,637
	229,522	234,454
Less: shares redeemed during year (1,917)	9,586	12,492
Balance, end of year (43,987 shares)	219,936	221,962
Surplus shares		
Balance, beginning of year (13,026 shares)	13,026	13,705
Less: shares redeemed during year (520)	520	679
Balance, end of year (12,506 shares)	12,506	13,026
Total equity shares	$ 232,442	$ 234,988

12. CREDIT FACILITY

The Credit Union has an approved operating line of credit with Atlantic Central with a limit of $1,275,000 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.

13. 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. Customer-owners' equity consists of equity shares and retained earnings. In accordance with the Credit Union Act, Victory Credit Union shall establish and maintain equity at a level equal to 5% of its assets. At December 31, 2017, equity was 8.92% (2016 - 9.13%) of its assets. Customer-owners` 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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14. INCOME TAX

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

	2017	2016
Current income tax expense in respect of current year	$ 24,238	$ 13,125
Deferred income taxes relating to the origination and reversal of temporary differences	(6,939)	(2,936)
Total income tax expense	$ 17,299	$ 10,189

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	$ 135,542	$ 79,334
Combined Canadian basic federal and provincial income tax rate	13.5%	13.5%
Expected income tax	18,298	10,710
Effect on income tax of:		
Temporary differences	170	212
Permanent differences	(1,846)	(733)
Total income tax expense	$ 17,299	$ 10,189

The components of deferred income tax balances are as follows:

	2017	2016
Deferred income tax assets (liabilities)		
Allowance for impaired loans	$ 13,905	$ 12,596
Capital assets	15,332	9,702
Atlantic Central Shares	(18,495)	(18,495)
Deferred income tax asset (liability)	$ 10,742	$ 3,803
Deferred tax assets (liabilities) to be recovered (settled) > 12 months	$ 10,742	$ 3,803

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

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15. RELATED PARTY TRANSACTIONS

Loans to management and personnel

At year end, members of the Board of Directors, Credit Committee, Audit Committee, management, employees and spouses had loans owing to the Credit Union totalling $1,877,388 (2016 - $2,096,016) and had deposits with the Credit Union totalling $658,057 (2016 - $525,409).

The loans were in the normal course of business with interest rates at regular rates offered to all customer-owners of the Credit Union. Interest rates on deposits and dividends on shares were at identical rates offered to all customer-owners 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	**$ 317,587**	$ 312,941
Contributions to defined contribution plan	**15,080**	14,953
Total salaries and benefits	**$ 332,667**	$ 327,894

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

Pension plan

The Credit Union has a defined contribution pension plan covering all of its regular employees to which the Credit Union makes contributions equal to 5% of each participant's eligible salary. Current service costs totalled $32,696 ($26,326 in 2016) and were included in salaries, benefits and contracted services expense on the statement of income.

16. COMMITMENTS

The Credit Union has entered into leases for equipment expiring at dates up to October 2018. The Credit Union has done a thorough review of the lease conditions and concluded that they were all operating leases. The Credit Union has expensed $11,458 during the current year related to the operating leases.

Minimum future payments under these operating leases are as follows:

2018	$ 8,571

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17. 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.

17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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:

	2017	2016
Fair Value Hierarchy		
Level 1	$ -	$ -
Level 2	3,986,510	2,017,205
Level 3	-	-
	$ 3,986,510	$ 2,017,205

Fair value of loans and deposits:

	2017		2016	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Customer-owners' loans	$ 40,185,739	$ 40,061,210	$ 40,001,718	$ 39,665,406
Customer-owners' deposits	$ 48,610,660	$ 48,610,758	$ 46,200,751	$ 46,200,751

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.

18. COMPARATIVE FIGURES

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

Victory Credit Union Limited
SCHEDULES OF ADMINISTRATIVE AND OCCUPANCY EXPENSES

Year ended December 31	2017	% of Income	2016	% of Income
Administrative expenses				
Advertising and promotion	$ 54,952	2.2	$ 67,398	2.6
Accounting and audit	26,100	1.0	27,910	1.1
Atlantic Central dues	50,219	2.0	59,880	2.3
Data processing	373,733	14.7	373,175	14.5
Donations	1,266	-	2,820	0.1
Dues, fees and courier	17,756	0.7	17,896	0.7
Equipment repairs and maintenance	103,977	4.1	110,515	4.3
Insurance - general and bonding	29,316	1.2	28,444	1.1
Legal, collection and foreclosed property	19,915	0.8	13,222	0.5
Meeting expenses	1,358	0.1	3,263	0.1
Miscellaneous	40,444	1.6	48,731	1.9
Office, stationery and postage	40,855	1.6	42,505	1.6
Telephone	32,512	1.3	34,198	1.3
Travel	19,176	0.8	17,903	0.7
	$ 811,579	32.1	$ 847,860	32.8
Occupancy expenses				
Fire insurance	$ 2,794	0.1	$ 2,155	0.1
Heat, lights and water	37,153	1.5	35,734	1.4
Property and business occupancy taxes	55,777	2.2	56,282	2.2
Repairs and maintenance	27,147	1.1	34,696	1.3
Rent	1,800	0.1	3,600	0.1
	$ 124,671	5.0	$ 132,467	5.1

(See accompanying notes to the financial statements)

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