

Libro Credit Union Limited

Financial Statements
December 31, 2019



Management's Responsibility for Financial Reporting

The accompanying financial statements of Libro Credit Union Limited and all the information in this annual report are the responsibility of Management and have been approved by the Board of Directors (the "Board").

The financial statements have been prepared by Management in accordance with International Financial Reporting Standards. When alternative accounting methods exist, Management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with the financial information presented in the financial statements.

Libro maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the credit union's assets are appropriately accounted for and adequately safeguarded.

The Board is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit and Risk Committee. The Audit and Risk Committee is appointed by the Board. The Audit and Risk Committee meets periodically with Management, and the external auditor, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the financial statements and the external auditor's report. The Audit and Risk Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the owners.

The financial statements have been audited by Ernst & Young LLP, the external auditor, in accordance with Canadian generally accepted auditing standards on behalf of the owners. Ernst & Young LLP has full and free access to the Audit and Risk Committee.



Stephen Bolton
President and
Chief Executive Officer



Kathleen Grogan
Executive Vice President Finance and
Chief Financial Officer

March 3, 2020

INDEPENDENT AUDITOR'S REPORT

To the Owners of Libro Credit Union Limited

Opinion

We have audited the financial statements of Libro Credit Union Limited, (the "Credit Union"), which comprise the balance sheet as at December 31, 2019, and the statement of income, statement of comprehensive income, statement of owners' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis of opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Credit Union's 2019 Annual Report

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Annual Report and Management Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Annual Report and Management Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

Those charged with governance are responsible for overseeing the Credit Union's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- [a] Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- [b] Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- [c] Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- [d] Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- [e] Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The logo for Ernst & Young LLP is written in a stylized, cursive script. The letters are black and the font is fluid and handwritten in appearance.

Chartered Professional Accountants
Licensed Public Accountants

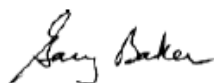
London, Canada
March 3, 2020

Balance Sheets

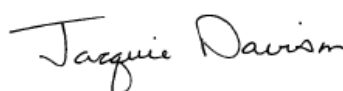
As at December 31

[thousands of dollars]	Note	2019	2018
Assets			
Cash and cash equivalents		37,659	20,102
Accrued interest receivable		8,507	7,868
Investments	4	371,748	331,247
Other assets	9	32,605	30,403
Loans to owners	5, 6	3,715,848	3,403,048
Derivative financial instruments	15	2,707	1,401
Property and equipment	7	57,398	49,155
Intangible assets	8	4,124	5,913
Deferred tax assets	19	4,636	3,176
Total assets		4,235,232	3,852,313
Liabilities and owners' equity			
Owners' deposits	16	3,722,786	3,410,725
Accrued interest payable		20,792	16,664
Accrued and other liabilities	22	16,735	7,406
Income taxes payable	19	79	1,658
Pension and other employee obligations	13	17,531	10,417
Derivative financial instruments	15	922	643
Loans payable	10	-	18,447
Securitization liabilities	20[b]	127,177	77,730
		3,906,022	3,543,690
Liabilities qualifying as regulatory capital			
Owners' capital accounts	11	164,453	155,195
Stock dividends payable	11	14,690	11,635
		179,143	166,830
Total liabilities		4,085,165	3,710,520
Contributed surplus		60,998	60,998
Retained earnings		93,568	80,396
Accumulated other comprehensive income (loss)		(4,499)	399
		150,067	141,793
Total liabilities and owners' equity		4,235,232	3,852,313

See accompanying notes



Mr. G. Baker, Chair of the Board



Ms. J Davison, Vice Chair of the Board

Statements of Income

Years ended December 31

[thousands of dollars]	Note	2019	2018
Interest income			
Interest on loans	17	148,030	130,378
Investment income		7,092	6,290
		155,122	136,668
Interest expense			
Interest on owners' deposits	17	54,521	44,234
Dividends on Class I Investment shares	11	4,854	4,658
Interest on borrowings		3,123	1,006
		62,498	49,898
Net interest income		92,624	86,770
Non-interest income	17	20,125	18,690
Total revenue		112,749	105,460
Provision for (recovery of) credit losses	6	(2,087)	3,446
Non-interest expenses			
Salaries and employee benefits		55,691	51,458
General and administrative		10,293	9,922
Marketing and business development		3,956	3,831
Insurance		3,396	3,403
Systems and technology		5,001	4,828
Occupancy		7,378	6,920
Corporate and branch governance	12	980	968
Amortization of core deposit intangible	8	2,143	2,143
		88,838	83,473
Income before the undernoted		25,998	18,541
Dividends and profit sharing distributions	11	9,672	7,007
Income before income taxes		16,326	11,534
Provision for (recovery of) income taxes			
Current	19	3,524	3,350
Deferred	19	(370)	(1,426)
		3,154	1,924
Net income for the year		13,172	9,610

See accompanying notes

Statements of Comprehensive Income

Years ended December 31

[thousands of dollars]	2019	2018
Net income for the year	13,172	9,610
Other comprehensive income (loss)		
Items that will not be reclassified to income:		
Actuarial gain (loss) in employee defined benefit plans	(5,961)	2,944
Related income taxes	1,102	(544)
	(4,859)	2,400
Items that may be subsequently reclassified to income:		
Cash flow hedges - effective portion of changes in fair value	81	(53)
Related income taxes	(12)	29
Reclassification to income of gains on cash flow hedges	(108)	(14)
	(39)	(38)
Other comprehensive income (loss) for the year, net of income taxes	(4,898)	2,362
Total comprehensive income for the year, net of income taxes	8,274	11,972

*See accompanying notes***Statements of Owners' Equity**

Years ended December 31

[thousands of dollars]	Note	2019	2018
Contributed surplus		60,998	60,998
Retained earnings			
Balance as at beginning of year		80,396	71,811
Changes on adoption of IFRS 9	24	-	(1,025)
Net income for the year		13,172	9,610
Balance as at end of year		93,568	80,396
Accumulated other comprehensive income (loss), net of income taxes			
Balance as at beginning of year		399	(1,963)
Other comprehensive income (loss) for the year		(4,898)	2,362
Balance as at end of year		(4,499)	399
Total owners' equity as at end of year		150,067	141,793

See accompanying notes

Statements of Cash Flows

Years ended December 31

[thousands of dollars]	Note	2019	2018
Cash provided by (used in)			
Operating activities			
Net income for the year		13,172	9,610
Add (deduct) non-cash items:			
Depreciation and amortization		9,351	7,849
Amortization of discount/premium on loans and deposits		114	175
Provision for (recovery of) credit losses		(2,087)	3,446
Loss on disposal		71	163
Deferred income taxes		(1,460)	(1,144)
Unrealized gains on interest rate swap agreements		(1,027)	(177)
Changes in operating assets and liabilities:			
Increase in stock dividends payable		3,055	1,232
Increase in accrued interest receivable		(639)	(972)
Increase (decrease) in income taxes payable		(1,579)	4,164
Increase in other assets		(2,202)	(28,748)
Increase in loans to owners		(310,859)	(309,121)
Increase in owners' deposits		312,093	131,960
Increase in accrued interest payable		4,128	1,022
Increase in accrued and other liabilities		1,711	616
Increase in pension and other employee obligations		2,216	45
Proceeds from securitization of loans	20	59,623	68,584
Repayments of securitization liabilities		(10,176)	(1,185)
Cash provided by (used in) operating activities		75,505	(112,481)
Financing activities			
Increase in owners' capital accounts		9,258	8,740
Increase (decrease) in loans payable		(18,447)	12,161
Cash provided by (used in) financing activities		(9,189)	20,901
Investing activities			
Decrease (increase) in investments		(40,501)	105,632
Purchase of property and equipment		(6,721)	(6,976)
Purchase of intangible assets		(1,537)	(1,113)
Cash provided by (used in) investing activities		(48,759)	97,543
Net increase in cash during the year		17,557	5,963
Cash and cash equivalents as at beginning of year		20,102	14,139
Cash and cash equivalents as at end of year		37,659	20,102

See accompanying notes

Libro Credit Union Limited

Notes to the Financial Statements

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[in thousands of dollars except as noted or per share]

1) REPORTING ENTITY

Libro Credit Union Limited ("Libro" or the "credit union") is incorporated under the *Credit Unions and Caisses Populaires Act* (Ontario) (the "Act") in Canada, is a member of Central 1 Credit Union ("Central 1") and the activities of the credit union are regulated by Financial Services Regulatory Authority ("FSRA"). The corporate office is located at 217 York Street in London, Ontario.

The credit union is primarily involved in providing a full range of retail, commercial and agricultural financial services to its Member/Owners in southwestern Ontario. The credit union has 36 locations across southwestern Ontario.

2) BASIS OF PREPARATION

[a] Statement of compliance

Libro follows accounting policies appropriate to its activities and governing legislation, which conform, in all material respects, to International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements were authorized for issue by the Board of Directors on March 3, 2020. The Board of Directors has the power to amend the financial statements after issuance only in the case of discovery of an error.

[b] Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- (i) derivative financial instruments, fair value through profit or loss financial assets and fair value through other comprehensive income financial assets are measured at fair value; and
- (ii) the liability for defined benefit obligations is recognized as the present value of the defined benefit obligation less the net total of the plan assets.

[c] Currency

The financial statements are presented in Canadian dollars, which is the credit union's functional currency. All values are rounded to the nearest thousand dollars, except where otherwise indicated.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the credit union are summarized below.

[a] Use of estimates and judgments

The preparation of these financial statements in conformity with IFRS requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting years. Actual results may differ from those estimates. Estimates and judgments are continually evaluated and are made based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances.

Libro Credit Union Limited

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[in thousands of dollars except as noted or per share]

The most significant uses of estimates and judgments include the following:

(i) Fair value of financial instruments

Where the fair value of financial assets and liabilities cannot be derived from active markets, Libro uses valuation techniques that include inputs derived from either observable market data or management's judgment. Note 18 provides detailed information about the determination of the fair value of financial instruments.

(ii) Impairment losses on financial assets

The measurement of impairment losses under IFRS 9, *Financial Instruments* ("IFRS 9") requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The credit union's expected credit loss ("ECL") allowance calculations are outputs of complex models with a number of underlying assumptions. Note 3[e] and note 6 further describe elements of the ECL models that require judgments and estimates.

(iii) Retirement benefit obligations

Libro estimates the present value of employee retirement benefit obligations that depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The actuarial valuation involves assumptions including discount rates, future salary increases, mortality rates, and other cost increases. Note 13 provides detailed information about the employee retirement benefit obligations.

[b] Foreign currency translation

Assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing at the year-end date. Income and expenses are translated at the exchange rates in effect on the date of the transactions. Exchange gains and losses arising on the translation of monetary items are included in net income for the year.

[c] Interest income and expense

Interest income and expense is recognized in the Statements of Income for all interest-bearing financial instruments using the effective interest rate ("EIR") method.

The EIR method is a method of calculating the amortized cost of a financial asset or liability and allocating the interest income or expense over the relevant period. The EIR is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument. The application of this method has the effect of recognizing income and expense on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest, the credit union estimates cash flows (using projections based on its experience of owners' behaviour) considering all contractual terms of the financial instruments but excluding future credit losses. Fees, including those for early redemption, are included in the calculation to the extent that they can be measured and are considered to be an integral part of the EIR. Where it is not possible or practical to otherwise estimate reliably the cash flows or the expected life of a financial instrument, effective interest is calculated using the payments or receipts specified in the contract, and the full contractual term.

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[in thousands of dollars except as noted or per share]

[d] Fees

Unless included in the effective interest calculation, fees are recognized on an accrual basis as the service is provided and reported on the Statements of Income as Non-interest income.

[e] Financial assets and financial liabilities

(i) Classification

Financial assets

All financial instruments are initially recorded at fair value and subsequently classified as measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). A financial asset is measured at amortized cost if it meets the following conditions and is not designated as FVTPL:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured as at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity instruments are measured at FVTPL unless an election is made to designate them at FVOCI upon purchase. All other financial assets are classified as measured at FVTPL.

The details of these conditions are outlined below.

Business model assessment

The credit union assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the business model and the way those risks are managed;
- How managers of the business are compensated; and
- The expected frequency, value and timing of sales.

Contractual cash flow characteristics

The credit union assesses the contractual terms of financial assets to identify whether the contractual cash flows are solely principal and interest. Management assesses whether the terms indicate a basic lending arrangement, where the most significant elements of interest are typically the consideration for the time value of money and credit risk. If contractual terms introduce an exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, the financial asset is measured at FVTPL.

Financial liabilities

The credit union classifies its financial liabilities as measured at amortized cost or as at FVTPL. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR.

Financial assets and liabilities at FVTPL

Financial assets and financial liabilities measured at FVTPL are those that are designated by management upon initial recognition, assets part of a portfolio managed on a fair value basis and assets whose cash flows do not represent payments that are solely payments of principal and interest. Financial assets and financial liabilities at FVTPL are recorded in the Balance Sheets at fair value. Changes in fair value are recorded in profit or loss. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the EIR. Dividend income from equity instruments measured at FVTPL is recorded in profit or loss as other operating income when the right to the payment has been established.

(ii) Derecognition of financial assets

Derecognition due to substantial modification of terms and conditions

The credit union derecognizes a financial asset, such as a loan to an owner, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes. If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the credit union records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Derecognition other than for substantial modification

A financial asset is derecognized when the rights to receive cash flows from the financial asset have expired. The credit union also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition. The credit union has transferred the financial asset if the credit union has transferred its contractual rights to receive cash flows from the financial asset or it retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement.

When the credit union has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the credit union’s continuing involvement, in which case, the credit union also recognizes an associated liability.

(iii) Impairment on financial assets

The credit union recognizes an ECL allowance on all financial instruments not recorded at FVTPL, which includes loans to owners, investments and certain loan commitments. Equity instruments are not subject to impairment under IFRS 9. The credit union measures ECL at an amount equal to lifetime ECL or 12-month ECL. The portion of ECL that results from the default events on a financial instrument that are possible within the 12 months after the reporting date are referred to as the 12-month ECL.

The impairment model measures ECL using a three-stage approach as described below:

- Stage 1: When a financial asset has not shown a significant increase in credit risk since origination, the credit union records a 12-month ECL.
- Stage 2: When a financial asset has shown a significant increase in credit risk since origination, the credit union records a lifetime ECL.
- Stage 3: When a financial asset is credit-impaired, the credit union records a lifetime ECL or the asset is written off.

The interest income is calculated on the gross carrying amount for financial assets in Stages 1 and 2 and on the gross carrying amount net of impairment allowance for financial assets in Stage 3.

Significant increase in credit risk

The assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The credit union has established thresholds for significant increases in credit risk based on both a risk rating and change in probability of default relative to its initial recognition. In addition, instruments, that are 30 days past due are also considered to have experienced a significant increase in credit risk.

The measurement of ECL

The credit union measures ECL based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The ECL is based primarily on the product of the following variables:

- The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. The PD for each instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions.
- The Loss Given Default ("LGD") is an estimate of the amount that may not be recovered in the event of default. LGD takes into consideration the amount and quality of any collateral held as well as reasonable and supportable information about future economic conditions.
- The Exposure at Default ("EAD") is an estimate of the outstanding amount of credit at a future default date.

Expected life

When measuring ECL, the credit union considers the maximum contractual period over which it is exposed to credit risk. For facilities without a maximum contractual period, the credit union uses the period that the entity is expected to be exposed to credit risk and the expected losses are not mitigated by credit risk management actions.

Definition of default

The credit union considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) in all cases when the borrower becomes 90 days past due on its contractual payments. The credit union also considers a variety of qualitative characteristics that may indicate an unlikelihood to pay, in which case the credit union may determine a loan defaulted before contractually past due.

Forward-looking information

The credit union relies on a broad range of forward-looking information as economic inputs, such as unemployment rates, Central Bank base rates, and house price indices. The estimation and application of forward-looking information requires significant judgment.

Purchased or originated credit impaired financial assets ("POCI")

POCI financial assets are initially recognized at fair value with no initial ECL allowance. Changes in lifetime ECL since initial recognition are recorded in the allowance for credit losses.

Write-offs

Financial assets are written off either partially or in their entirety only when the credit union has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to loan provision expense.

[f] Derivatives and hedge accounting

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. Libro uses derivative financial instruments, primarily interest rate swaps, in order to manage interest rate risk. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; and
- Cash flow hedges when hedging the exposure to variability of cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, Libro formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how Libro will assess whether the hedging relationship meets the hedge effectiveness requirements.

Hedges that meet all of the qualifying criteria for hedge accounting are accounted for, as described below:

Fair value hedges

The changes in fair value of a hedging instrument are recognized in the Statements of Income. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the Statements of Income.

For fair value hedges relating to items carried at amortized cost, any adjustments to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedge is re-recognized, the unamortized fair value is recognized immediately in profit or loss.

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[in thousands of dollars except as noted or per share]

Cash flow hedges

Applying cash flow hedge accounting enables the credit union to reduce the cash flow fluctuations arising from interest rate risk on loans. The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income (loss), while any ineffective portion is recognised immediately in the Statements of Income as investment income. The amounts and timing of future cash flows are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying the effective portion of gains and losses on the derivatives designated as cash flow hedges.

If a cash flow hedge is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Certain derivatives embedded in other financial instruments, such as the embedded option in an index-linked term deposit, are treated as separate derivatives when they can be separated from the host contract. These embedded derivatives are separately accounted for at fair value as derivative assets and liabilities with changes in fair market value recognized in the Statements of Income.

[g] Cash and cash equivalents

Cash and cash equivalents include cash on hand, current accounts, and cheques and other items in transit. Given their short-term nature, the carrying value of cash and cash equivalents equals fair value.

[h] Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Assets are generally depreciated on the following basis:

Buildings	40 to 50 years straight-line
Building components	15 to 30 years straight-line
Leasehold improvements	5 to 20 years straight-line
Furniture and equipment	5 to 10 years straight-line
Electronic equipment	3 to 5 years straight-line
Computer equipment	2 to 7 years straight-line

Depreciation in the first year is prorated based on the number of months the asset is in service. Depreciation methods, useful lives and residual value are reviewed annually and adjusted if necessary.

Impairment of non-financial assets

Non-financial assets are subject to an impairment test whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Impairment charges are included in the Statements of Income, except to the extent they reverse gains previously recognized in Other comprehensive income (loss).

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[i] Intangible assets

Intangible assets are carried at cost less accumulated amortization. Amortization in the first year is prorated based on the number of months the asset is in service. Intangible assets are amortized over their expected lives on the following basis:

Computer software	1 to 3 years straight line
Banking system software	5 to 10 years straight line
Core deposit intangibles	7 years straight line

The core deposit intangibles were acquired through business combinations. They represent the fair market value of the cost savings inherent in acquiring a portfolio of demand deposits with a lower cost of funding versus attracting funds in the open market. Intangible assets are subject to impairment review as described under note 3[h].

[j] Income taxes

The credit union follows the asset and liability method of tax allocation used in accounting for income taxes. Under this method, deferred tax benefits and obligations are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Tax expense recognized in the Statements of Income comprises the sum of deferred tax and current tax not recognized in other comprehensive income (loss) or directly in equity.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income, based on the credit union's forecast of future operating results. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the credit union has a right and intention to set off current tax assets and liabilities for the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in the Statements of Income, except where they relate to items that are recognized in other comprehensive income (loss) or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income (loss) or equity, respectively.

[k] Employee benefit plans

Libro maintains three pension plans for current employees and retirees, and one sick leave benefit plan. The pension plans consist of a Defined Benefit Plan ("DB"), a Supplementary Employee Retirement Plan ("SERP"), and a Defined Contribution Plan ("DC").

Full actuarial valuations of the DB, SERP, and sick leave benefit plans are conducted no less frequently than every three years. The most recent valuation of these plans was prepared as at December 31, 2017.

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(i) Defined benefit plans

For the DB pension plan, the SERP and the sick leave plan, plan assets are valued at fair market values. Benefit costs and accrued benefits are determined based upon actuarial valuations using the projected benefit method prorated on service and management's best estimates. The expected return on plan assets is based on the fair value of plan assets. Actuarial gains and losses are recognized immediately through other comprehensive income (loss).

Service cost is the change in the present value of the defined benefit obligation resulting from employee service in either the current year or prior years and from any gain or loss on settlement. Net interest is the change in the net defined benefit liability or asset that arises from the passage of time. Both service cost and net interest are recognized immediately in salaries and employee benefits.

Remeasurements of the net defined benefit liability include actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on plan assets excluding amounts included in net interest and changes in the effect of any asset ceilings. Remeasurements are recognized immediately in other comprehensive income (loss).

(ii) Defined contribution pension plan

For the DC pension plan, annual pension expense is equal to the credit union's contribution to the plan. The assets of the plan are held in independently administered funds. This plan was closed to new members effective July 1, 2014.

[l] Cheques and other items in transit, net

Libro records cheques and other items in transit, representing uncleared settlements with other financial institutions, at cost. The net value of these items is included in accrued and other liabilities or other assets on the Balance Sheets.

[m] Leases

Libro identifies whether a contract is a lease by whether it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Libro applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. Libro recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

Libro recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated over the earlier of the useful life of the underlying asset or the lease term. The right-of-use assets are also subject to impairment. Refer to the accounting policies in note 3[h], *Impairment of non-financial assets*.

(ii) Lease liabilities

At the commencement date of the lease, Libro recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under any residual value

guarantees. The lease payments include the exercise price of a purchase option reasonably certain to be exercised by Libro and payments of penalties for terminating the lease, if the lease term reflects Libro exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

The lease term is determined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. Libro has lease contracts that include extension and termination options. Judgment is applied in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease based on an assessment of all relevant factors. After the commencement date, the lease term is reassessed if there is a significant event or change in circumstances that is within Libro's control and affects Libro's ability to exercise or not to exercise the option to renew or to terminate.

For real estate leases, Libro cannot readily determine the interest rate implicit in the lease and therefore uses the incremental borrowing rate ("IBR") to measure lease liabilities. For vehicle leases, Libro uses the rate implicit in the lease. The IBR is the rate of interest that Libro would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Libro estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

(iii) Short-term leases and leases of low-value assets

Libro applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be of low value. Lease payments on short-term leases and leases of low value assets are recognized as an expense on a straight-line basis over the lease term.

[n] Loan securitization

When Libro transfers loans in a securitization transaction, loans are derecognized only when the contractual rights to receive the cash flows from the assets have ceased to exist or substantially all the risks and rewards of the loan have been transferred. If the criteria for derecognition have not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized cost, using the effective interest rate method.

Securitized residential mortgages generally do not meet the derecognition requirements of IFRS 9 and as a result, all loans are measured at amortized cost in the Balance Sheets. The securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized cost, using the effective interest rate method. The credit union retains mortgage servicing responsibilities but does not receive an explicit servicing fee.

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[o] Going concern

Libro has made an assessment of its ability to continue as a going concern and is satisfied that the credit union has the resources to continue in business for the foreseeable future. Libro is not aware of any material uncertainties that may cause significant doubt regarding the credit union's ability to continue as a going concern. The financial statements have been prepared on a going concern basis.

[p] Changes in accounting policy

Effective January 1, 2019, the credit union adopted the following new accounting pronouncement:

(i) IFRS 16, *Leases*

IFRS 16, *Leases* supersedes IAS 17, *Leases* as of January 1, 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where Libro is the lessor.

The credit union adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Applying this method, the comparative information for the 2018 fiscal year has not been restated. Upon adoption of IFRS 16, Libro applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to note 3[m] for the accounting policy beginning on January 1, 2019. The standard provides specific transition requirements and practical expedients, which have been applied by Libro.

Libro recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized at an amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. Libro also applied the available practical expedients wherein it:

- Applied the short-term leases exemption to leases with a lease term that ends within 12 months of the date of initial application; and
- Applied the low value assets exemption for assets with a small dollar value.

Refer to the transition impact in Note 24[a].

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4) INVESTMENTS

Investments consist of the following:

		December 31, 2019		December 31, 2018	
		Effective		Effective	
		\$	Rate	\$	Rate
Short-term investments (due within 1 year):					
Bank Investment Deposits, fair value of \$20,310 [\$319 in 2018]	i	20,310	2.04%	319	0.65%
Central 1 Liquidity Reserve Deposit, fair value of \$62,923 [\$60,120 in 2018]	i	62,943	1.63%	60,227	1.44%
Central 1 Deposits, fair value of \$66,247 [\$65,695 in 2018]	i	66,171	1.92%	65,695	2.45%
		149,424	1.82%	126,241	1.96%
Long-term investments (due beyond 1 year):					
Central 1 Liquidity Reserve Deposit, fair value of \$187,327 [\$168,448 in 2018]	i	187,941	1.63%	170,174	1.66%
Central 1 Deposits, fair value of \$13,235 [\$13,588 in 2018]	i	12,988	2.72%	13,642	2.72%
Finance lease receivable	i	453	3.51%	643	3.51%
Central 1 Class A shares	ii	1,389	-	1,413	-
Central 1 Class E shares	ii	6,487	-	6,487	-
Central 1 Class F shares	ii	12,781	-	11,855	-
Other investments	ii	285	-	792	-
		222,324	1.54%	205,006	1.76%
		371,748	1.65%	331,247	1.84%

Financial Instrument Classifications:

- i Amortized cost
- ii FVTPL

Central 1 Liquidity Reserve Deposit

The credit union is a member of Central 1. As a condition of maintaining that membership, the credit union is required to keep a liquidity reserve deposit equal to 6% of its total assets on a monthly basis. The investment consists of a number of individual deposits, invested at fixed market rates for various terms which mature within two years. The liquidity reserve deposit can only be withdrawn if there is a reduction in the credit union's total asset base, or upon withdrawal from membership in Central 1.

These investments are classified as financial assets valued at amortized cost. The terms and conditions of these instruments are consistent with a lending contract whereby cash flows are advanced to Central 1 with a commitment to repay the credit union at a specified rate of interest according to pre-set maturity dates.

Central 1 Deposits

The credit union holds excess liquidity in Central 1 interest deposits with various maturity dates.

Shares in Central 1

The Central 1 shares include Classes A, E, and F, and are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors of Central 1.

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Class A and F Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares; however, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis.

Central 1 Class E shares are carried at cost, which is considered to be the best representation of fair value given the wide range of possible fair value measurements. These shares are not subject to annual rebalancing. There is no active market for these shares, as they are issued only as a condition of membership in Central 1, and the fair value cannot be reliably measured until such time as a transaction occurs. The fair value of Class E shares cannot be measured reliably as the timing of redemption of these shares cannot be determined; therefore, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, they are recorded at cost.

The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day-to-day activities of the Credit Union. Dividends on these shares are at the discretion of the Board of Directors of Central 1.

5) LOANS TO OWNERS

	December 31, 2019			
	Principal Balance	Impaired Loans	Allowance for Credit Losses	Net Loans
Residential mortgage loans	1,419,307	-	345	1,418,962
Personal loans	218,858	161	676	218,182
Agricultural loans	961,468	2,094	183	961,285
Commercial loans	1,123,217	8,727	5,798	1,117,419
	3,722,850	10,982	7,002	3,715,848

	December 31, 2018			
	Principal Balance	Impaired Loans	Allowance for Credit Losses	Net Loans
Residential mortgage loans	1,317,513	113	300	1,317,213
Personal loans	223,320	200	723	222,597
Agricultural loans	909,667	31	104	909,563
Commercial loans	963,502	22,339	9,827	953,675
	3,414,002	22,683	10,954	3,403,048

Loans to owners can have either a variable or fixed-rate of interest and mature within 10 years. Variable rate loans are based on a "prime rate plus" formula with the rate above prime being determined by the size of the loan, the type of collateral offered, the purpose of the loan and the owner's creditworthiness. Interest rates offered on fixed rate loans vary depending on the size of the loan, the type of collateral offered, the purpose of the loan, the owner's creditworthiness and the loan term. All loans to owners are recorded at amortized cost.

From time to time owner loans may be renegotiated, either as part of an ongoing owner relationship or in response to a change in the circumstances of the owner. Renegotiations and debt restructuring are in the normal course of the credit union's business. It is possible that a renegotiation could result in an extension of the due date of a repayment; however, the new terms and new interest rates would reflect the current market rates and economic environment. These are

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treated as new agreements and the loan would not be considered delinquent or impaired. If an owner is in financial distress they may be placed on an interest-only payment plan. This will result in the loan continuing to be delinquent and the loan will be considered as part of the impairment policy.

As at December 31, the balances of loans in arrears within the portfolio were as follows:

	December 31, 2019				
	Residential Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	Total
Current	1,412,531	206,401	955,752	1,100,857	3,675,541
Less than 30 days arrears	6,593	12,149	2,868	11,762	33,372
30–89 days arrears	183	147	1,088	5,573	6,991
90–179 days arrears	-	105	896	929	1,930
180–365 days arrears	-	25	799	2,210	3,034
More than 365 days arrears	-	31	65	1,886	1,982
	1,419,307	218,858	961,468	1,123,217	3,722,850

	December 31, 2018				
	Residential Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	Total
Current	1,310,750	210,472	904,874	936,563	3,362,659
Less than 30 days arrears	6,277	12,472	4,294	13,731	36,774
30–89 days arrears	370	282	178	4,021	4,851
90–179 days arrears	-	13	65	7,968	8,046
180–365 days arrears	116	20	256	1,219	1,611
More than 365 days arrears	-	61	-	-	61
	1,317,513	223,320	909,667	963,502	3,414,002

As at December 31, the term to maturity and effective interest rates of the loan portfolio were as follows:

	December 31, 2019								
Maturity (in years)	Variable	Less than 1	1 to 2	2 to 3	3 to 4	4 to 5	5 to 7	7 to 10	Total
Total loans	928,919	560,929	505,672	529,777	532,669	517,683	44,360	102,841	3,722,850
Effective interest rate	5.20%	3.66%	3.45%	3.48%	3.89%	3.64%	4.37%	4.35%	4.04%

	December 31, 2018								
Maturity (in years)	Variable	Less than 1	1 to 2	2 to 3	3 to 4	4 to 5	5 to 7	7 to 10	Total
Total loans	885,332	448,098	438,948	502,487	496,439	487,629	66,336	88,733	3,414,002
Effective interest rate	5.25%	3.75%	3.55%	3.39%	3.37%	3.84%	4.29%	4.14%	4.04%

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6) ALLOWANCE FOR CREDIT LOSSES

The carrying amount of loans and the balance of their respective allowance as at December 31, according to the stage in which they are classified are listed below:

	December 31, 2019							
	Stage 1		Stage 2		Stage 3		Total	
	Gross Carrying Amount	Allowance for Credit Losses	Gross Carrying Amount	Allowance for Credit Losses	Gross Carrying Amount	Allowance for Credit Losses	Gross Carrying Amount	Allowance for Credit Losses
Residential mortgage	1,367,521	222	51,786	123	-	-	1,419,307	345
Personal loans	212,297	379	6,400	265	161	32	218,858	676
Agricultural loans	858,316	81	101,058	42	2,094	60	961,468	183
Commercial loans	1,020,840	1,059	93,650	3,781	8,727	958	1,123,217	5,798
Total	3,458,974	1,741	252,894	4,211	10,982	1,050	3,722,850	7,002

	December 31, 2018							
	Stage 1		Stage 2		Stage 3		Total	
	Gross Carrying Amount	Allowance for Credit Losses	Gross Carrying Amount	Allowance for Credit Losses	Gross Carrying Amount	Allowance for Credit Losses	Gross Carrying Amount	Allowance for Credit Losses
Residential mortgage	1,279,049	217	38,351	80	113	3	1,317,513	300
Personal loans	216,523	375	6,597	270	200	78	223,320	723
Agricultural loans	807,043	77	102,593	27	31	-	909,667	104
Commercial loans	848,654	927	92,509	3,972	22,339	4,928	963,502	9,827
Total	3,151,269	1,596	240,050	4,349	22,683	5,009	3,414,002	10,954

The following table shows the continuity of the allowance for credit losses:

	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Opening balance	1,596	4,349	5,009	10,954
Transfer to Stage 1 ECL	607	(607)	-	-
Transfer to Stage 2 ECL	(89)	106	(17)	-
Transfer to Stage 3 ECL	-	(8)	8	-
Net remeasurement of loss allowance	(707)	341	460	94
New financial assets originated or purchased	626	1,103	3	1,732
Financial assets derecognized	(292)	(1,073)	(2,548)	(3,913)
Write-offs	-	-	(2,981)	(2,981)
Recoveries of amounts previously written off	-	-	1,116	1,116
As at December 31, 2019	1,741	4,211	1,050	7,002

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	December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1 per IAS 39				7,018
Adjustment on initial application of IFRS 9				1,257
Opening balance	1,465	3,990	2,820	8,275
Transfer to Stage 1 ECL	107	(106)	(1)	-
Transfer to Stage 2 ECL	(916)	985	(69)	-
Transfer to Stage 3 ECL	(541)	(1,471)	2,012	-
Net remeasurement of loss allowance	1,295	98	966	2,359
New financial assets originated or purchased	455	2,004	2,087	4,546
Financial assets derecognized	(269)	(1,151)	(2,039)	(3,459)
Write-offs	-	-	(1,410)	(1,410)
Recoveries of amounts previously written off	-	-	643	643
As at December 31, 2018	1,596	4,349	5,009	10,954

The following table further details the continuity of the ECL by Loan category:

	December 31, 2019				
	Residential Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	Total Allowance
Balance, January 1, 2019	300	723	104	9,827	10,954
Collection of accounts previously written off	-	162	-	954	1,116
Accounts written off	-	(334)	-	(2,647)	(2,981)
Provision for (recovery of) credit losses	45	125	79	(2,336)	(2,087)
Balance, December 31, 2019	345	676	183	5,798	7,002

	December 31, 2018				
	Residential Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	Total Allowance
Balance, January 1, 2018 per IAS 39	204	392	28	6,394	7,018
Adjustment on initial application of IFRS 9	14	483	68	692	1,257
Collection of accounts previously written off	-	263	-	380	643
Accounts written off	(96)	(529)	-	(785)	(1,410)
Provision for credit losses	178	114	8	3,146	3,446
Balance, December 31, 2018	300	723	104	9,827	10,954

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The following table shows the ECL by credit quality and stage:

	December 31, 2019			Total
	Stage 1	Stage 2	Stage 3	
Residential Mortgage Loans				
Above standard	105	2	-	107
Standard	82	43	-	125
Below standard	35	78	-	113
Personal Loans				
Above standard	194	12	5	211
Standard	142	75	11	228
Below standard	43	178	16	237
Agricultural Loans				
Above standard	39	9	-	48
Standard	41	27	-	68
Below standard	1	6	60	67
Commercial Loans				
Above standard	75	-	-	75
Standard	984	24	-	1,008
Below standard	-	3,757	958	4,715
	1,741	4,211	1,050	7,002

	December 31, 2018			Total
	Stage 1	Stage 2	Stage 3	
Residential Mortgage Loans				
Above standard	102	1	-	103
Standard	80	20	3	103
Below standard	35	59	-	94
Personal Loans				
Above standard	201	3	4	208
Standard	119	71	7	197
Below standard	55	196	67	318
Agricultural Loans				
Above standard	36	6	-	42
Standard	39	17	-	56
Below standard	2	4	-	6
Commercial Loans				
Above standard	51	-	-	51
Standard	876	9	-	885
Below standard	-	3,963	4,928	8,891
	1,596	4,349	5,009	10,954

Standard is defined as loans with a credit score between 600 and 649 or C commercial paper.

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Collateral

There are documented policies and procedures in place for the valuation of financial and non-financial collateral. The fair value of non-financial collateral is updated if there has been a significant change in the terms and conditions of the loan or the loan is considered impaired. For impaired loans, an assessment of the collateral is taken into consideration when estimating the expected future cash flows and net realizable amount of the loan.

The amount and type of collateral and other credit enhancements required depend upon Libro's assessment of counterparty credit quality and repayment capacity. Libro's policy is to follow industry standards for collateral valuation, frequency of recalculation of the collateral requirements, documentation, registration and perfection procedures, and monitoring. Non-financial assets accepted as collateral include vehicles, residential real estate, real estate under development, commercial real estate and certain business assets (accounts receivable, inventory, and fixed assets). Financial collateral includes cash and negotiable securities issued by governments and investment grade issuers. Guarantees are also accepted to reduce credit risk.

The fair value of collateral held with respect to assets that are either past due greater than 30 days and/or impaired is \$13,889 [\$14,062 in 2018].

It is not practical to quantify the fair values on security of all loans at the reporting date; however, loans by security type are as follows:

	December 31, 2019			
	Secured by Real Estate	Secured by Non-Real Estate	Unsecured	Total Loans
Residential mortgage loans ¹	1,419,307	-	-	1,419,307
Personal loans	155,123	63,012	723	218,858
Agricultural loans	856,933	99,937	4,598	961,468
Commercial loans	1,004,275	114,224	4,718	1,123,217
	3,435,638	277,173	10,039	3,722,850

	December 31, 2018			
	Secured by Real Estate	Secured by Non-Real Estate	Unsecured	Total Loans
Residential mortgage loans ¹	1,317,513	-	-	1,317,513
Personal loans	149,029	73,333	958	223,320
Agricultural loans	810,698	90,906	8,063	909,667
Commercial loans	843,581	114,906	5,015	963,502
	3,120,821	279,145	14,036	3,414,002

¹Residential mortgage loans include \$296,380 of loans insured by Canada Mortgage and Housing Corporation or Genworth [\$311,655 in 2018].

In accordance with the Act, personal loans secured by collateral first mortgages on owners' residential property have been designated as residential mortgage loans for the purposes of risk-weighted capital requirements [note 12].

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Economic scenarios

Libro determines ECL using multiple probability-weighted forward-looking scenarios. Libro considers both internal and external sources of information in order to achieve an unbiased, probability-weighted measure of the scenarios used. The “base case” represents the most likely outcome and is given a probability weighting of 80%. The other scenarios represent more optimistic or more pessimistic outcomes and are each given a weighting of 10%.

December 31, 2019						
	Worst Case		Base Case		Best Case	
	12-month	Thereafter	12 month	Thereafter	12 month	Thereafter
Housing price index	2.1%	2.1%	2.3%	2.3%	2.3%	2.5%
3-month banker's acceptance	0.7%	0.9%	1.7%	1.9%	2.3%	2.5%
Unemployment rate	7.2%	7.3%	6.0%	5.8%	4.4%	4.4%

December 31, 2018						
	Worst Case		Base Case		Best Case	
	12-month	Thereafter	12 month	Thereafter	12 month	Thereafter
Housing price index	2.1%	2.0%	2.3%	2.3%	2.3%	2.5%
3-month banker's acceptance	0.9%	0.6%	2.0%	2.8%	2.3%	2.5%
Unemployment rate	7.0%	7.4%	5.7%	5.6%	4.7%	4.4%

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7) PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31, 2019							
	Buildings and Components	Land	Leasehold Improvements	Furniture and Equipment	Electronic Equipment	Computer Equipment	Right-of-use Assets	Total
Cost:								
Opening balance	49,502	6,422	7,012	8,631	9,279	6,101	-	86,947
IFRS 16 transition	-	-	-	-	-	-	7,618	7,618
Additions and adjustments	2,022	223	1,886	431	597	1,035	527	6,721
Disposals and assets written off	-	-	-	(71)	-	-	-	(71)
As at December 31, 2019	51,524	6,645	8,898	8,991	9,876	7,136	8,145	101,215
Accumulated depreciation:								
Opening balance	(16,615)	-	(3,784)	(5,782)	(6,984)	(4,627)	-	(37,792)
Current year depreciation	(2,114)	-	(344)	(501)	(1,000)	(977)	(1,089)	(6,025)
Disposals, adjustments and assets written off	-	-	-	-	-	-	-	-
As at December 31, 2019	(18,729)	-	(4,128)	(6,283)	(7,984)	(5,604)	(1,089)	(43,817)
Net book value	32,795	6,645	4,770	2,708	1,892	1,532	7,056	57,398

	December 31, 2018							
	Buildings and Components	Land	Leasehold Improvements	Furniture and Equipment	Electronic Equipment	Computer Equipment	Total	
Cost:								
Opening balance	45,611	6,554	6,755	8,096	8,080	5,038	80,134	
Additions and adjustments	3,891	31	257	535	1,199	1,063	6,976	
Disposals and assets written off	-	(163)	-	-	-	-	(163)	
As at December 31, 2018	49,502	6,422	7,012	8,631	9,279	6,101	86,947	
Accumulated depreciation:								
Opening balance	(14,741)	-	(3,409)	(5,250)	(6,064)	(3,717)	(33,181)	
Current year depreciation	(1,874)	-	(375)	(532)	(920)	(910)	(4,611)	
Disposals, adjustments and written off	-	-	-	-	-	-	-	
As at December 31, 2018	(16,615)	-	(3,784)	(5,782)	(6,984)	(4,627)	(37,792)	
Net book value	32,887	6,422	3,228	2,849	2,295	1,474	49,155	

Right-of-use assets consist of 14 real estate leases and 1 vehicle lease. There are no leases with residual value guarantees or leases not yet commenced to which Libro is committed. Interest expense on all lease liabilities is \$201 and included in occupancy expense in the Statements of Income.

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Libro owns properties in which space not used by the credit union is rented to tenants for the purpose of earning rental income. The cost of the land and buildings with respect to floor space rented to tenants by Libro is \$13,115 [\$13,445 in 2018]. The land and buildings have a net book value of \$8,665 [\$9,248 in 2018].

The total gross revenue on credit union owned rental properties in the current year was \$1,650 [\$1,756 in 2018], which resulted in net income of \$255 [\$274 in 2018]. The net rental income or loss has been included in non-interest income.

8) INTANGIBLE ASSETS

Intangible assets consist of the following:

	December 31, 2019			
	Computer Software	Banking System Software	Core Deposit Intangibles	Total
Cost:				
Opening balance	4,067	4,086	14,998	23,151
Additions and adjustments	1,537	-	-	1,537
Disposals and fully amortized assets written off	-	-	-	-
As at December 31, 2019	5,604	4,086	14,998	24,688
Accumulated amortization:				
Opening balance	(3,168)	(3,894)	(10,176)	(17,238)
Current year amortization	(1,031)	(152)	(2,143)	(3,326)
Disposals, adjustments and fully amortized assets written off	-	-	-	-
As at December 31, 2019	(4,199)	(4,046)	(12,319)	(20,564)
Net book value	1,405	40	2,679	4,124

	December 31, 2018			
	Computer Software	Banking System Software	Core Deposit Intangibles	Total
Cost:				
Opening balance	2,954	4,086	14,998	22,038
Additions and adjustments	1,113	-	-	1,113
Disposals and fully amortized assets written off	-	-	-	-
As at December 31, 2018	4,067	4,086	14,998	23,151
Accumulated amortization:				
Opening balance	(2,225)	(3,742)	(8,033)	(14,000)
Current year amortization	(943)	(152)	(2,143)	(3,238)
Disposals, adjustments and fully amortized assets written off	-	-	-	-
As at December 31, 2018	(3,168)	(3,894)	(10,176)	(17,238)
Net book value	899	192	4,822	5,913

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9) OTHER ASSETS

Other assets consist of the following:

	December 31, 2019	December 31, 2018
Prepaid items	1,724	874
Other receivables	2,039	2,811
Cheques and other items in transit, net [note 3(l)]	28,842	26,718
	32,605	30,403

10) LOANS PAYABLE

Libro has access to line of credit facilities at Central 1 totalling \$74,000 CAD\$ [\$27,801 CAD\$ in 2018] and \$3,500 US\$ [\$3,500 US\$ in 2018] and other loan facilities of \$35,000 CAD\$ [\$71,199 CAD\$ in 2018]. The largest draw on the other loan facilities was \$45,000 CAD\$ in 2018 [\$40,000 CAD\$ in 2018].

The balance of the lines of credit facilities at year-end was \$nil [\$18,447 in 2018]. The clearing line of credit facility bears interest at 2.70% [2.5% in 2018] and the other line of credit facility bears interest at 2.58% [2.5% in 2018]. The lines of credit are payable on or before the facility maturity date of September 30, 2020. The other credit facilities bear a fixed rate depending on the term ranging from seven days to one year. Libro has given a promissory note and pledged an assignment of its assets as collateral.

11) OWNERS' CAPITAL ACCOUNTS

Membership shares

An unlimited number of membership shares have been authorized with a stated value of \$1 per share. Owners who are age 18 and over are required to have a minimum of 50 shares while owners under that age are required to have 10 shares. These shares are redeemable at their stated value only when the owner withdraws from ownership in Libro. As at December 31, 2019, Libro had 106,790 owners [105,356 in 2018] who held a total of 5,073,505 membership shares [5,008,125 in 2018]. Each owner who is age 16 and over is entitled to one vote.

Class P shares

An unlimited number of Class P non-cumulative, non-voting, non-participating special shares have been authorized having an issue price of \$1. As at December 31, 2019, there were 38,137,827 Class P shares outstanding [33,612,355 in 2018].

Class I shares

An unlimited number of Class I non-cumulative, non-voting, non-participating special shares have been authorized to be issued in series at a price of \$1. As at December 31, 2019, there were a total of 121,396,059 Class I shares outstanding [116,729,054 in 2018].

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As at December 31, 2019, the number of Class I shares outstanding by series were as follows:

[number of shares]	December 31, 2019	December 31, 2018
Series 1	3,386,197	3,256,017
Series 2	3,336,394	3,208,202
Series 3	8,662,993	8,329,922
Series 4	21,892,116	21,050,597
Series 5	84,118,359	80,884,346
Total	121,396,059	116,729,084

Class P and I shares are redeemable by the holder only under certain restricted conditions. The aggregate maximum amount that can be redeemed in any year cannot exceed 10% of the outstanding balance of each series, including any dividends declared but not yet paid, of either the Class P or each series of the Class I shares, provided regulatory capital requirements are met. As at December 31, 2019, the aggregate maximum amount that could be redeemed is \$4,797 in Class P shares and \$3,877 in Class I shares.

The continuity of outstanding shares is as follows:

[number of shares in thousands]	Membership			Total
	Shares	Class P Shares	Class I Shares	
Outstanding, January 1, 2018	4,950	29,413	112,246	146,609
New shares issued	338	5,745	-	6,083
Shares redeemed	(280)	(1,746)	(6)	(2,032)
Shares issued as dividends	-	200	4,489	4,689
Outstanding, December 31, 2018	5,008	33,612	116,729	155,349
New shares issued	336	6,445	-	6,781
Shares redeemed	(270)	(2,281)	-	(2,551)
Shares issued as dividends	-	361	4,667	5,028
Outstanding, December 31, 2019	5,074	38,137	121,396	164,607
Less share issuance costs	-	-	(154)	(154)
Total carrying value of shares	5,074	38,137	121,242	164,453

All owners' capital accounts have been designated as financial liabilities. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

In 2015, the credit union harmonized its dividend policy for all five series of Class I Investment Shares to pay a dividend rate the greater of 4.00% or a rate that exceeds by 1.25% the simple average of the yields on the monthly series of the Government of Canada five-year bonds during the fiscal years ending on or before December 31, 2020. For fiscal years ending after that date, the rate will be equal to or greater than the rate which exceeds by 1.25% the simple average of the yield on the monthly series of the Government of Canada five-year bonds during the fiscal year. In 2019, Libro declared a dividend of 4.00% [4.00% in 2018].

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Prior to the fiscal year-end, the Board of Directors approved its intent to distribute a portion of the current year's income in the form of stock dividends to be paid in the subsequent year, as follows:

	December 31, 2019	December 31, 2018
Class P Profit share distribution - calculated as \$1.32 for every \$1,000 of average deposit and loan balances [\$1.00 in 2018]	9,321	6,609
Class P Profit share dividend - calculated as 1.43% on owner Class P Profit share holdings as at year-end [1.15% in 2018]	513	357
Class I, Series 1 Investment share dividend of 4.00% [4.00% in 2018]	135	130
Class I, Series 2 Investment share dividend of 4.00% [4.00% in 2018]	133	129
Class I, Series 3 Investment share dividend of 4.00% [4.00% in 2018]	347	333
Class I, Series 4 Investment share dividend of 4.00% [4.00% in 2018]	876	842
Class I, Prosperity Series 5 Investment share dividend of 4.00% [4.00% in 2018]	3,365	3,235
Stock dividends payable at year-end	14,690	11,635
Accrued dividends from prior years	(164)	30
Dividend expense	14,526	11,665

Although owners' shares are regarded as capital for regulatory purposes, they impose a contractual obligation on Libro to pay cash in certain defined future circumstances and have, therefore, been classified as liabilities for the purposes of these financial statements. Correspondingly, dividends paid on those shares have been included in the Statements of Income as a charge to income.

12) REGULATORY INFORMATION

[a] Regulatory capital

Libro's capital management plan is designed to establish a strong base for future growth, the payment of dividends and profit sharing, as well as provide a cushion in the event of market volatility. Libro's capital plan is designed to comply with the Act, which requires Libro to maintain regulatory capital of not less than 4% of total assets and 8% of a risk-weighted equivalent value. The risk-weighted equivalent value is calculated by applying risk-weighted percentages as prescribed by the Act to various assets, operational and interest rate risk criteria. As at December 31, 2019, the total risk-weighted equivalent value for Libro was \$2,794,272 [\$2,498,291 in 2018].

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Libro is in compliance with the Act and regulations regarding regulatory capital as follows:

	December 31, 2019	December 31, 2018
Tier 1 capital		
Membership shares	5,074	5,008
Investment and patronage shares	159,379	150,187
Stock dividends payable	14,690	11,635
Redeemable portion of shares	(8,674)	(7,785)
Retained earnings	93,568	80,396
Contributed surplus	60,998	60,998
Unqualified portion of fair value adjustments	580	580
Total Tier 1 capital	325,615	301,019
Tier 2 capital		
Redeemable portion of shares	8,674	7,785
Collective allowance for credit losses	5,952	5,945
AOCI defined benefit plans	(4,499)	-
Total Tier 2 capital	10,127	13,730
Total regulatory capital	335,742	314,749
% of total assets	7.93%	8.17%
% of risk-weighted assets	12.02%	12.60%

[b] Restricted party transactions

As at December 31, 2019, the aggregate value of loans, lines of credit, overdrafts and letters of credit outstanding to directors, officers, their spouses and related corporations amounted to \$2,895 [\$5,947 in 2018]. There was no allowance for credit losses required in respect of these credit facilities. Interest rates and other terms and conditions relating to loans to directors are the same as those offered to all owners of Libro. Terms and rates of loans offered to officers are the same as all terms and rates offered to all Libro staff. Loans committed to restricted parties were \$nil [\$nil in 2018].

Deposits held for restricted parties were \$5,369 [\$5,906 in 2018]. Terms and rates of deposits for officers and directors are the same as those offered to all Libro owners.

The total compensation paid to officers was \$2,063 [\$2,141 in 2018] and the total remuneration paid to elected representatives, including directors was \$379 [\$392 in 2018]. In addition to this remuneration, total reimbursement to directors and committee members for travel and out-of-pocket expenses for attendance at meetings was \$267 [\$263 in 2018].

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[c] Executive compensation

The Act requires disclosure of the five highest paid officers and employees where the remuneration paid during the year exceeded \$150. The names, positions and remuneration paid during the year of these officers and employees are as follows:

December 31, 2019					
Name	Title	Salary	Variable Compensation	Monetary Value of Benefits	Total
Stephen Bolton	President & CEO	387	148	40	575
Carol Normandeau	EVP Advice & Service Delivery	258	61	31	350
Scott Ferguson	EVP Information Systems	219	54	27	300
Tania Goodine	EVP Engagement	219	53	27	299
Fred Blaak	EVP Risk & Corporate Services	204	29	25	258

December 31, 2018					
Name	Title	Salary	Variable Compensation	Monetary Value of Benefits	Total
Stephen Bolton	President & CEO	387	143	40	570
Rick Hoevenaars	EVP Finance & CFO	236	57	29	322
Carol Normandeau	EVP Advice & Service Delivery	245	57	29	331
Scott Ferguson	EVP Information Systems	219	53	27	299
Tania Goodine	EVP Engagement	214	52	27	293

The Executive Leadership Team at Libro includes the President & CEO, and all individuals with positions titled Executive Vice President ("EVP").

On an annual basis, the Board of Directors reviews executive compensation and considers market expectations for similar roles in comparable organizations nationally. Variable compensation is based on corporate performance against strategic metrics set at the beginning of the year. The monetary value of benefits includes a pension plan, dental plan, health plan, automobile benefits (President & CEO), and life and disability insurance.

[d] Deposit insurance

The net annual premium paid to FSRA for insuring owners' deposits in the current year was \$2,744 [\$2,760 in 2018].

[e] Central 1 fees

The total fees paid to Central 1 amounted to \$1,383 in the current year [\$1,377 in 2018]. These fees were primarily in respect of banking and clearing services, and membership dues.

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13) EMPLOYEE FUTURE BENEFITS

Libro sponsors a defined benefit pension plan, a defined contribution pension plan, a supplementary employee retirement plan, and a sick leave benefit plan providing pension and sick leave benefits to eligible employees. The defined contribution pension plan is for staff who were formerly employed by United Communities Credit Union, who were given the option to either remain in the plan or join the defined benefit pension plan. The defined contribution pension plan has been closed to new entrants. The credit union employees' defined benefit pension plan is administered by CUMIS Life Insurance Company, while the defined contribution pension plan is administered by Canada Life.

The defined benefit pension plan is operated under the *Pension Benefits Act* (Ontario) (the "Pensions Benefits Act"). The Pension Benefits Act is administered by the Superintendent of Financial Services appointed by FSRA. Plan valuations must be filed with both the FSRA and with the Canada Revenue Agency.

The Pension Benefits Act prescribes the minimum contributions that the credit union must make to the plan. The *Income Tax Act* (Canada) places a maximum limit on the amount of employer contributions. Responsibility for governance of the plans, including investment decisions and contribution schedules, lies with the credit union.

During 2009, the credit union amended its sick leave benefit plan whereby after December 31, 2008, staff members can no longer accrue a benefit to be paid out on termination or retirement. Existing members had their accumulated sick leave days capped at the level achieved as at December 31, 2008.

[a] Defined benefit plans

Actuarial valuations of the plans are made based on market-rated discount rates. The following table presents information related to Libro's benefit plans as at December 31, including the amounts recorded on the Balance Sheets, and the components of net benefit expense:

	December 31, 2019		December 31, 2018	
	Pension Benefits	Sick Leave Benefits	Pension Benefits	Sick Leave Benefits
Accrued benefit obligation				
Balance as at beginning of year	52,393	1,694	52,699	1,881
Current service cost	3,872	-	4,194	-
Interest cost	2,231	65	1,978	62
Benefits paid	(1,266)	(164)	(1,048)	(197)
Employee contributions	138	-	143	-
Actuarial loss (gain)	10,309	102	(5,573)	(52)
Balance as at end of year	67,677	1,697	52,393	1,694
Plan assets				
Fair value at beginning of year	43,670	-	41,846	-
Expected return on plan assets	1,786	-	1,517	-
Employer contributions	3,065	164	3,893	197
Employee contributions	138	-	143	-
Benefits paid	(1,266)	(164)	(1,048)	(197)
Actuarial (loss) gain on assets	4,450	-	(2,681)	-
Fair value as at end of year	51,843	-	43,670	-
Funded status - plan deficit	(15,834)	(1,697)	(8,723)	(1,694)

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The supplementary employee retirement plan is included in the defined benefit pension plan. The weighted average duration of liabilities is 21.1 years [21.1 in 2018] for the defined benefit plan, 11.3 years [11.6 in 2018] for the supplementary employee retirement plan, and 7.8 years [8.0 in 2018] for the sick leave plan.

Assets held within the pension plan consist of balances in the units of Addenda Capital Tactical Balanced Fund (25%), Mawer Investment Management's Balanced Fund (50%), and 18 Asset Management Balanced Fund (25%).

Contributions for the upcoming year are anticipated to be approximately \$2,988 for the defined benefit plans, and \$164 for the sick leave plan.

Libro's net defined benefit plan expenses recognized in the Statements of Income were as follows:

	December 31, 2019		December 31, 2018	
	Pension Benefits	Sick Leave Benefits	Pension Benefits	Sick Leave Benefits
Current service cost	3,872	-	4,194	-
Net interest cost	445	65	461	62
Total included in salaries and employee benefits expense	4,317	65	4,655	62

Libro's net defined benefit plan expenses recognized in other comprehensive income (loss) were as follows:

	December 31, 2019		December 31, 2018	
	Pension Benefits	Sick Leave Benefits	Pension Benefits	Sick Leave Benefits
Actuarial gain (loss) on assets	4,450	-	(2,681)	-
Actuarial gain (loss) on liabilities	(10,309)	(102)	5,573	52
Total gain (loss) recognized in other comprehensive income (loss)	(5,859)	(102)	2,892	52

Included in the above total actuarial gain (loss) on liabilities are the following:

	December 31, 2019		December 31, 2018	
	Pension Benefits	Sick Leave Benefits	Pension Benefits	Sick Leave Benefits
Change in discount rate	(10,309)	(100)	5,591	68
Other	-	(2)	(18)	(16)
Total actuarial gain (loss) on liabilities	(10,309)	(102)	5,573	52

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The assumptions used in the measurement of the benefit obligations are shown in the following table:

	December 31, 2019		December 31, 2018	
	Pension Benefits	Sick Leave Benefits	Pension Benefits	Sick Leave Benefits
[percentages]				
Discount rate	3.20%	3.20%	4.00%	4.00%
Expected long-term rate of return on plan assets	3.20%	-	4.00%	-
Rate of compensation increase	2.50%	2.50%	2.50%	2.50%

A one percentage point change in assumed discount rates and salary costs would have the following impact on the defined benefit plans:

	December 31, 2019		December 31, 2018	
	Pension Benefits	Sick Leave Benefits	Pension Benefits	Sick Leave Benefits
Change in Benefit Obligations				
1% increase in discount rate	(12,672)	(124)	(9,797)	(130)
1% decrease in discount rate	15,605	140	12,061	140
1% increase in rate of compensation increase	4,477	139	3,470	136
1% decrease in rate of compensation increase	(4,201)	(126)	(3,257)	(127)

Through its defined benefit pension plans and post-employment plans, the credit union is exposed to a number of risks, the most significant of which are detailed below:

(i) Equity risk

The plans hold balanced funds, which include equity investments, and are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term. However, due to the long-term nature of the plan liabilities, a level of continuing equity investment is an appropriate element of the long-term strategy to manage the plans efficiently.

(ii) Changes in bond yields

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plan's fixed income investments.

(iii) Inflation risk

The majority of the plan's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. The plan's assets may or may not correlate with inflation, meaning that an increase in inflation may also increase the deficit.

(iv) Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the employee, so increases in life expectancy will result in an increase in the plan's liabilities.

[b] Defined contribution plans

The pension expense for the defined contribution plan in the current year was \$23 [\$31 in 2018]. The contributions for the upcoming fiscal year are anticipated to be approximately \$14 [\$27 in 2018].

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14) COMMITMENTS

[a] Loan commitments

As at December 31, 2019, Libro had commitments to advance loans totalling \$279,039 [\$249,840 in 2018]. The mix of loans committed is consistent with existing funded portfolio balances.

[b] Undrawn lines of credit

As at December 31, 2019, Libro had undrawn lines of credit outstanding on behalf of owners amounting to \$730,287 [\$663,333 in 2018].

[c] Letters of credit

As at December 31, 2019, Libro had letters of credit outstanding on behalf of owners amounting to \$39,209 [\$36,447 in 2018].

[d] ECL on commitments

Included in the ECL in note 6 is \$202 (\$225 in 2018) related to undrawn lines of credit and unused letters of credit.

15) DERIVATIVE FINANCIAL INSTRUMENTS

The following table summarizes the carrying values of the derivative financial instruments held by Libro. The credit union only enters into derivative contracts with a counterparty it has determined to be creditworthy.

Counterparty	December 31, 2019		December 31, 2018	
	Assets	Liabilities	Assets	Liabilities
Interest rate swap agreements	1,950	165	906	148
Index-linked term deposit hedge agreements	757	757	495	495
	2,707	922	1,401	643

Interest rate swap agreements

Libro enters into interest rate swap agreements in order to hedge against exposure to interest rate fluctuations. As at December 31, 2019, Libro was party to eight such agreements [eight in 2018] with Central 1. The agreements, in aggregate, represent a notional principal amount of \$203,639 [\$253,798 in 2018]. The notional principal amounts are used as the basis for determining payments under the contracts and are not actually exchanged between Libro and its counterparties.

Interest rate swap agreements are valued by netting the discounted variable and fixed cash flows. Variable cash flows are calculated using implied interest rates as determined by current Canadian Dealer Offered Rate ("CDOR") and swap interest rates, and term relationships. Fixed cash flows are calculated based on the rates stated in the agreements. These notional cash flows are discounted using the relevant points on the zero-interest curve as derived from the month-end CDOR and swap rates.

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A summary of Libro's swap agreements as at December 31 is given below:

December 31, 2019

Counterparty	Notional Amount	Maturity Date	Paying Rate Index	Receiving Rate Index	Paying Rate	Receiving Rate	Fair Value
Central 1	50,000	Apr. 2020	5-year swap rate - fixed	30-day CDOR	1.283%	2.064%	182
Central 1	50,000	Aug. 2020	30-day CDOR	5-year swap rate - fixed	1.980%	1.700%	(149)
Central 1	1,172	May 2021	10-year swap rate - fixed	30-day CDOR	1.860%	1.983%	2
Central 1	974	Jun. 2021	10-year swap rate - fixed	30-day CDOR	3.070%	1.965%	(15)
Central 1	1,172	Jul. 2021	10-year swap rate - fixed	30-day CDOR	1.890%	2.069%	1
Central 1	321	Oct. 2022	10-year swap rate - fixed	30-day CDOR	2.090%	1.999%	(1)
Central 1	50,000	May 2024	5-year swap rate - fixed	30-day CDOR	1.825%	2.064%	421
Central 1	50,000	Aug. 2024	5-year swap rate - fixed	30-day CDOR	1.460%	1.980%	1,344
	203,639				1.647%	1.953%	1,785

December 31, 2018

Counterparty	Notional Amount	Maturity Date	Paying Rate Index	Receiving Rate Index	Paying Rate	Receiving Rate	Fair Value
Central 1	100,000	Jan. 2019	5-year swap rate - fixed	30-day CDOR	1.868%	2.298%	72
Central 1	50,000	Aug. 2019	5-year swap rate - fixed	30-day CDOR	1.865%	2.279%	132
Central 1	50,000	Sep. 2019	30-day CDOR	2-year swap rate - fixed	2.241%	1.905%	(126)
Central 1	50,000	Apr. 2020	5-year swap rate - fixed	30-day CDOR	1.283%	2.279%	683
Central 1	1,218	May 2021	10-year swap rate - fixed	30-day CDOR	1.860%	2.198%	9
Central 1	1,012	Jun. 2021	10-year swap rate - fixed	30-day CDOR	3.070%	2.159%	(22)
Central 1	1,218	Jul. 2021	10-year swap rate - fixed	30-day CDOR	1.890%	2.289%	9
Central 1	350	Oct. 2022	10-year swap rate - fixed	30-day CDOR	2.090%	2.235%	1
	253,798				1.831%	2.212%	758

Foreign exchange forward contracts

Libro uses foreign exchange forward contracts to manage liquidity, interest income, and to hedge the exchange risk in products denominated in US dollars. As at December 31, 2019, Libro was not party to any such agreements [none in 2018] with Central 1.

From time to time, Libro enters into foreign exchange forward contracts with some of its owners. Owners enter into these contracts primarily to manage interest expense and hedge against US dollar exchange rates in their own operations. The notional value of these agreements in US dollars was \$48 [\$914 in 2018] at year-end. Libro enters into offsetting agreements with Central 1 to hedge the exchange risk with its owners. The notional amount of these offsetting agreements in US dollars was \$100 [\$200 in 2018] at year-end. These agreements represent a fair market value on a combined basis of nil [nil in 2018] at year-end.

Index-linked term deposit agreements

Libro has outstanding \$9,066 [\$12,248 in 2018] in index-linked term deposits to its owners. The index-linked term deposits are three and five-year deposits that pay interest at the end of the term, based on performance of a variety of indices. The embedded derivative associated with these deposits is presented in liabilities and has a fair value of \$757 [\$495 in 2018].

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Libro has entered into agreements with Central 1 to offset the exposure to the indices associated with each product, whereby the credit union pays a fixed rate of interest for the term of each index-linked deposit on the face value of the deposits sold. At the end of the term, the credit union receives an amount equal to the amount that will be paid to depositors based on the performance of the indices. As at December 31, 2019, Libro had entered into such contracts in the amount of \$9,066 [\$12,248 in 2018]. The agreements are secured by a general security agreement covering all assets of the credit union. The embedded derivative associated with these agreements is presented in assets and has a fair value of \$757 [\$495 in 2018].

Hedge accounting for interest rate swaps

As part of its risk management strategy for interest rate risk, the credit union uses interest rate swaps to reduce its exposure. A discussion of the credit union's approach to management of interest rate risk is in note 21[c].

As at December 31, 2019 Libro had no financial instruments designated for hedge accounting. As at December 31, 2018, Libro had one interest rate swap designated for hedge accounting which had a notional value of \$50,000 and a maturity date of September 2019.

16) OWNERS' DEPOSITS

	December 31, 2019	December 31, 2018
Demand deposits	745,375	665,398
Chequing deposits	1,052,079	979,486
Term deposits	1,038,758	960,843
Registered savings plans	317,102	302,655
Registered income funds	202,221	188,267
Registered tax free savings accounts	367,251	314,076
	3,722,786	3,410,725

Owners' deposits are either redeemable on demand or have a fixed date of maturity up to five years. Interest rates are set based upon the type, size and term to maturity of the deposit. All owners' deposits are financial liabilities and measured at amortized cost.

The term to maturity and effective interest rates of Libro owners' deposit portfolio were as follows:

December 31, 2019							
Maturity	Demand	1 year or Less	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 4 Years	Over 4 to 7 Years	Total
Total deposits	1,932,042	997,546	381,940	241,632	92,933	76,693	3,722,786
Effective interest rate	0.86%	2.11%	2.45%	2.66%	2.73%	2.85%	1.57%

December 31, 2018							
Maturity	Demand	1 year or Less	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 4 Years	Over 4 to 7 Years	Total
Total deposits	1,771,819	757,609	493,964	199,369	112,674	75,290	3,410,725
Effective interest rate	0.85%	1.93%	2.24%	2.19%	2.34%	2.73%	1.46%

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17) STATEMENTS OF INCOME AND CASH FLOW DISCLOSURES**[a] Interest income and expense**

The amount of income earned from each loan class and interest expense for each type of deposit was as follows:

	December 31, 2019	December 31, 2018
Interest Income		
Residential mortgage loans	43,923	38,484
Personal loans	15,661	12,361
Agricultural loans	38,937	34,445
Commercial loans	49,509	45,088
	148,030	130,378
Interest Expense		
Demand deposits	8,775	6,801
Chequing deposits	4,958	3,808
Term deposits	22,036	18,334
Registered savings plans	6,969	6,026
Registered income funds	4,455	3,855
Registered tax free savings accounts	7,328	5,410
	54,521	44,234

[b] Non-interest income

Non-interest income consists of the following:

	December 31, 2019	December 31, 2018
Service fees	12,214	11,922
Commissions	4,801	4,832
Foreign exchange	1,814	1,728
Unrealized gains (losses) on investments	1,041	(66)
Income from property	255	274
	20,125	18,690

[c] Supplemental cash flow disclosures

Total interest paid in the year on owners' deposits and securitization liabilities was \$53,516 [\$44,218 in 2018].
Total interest received on loans to owners and investments was \$153,957 [\$134,923 in 2018].

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18) FINANCIAL INSTRUMENTS

The following table represents the fair values of Libro's financial instruments. The fair values disclosed do not include the value of assets that are not considered financial instruments. While the fair value amounts are intended to represent estimates of the amounts at which these instruments could be exchanged in a current transaction between willing parties, some of Libro's financial instruments lack an available trading market. Consequently, the fair values presented are estimates derived using present value and other valuations techniques and may not be indicative of the net realizable values. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

	December 31, 2019			December 31, 2018		
	Book Value	Fair Value	Difference	Book Value	Fair Value	Difference
<u>Amortized Cost</u>						
Loans to owners	3,722,850	3,741,286	18,436	3,414,002	3,382,153	(31,849)
Investments	350,806	350,495	(311)	310,700	308,813	(1,887)
<u>Fair Value through Profit or Loss</u>						
Investments	20,942	20,942	-	20,547	20,547	-
Index-linked deposits	757	757	-	495	495	-
Derivative financial instruments	1,950	1,950	-	906	906	-
Total financial assets	4,097,305	4,115,430	18,125	3,746,650	3,712,914	(33,736)
<u>Amortized Cost</u>						
Owners' deposits	3,722,786	3,725,439	(2,653)	3,410,725	3,395,037	15,688
Accrued and other liabilities	16,735	16,735	-	7,406	7,406	-
Loans payable	-	-	-	18,447	18,447	-
Securitization liabilities	127,177	126,730	447	77,730	77,250	480
<u>Fair Value through Profit or Loss</u>						
Index-linked deposits	757	757	-	495	495	-
Derivative financial instruments	165	165	-	148	148	-
Total financial liabilities	3,867,620	3,869,826	(2,206)	3,514,951	3,498,783	16,168

Estimated fair values are determined as follows:

- (i) Fair values for items that are short term in nature approximate their book value. These include cash and cash equivalents, accrued interest receivable, other assets, accrued and other liabilities and accrued interest payable. Fair values for floating rate financial instruments are equal to book value as the interest rates automatically reprice to market.
- (ii) Investments are valued using quoted market prices where available. Cost is used where no ready market values are available.
- (iii) Fixed-rate loans are valued by discounting the contractual future cash flows at current market rates for loans with similar credit risks.
- (iv) Fixed-rate deposits are valued by discounting the contractual future cash flows using market rates currently being offered for deposits with similar terms.

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Fair values are determined based on a three-level fair value hierarchy that reflects the significance of the inputs used in making the measurements. The levels of the hierarchy are as follows:

- (i) Level 1 - Unadjusted quoted prices in active markets for identical financial assets and financial liabilities;
- (ii) Level 2 - Inputs other than quoted prices that are observable for the financial asset or financial liability either directly or indirectly; and
- (iii) Level 3 - Inputs that are not based on observable market data.

The following table illustrates the classification of Libro's financial instruments within the fair value hierarchy:

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Recorded at Fair Value				
<u>Assets</u>				
Index-linked deposits	-	757	-	757
Central 1 Class E shares	-	-	6,487	6,487
Central 1 Class A shares	-	-	1,389	1,389
Central 1 Class F shares	-	-	12,781	12,781
Other investments	-	-	285	285
Derivative financial instruments	-	1,950	-	1,950
Total assets held at fair value	-	2,707	20,942	23,649
<u>Liabilities</u>				
Index-linked deposits	-	757	-	757
Derivative financial instruments	-	165	-	165
Total liabilities held at fair value	-	922	-	922
Fair Value Disclosed				
<u>Assets</u>				
Loans to owners	-	-	3,741,286	3,741,286
Investments	-	350,495	-	350,495
Total assets disclosed at fair value	-	350,495	3,741,286	4,091,781
<u>Liabilities</u>				
Owners' deposits	-	3,725,439	-	3,725,439
Securitization liabilities	-	126,730	-	126,730
Total liabilities disclosed at fair value	-	3,852,169	-	3,852,169

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	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Recorded at Fair Value				
<u>Assets</u>				
Investments	-	-	792	792
Index-linked deposits	-	495	-	495
Central 1 Class E shares	-	-	6,487	6,487
Central 1 Class A shares	-	-	1,413	1,413
Central 1 Class F shares	-	-	11,855	11,855
Derivative financial instruments	-	906	-	906
Total assets held at fair value	-	1,401	20,547	21,948
<u>Liabilities</u>				
Index-linked deposits	-	495	-	495
Derivative financial instruments	-	148	-	148
Total liabilities held at fair value	-	643	-	643
Fair Value Disclosed				
<u>Assets</u>				
Loans to owners	-	-	3,382,153	3,382,153
Investments	-	308,813	-	308,813
Total assets disclosed at fair value	-	308,813	3,382,153	3,690,966
<u>Liabilities</u>				
Owners' deposits	-	3,395,037	-	3,395,037
Loans payable	-	18,447	-	18,447
Securitization liabilities	-	77,250	-	77,250
Total liabilities disclosed at fair value	-	3,490,734	-	3,490,734

19) INCOME TAXES

Significant components of the deferred tax assets are as follows:

	January 1, 2019	Statements of Income	Other Comprehensive Income (Loss)	Retained Earnings	December 31, 2019
Allowance for credit losses	1,193	(72)	-	-	1,121
Employee future benefits	1,928	173	1,102	-	3,203
Property and equipment	270	(203)	-	-	67
Fair value adjustments on acquisition	(500)	402	-	-	(98)
Deferred revenue	243	70	-	-	313
Share issuance costs	30	-	-	-	30
Cash flow hedges	12	-	(12)	-	-
	3,176	370	1,090	-	4,636

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	January 1, 2018	Statements of Income	Other Comprehensive Income (loss)	Retained Earnings	December 31, 2018
Allowance for credit losses	281	680	-	232	1,193
Employee future benefits	2,356	116	(544)	-	1,928
Property and equipment	95	175	-	-	270
Fair value adjustments on acquisition	(937)	437	-	-	(500)
Deferred revenue	224	19	-	-	243
Share issuance costs	30	-	-	-	30
Cash flow hedges	(17)	-	29	-	12
	2,032	1,427	(515)	232	3,176

The reconciliation of income tax computed at the statutory rates to income tax expense is as follows:

	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%
Expected tax provision based on combined federal and provincial rate	6,449	40%	4,556	40%
Credit union deduction	(1,306)	(8%)	(923)	(8%)
General rate deduction	(2,122)	(13%)	(1,499)	(13%)
Permanent difference	120	1%	74	1%
Other	13	0%	(284)	(2%)
	3,154	19%	1,924	17%

Tax amounts related to current year other comprehensive income (loss) are as follows:

	December 31, 2019		
	Gross	Tax	Net of Tax
Actuarial gain (loss) in employee defined benefit plans	(5,961)	1,102	(4,859)
Financial instruments designated as cash flow hedges	(27)	(12)	(39)
Other comprehensive income (loss)	(5,988)	1,090	(4,898)

20) SECURITIZATION OF LOANS

Libro periodically may securitize mortgages through the transfer of mortgage loans to a special purpose entity as described in note 3[n] through programs sponsored by the Canada Mortgage and Housing Corporation.

[a] Securitization activity

The following table summarizes Libro's securitization activity in the year:

	December 31, 2019	December 31, 2018
Residential mortgages securitized	60,204	69,712
Net cash proceeds received	59,623	68,584
Outstanding balance of securitized mortgages	125,299	77,537

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There were no mortgage loans that were delinquent as at year-end (none in 2018). In addition, there were no credit losses incurred on the mortgages transferred in 2019 or 2018.

[b] Securitization liabilities

Libro retains a securitization liability for mortgages transferred. The liability bears an average fixed interest rate of 2.30% [2.53% in 2018] and bears a weighted average maturity date of 2023 [2023 in 2018]. As at December 31, 2019, the liability was \$127,177 [\$77,730 in 2018].

21) RISK MANAGEMENT

[a] Liquidity risk

Liquidity risk is defined as the risk that the credit union will be unable to pay obligations when they fall due, or become unable to repay depositors when funds are withdrawn, or become unable to meet commitments to lend money. Libro manages liquidity risk within Board Policy limits to ensure the credit union has sufficient liquidity to meet its obligations. This is managed by monitoring cash flows and cash forecasts, maintaining a portfolio of high-quality liquid financial assets [note 4], monitoring and managing the remaining contractual term to maturity of its loan and deposit portfolios [notes 5 and 16], and maintaining access to credit facilities through Central 1 [note 10]. Libro achieves this through a combination of active management of organic balance sheet growth, borrowing, whole loan sales, and loan securitization. Since the credit union does not issue redeemable long-term deposit products, liquidity risk will not increase as a result of unexpected prepayments or changing deposit maturity forecasts.

At year-end, Libro's liquidity ratio was 11.20% [10.41% in 2018] and assets held for liquidity purposes totalled \$416,971 [\$357,004 in 2018], consisting of \$250,884 liquidity reserve deposits [\$230,401 in 2018] and \$166,086 cash and other qualifying deposits [\$126,603 in 2018].

[b] Credit risk

Credit risk is defined as the risk of financial loss due to a borrower or counterparty failing to meet its obligations in accordance with contractual terms and arises from the credit union's direct lending, trading, investment and hedging activities. Granting loans to owners is one of the credit union's primary sources of income and Libro grants credit through consideration of an owner's credit history, character, collateral, and capacity for debt. Owners' financial situations are monitored through the life of the loan and all current receivables are expected to be collected. Debt that appears to be in arrears is impaired to the extent that a loss is expected. Libro uses internal risk scoring measures to assess the credit quality of commercial and agricultural borrowers. These measures are derived from the underlying credit experience, collateral, management expertise, and other objective financial measures.

(i) Credit quality

Credit quality of retail borrowers is measured in part by a standardized credit rating system, which considers payment history, current debt, age of accounts, type of credit and credit enquiries. Standard is defined as loans with a credit score between 600 and 649 or C commercial paper.

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The application of these scoring measures as at December 31 is as follows:

December 31, 2019					
	Residential Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	Total
Above standard	1,268,635	203,442	395,801	345,945	2,213,823
Standard	93,898	10,714	459,968	683,111	1,247,691
Below standard	56,774	4,702	105,699	94,161	261,336
	1,419,307	218,858	961,468	1,123,217	3,722,850

December 31, 2018					
	Residential Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	Total
Above standard	1,160,704	204,083	384,941	207,815	1,957,543
Standard	96,447	13,412	437,618	638,031	1,185,508
Below standard	60,362	5,825	87,108	117,656	270,951
	1,317,513	223,320	909,667	963,502	3,414,002

To manage credit risk, Libro secures collateral against all types of loans. In the event that an owner is unwilling or unable to meet their obligations as a borrower, security is liquidated to repay the obligation to Libro. Collateral is taken on each loan funded with regard to the owner's overall creditworthiness including credit history, character, capacity for debt, and type of loan granted. Note 6 provides detail on collateral held against loans.

[c] Market risk

Market risk is defined as the risk that the credit union's ability to meet business objectives will be adversely affected by volatility in market rates. Libro manages market risk using an earnings at risk approach. The primary objective of this approach is to maximize earnings on a consistent basis while minimizing reductions to net income resulting from changes in future interest rates.

Interest rate risk is the impact that changes in interest rates could have on the credit union's margins, profit or loss, and equity. Interest rate risk arises from the difference between interest paid related to the credit union's liabilities and the interest earned on its assets. As part of the credit union's risk management strategy, the Board of Directors has established limits on the interest rate exposures that are consistent with the credit union's risk appetite.

The credit union's policy is to monitor positions on a monthly basis. Libro uses income simulation modeling to measure exposure to changes in interest rates over short-term periods. Earnings at risk is calculated by forecasting the net interest margin for the next 12-month period using most likely assumptions, including existing hedging activities. Most likely assumptions include management's best estimates for planned growth rates and the use of future interest rates. Planned growth rates are recorded at the start of the fiscal period as initially set out in the budget and modified to actual experience through the fiscal period. Future interest rates on new business and product renewals are determined using the future interest rates derived mathematically based on the term structure of interest rates. The impact of rate shock scenarios are measured against the most likely forecast ("MLF") as defined above. The resulting change in the forecast as a result of interest rate shocks is then compared to the MLF to determine the earnings at risk amount. Maximum change limits under these interest rate scenarios have been set out by the Board of Directors. These scenarios are based on hypothetical

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simulations assuming the markets are shocked with 100 or 200 basis point volatility. At the current time, Libro is in compliance with all limits set by the Board of Directors' Policy.

The policy limits and most likely projections are as follows:

Asset Liability Management Limits	Maximum Change Limit	Change to Earnings	Status
Most Likely Shocked + 200 basis points	-10%	-5.35%	Compliant
Most Likely Shocked + 100 basis points	-5%	-2.18%	Compliant
Most Likely Forecast Scenario	0%	0.00%	Compliant
Most Likely Shocked - 100 basis points	-5%	0.72%	Compliant
Most Likely Shocked - 200 basis points	-10%	-5.42%	Compliant

[d] Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of a change in foreign currency rates. Libro's net income is exposed to currency risk from US dollar investments and owner US dollar deposits. Libro mitigates currency risk of US dollar financial assets and liabilities by investing in offsetting US dollar financial instruments with similar terms. Currency risk is managed in accordance with the Board of Directors' Policy which the Board reviews annually. For a 1% instantaneous increase or decrease in exchange rate, Libro's net income would change by \$1 [\$1 in 2018].

22) ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities consist of the following:

	December 31, 2019	December 31, 2018
Owner remittances to third parties	2,005	1,950
Salaries payable to employees	6,443	4,953
Accounts payable	1,148	473
Prosperity Fund payable	-	30
Lease obligations	7,139	-
	16,735	7,406

The lease obligations by maturity date are as follows:

	Minimum Obligation
2020	1,183
2021	1,164
2022	1,173
2023	1,012
2024	810
Thereafter	2,615
Less: Present value discount	(818)
Lease obligations	7,139

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23) COMPARATIVE FIGURES

Certain comparative figures have been reclassified to reflect the presentation adopted in the current year.

24) ACCOUNTING TRANSITIONS

[a] IFRS 16

The following table presents the reconciliation of lease liabilities as of January 1, 2019:

Operating lease obligations as at December 31, 2018	6,916
Effect from discounting at the incremental borrowing rate	(984)
Reasonably certain extension or termination options	1,686
Lease obligation as at January 1, 2019	7,618

The lease liabilities were discounted at the incremental borrowing rate for each lease ranging from 2.73% to 2.90%.

[b] IFRS 9

Impact to retained earnings

The following is a reconciliation of closing retained earnings as at December 31, 2017 to the opening balance under IFRS 9 as at January 1, 2018:

Closing balance under IAS 39 (December 31, 2017)	71,811
Recognition of IFRS 9 ECLs on loans to owners	(1,257)
Deferred tax in relation to the above	232
Opening balance under IFRS 9 (January 1, 2018)	70,786
Total change in equity due to adopting IFRS 9	(1,025)