

Financial Statements

Libro Credit Union Limited

December 31, 2016



Building a better
working world

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 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 of Directors 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 Committee meets periodically with Management, and the external auditors, 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 auditors' report. The 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 auditors, 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



Rick Hoevenaars
Executive Vice President Finance and
Chief Financial Officer

March 7, 2017

INDEPENDENT AUDITORS' REPORT

To the Owners of
Libro Credit Union Limited

We have audited the accompanying financial statements of Libro Credit Union Limited, which comprise the balance sheets as at December 31, 2016 and 2015, and the statements of income, comprehensive income, owners' equity and cash flows for the years ended December 31, 2016 and 2015, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Libro Credit Union Limited as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style cursive font.

London, Canada
March 7, 2017

Chartered Professional Accountants
Licensed Public Accountants

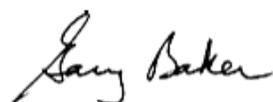
Balance Sheets

As at December 31

[thousands of dollars]	Note	2016	2015
Assets			
Cash and cash equivalents		22,716	19,352
Accrued interest receivable		5,737	6,034
Income taxes receivable		1,369	420
Investments	4	344,595	307,856
Other assets	9	2,559	34,904
Loans to owners	5, 6	2,925,563	2,703,302
Derivative financial instruments	15	1,082	1,053
Property and equipment	7	44,485	43,428
Intangible assets	8	9,973	12,138
Deferred tax assets	20	1,826	1,571
Total assets		3,359,905	3,130,058
Liabilities and owners' equity			
Owners' deposits	16	3,044,954	2,821,416
Accrued interest payable		15,262	16,113
Accrued and other liabilities	24	7,536	6,623
Pension and other employee obligations	13	8,202	9,720
Derivative financial instruments	15	4,354	6,704
Securitization liabilities	10	3,496	4,161
		3,083,804	2,864,737
Liabilities qualifying as regulatory capital	12		
Owners' capital accounts	11	143,389	144,740
Stock dividends payable	11	6,503	2,351
		149,892	147,091
Total liabilities		3,233,696	3,011,828
Contributed surplus		60,998	60,998
Retained earnings		63,625	58,077
Accumulated other comprehensive income (loss)		1,586	(845)
		126,209	118,230
Total liabilities and owners' equity		3,359,905	3,130,058

See accompanying notes

On behalf of the Board of Directors:



Mr. G. Baker, Chair of the Board



Mr. C. Bolton, Vice Chair of the Board

Statements of Income

Years ended December 31

[thousands of dollars]	Note	2016	2015
Interest income			
Interest on loans	17	108,133	103,492
Investment income		2,246	2,714
		110,379	106,206
Interest expense			
Interest on owners' deposits	17	36,163	38,196
Dividends on Class I investment shares	11	4,394	1,131
Interest on borrowings		175	89
		40,732	39,416
Net interest income		69,647	66,790
Non-interest income	17	20,618	13,266
Total revenue		90,265	80,056
Provision for credit losses	6	2,453	2,649
Non-interest expenses			
Salaries and employee benefits		49,793	45,765
General and administrative		9,951	9,860
Marketing and business development	19	3,790	4,274
Insurance		2,562	2,863
Systems and technology		3,633	3,556
Occupancy		6,313	5,909
Corporate and branch governance	12	1,014	1,015
Amortization of core deposit intangible	8	2,143	1,948
		79,199	75,190
Income before the undernoted		8,613	2,217
Dividends and profit sharing distributions	11	2,051	1,229
Income before income taxes		6,562	988
Provision for (recovery of) income taxes			
Current	20	1,882	1,337
Deferred	20	(868)	(989)
		1,014	348
Net income for the year		5,548	640

See accompanying notes

Statements of Comprehensive Income

Years ended December 31

[thousands of dollars]	2016	2015
Net income for the year	5,548	640
Other comprehensive income		
Items that will not be reclassified to income:		
Actuarial gain in employee defined benefit plans	2,986	1,979
Related income taxes	(582)	(386)
	2,404	1,593
Items that may be subsequently reclassified to income:		
Cash flow hedges - effective portion of changes in fair value	56	(160)
Related income taxes	(29)	48
	27	(112)
Other comprehensive income for the year, net of income taxes	2,431	1,481
Total comprehensive income for the year, net of income taxes	7,979	2,121

Statements of Owners' Equity

Years ended December 31

[thousands of dollars]	Note	2016	2015
Contributed surplus			
Balance at beginning of year		60,998	51,285
Acquisition of Hald-Nor Credit Union, net of tax	25	-	9,713
Balance at end of year		60,998	60,998
Retained earnings			
Balance at beginning of year		58,077	57,437
Net income for the year		5,548	640
Balance at end of year		63,625	58,077
Accumulated other comprehensive income (loss), net of income taxes			
Balance at beginning of year		(845)	(2,326)
Other comprehensive income for the year		2,431	1,481
Balance at end of year		1,586	(845)
Total owners' equity at end of year		126,209	118,230

See accompanying notes

Statements of Cash Flows

Years ended December 31

[thousands of dollars]	2016	2015
Cash provided by (used in)		
Operating activities		
Net income for the year	5,548	640
Add (deduct) non-cash items:		
Depreciation and amortization	6,604	6,171
Amortization of discount/premium on loans and deposits	1,108	1,229
Provision for credit losses	2,453	2,649
Loss on disposal	831	57
Deferred income taxes	(255)	(683)
Unrealized losses (gains) on interest rate swap agreements	(2,379)	4,107
Increase (decrease) in stock dividends payable	4,152	(2,805)
Changes in operating assets and liabilities:		
Decrease in accrued interest receivable	297	318
Increase in income taxes receivable	(949)	(1,232)
Decrease (increase) in other assets	32,345	(2,773)
Increase in loans to owners	(226,052)	(144,734)
Increase in owners' deposits	223,768	113,258
Increase (decrease) in accrued interest payable	(851)	373
Increase (decrease) in accrued and other liabilities	913	(301)
Decrease in pension and other employee obligations	913	803
Cash provided by (used in) operating activities	48,446	(22,923)
Financing activities		
Increase (decrease) in owners' capital accounts	(1,351)	75,963
Decrease in borrowings	-	(10,745)
Decrease in securitization liabilities	(665)	(770)
Cash provided by (used in) financing activities	(2,016)	64,448
Investing activities		
Increase in investments	(36,739)	(41,007)
Purchase of property and equipment	(5,826)	(2,953)
Purchase of intangible assets	(501)	(359)
Net assets acquired through business combinations	-	3,743
Cash used in investing activities	(43,066)	(40,576)
Net increase in cash and cash equivalents during the year	3,364	949
Cash and cash equivalents at beginning of year	19,352	18,403
Cash and cash equivalents at end of year	22,716	19,352

See accompanying notes

Libro Credit Union Limited

Notes to the Financial Statements
December 31, 2016

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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”), and is a member of the Deposit Insurance Corporation of Ontario (“DICO”) and of Central 1 Credit Union (“Central 1”). 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 activities of the credit union are regulated by DICO. The credit union has 31 branch offices located 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 7, 2017. The Board of Directors have 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, held-for-trading financial assets and available-for-sale 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.

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 the inputs derived from either observable market data or management judgment. Note 18 provides detailed information about the determination of the fair value of financial instruments.

(ii) Allowance for impairment on loans

Libro reviews its loan portfolio to assess impairment, and uses considerable judgment to determine whether or not a loan is impaired as a result of observable evidence. If a loan is considered to be impaired, the amount of the loss is based on management's best estimates. Further details regarding the impairment of loans are disclosed in notes 5 and 6.

(iii) Retirement benefit obligations

Libro estimates the present value of employee retirement benefit obligations, which estimation depends 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.

(iv) Securitization

Libro enters into securitization transactions which require management's best estimates of key assumptions that would be used in determining fair value. Further details of securitization arrangements are disclosed in note 22.

[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 classified as held-to-maturity, available-for-sale debt instruments ("AFS"), loans and receivables and other financial liabilities using the effective interest rate method.

Once a financial asset has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The effective interest rate 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 effective interest rate 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 effective interest rate. 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.

[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 liabilities

International Accounting Standard 39 ("IAS 39") "Financial Instruments – Recognition and Measurement" establishes standards for recognizing and measuring financial assets and financial liabilities. It requires financial assets and liabilities to be recognized on the Balance Sheets when the credit union becomes a party to the contractual provisions of a financial instrument. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent years depends on whether the financial instrument has been classified as fair value through profit or loss, loans and receivables, held-to-maturity, AFS or other financial liabilities. Management determines the classification of financial assets and liabilities at initial recognition and the designations made for each financial instrument are indicated in the notes.

A description of the various designation classifications follows:

Fair value through profit or loss

A financial instrument is classified as fair value through profit or loss if it is designated as such on initial recognition or classified as held for trading if it is:

- (i) acquired principally for the purpose of selling or repurchasing in the near term;
- (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (iii) a derivative.

Financial instruments included in fair value through profit or loss are recognized initially at fair value and transaction costs are taken directly to the Statements of Income. Gains and losses arising from changes in the fair value of these instruments are also recorded in the Statements of Income. Financial instruments classified as (iii) cannot be transferred into or out of this category after inception. Financial instruments classified as (i) and (ii) above may be reclassified only in rare and unusual circumstances.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable repayment dates, usually with interest, that are not debt securities or instruments classified as held for trading on initial

recognition. Loans and receivables are initially recognized at fair value including direct and incremental transaction costs. They are subsequently valued at amortized cost using the effective interest rate method.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that the credit union's management has the intention and ability to hold to maturity. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently valued at amortized cost, using the effective interest rate method (see note 3[c]).

Available-for-sale

AFS assets are non-derivative financial assets that are designated as AFS or are not categorized into any of the other categories described above. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently measured at fair value with gains and losses arising from changes in fair value being recognized in other comprehensive income in the Statements of Owners' Equity until sale or impairment occurs, at which time the cumulative gain or loss is transferred to the Statements of Income.

AFS assets that do not have quoted market values in an active market and whose fair value cannot be reliably measured are carried at cost less impairment. Realized gains and losses on sale as well as interest and dividend income from these assets are included in investment income.

Financial liabilities

Financial liabilities are non-derivative financial liabilities and are measured at amortized cost using the effective interest rate method.

Financial instruments fair value hierarchy

Under IFRS 7 "Financial Instruments – Disclosure", Libro categorizes fair value measurements according to a three-level hierarchy. Level 1 includes values based on quoted prices in active markets, Level 2 includes values based on models that use observable inputs other than quoted prices and Level 3 includes values based on models that use non-observable inputs (see note 18).

[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 exposure. Derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases as interest rate swap agreements.

These instruments are used economically for hedging activities of groups of on-balance sheet assets and liabilities and have either been classified as held for trading or designated as cash flow hedges. Where hedge accounting is not achieved, the changes in fair value of interest rate swaps classified as held for trading are immediately recognized in the Statements of Income as Non-interest income. Each hedge is documented at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the group of assets or liabilities being

hedged, the risk that is being hedged, the type of derivative used and how effectiveness will be measured.

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recognized in other comprehensive income, while gains and losses in fair value relating to the ineffective portion are recognized 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.

In a fair value hedge, the changes in fair value of the hedging derivative are offset on the Statements of Income by the change in fair value of the hedged item relating to the hedged risk. The financial instruments designated in fair value hedging relationships are loans. The fair value of the hedged item is reported in Loans to owners. The fair value of the hedging instrument is recorded as a derivative asset or liability on the Balance Sheets.

When a hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income until the forecasted transaction is eventually recognized in the Statements of Income. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the Statements of Income.

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	Term of lease plus one renewal term
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 statement of income, except to the extent they reverse gains previously recognized in other comprehensive income.

[i] Intangible assets

Intangible assets are carried at cost less accumulated amortization. Intangible assets are amortized over their expected lives on the following basis:

Computer software	12 to 36 months 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.

Amortization in the first year is pro-rated based on the number of months the asset is in service.

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 statement of income comprises the sum of deferred tax and current tax not recognized in other comprehensive income 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 statement of income, except where they relate to items that are recognized in other comprehensive

income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

[k] Allowance for credit losses

The allowance for credit losses represents individual and collective provisions established as a result of reviews of individual loans and groups of loans. A loan is considered impaired when any of the following conditions exist: payment is past due by 90 days and the loan is not fully secured, payment is past due by 180 days regardless of security, or there is reasonable doubt of being able to fully collect principal and interest on the loan.

Individual allowances are established for impaired loans by reviewing the creditworthiness of individual borrowers and the value of the collateral underlying the loan. In such cases, an allowance is established to write down the loan to its estimated realizable amount. The estimated realizable amount is determined by reducing the carrying amount of the loan to the present value of any expected cash flows from collateral. In cases where Libro has forgiven future income through the formal restructuring of a loan, the estimated realizable amount is established by discounting the expected future cash flows at the effective interest rate inherent in the loan.

Collective allowances represent the best estimate of probable losses within the loan portfolio that have not been individually identified. These losses are calculated using the historical actual probability that a loan will become impaired and ultimately be written off; adjusted for the current economic outlook, significant industry sector conditions and overall portfolio quality. To determine the probability of impairment, Libro groups loans with similar risk profiles together. The probability that a loan in the portfolio has experienced a triggering event and is actually impaired but not yet individually identified is then applied against all loans in various risk categories that have not been individually identified as impaired loans to determine the collective provision.

[l] 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 plan are conducted no less frequently than every three years. The most recent valuation of these plans was prepared as at December 31, 2015.

(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, under IAS 19 (revised 2011) "Employee Benefits".

(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.

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 assets ceilings. Remeasurements are recognized immediately in other comprehensive income.

[m] 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.

[n] Leases

Lease payments for operating leases, where substantially all the risk and benefits remain with the lessor, and not the credit union, are charged as expenses over the period of the lease on a straight-line basis.

[o] Transfers of receivables

Libro occasionally sells receivables such as agricultural and commercial mortgage loans to other financial institutions to manage its portfolio diversification risk. In these instances, the credit risk is transferred to the purchasing institution, while Libro continues to administer the receivables. As such, the mortgage loans are removed from the Balance Sheets since control of the assets has been transferred. A nominal administration fee is paid to Libro each month, which is recorded as income when received.

The sale price of receivables is determined at fair market value, which may give rise to either a gain or loss on sale. This gain or loss is recognized at the time of the sale and recorded as Non-interest income on the Statements of Income.

[p] Loan securitization

For securitization transactions initiated prior to the date of transition to IFRS (January 1, 2010) in accordance with pre-changeover Canadian GAAP, loan securitizations were treated as a sale provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. For securitization transactions initiated after the date of transition to IFRS, 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 loans have been transferred. If the criteria for derecognition has 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 costs, using the effective interest rate method.

Transfer of financial assets where loans are derecognized

Gains or losses on securitization transactions are recognized immediately in the Statements of Income as Non-interest income. The amount of the gain or loss recognized depends in part on the previous carrying amount of the loans receivable involved in the transfer, allocated between the assets sold and the retained interests, based on their relative fair values at the date of the transfer. The amount of these gains or losses is based on the present value of expected future cash flows using management's best estimates of key assumptions, including prepayment rates, excess spread, credit losses, discount rates and other factors influencing the fair value of the loans.

Certain parts of the securitization interests are retained ("retained interests"), including the right to receive the future excess interest spread and the mortgage servicing liability. Retained interests for securitizations are designated as held for trading, with changes in fair value recorded through the Statements of Owners' Equity or the Statements of Income. The fair values of the retained interests are estimated using the same present value methodology noted above for the gain on securitization. Retained interests are reviewed annually to assess for impairment. Subsequent to the securitization, any retained interests that cannot be contractually settled in such a way that Libro can recover substantially all of its recorded investment are adjusted to fair value and the charge is recognized immediately in the Statements of Income.

Transfer of financial assets that are not derecognized

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. All loans are classified as loans and receivable and measured at amortized cost in the Balance Sheets. The credit union retains mortgage servicing responsibilities but does not receive an explicit servicing fee.

[q] 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.

[r] Changes in accounting policy

Effective January 1, 2016, the credit union adopted several new and amended accounting pronouncements:

(i) Amendments to IAS 1 "Presentation of Financial Statements"

Amendments to IAS 1 "Presentation of Financial Statements" were issued in December 2014 and are effective for years beginning on or after January 1, 2016. The amendments clarify existing requirements relating to materiality and aggregation, along with presentation of subtotals in the financial statements. The amendments did not impact the credit union's financial statements.

Other standards, amendments and interpretations that are effective for the financial year beginning on January 1, 2016 are not material to the credit union.

[s] Future accounting changes

The following standards have been issued, but are not yet effective for Libro. The credit union is currently assessing the impact of the application of these standards on the financial statements and will adopt these standards when they become effective.

(i) IFRS 9 “Financial Instruments”

IFRS 9 “Financial Instruments” was issued in November 2009 and amended in October 2010, November 2013 and July 2014, and is effective for years beginning on or after January 1, 2018, to be applied retrospectively, or on a modified retrospective basis. It is intended to replace IAS 39 “Financial Instruments – Recognition and Measurement”. The project has been divided into three phases: classification and measurement, impairment of financial assets, and hedge accounting.

The current classification and measurement methodology of IFRS 9 provides that financial assets are measured at either amortized cost or fair value on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement for financial liabilities remains generally unchanged; however, revisions have been made in the accounting for changes in fair value of a financial liability attributable to changes in the credit risk of that liability. Gains or losses caused by changes in an entity’s own credit risk on such liabilities are no longer recognized in profit or loss but instead are reflected in other comprehensive income.

Revisions issued in July 2014 replace the existing incurred loss model used for measuring the allowance for credit losses with an expected loss model. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established; (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount.

Revisions to hedge accounting were issued in November 2013 as part of the overall IFRS 9 project. The amendment introduces a new hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. The new model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

The credit union is currently assessing the impact of this standard on its financial statements.

(ii) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 “Revenue from Contracts with Customers” was issued in May 2014 and is effective for years beginning on or after January 1, 2018, to be applied retrospectively or on a modified retrospective basis. IFRS 15 clarifies revenue recognition principles, provides a robust framework for recognizing revenue and cash flows arising from contracts with customers and enhances qualitative and quantitative disclosure requirements. IFRS 15 does not apply to financial instruments and other related contractual rights and obligations and lease contracts. Accordingly, the adoption of IFRS 15 may impact the revenue recognition related to the credit union’s asset management and service contracts and may result in additional financial statement disclosure. The credit union is assessing the impact of this standard.

(iii) IFRS 16 “Leases”

IFRS 16, Leases was issued in January 2016 and sets out the principles for recognition, measurement, presentation and disclosure of leases for both parties to a contract. The new standard replaces the previous leases standard, IAS 17, Leases. Changes are primarily to lessee accounting. The new standard calls for all leases with a duration of more than 12 months to be reflected 'on-balance sheet'. A financial liability will be recognized for the lease obligation. A corresponding non-financial asset will be recognized for the 'right-of-use asset'. The obligation covers the full lease term which includes the non-cancellable lease period plus any optional periods where there is a significant economic incentive for the lessee to exercise.

For lessees, all lease liabilities will be recorded at fair value and lease payments will be split between interest expense and principal reductions. The right-of-use asset will be amortized straight-line over the shorter of the useful life of the asset or the term of the lease. In effect, this will result in higher expense in the early years of the lease as interest expense will decrease over time.

Libro has a significant number of operating leases, comprised mostly of property leases, which are currently accounted for 'off-balance sheet'. The lease payments are reflected in profit or loss as incurred. The new standard is effective for annual periods beginning on or after January 1, 2019. Libro has not yet quantified the impact of these changes.

(iv) Amendments to IAS 7 “Statement of Cash Flows”

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g. gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. Libro is currently assessing the impact.

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4) INVESTMENTS

Investments consist of the following:

[thousands of dollars]		December 31, 2016		December 31, 2015	
		\$	Effective Rate	\$	Effective Rate
Short-term investments (due within 1 year):					
Bank Investment Deposits, fair value of \$41,355 [\$11,362 in 2015]	i	41,464	1.44%	11,362	0.35%
Central 1 Liquidity Reserve Deposit, fair value of \$40,710 [\$113,423 in 2015]	i	40,494	1.38%	112,951	1.24%
Central 1 Deposits, fair value of \$47,017 [\$65,659 in 2015]	i	47,049	1.11%	65,712	1.06%
		129,007	1.30%	190,025	1.13%
Long-term investments (due beyond 1 year):					
Central 1 Liquidity Reserve Deposit, market value of \$161,119 [\$74,483 in 2015]	i	161,815	1.02%	74,087	1.06%
Central 1 Deposits, fair value of \$26,862 [\$17,196 in 2015]	i	26,931	2.06%	17,364	1.08%
CUCO Co-op shares (Class B)	ii	4,914	0.00%	5,554	0.00%
Central 1 Class A shares	iii	12,305	3.78%	11,203	3.90%
Central 1 Class E shares	iii	9,075	0.00%	9,075	0.00%
Other investments	iii	548	0.00%	548	0.00%
		215,588	1.24%	117,831	1.17%
		344,595	1.26%	307,856	1.14%

Financial Instrument Classifications:

- i Loans and receivables
- ii Held-for-trading
- iii Available-for-sale

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 meet the IAS 39 definition of loans and receivables. 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 credit union is required to keep an investment in shares of Central 1 as a condition of maintaining membership as determined by the Central 1 Board of Directors from time to time. They may be surrendered upon withdrawal from membership for proceeds equal to the paid-in value, to be received in accordance with a Central 1 by-law providing for the redemption of share capital.

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Central 1 Class A shares are carried at fair value. These shares are subject to annual rebalancing and the redemption value is equal to par value. In this circumstance, fair value is considered to be equivalent to par value or redemption value.

Central 1 Class E shares are carried at cost. These shares are not subject to annual rebalancing and the redemption value is not equal to par value. 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.

CUCO Cooperative Association (“CUCO Co-op”)

The credit union has an investment in CUCO Cooperative Association (“CUCO Co-op”), which is owned collectively by Ontario credit unions and is located in Toronto, Ontario. CUCO Co-op was formed in 2011, through the restructuring of Credit Union Central of Ontario and ABCP (2008) Limited Partnership (the “LP”). The assets of CUCO Co-op consist primarily of third-party asset-backed commercial paper (“ABCP”) investments and cash resources.

As the market for certain of the investments remains relatively illiquid, valuations for some components of the ABCP were provided by an independent valuation firm engaged by CUCO Co-op, who employed the use of valuation models. The calculation of the estimated fair market value is based on market conditions as at year-end and may not be reflective of future fair market values. Due to market conditions in the past year and the passage of time as the investments move closer to maturity, the fair market value of the investment has increased by \$108,000 [\$317,000 in 2015] based on the valuation model received from CUCO Co-op. This amount has been reflected in Investment income.

Libro received \$748,000 of distributions during the year [Nil in 2015], which were recorded as a return of the initial capital invested.

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5) LOANS TO OWNERS

[thousands of dollars]	December 31, 2016			
	Principal Balance	Impaired Loans	Allowance for Credit Losses	Net Loans
Residential mortgage loans	1,129,753	1,060	136	1,129,617
Personal loans	251,266	120	692	250,574
Agricultural loans	761,375	1,937	187	761,188
Commercial loans	790,713	3,284	6,529	784,184
	2,933,107	6,401	7,544	2,925,563

[thousands of dollars]	December 31, 2015			
	Principal Balance	Impaired Loans	Allowance for Credit Losses	Net Loans
Residential mortgage loans	1,038,123	478	90	1,038,033
Personal loans	256,997	254	427	256,570
Agricultural loans	703,844	1,337	12	703,832
Commercial loans	711,875	4,976	7,008	704,867
	2,710,839	7,045	7,537	2,703,302

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 have been designated as loans and receivables.

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 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.

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As at December 31, 2016, the balances of loans in arrears within the portfolio were as follows:

December 31, 2016					
[thousands of dollars]	Residential				Total
	Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	
Current	1,115,280	243,501	754,993	761,075	2,874,849
Less than 30 days arrears	12,659	7,118	3,548	22,781	46,106
30–89 days arrears	393	501	497	1,783	3,174
90–179 days arrears	1,262	73	424	1,801	3,560
180–365 days arrears	159	26	871	1,261	2,317
More than 365 days arrears	-	47	1,042	2,012	3,101
	1,129,753	251,266	761,375	790,713	2,933,107

December 31, 2015					
[thousands of dollars]	Residential				Total
	Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	
Current	1,027,167	245,065	697,421	687,887	2,657,540
Less than 30 days arrears	9,101	10,912	3,217	17,457	40,687
30–89 days arrears	1,262	746	1,517	1,487	5,012
90–179 days arrears	115	194	352	275	936
180–365 days arrears	334	48	1,337	1,570	3,289
More than 365 days arrears	144	32	-	3,199	3,375
	1,038,123	256,997	703,844	711,875	2,710,839

As at December 31, 2016, the term to maturity and effective interest rates of the loan portfolio were as follows:

[thousands of dollars]									
December 31, 2016									
Maturity	Variable	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 to 7 years	Over 7 to 10 years	Total
Total loans	932,061	415,960	324,199	374,571	409,356	416,675	29,743	30,542	2,933,107
Effective interest rate	4.10%	3.73%	3.80%	3.64%	3.39%	3.12%	4.30%	4.03%	3.72%

[thousands of dollars]									
December 31, 2015									
Maturity	Variable	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 to 7 years	Over 7 to 10 years	Total
Total loans	939,881	396,110	362,369	332,649	333,890	306,833	18,769	20,338	2,710,839
Effective interest rate	4.06%	4.18%	4.07%	3.84%	3.59%	3.36%	4.44%	4.12%	3.92%

6) ALLOWANCE FOR CREDIT LOSSES

	December 31, 2016				
	Residential	Personal	Agricultural	Commercial	Total
[thousands of dollars]	Mortgage Loans	Loans	Loans	Loans	Allowance
Balance, January 1, 2016	90	427	12	7,008	7,537
Collection of accounts previously written off	9	145	15	44	213
Accounts written off	(64)	(832)	-	(1,763)	(2,659)
Provision for credit losses	101	952	160	1,240	2,453
Balance, December 31, 2016	136	692	187	6,529	7,544

	December 31, 2015				
	Residential	Personal	Agricultural	Commercial	Total
[thousands of dollars]	Mortgage Loans	Loans	Loans	Loans	Allowance
Balance, January 1, 2015	109	750	782	4,886	6,527
Transfer on acquisition - Hald-Nor [note 25]	7	79	-	397	483
Collection of accounts previously written off	3	176	-	8	187
Accounts written off	(126)	(861)	(610)	(712)	(2,309)
Provision for credit losses	97	283	(160)	2,429	2,649
Balance, December 31, 2015	90	427	12	7,008	7,537

A collective allowance of \$688,000 [\$1,259,000 in 2015] is included in the overall allowance for credit losses. Collective allowances represent the best estimate of probable losses within the loan portfolio that have not been individually identified. These losses are calculated using the probability based on historic results that a loan will become impaired and ultimately be written off, adjusted for the current economic outlook, significant industry sector conditions, and overall portfolio quality. To determine the probability of impairment, Libro groups loans with similar risk profiles together. The probability that a loan in the portfolio has experienced a triggering event and is actually impaired but not yet individually identified is then applied against all loans in various risk categories that have not been individually identified as impaired loans to determine the collective provision. Accounts are written off after all reasonable attempts to collect have been exhausted.

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 complies with 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.

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The fair value of collateral held with respect to assets that are either past due greater than 30 days and/or impaired is \$14,548,000 [\$15,015,000 in 2015].

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:

[thousands of dollars]	December 31, 2016			Total Loans
	Secured by Real Estate	Secured by Non-Real Estate	Unsecured	
Residential mortgage loans ¹	1,129,753	-	-	1,129,753
Personal loans	130,279	108,710	12,277	251,266
Agricultural loans	668,477	83,438	9,460	761,375
Commercial loans	670,673	112,954	7,086	790,713
	2,599,182	305,102	28,823	2,933,107

[thousands of dollars]	December 31, 2015			Total Loans
	Secured by Real Estate	Secured by Non-Real Estate	Unsecured	
Residential mortgage loans ¹	1,038,123	-	-	1,038,123
Personal loans	125,488	112,922	18,587	256,997
Agricultural loans	613,639	78,780	11,425	703,844
Commercial loans	605,785	96,335	9,755	711,875
	2,383,035	288,037	39,767	2,710,839

¹Residential mortgage loans include \$242,353 of loans insured by Canada Mortgage Housing Corporation [\$246,231 in 2015].

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 (see note 12).

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7) PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

[thousands of dollars]	December 31, 2016						Total
	Buildings and Components	Land	Leasehold Improvements	Furniture and Equipment	Electronic Equipment	Computer Equipment	
Cost:							
Opening balance	39,995	6,725	6,122	6,695	6,407	3,435	69,379
Additions and adjustments	3,074	-	481	644	613	1,014	5,826
Disposals and fully depreciated assets written off	(521)	(415)	-	(64)	(5)	(41)	(1,046)
As at December 31, 2016	42,548	6,310	6,603	7,275	7,015	4,408	74,159
Accumulated depreciation:							
Opening balance	(12,082)	-	(2,790)	(4,294)	(4,617)	(2,168)	(25,951)
Current year depreciation	(1,573)	-	(399)	(478)	(714)	(774)	(3,938)
Disposals, adjustments and fully depreciated assets written off	128	-	11	31	4	41	215
As at December 31, 2016	(13,527)	-	(3,178)	(4,741)	(5,327)	(2,901)	(29,674)
Net book value	29,021	6,310	3,425	2,534	1,688	1,507	44,485
[thousands of dollars]	December 31, 2015						Total
	Buildings and Components	Land	Leasehold Improvements	Furniture and Equipment	Electronic Equipment	Computer Equipment	
Cost:							
Opening balance	37,542	5,433	6,854	6,243	5,515	2,839	64,426
Additions and adjustments	1,748	200	(753)	403	770	585	2,953
Additions from business combinations [note 25]	705	1,092	21	74	122	33	2,047
Disposals and fully depreciated assets written off	-	-	-	(25)	-	(22)	(47)
As at December 31, 2015	39,995	6,725	6,122	6,695	6,407	3,435	69,379
Accumulated depreciation:							
Opening balance	(10,622)	-	(2,360)	(3,841)	(3,963)	(1,570)	(22,356)
Current year depreciation	(1,463)	-	(392)	(432)	(636)	(678)	(3,601)
Disposals, adjustments and fully depreciated assets written off	3	-	(38)	(21)	(18)	80	6
As at December 31, 2015	(12,082)	-	(2,790)	(4,294)	(4,617)	(2,168)	(25,951)
Net book value	27,913	6,725	3,332	2,401	1,790	1,267	43,428

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 \$11,466,000 [\$12,927,000 in 2015]. The land and buildings have a net book value of \$8,748,000 [\$9,511,000 in 2015].

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The total gross revenue on credit union owned rental properties in 2016 was \$1,749,000 [\$1,981,000 in 2015], which resulted in net income of \$329,000 [\$320,000 in 2015]. The net rental income or loss has been included in non-interest income.

8) INTANGIBLE ASSETS

Intangible assets consist of the following:

[thousands of dollars]	December 31, 2016			Total
	Computer Software	Banking System Software	Core Deposit Intangibles	
Cost:				
Opening balance	1,513	4,086	14,998	20,597
Additions and adjustments	501	-	-	501
Disposals and fully amortized assets written off	(24)	-	-	(24)
As at December 31, 2016	1,990	4,086	14,998	21,074
Accumulated amortization:				
Opening balance	(1,274)	(3,438)	(3,747)	(8,459)
Current year amortization	(371)	(152)	(2,143)	(2,666)
Disposals, adjustments and fully amortized assets written off	24	-	-	24
As at December 31, 2016	(1,621)	(3,590)	(5,890)	(11,101)
Net book value	369	496	9,108	9,973
	December 31, 2015			
[thousands of dollars]	Computer Software	Banking System Software	Core Deposit Intangibles	Total
Cost:				
Opening balance	1,162	4,086	12,662	17,910
Additions and adjustments	359	-	-	359
Additions from business combinations [note 25]	12	-	2,336	2,348
Disposals and fully amortized assets written off	(20)	-	-	(20)
As at December 31, 2015	1,513	4,086	14,998	20,597
Accumulated amortization:				
Opening balance	(810)	(3,284)	(1,799)	(5,893)
Current year amortization	(468)	(154)	(1,948)	(2,570)
Disposals, adjustments and fully amortized assets written off	4	-	-	4
As at December 31, 2015	(1,274)	(3,438)	(3,747)	(8,459)
Net book value	239	648	11,251	12,138

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9) OTHER ASSETS

Other assets consist of the following:

[thousands of dollars]	December 31, 2016	December 31, 2015
Prepaid items	674	857
Other receivables, including retained interests	1,723	1,495
Cheques and other items in transit, net [note 3[m]]	162	32,552
	2,559	34,904

10) LOANS PAYABLE

Libro has access to lines of credit facilities at Central 1 totaling \$27,800,580 Canadian (CAD\$) [\$25,168,000 CAD\$ in 2015] and \$3,500,000 US\$ [\$3,500,000 US\$ in 2015] and term and other loan facilities totaling \$71,199,420 CAD\$ [\$73,832,000 CAD\$ in 2015]. The largest draw on the line of credit facility was \$5,087,885 US\$ in 2016 [\$11,029,000 CAD\$ in 2015].

The lines of credit are payable on demand and bear interest at 1.25%, while the term loans are payable at maturity and bear interest at a fixed rate. Libro has given a promissory note and pledged as collateral an assignment of its book debts.

These loans have been designated as financial liabilities and at yearend they were utilized as follows:

[thousands of dollars]	December 31, 2016		December 31, 2015	
	Amount		Amount	
	Owing \$	Rate %	Owing \$	Rate %
Securitization liabilities	3,496	2.15	4,161	2.15

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, 2016, Libro had 103,180 [101,868 in 2015] owners who held a total of 4,916,925 membership shares [4,845,081 in 2015]. 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, 2016, there were 28,702,074 Class P shares outstanding [29,023,981 in 2015].

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, 2016, there were a total of 109,925,155 Class I shares outstanding [111,025,560 in 2015].

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As at December 31, 2016, the number of Class I shares outstanding by series were as follows: 3,341,825 Series 1 [3,526,057 in 2015], 3,047,364 Series 2 [3,077,693 in 2015], 8,177,216 Series 3 [8,746,240 in 2015], 20,237,094 Series 4 [20,675,570 in 2015] and 75,121,656 Series 5 [75,000,000 in 2015].

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, 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. For fiscal year 2016, the aggregate maximum amount that could be redeemed is \$3,081,000 in Class P shares and \$3,604,000 in Class I shares.

[number of shares in thousands]	Membership Shares	Class P Shares	Class I Shares	Total
Outstanding, January 1, 2015	4,526	26,599	37,381	68,506
New shares issued	693	3,854	75,000	79,547
Share issuance costs	-	-	(155)	(155)
Shares redeemed	(1,124)	(1,753)	(2,343)	(5,220)
Shares acquired or converted on combination	750	-	-	750
Shares issued as dividends	-	324	988	1,312
Outstanding, December 31, 2015	4,845	29,024	110,871	144,740
New shares issued	385	1,730	-	2,115
Shares redeemed	(313)	(2,275)	(2,235)	(4,823)
Shares issued as dividends	-	223	1,134	1,357
Outstanding, December 31, 2016	4,917	28,702	109,770	143,389

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 which 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 2016, Libro declared a dividend of 4.00% [2.68% in 2015].

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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 earnings in the form of stock dividends to be paid in the subsequent year, as follows:

<u>[thousands of dollars]</u>	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Class P Profit share distribution - calculated as \$0.36 for every \$1,000 of average deposit and loan balances [\$0.20 in 2015]	1,930	994
Class P Profit share dividend - calculated as 0.70% on owner Class P Profit share holdings as at yearend [0.84% in 2015]	176	220
Class I, Series 1 Investment share dividend of 4.00% [2.56% in 2015]	134	90
Class I, Series 2 Investment share dividend of 4.00% [2.56% in 2015]	122	79
Class I, Series 3 Investment share dividend of 4.00% [2.56% in 2015]	328	224
Class I, Series 4 Investment share dividend of 4.00% [2.56% in 2015]	812	530
Class I, Prosperity Series 5 Investment share dividend of 4.00% [4.00% in 2015]	3,001	214
Stock dividends payable at yearend	6,503	2,351
Accrued dividends from prior years and acquired on combination	(58)	9
Dividend expense	6,445	2,360

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 earnings.

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, 2016, the total risk-weighted equivalent value for Libro was \$2,162,385,000 [\$1,986,823,000 in 2015].

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

[thousands of dollars]	December 31, 2016	December 31, 2015
Tier 1 capital		
Membership shares	4,917	4,845
Investment and patronage shares	138,472	139,895
Stock dividends payable	6,503	2,351
Redeemable portion of shares	(6,685)	(6,719)
Retained earnings	63,625	58,077
Contributed surplus	60,998	60,998
Unqualified portion of fair value adjustments	580	580
Total Tier 1 capital	268,410	260,027
Tier 2 capital		
Redeemable portion of shares	6,685	6,719
Collective allowance for credit losses	688	1,259
AOCI defined benefit plans	1,587	(653)
Total Tier 2 capital	8,960	7,325
Total regulatory capital	277,370	267,352
% of total assets	8.26%	8.54%
% of risk-weighted assets	12.83%	13.46%

[b] Restricted party transactions

As at December 31, 2016, the aggregate value of loans, lines of credit, overdrafts and letters of credit outstanding to directors, officers, their spouses and related corporations amounted to \$6,399,000 [\$8,994,000 in 2015]. 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 \$10,000 [\$75,000 in 2015].

Deposits held for restricted parties were \$5,604,000 [\$6,977,000 in 2015]. 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 \$1,998,000 [\$1,872,000 in 2015] and the total remuneration paid to elected representatives, including directors was \$397,000 [\$400,000 in 2015]. In addition to this remuneration, total reimbursement to directors and committee members for travel and out-of-pocket expenses for attendance at meetings was \$320,000 [\$349,000 in 2015].

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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 \$150,000. The names, positions and remuneration paid during the year of these officers and employees are as follows:

[thousands of dollars]		December 31, 2016			
Name	Title	Salary	Variable Compensation	Monetary Value of Benefits	Total
Stephen Bolton	President & CEO	373	160	46	579
Rick Hoevenaars	EVP Finance & CFO	230	55	25	310
Carol Normandeau	EVP Advice & Service Delivery	217	49	24	290
Scott Ferguson	EVP Information Systems	214	51	24	289
Tania Goodine	EVP Engagement	207	47	23	277

[thousands of dollars]		December 31, 2015			
Name	Title	Salary	Variable Compensation	Monetary Value of Benefits	Total
Stephen Bolton	President & CEO	362	140	44	546
Rick Hoevenaars	EVP Finance & CFO	225	49	24	298
Scott Ferguson	EVP Information Systems	210	48	23	281
Carol Normandeau	EVP Advice & Service Delivery	201	43	21	265
Frank Kennes	VP Agriculture & Commercial	190	44	21	255

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, sick leave plan, dental plan, health plan, and life and disability insurance.

[d] Deposit insurance

The net annual premium paid to DICO for insuring owners' deposits in 2016 was \$1,973,087 [\$2,340,000 in 2015].

[e] Central 1 fees

The total fees paid to Central 1 amounted to \$1,339,270 in 2016 [\$1,285,000 in 2015]. These fees were primarily in respect of banking and clearing services, and membership dues.

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 Great West Life.

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The defined benefit pension plan is operated under *Ontario's Pension Benefits Act* (the "Pensions Benefits Act"). The Pension Benefits Act is administered by the Superintendent of Financial Services appointed by the Financial Services Commission of Ontario ("FSCO"). Plan valuations must be filed with both the FSCO 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 (Pre-2009 days).

[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, 2016 and 2015, including the amounts recorded on the Balance Sheets, and the components of net benefit expense:

[thousands of dollars]	December 31, 2016		December 31, 2015	
	Pension Benefits	Sick Leave Benefits	Pension Benefits	Sick Leave Benefits
Accrued benefit obligation				
Balance at beginning of year	39,991	2,228	36,548	2,300
Current service cost	3,565	-	3,184	-
Interest cost	1,815	90	1,586	90
Benefits paid	(934)	(152)	(453)	(94)
Employees' contributions	150	-	137	-
Actuarial gain	(2,399)	(113)	(1,011)	(68)
Balance at end of year	42,188	2,053	39,991	2,228
Plan assets				
Fair value at beginning of year	32,499	-	28,725	-
Expected return on plan assets	1,399	-	1,183	-
Employer contributions	2,451	152	2,007	94
Employee contributions	150	-	137	-
Benefits paid	(934)	(152)	(453)	(94)
Gain on assets	474	-	900	-
Fair value at end of year	36,039	-	32,499	-
Funded status - plan deficit	(6,149)	(2,053)	(7,492)	(2,228)

The supplementary employee retirement plan is included in the defined benefit pension plan. The weighted average duration of liabilities is 21.3 years [21.4 in 2015] for the defined benefit plan, 12.2 years [12.5 in 2015] for the supplementary employee retirement plan, and 8.5 years [9.3 in 2015] for the sick leave plan.

Assets held within the pension plan consist of balances in the CUMIS Retirement Security Fund (0.13%), units of Franklin Templeton's Balanced Trust Fund (47.01%), and Mawer Investment Management's Balanced Fund (52.86%).

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Contributions for the upcoming year are anticipated to be approximately \$3,757,000 [\$2,461,000 in 2015] for the defined benefit plans, and \$153,000 [\$95,000 in 2015] for the sick leave plan.

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

	December 31, 2016		December 31, 2015	
	Pension Benefits	Sick Leave Benefits	Pension Benefits	Sick Leave Benefits
[thousands of dollars]				
Current service cost	3,565	-	3,184	-
Net interest cost	416	90	403	90
Total included in salaries and employee benefits expense	3,981	90	3,587	90

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

	December 31, 2016		December 31, 2015	
	Pension Benefits	Sick Leave Benefits	Pension Benefits	Sick Leave Benefits
[thousands of dollars]				
Actuarial gain on assets	474	-	900	-
Actuarial gain on liabilities	2,399	113	1,011	68
Total gain recognized in other comprehensive income	2,873	113	1,911	68

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

	December 31, 2016		December 31, 2015	
	Pension Benefits	Sick Leave Benefits	Pension Benefits	Sick Leave Benefits
[percentages]				
Discount rate	4.00%	4.00%	4.20%	4.00%
Expected long-term rate of return on plan assets	4.00%		4.20%	
Rate of compensation increase	2.50%	2.50%	3.50%	3.50%

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

Change in Benefit Obligations	Pension Benefits	Sick Leave Benefits
	2016	2016
[thousands of dollars]		
1% increase in discount rate	(7,933)	(167)
1% decrease in discount rate	9,779	182
1% increase in rate of compensation increase	3,414	178
1% decrease in rate of compensation increase	(3,162)	(163)

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, which 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 2016 was \$57,000 [\$84,000 in 2015]. The contributions for the upcoming fiscal year are anticipated to be approximately \$52,100. None of Libro’s Executive Leadership Team participates in the defined contribution pension plan.

14) COMMITMENTS

[a] Lease obligations

Contractual obligations in respect of operating leases on credit union occupied premises as well as a vehicle amounted to \$5,897,000 as at December 31, 2016 [\$7,098,000 in 2015]. The lease contracts for premises include a renewal option for the credit union of 5 to 10 years. Common area fees are paid based on the share of the premises’ operating costs and can fluctuate each year.

The terms of the lease for the vehicle are three years. The lease contracts are payable as follows:

<u>[thousands of dollars]</u>	<u>Minimum Rent</u>
2016	1,082
2017	1,008
2018	772
2019	597
2020	427
Thereafter	2,011

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[b] Loan commitments

As at December 31, 2016, Libro had commitments to advance loans totalling \$139,145,000 [\$131,065,000 in 2015]. The mix of loans committed is consistent with existing funded portfolio balances.

[c] Undrawn lines of credit

As at December 31, 2016, Libro had undrawn lines of credit outstanding on behalf of owners amounting to \$398,105,000 [\$369,812,000 in 2015].

[d] Letters of credit

As at December 31, 2016, Libro had letters of credit outstanding on behalf of owners amounting to \$30,416,000 [\$20,204,000 in 2015].

15) DERIVATIVE FINANCIAL INSTRUMENTS

The following table summarizes the carrying values of the derivative financial instruments held by Libro. These instruments have been designated as held for trading or designated under hedge accounting.

[thousands of dollars]	December 31, 2016		December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
Interest rate swap agreements	-	3,272	375	6,026
Index-linked term deposit hedge agreements	1,082	1,082	678	678
	1,082	4,354	1,053	6,704

The credit union considers whether a credit valuation adjustment is required to recognize the risk that any given counterparty to which the credit union is exposed may not ultimately be able to fulfill its obligations. However, credit risk associated with contracts of this nature is generally a small fraction of the notional principal amount of the contract. Exposure to a loss would only occur if changes in market rates would cause a material unfavourable effect on the counterparty's position, which could then lead to the counterparty defaulting on its payment. The credit union only enters into derivative contracts with a counterparty it has determined to be creditworthy.

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, 2016, Libro was party to seven such agreements [eight in 2015] with Central 1. The agreements, in aggregate, represent a notional principal amount of \$204,095,000 [\$254,232,000 in 2015]. 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, 2016

Counterparty [thousands of dollars]	Notional Amount	Maturity Date	Paying Rate Index	Receiving Rate Index	Paying Rate	Receiving Rate	Fair Value
Central 1	100,000	January 2019	5-year swap rate - fixed	30-day CDOR	1.868%	0.940%	(1,996)
Central 1	50,000	August 2019	5-year swap rate - fixed	30-day CDOR	1.865%	0.926%	(1,062)
Central 1	50,000	April 2020	5-year swap rate - fixed	30-day CDOR	1.283%	0.926%	(79)
Central 1	1,303	May 2021	10-year swap rate - fixed	30-day CDOR	1.860%	0.880%	(28)
Central 1	1,084	June 2021	10-year swap rate - fixed	30-day CDOR	3.070%	0.880%	(76)
Central 1	1,304	July 2021	10-year swap rate - fixed	30-day CDOR	1.890%	0.926%	(29)
Central 1	404	October 2022	10-year swap rate - fixed	30-day CDOR	2.090%	0.900%	(2)
	204,095				1.730%	0.932%	(3,272)

December 31, 2015

Counterparty [thousands of dollars]	Notional Amount	Maturity Date	Paying Rate Index	Receiving Rate Index	Paying Rate	Receiving Rate	Fair Value
Central 1	50,000	January 2016	3-month CDOR	1 year swap rate - fixed	0.798%	1.710%	375
Central 1	100,000	January 2019	5-year swap rate - fixed	30-day CDOR	1.868%	0.880%	(3,414)
Central 1	50,000	August 2019	5-year swap rate - fixed	30-day CDOR	1.865%	0.869%	(1,809)
Central 1	50,000	April 2020	5-year swap rate - fixed	30-day CDOR	1.283%	0.869%	(582)
Central 1	1,342	May 2021	10-year swap rate - fixed	30-day CDOR	1.860%	0.841%	(47)
Central 1	1,117	June 2021	10-year swap rate - fixed	30-day CDOR	3.070%	0.838%	(106)
Central 1	1,344	July 2021	10-year swap rate - fixed	30-day CDOR	1.890%	0.869%	(49)
Central 1	429	October 2022	10-year swap rate - fixed	30-day CDOR	2.090%	0.847%	(19)
	254,232				1.547%	1.038%	(5,651)

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, 2016, Libro was not party to any such agreements [none in 2015] 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 \$2,915,000 [\$942,500 in 2015] 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 \$2,915,000 [\$942,500 in 2015] at year end. These agreements represent a fair market value on a combined basis of nil [nil in 2015] at year end.

Index-linked term deposit hedge agreements

Libro has outstanding \$13,401,000 [\$13,815,000 in 2015] 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 \$1,082,000 [\$678,000 in 2015].

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Libro has entered into hedge 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, 2016, Libro had entered into such contracts in the amount of \$13,401,000 [\$13,815,000 in 2015]. 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 \$1,082,000 [\$678,000 in 2015].

16) OWNERS' DEPOSITS

[thousands of dollars]	December 31, 2016	December 31, 2015
Demand deposits	610,953	566,601
Chequing deposits	810,147	726,848
Term deposits	886,630	829,975
Registered savings plans	322,470	324,606
Registered income funds	171,396	162,679
Registered tax free savings accounts	243,358	210,707
	3,044,954	2,821,416

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 have been designated as financial liabilities.

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

[thousands of dollars]							
December 31, 2016							
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	1,536,711	634,168	450,284	180,413	127,623	115,755	3,044,954
Effective interest rate	0.44%	1.58%	2.14%	2.21%	2.25%	2.14%	1.17%

[thousands of dollars]							
December 31, 2015							
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	1,398,873	713,698	241,946	280,748	99,871	86,280	2,821,416
Effective interest rate	0.47%	1.94%	2.17%	2.40%	2.50%	2.34%	1.31%

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17) STATEMENT 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:

[thousands of dollars]	December 31, 2016	December 31, 2015
Interest Income		
Residential mortgage loans	33,401	29,866
Personal loans	12,621	12,266
Agricultural loans	28,460	29,267
Commercial loans	33,651	32,093
	108,133	103,492
Interest Expense		
Demand deposits	3,796	3,995
Chequing deposits	2,065	2,102
Term deposits	16,661	17,938
Registered savings plans	6,264	6,917
Registered income funds	3,514	3,528
Registered tax free savings accounts	3,863	3,716
	36,163	38,196

[b] Non-interest income

Non-interest income consists of the following:

[thousands of dollars]	December 31, 2016	December 31, 2015
Service fees	11,130	9,445
Commissions	5,357	5,852
Foreign exchange	1,411	1,390
Unrealized gains (losses) on investments	2,667	(3,806)
Income from property	329	320
Portfolio under administration	3	10
Miscellaneous income (loss)	(279)	55
	20,618	13,266

[c] Supplemental Cash Flow Disclosures

Total interest paid in the year on owners' deposits and securitization liabilities totaled \$37,189,000. Total interest received on loans to owners and investments totaled \$110,568,000.

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.

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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.

Due to the judgment used in applying a wide range of acceptable valuation techniques and estimates in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. 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.

[thousands of dollars]	December 31, 2016			December 31, 2015		
	Book Value	Fair Value	Difference	Book Value	Fair Value	Difference
<u>Loans and Receivables</u>						
Loans to owners	2,933,107	2,945,403	(12,296)	2,710,839	2,726,555	(15,716)
Investments	317,753	317,063	690	281,476	282,123	(647)
<u>Available for Sale</u>						
Investments	21,928	21,928	-	20,826	20,826	-
<u>Fair Value through Profit or Loss</u>						
Investments	4,914	4,914	-	5,554	5,554	-
Index-linked deposits	1,082	1,082	-	678	678	-
Derivative financial instruments	-	-	-	375	375	-
Total financial assets	3,278,784	3,290,390	(11,606)	3,019,748	3,036,111	(16,363)
<u>Other Liabilities</u>						
Owners deposits	3,044,954	3,050,717	5,763	2,821,416	2,830,009	8,593
Accrued and other liabilities	7,536	7,536	-	6,623	6,623	-
Securitization liabilities	3,496	3,496	-	4,161	4,161	-
<u>Fair Value through Profit or Loss</u>						
Index-linked deposits	1,082	1,082	-	678	678	-
Derivative financial instruments	3,272	3,272	-	6,026	6,026	-
Total financial liabilities	3,060,340	3,066,103	5,763	2,838,904	2,847,497	8,593

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.

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.

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

[thousands of dollars]	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Recorded at Fair Value				
<u>Assets</u>				
Investments	-	-	4,914	4,914
Index-linked deposits	-	1,082	-	1,082
Total assets held at fair value	-	1,082	4,914	5,996
<u>Liabilities</u>				
Index-linked deposits	-	1,082	-	1,082
Derivative financial instruments	-	3,272	-	3,272
Total liabilities held at fair value	-	4,354	-	4,354
Fair Value Disclosed				
<u>Assets</u>				
Loans to owners	-	-	2,945,403	2,945,403
Investments	-	317,063	-	317,063
Total assets disclosed at fair value	-	317,063	2,945,403	3,262,466
<u>Liabilities</u>				
Owners deposits	-	-	3,050,717	3,050,717
Securitization liabilities	-	3,496	-	3,496
Total liabilities disclosed at fair value	-	3,496	3,050,717	3,054,213
December 31, 2015				
[thousands of dollars]	Level 1	Level 2	Level 3	Total
Recorded at Fair Value				
<u>Assets</u>				
Investments	-	-	5,554	5,554
Index-linked deposits	-	678	-	678
Derivative financial instruments	-	375	-	375
Total assets held at fair value	-	1,053	5,554	6,607
<u>Liabilities</u>				
Index-linked deposits	-	678	-	678
Derivative financial instruments	-	6,026	-	6,026
Total liabilities held at fair value	-	6,704	-	6,704
Fair Value Disclosed				
<u>Assets</u>				
Loans to owners	-	-	2,726,555	2,726,555
Investments	-	282,123	-	282,123
Total assets disclosed at fair value	-	282,123	2,726,555	3,008,678
<u>Liabilities</u>				
Owners deposits	-	-	2,830,009	2,830,009
Securitization liabilities	-	4,161	-	4,161
Total liabilities disclosed at fair value	-	4,161	2,830,009	2,834,170

Level 1 includes various Bank bonds valued at market rates. Level 2 includes various interest rate swaps and foreign exchange forward contracts, which are valued using observable market rates. Level 3 includes the credit union's investment in CUCO Co-op (formerly ABCP LP), and various interest spread receivables that were acquired

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as part of loan sales and securitizations. The valuation of the CUCO Co-op uses a combination of quoted market prices, the instrument yields, and the underlying risk associated with the instruments. Interest spread receivables are valued using the expected future cash flows associated with the loan sale or securitization.

The fair value of Central 1 shares, which are classified as investments available for sale and measured at cost, have been excluded from the above table as they are not quoted in an active market and their fair value cannot be reliably determined.

The following table summarizes the changes in fair value of Level 3 assets for the years ended December 31:

[thousands of dollars]	December 31, 2016	December 31, 2015
	Investments	Investments
Balance, beginning of year	5,554	4,937
Additions	-	300
Increase in carrying value included in net income	108	317
Settlements	(748)	-
Balance, end of year	4,914	5,554

The increase in carrying value and settlements on Level 3 assets is presented as Investment income and is related to the investment in CUCO Co-op (see note 4). There were no transfers in or out of Level 3 during 2016 or 2015.

19) PROSPERITY FUND

The Prosperity Fund is Libro's annual granting program focused on building prosperity through the strategic focus areas of Economic Development, Money Smarts, and Youth Leadership & Development. In 2016, Libro continues to utilize the Fund however, the Fund will no longer be dependent on our annual earnings, and instead is a regular piece of our marketing expense on the Income Statement. This shift will better integrate the Fund as both a business and social investment to grow prosperity for Libro, Owners and our communities.

20) INCOME TAXES

Significant components of the deferred tax assets of Libro as at December 31, 2016 are as follows:

[thousands of dollars]	January 1,	Consolidated	Other	December 31,
	2016	Statement of	Comprehensive	2016
		Income	Income	
Non-capital losses available for carry forward	1,502	-	-	1,502
Allowance for credit losses	366	(98)	-	268
Employee future benefits	1,895	286	(582)	1,599
Other accrued expenses	131	(131)	-	-
Property and equipment	(99)	129	-	30
Fair value adjustments on acquisition	(2,139)	638	-	(1,501)
Deferred revenue	143	52	-	195
Share issuance costs	31	-	-	31
Financial instruments adjustments	(288)	(10)	-	(298)
Cash flow hedges	29	-	(29)	-
	1,571	866	(611)	1,826

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As at December 31, 2016, Hald-Nor Credit Union has \$7,703,000 of non-capital losses carried forward expiring in 2035 that should be available to Libro the year following the year of wind-up. A deferred tax benefit has been recorded in respect of these losses.

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

[thousands of dollars]	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Expected tax provision based on combined federal and provincial rate	2,592	40%	390	39%
Credit union deduction	(682)	(10%)	(136)	(14%)
General rate deduction	(682)	(10%)	(77)	(8%)
Permanent difference	69	1%	127	13%
Other	(283)	(4%)	44	4%
	1,014	15%	348	35%

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

[thousands of dollars]	December 31, 2016		
	Gross	Tax	Net of Tax
Actuarial gain (loss) in employee defined benefit plans	2,986	(582)	2,404
Financial instruments designated as cash flow hedges	56	(29)	27
Other comprehensive income (loss)	3,042	(611)	2,431

21) TRANSFERS OF LOANS RECEIVABLE

Libro periodically may sell mortgage loans to other financial institutions as described in note 3[p]. As at December 31, 2016, the aggregate outstanding value of loans transferred amounted to \$205,000 [\$571,000 in 2015]. The net gain or loss on the sale of mortgages resulting from these transfers is immediately recognized in the Statements of Income as Non-interest income. None of the mortgage loans were delinquent as at December 31, 2016. In addition, there were no credit losses incurred on the mortgages transferred in 2016 or 2015.

The following table summarizes transfers of loans receivable activity for the year:

[thousands of dollars]	December 31,	December 31,
	2016	2015
Cash flows remitted on collections	(387)	(2,173)
Servicing fees received	2	10

The terms of the credit union's lending policies require Libro to maintain a portfolio limit on commercial and agricultural loans not to exceed 55% of total deposits and regulatory capital. This limit is calculated on a rolling 90-day basis and any excess must be corrected within 90 days. The credit union was within this limit throughout all of 2016 and 2015.

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22) SECURITIZATION OF LOANS

Libro periodically may securitize mortgages through the transfer of mortgage loans to a special purpose entity as described in note 3[p].

As at December 31, 2016, the aggregate value of securitized loans outstanding amounted to \$3,496,000 [\$4,148,000 in 2015]. There were no mortgage loans that were delinquent as at December 31, 2016. In addition, there were no credit losses incurred on the mortgages transferred in 2016 or 2015. Since these mortgages are sold on a serviced basis, Libro has a servicing liability of \$6,000 [\$7,000 in 2015] included on its Balance Sheets.

[a] Cash flows related to the securitizations:

<u>[thousands of dollars]</u>	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Cash flows remitted on collections	(749)	(870)
Cash flows received on retained interests	58	65

[b] Impact of securitization on income:

<u>[thousands of dollars]</u>	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Amortization of servicing liability	(1)	(1)

23) 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 (see note 4), monitoring and managing the remaining contractual term to maturity of its loan and deposit portfolios (see notes 5 and 16), and maintaining access to credit facilities through Central 1 (see 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. As at December, 2016 Libro's liquidity ratio was 11.17% (10.65% in 2015) and assets held for liquidity purposes totalled \$340,469,000 [\$333,382,000 in 2015], consisting of \$202,309,000 liquidity reserve deposits [\$187,038,000 in 2015] and \$138,160,000 cash and other qualifying deposits [\$146,344,000].

[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.

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

December 31, 2016					
[thousands of dollars]	Residential Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	Total
Above standard	940,644	212,944	336,570	253,995	1,744,153
Standard	121,113	27,756	364,910	446,989	960,768
Below standard	67,996	10,566	59,895	89,729	228,186
	1,129,753	251,266	761,375	790,713	2,933,107

December 31, 2015					
[thousands of dollars]	Residential Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	Total
Above standard	850,950	211,276	339,820	182,485	1,584,531
Standard	117,029	31,009	344,015	466,098	958,151
Below standard	70,144	14,712	20,009	63,292	168,157
	1,038,123	256,997	703,844	711,875	2,710,839

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.

Collateral is generally secured for each type of loan as follows:

Loan Type	Nature of Collateral Obtained
Mortgages	Mortgage loans are secured by real property. Libro owners generally have equity in the property being mortgaged.
Term loans	Term loans are generally secured by assets which are equivalent to the approved balance. Term loans can be unsecured. Risks of unsecured term loans are reflected in the rate of the loan.
Installment loans	Installment loans are generally secured by assets which are equivalent to the approved balance of the loan. Installment loans can be unsecured. Risks of unsecured installment loans are reflected in the rate of the loan.
Line of credit	Line of credit loans are generally secured by assets which are equivalent to the approved balance of the facility. Lines of credit can be unsecured. Risks of unsecured lines of credit are reflected in the rate of the facility.

[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.

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

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assumptions. 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 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	Projected Change to Earnings	Status
Most Likely Shocked + 200 basis points	-10%	2.46%	Compliant
Most Likely Shocked + 100 basis points	-5%	1.46%	Compliant
Most Likely Forecast Scenario	0%	0.00%	Compliant
Most Likely Shocked - 100 basis points	-5%	-4.17%	Compliant
Most Likely Shocked - 200 basis points	-10%	-6.67%	Compliant

[d] Currency risk

Currency risk is the risk that 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 \$1,380 [\$1,200 in 2015].

24) ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities consist of the following:

[thousands of dollars]	December 31, 2016	December 31, 2015
Owner remittances to third parties	1,366	1,507
Salaries payable to employees	5,396	4,330
Accounts payable	708	551
Prosperity Fund payable	66	235
	7,536	6,623

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25) BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method of accounting. For each business combination, an acquirer is identified, which is typically the larger of the combining organizations. The identifiable assets and liabilities of the acquired entity are measured at fair value. The transaction costs incurred for a business combination, such as legal fees, due diligence fees and other professional consulting fees are expensed as incurred.

Business combination with Hald-Nor Credit Union

The credit union entered into a business combination with Hald-Nor Credit Union (“Hald-Nor”) in 2015. On August 1, 2015, Libro acquired the assets and assumed the liabilities of Hald-Nor and the results of its operations have been included in the financial statements since that date. Hald-Nor had four branch locations and an administration office situated in the Haldimand-Norfolk county, which continue to operate as Libro locations today.

The combination resulted in additional assets, resources, and increased Ownership for Libro. Greater brand awareness and increased economies of scale are expected. The credit union expanded its footprint to new areas as a result of the combination, which allows Libro owners access to more branches and helps further grow prosperity in southwestern Ontario.

Libro acquired 100% of the net assets of Hald-Nor in a share for share exchange. No cash or contingent consideration was provided. The value of the shares issued was determined by valuing the business acquired using the net asset value approach.

The acquisition date fair value of the acquiree’s net identifiable assets and liabilities at August 1, 2015 are outlined below:

[thousands of dollars]	Book Value	Adjustment	Fair Value
Cash and cash equivalents	3,743	-	3,743
Investments	9,913	58	9,971
Other assets	592	-	592
Loans to owners	129,797	1,408	131,205
Derivative financial instruments	355	-	355
Property and equipment	1,911	136	2,047
Intangible assets	30	2,318	2,348
Deferred tax asset	77	439	516
Current income tax payable	-	(1,343)	(1,343)
Owners' deposits	(132,205)	(255)	(132,460)
Accounts payable and accrued liabilities	(1,040)	-	(1,040)
Borrowings	(5,595)	-	(5,595)
Derivative financial instruments	(355)	-	(355)
Owners' capital accounts	(271)	-	(271)
Net assets	6,952	2,761	9,713
Contributed surplus			9,713

Loans to owners include \$130,280,826 of contractual amounts receivable.

The carrying values of cash, short-term financial investments, derivative assets and liabilities, and other assets and liabilities approximate their fair values due to their short term nature.

For variable rate interest loans and deposits that re-price frequently, carrying values are assumed to approximate fair values. Fair value of other loans and deposits are estimated using discounted cash flow techniques based on the contractual repayment of the products. In addition, the fair value of loans is net of both an individual provision for impairment and collective allowance.

The fair value of property and equipment has been assessed using a combination of acquisition date net book value [considered in certain instances to approximate fair value], and appraisals based on market information.

A core deposit intangible was calculated using a discounted cashflow technique, whereby the present value of the after tax reduction in interest expense derived from demand deposit accounts is compared to Libro's weighted-average cost of financing. No goodwill was recorded as a result of these acquisitions, as the fair value of consideration transferred approximated the fair value of the identifiable assets acquired and liabilities assumed on the acquisition date.

Impact of acquisition on the Statement of Income

Income and expenses derived from the acquisition of Hald-Nor has been included in the Statement of Income from August 1, 2015 onward. It is not practical to disclose the amount of profit or loss attributable to the legacy credit unions since this is not identifiable in Libro's accounts. Incremental acquisition-related legal and accounting costs of the above-noted business combination amounted to \$224,000 as at December 31, 2015, and were recognized as an expense in the Statements of Income in 2015.

26) COMPARATIVE FIGURES

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