Libro Credit Union Limited

Financial Statements
December 31, 2018

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 (the "Board").

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

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

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

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

Stephen Bolton President and Chief Executive Officer	Rick Hoevenaars Executive Vice President Finance and Chief Financial Officer

March 5, 2019

INDEPENDENT AUDITOR'S REPORT

To the Owners of Libro Credit Union Limited

Opinion

We have audited the financial statements of Libro Credit Union Limited, (the "Credit Union"), which comprise the balance sheet as at December 31, 2018, and the statement of income, statement of comprehensive income, statement of owner's equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Credit Union as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis of opinion

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

Other information included in the Credit Union's 2018 Annual Report

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

London, Ontario
March 5, 2019

Libro Credit Union Limited

Balance Sheets

As at December 31

[thousands of dollars]	Note	2018	2017
Assets			
Cash and cash equivalents		20,102	14,139
Accrued interest receivable		7,868	6,896
Income taxes recoverable		-	2,506
Investments	4	331,247	436,879
Other assets	9	30,403	1,655
Loans to owners	5, 6	3,403,048	3,098,623
Derivative financial instruments	15	1,401	1,939
Property and equipment	7	49,155	46,953
Intangible assets	8	5,913	8,038
Deferred tax assets	19	3,176	2,032
Total assets		3,852,313	3,619,660
Liabilities and owners' equity			
Owners' deposits	16	3,410,725	3,278,815
Accrued interest payable		16,664	15,642
Accrued and other liabilities	22	7,406	6,790
Income taxes payable		1,658	-
Pension and other employee obligations	13	10,417	12,734
Derivative financial instruments	15	643	1,358
Loans payable	10	18,447	6,286
Securitization liabilities	20[b]	77,730	10,331
		3,543,690	3,331,956
Liabilities qualifying as regulatory capital	12		
Owners' capital accounts	11	155,195	146,455
Stock dividends payable	11	11,635	10,403
		166,830	156,858
Total liabilities		3,710,520	3,488,814
Contributed surplus		60,998	60,998
Retained earnings		80,396	71,811
Accumulated other comprehensive income (loss)		399	(1,963)
		141,793	130,846
Total liabilities and owners' equity		3,852,313	3,619,660

See accompanying notes

Mr. G. Baker, Chair of the Board

Mr. B. Aitken, Vice Chair of the Board

Statements of Income

Years ended December 31

[thousands of dollars]	Note	2018	2017
Interest income			
Interest on loans	**17**	**130,378**	113,003
Investment income		**6,290**	3,605
		136,668	116,608
Interest expense			
Interest on owners' deposits	**17**	**44,234**	37,446
Dividends on Class I investment shares	**11**	**4,658**	4,497
Interest on borrowings		**1,006**	132
		49,898	42,075
Net interest income		**86,770**	74,533
Non-interest income	**17**	**18,690**	22,126
Total revenue		**105,460**	96,659
Provision for credit losses	**6**	**3,446**	1,722
Non-interest expenses			
Salaries and employee benefits		**51,458**	49,185
General and administrative		**9,922**	9,975
Marketing and business development		**3,831**	4,134
Insurance		**3,403**	2,722
Systems and technology		**4,828**	3,936
Occupancy		**6,920**	6,427
Corporate and branch governance	**12**	**968**	957
Amortization of core deposit intangible	**8**	**2,143**	2,143
		83,473	79,479
Income before the undernoted		**18,541**	15,458
Dividends and profit sharing distributions	**11**	**7,007**	5,930
Income before income taxes		**11,534**	9,528
Provision for (recovery of) income taxes			
Current	**19**	**3,350**	743
Deferred	**19**	**(1,426)**	599
		1,924	1,342
Net income for the year		**9,610**	8,186

See accompanying notes

Libro Credit Union Limited

Statements of Comprehensive Income

Years ended December 31

[thousands of dollars]	2018	2017
Net income for the year	**9,610**	8,186
Other comprehensive income (loss)		
Items that will not be reclassified to income:		
Actuarial gain (loss) in employee defined benefit plans	**2,944**	(4,449)
Related income taxes	**(544)**	822
	2,400	(3,627)
Items that may be subsequently reclassified to income:		
Cash flow hedges - effective portion of changes in fair value	**(53)**	95
Related income taxes	**29**	(17)
Reclassification to income of gains on cash flow hedges	**(14)**	-
	(38)	78
Other comprehensive income (loss) for the year, net of income taxes	**2,362**	(3,549)
Total comprehensive income for the year, net of income taxes	**11,972**	4,637

See accompanying notes

Statements of Owners' Equity

Years ended December 31

[thousands of dollars]	Note	2018	2017
Contributed surplus		**60,998**	60,998
Retained earnings			
Balance as at beginning of year		**71,811**	63,625
Changes on adoption of IFRS 9	**24**	**(1,025)**	-
Net income for the year		**9,610**	8,186
Balance as at end of year		**80,396**	71,811
Accumulated other comprehensive income (loss), net of income taxes			
Balance as at beginning of year		**(1,963)**	1,586
Other comprehensive income (loss) for the year		**2,362**	(3,549)
Balance as at end of year		**399**	(1,963)
Total owners' equity as at end of year		**141,793**	130,846

See accompanying notes

Statements of Cash Flows

Years ended December 31

[thousands of dollars]	Note	2018	2017
Cash provided by (used in)			
Operating activities			
Net income for the year		**9,610**	8,186
Add (deduct) non-cash items:			
Depreciation and amortization		**7,849**	7,023
Amortization of discount/premium on loans and deposits		**175**	505
Provision for credit losses		**3,446**	1,722
Loss on disposal		**163**	323
Deferred income taxes		**(1,144)**	(206)
Unrealized gains on interest rate swap agreements		**(177)**	(3,853)
Increase in stock dividends payable		**1,232**	3,900
Changes in operating assets and liabilities:			
Increase in accrued interest receivable		**(972)**	(1,159)
Increase (decrease) in income taxes payable		**4,164**	(1,137)
Decrease (increase) in other assets		**(28,748)**	904
Increase in loans to owners		**(309,121)**	(175,416)
Increase in owners' deposits		**131,960**	233,990
Increase in accrued interest payable		**1,022**	380
Increase (decrease) in accrued and other liabilities		**616**	(746)
Increase in pension and other employee obligations		**45**	983
Proceeds from securitization of loans	**20**	**68,584**	9,912
Decrease in securitization liabilities		**(1,185)**	(3,077)
Cash provided by (used in) operating activities		**(112,481)**	82,234
Financing activities			
Increase in owners' capital accounts		**8,740**	3,066
Increase in loans payable		**12,161**	6,286
Cash provided by financing activities		**20,901**	9,352
Investing activities			
Decrease (increase) in investments		**105,632**	(92,284)
Purchase of property and equipment		**(6,976)**	(6,915)
Purchase of intangible assets		**(1,113)**	(964)
Cash provided by (used in) investing activities		**97,543**	(100,163)
Net increase (decrease) in cash during the year		**5,963**	(8,577)
Cash and cash equivalents as at beginning of year		**14,139**	22,716
Cash and cash equivalents as at end of year		**20,102**	14,139

See accompanying notes

1) REPORTING ENTITY

Libro Credit Union Limited ("Libro" or the "credit union") is incorporated under the *Credit Unions and Caisses Populaires Act* (Ontario) (the "Act") in Canada, 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 5, 2019. The Board of Directors has the power to amend the financial statements after issuance only in the case of discovery of an error.

[b] Basis of measurement

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

(i) derivative financial instruments, fair value through profit or loss financial assets and fair value through other comprehensive income financial assets are measured at fair value; and

(ii) the liability for defined benefit obligations is recognized as the present value of the defined benefit obligation less the net total of the plan assets.

[c] Currency

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

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

[a] Use of estimates and judgments

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

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

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

(ii) Impairment losses on financial assets
The measurement of impairment losses both under IFRS 9, *Financial Instruments* ("IFRS 9") and IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The credit union's expected credit loss ("ECL") allowance calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Note 3[e] and note 6 further describes elements of the ECL models that require judgments and estimates.

(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.

[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 and financial liabilities using the effective interest rate ("EIR") method.

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

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

[d] Fees

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

[e] Financial assets and financial liabilities

(i) Classification

Financial assets

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

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

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

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

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

The details of these conditions are outlined below.

Business model assessment

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

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

Contractual cash flow characteristics

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

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

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

(ii) Derecognition of financial assets

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

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

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

(iii) Impairment on financial assets

As described in note 3[p], IFRS 9 replaces the incurred loss approach in IAS 39 with a forward-looking ECL approach. The credit union recognizes ECL allowance on all financial instruments not recorded at FVTPL, which includes loans to owners, investments and certain loan commitments. Equity instruments are not subject to impairment under IFRS 9. The credit union measures ECL at an amount equal to lifetime ECL or 12-month ECL. The portion of ECL that results from the default events on a financial instrument that are possible within the 12 months after the reporting date are referred to as the 12-month ECL.

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

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

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

Significant increase in credit risk

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

The measurement of ECL

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

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

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

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

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

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

Purchased or originated credit impaired financial assets ("POCI")
POCI financial assets are initially recognized at fair value with no initial ECL allowance. Changes in lifetime ECL since initial recognition are recorded in the allowance for credit losses.

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

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

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

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

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

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

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

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

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

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

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

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

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

[h] Property and equipment

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

Buildings	40 to 50 years straight-line
Building components	15 to 30 years straight-line
Leasehold improvements	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 Statements of Income, except to the extent they reverse gains previously recognized in other comprehensive income (loss).

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

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

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

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

[k] Employee benefit plans

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

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

(i) Defined benefit plans

For the DB pension plan, the SERP and the sick leave plan, plan assets are valued at fair market values. Benefit costs and accrued benefits are determined based upon actuarial valuations using the projected benefit method prorated on service and management's best estimates. The expected return on plan assets is based on the fair value of plan assets.

Actuarial gains and losses are recognized immediately through other comprehensive income (loss), under IAS 19 (revised 2011), *Employee Benefits*.

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

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

(ii) Defined contribution pension plan

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

[l] Cheques and other items in transit, net

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

[m] Leases

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.

[n] Loan securitization

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

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

[o] Going concern

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

[p] Changes in accounting policy

Effective January 1, 2018, the credit union adopted several new and amended accounting pronouncements:

(i) IFRS 9, *Financial Instruments*

IFRS 9 replaces IAS 39 as of January 1, 2018. The credit union elected, as policy choices permitted under IFRS 9, to adopt the hedge accounting guidance under IFRS 9 and to early adopt the amendment IFRS 9, *Prepayment Features with Negative Compensation*.

The credit union has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of January 1, 2018 and are disclosed in note 24. For a detailed description of accounting policies under IAS 39, refer to the financial statements for the year ended December 31, 2017.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity’s business model for managing the assets and the instruments' contractual cash flow characteristics as described in note 3[e].

The IAS 39 measurement categories of financial assets (held for trading, available for sale, held-to-maturity and amortized cost) have been replaced by:

- Financial instruments at amortized cost
- Financial instruments at FVOCI
- Financial instruments at FVTPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in other comprehensive income (loss) with no subsequent reclassification to the Statements of Income.

The credit union's classification of its financial assets and liabilities is explained in note 3[e]. The quantitative impact of applying IFRS 9 as at January 1, 2018 is disclosed in note 24.

Changes to the impairment calculation

The adoption of IFRS 9 has changed the credit union's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. IFRS 9 requires the credit union to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the ECLs over the life of the asset.

Details of the credit union's impairment method are disclosed in note 3[e]. The quantitative impact of applying IFRS 9 as at January 1, 2018 is disclosed in note 24.

Changes to hedge accounting

The new hedge accounting model under IFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting. The implementation of the new standard related to hedge accounting did not result in a material change to the accounting for derivatives designated as hedges at the credit union.

(ii) IFRS 7R, *Financial instruments: disclosures* ("IFRS 7R")

To reflect the differences between IFRS 9 and IAS 39, IFRS 7R was updated to include transition disclosures as shown in note 24. Detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in note 3[e] and note 6. Reconciliations from opening to closing ECL allowances for the year ended 2018 are presented in note 6. IFRS 7R also requires additional disclosures for hedge accounting.

(iii) IFRS 15, *Revenue from contracts with customers* ("IFRS 15")

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 or lease contracts. Accordingly, the credit union assessed its asset management and service contracts under IFRS 15 and there were no changes to the credit union's revenue recognition policies.

[q] 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 them when they become effective.

(i) Conceptual Framework for Financial Reporting

On March 29, 2018, the IASB issued the revised Conceptual Framework for Financial Reporting ("Conceptual Framework") which describes the objective of, and the concepts for, general purpose financial reporting. The purpose of the Conceptual Framework is to assist preparers of the financial statements to develop consistent accounting policies when no IFRS Standard ("Standard") applies to a particular transaction or other event, or when a Standard allows a choice of accounting policy. The Conceptual Framework is not a Standard and does not override any Standard or any requirement in a Standard.

As the revised Conceptual Framework is effective on January 1, 2020, we are currently assessing the impact of adoption.

(ii) Amendments to IAS 19, *Employee Benefits* ("IAS 19")

On February 1, 2018, IASB issued amendments to IAS 19 which clarify that on plan amendments, curtailments, or settlements of a defined benefit plan, updated actuarial assumptions are used to determine the current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating gain or loss on any settlement of the defined benefit plan. The amendments apply for plan amendments, curtailments or settlements that occur on or after January 1, 2019, or the date on which they are first applied with earlier application permitted.

The credit union intends to adopt the amendments to IAS 19 in its financial statements for the annual period beginning January 1, 2019. The extent of the impact of adoption of the amendments has not yet been determined.

(iii) IFRS 16, *Leases* ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which provides 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. The credit union is required to adopt IFRS 16 for the year beginning January 1, 2019. Libro has a significant number of operating leases, comprised mostly of property leases, which are currently accounted for by recording operating lease expensed over the term of the lease. The lease payments are reflected in profit or loss as incurred. The extent of the impact of adoption of the amendments has not yet been determined.

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

4) INVESTMENTS

Investments consist of the following:

[thousands of dollars]		December 31, 2018 $	December 31, 2018 Effective Rate	December 31, 2017 $	December 31, 2017 Effective Rate
Short-term investments (due within 1 year):					
Bank Investment Deposits, fair value of $319 [$26,467 in 2017]	i	**319**	**0.65%**	26,467	1.53%
Central 1 Liquidity Reserve Deposit, fair value of $60,120 [$24,344 in 2017]	i	**60,227**	**1.44%**	24,355	0.99%
Central 1 Deposits, fair value of $65,695 [$122,622 in 2017]	i	**65,695**	**2.45%**	122,617	1.73%
		126,241	**1.96%**	173,439	1.60%
Long-term investments (due beyond 1 year):					
Central 1 Liquidity Reserve Deposit, fair value of $168,448 [$190,808 in 2017]	i	**170,174**	**1.66%**	193,076	1.34%
Central 1 Deposits, fair value of $13,588 [$47,794 in 2017]	i	**13,642**	**2.72%**	47,545	2.46%
Finance lease receivable	i	**643**	**3.51%**	1,187	3.51%
Central 1 Class A shares	iii	**1,413**	**3.00%**	12,300	2.98%
Central 1 Class E shares	iii	**6,487**	**0.00%**	8,643	0.00%
Central 1 Class F shares	ii	**11,855**	**3.00%**	-	0.00%
CUCO Co-op Shares (Class B)	ii	**141**	**0.00%**	141	0.00%
Other investments	iii	**651**	**0.00%**	548	0.00%
		205,006	**1.76%**	263,440	1.57%
		331,247	**1.84%**	436,879	1.58%

Financial Instrument Classifications:

i Amortized cost (Classified as loans and receivables in 2017)
ii FVTPL (Classified as held for trading in 2017)
iii FVTPL (Classified as available for sale in 2017)

Central 1 Liquidity Reserve Deposit

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

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

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

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

Class A Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value of $100 (2017 - $100). There is no separately quoted market value for these shares; however, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis.

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

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

CUCO Cooperative Association ("CUCO Co-op")
The credit union has an investment in 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 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 decreased by $nil [$4,307 decrease in 2017] based on the valuation model received from CUCO Co-op. This amount has been reflected in investment income.

Libro received $nil of distributions during the year [$4,761 in 2017]. In 2017, of the $4,761 received, $466 was recorded as a return of the initial capital invested, and the remaining $4,295 was recorded as a dividend in investment income.

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

5) LOANS TO OWNERS

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

	December 31, 2017			
[thousands of dollars]	Principal Balance	Impaired Loans	Allowance for Credit Losses	Net Loans
Residential mortgage loans	1,216,625	778	202	1,216,423
Personal loans	231,307	119	394	230,913
Agricultural loans	804,821	854	28	804,793
Commercial loans	852,888	22,224	6,394	846,494
	3,105,641	23,975	7,018	3,098,623

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

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

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

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

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

	December 31, 2017				
[thousands of dollars]	Residential Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	Total
Current	1,201,851	222,334	795,557	839,469	3,059,211
Less than 30 days arrears	12,537	8,437	5,419	7,299	33,692
30–89 days arrears	1,149	427	2,570	2,278	6,424
90–179 days arrears	310	59	421	1,524	2,314
180–365 days arrears	-	32	527	2,230	2,789
More than 365 days arrears	778	18	327	88	1,211
	1,216,625	231,307	804,821	852,888	3,105,641

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

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

[thousands of dollars]									
December 31, 2017									
Maturity (in years)	**Variable**	**Less than 1**	**1 to 2**	**2 to 3**	**3 to 4**	**4 to 5**	**5 to 7**	**7 to 10**	**Total**
Total loans	921,223	423,023	372,107	419,642	443,448	439,734	45,022	41,442	3,105,641
Effective interest rate	4.10%	3.73%	3.80%	3.64%	3.39%	3.12%	4.30%	4.03%	3.72%

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

6) ALLOWANCE FOR CREDIT LOSSES

The following table presents the carrying amount of loans and the balance of their respective allowance as at December 31, 2018, according to the stage in which they are classified:

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

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

	December 31, 2018			
[thousands of dollars]	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as at January 1 per IAS 39				204
Adjustment on initial application of IFRS 9				14
Balance as at January 1 per IFRS 9	**147**	**28**	**43**	**218**
Transfer to Stage 1 ECL	1	(1)	-	**-**
Transfer to Stage 2 ECL	(54)	54	-	**-**
Transfer to Stage 3 ECL	-	(3)	3	**-**
Net remeasurement of loss allowance	66	(7)	96	**155**
New financial assets originated or purchased	76	18	-	**94**
Financial assets derecognized	(19)	(9)	(43)	**(71)**
Write-offs	-	-	(96)	**(96)**
Recoveries of amounts previously written off	-	-	-	**-**
Balance as at December 31	**217**	**80**	**3**	**300**

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

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

	December 31, 2018			
[thousands of dollars]	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as at January 1 per IAS 39				392
Adjustment on initial application of IFRS 9				483
Balance as at January 1 per IFRS 9	**487**	**349**	**39**	**875**
Transfer to Stage 1 ECL	33	(32)	(1)	**-**
Transfer to Stage 2 ECL	(142)	143	(1)	**-**
Transfer to Stage 3 ECL	(45)	(31)	76	**-**
Net remeasurement of loss allowance	32	(121)	270	**181**
New financial assets originated or purchased	102	18	-	**120**
Financial assets derecognized	(92)	(56)	(27)	**(175)**
Write-offs	-	-	(529)	**(529)**
Recoveries of amounts previously written off	-	-	251	**251**
Balance as at December 31	**375**	**270**	**78**	**723**

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

	December 31, 2018			
[thousands of dollars]	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as at January 1 per IAS 39				28
Adjustment on initial application of IFRS 9				68
Balance as at January 1 per IFRS 9	**73**	**17**	**6**	**96**
Transfer to Stage 1 ECL	1	(1)	-	**-**
Transfer to Stage 2 ECL	(14)	14	-	**-**
Transfer to Stage 3 ECL	-	-	-	**-**
Net remeasurement of loss allowance	4	(2)	-	**2**
New financial assets originated or purchased	28	2	-	**30**
Financial assets derecognized	(15)	(3)	(6)	**(24)**
Write-offs	-	-	-	**-**
Recoveries of amounts previously written off	-	-	-	**-**
Balance as at December 31	**77**	**27**	**-**	**104**

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

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

	December 31, 2018			
[thousands of dollars]	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as at January 1 per IAS 39				6,394
Adjustment on initial application of IFRS 9				692
Balance as at January 1 per IFRS 9	**758**	**3,596**	**2,732**	**7,086**
Transfer to Stage 1 ECL	72	(72)	-	**-**
Transfer to Stage 2 ECL	(706)	774	(68)	**-**
Transfer to Stage 3 ECL	(496)	(1,437)	1,933	**-**
Net remeasurement of loss allowance	1,193	228	822	**2,243**
New financial assets originated or purchased	249	1,966	2,087	**4,302**
Financial assets derecognized	(143)	(1,083)	(1,963)	**(3,189)**
Write-offs	-	-	(785)	**(785)**
Recoveries of amounts previously written off	-	-	170	**170**
Balance as at December 31	**927**	**3,972**	**4,928**	**9,827**

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

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

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

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

As explained in note 3[p], 2017 loan allowance is not restated on transition to IFRS 9. Prior year loan allowance under IAS 39, was as follows:

	December 31, 2017				
[thousands of dollars]	Residential Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	Total Allowance
Balance, January 1, 2017	136	692	187	6,529	7,544
Collection of accounts previously written off	-	198	-	26	224
Accounts written off	(212)	(704)	-	(1,556)	(2,472)
Provision for credit losses	280	206	(159)	1,395	1,722
Balance, December 31, 2017	204	392	28	6,394	7,018

In 2018, Libro began assessing a specific provision against all loans under the new IFRS 9 reporting requirements. In 2017, a collective allowance of $905 was 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 were calculated using the probability based on historical 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 grouped 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.

Collateral

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

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

The fair value of collateral held with respect to assets that are either past due greater than 30 days and/or impaired is $14,062 [$15,202 in 2017].

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

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

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

	December 31, 2017			
[thousands of dollars]	Secured by Real Estate	Secured by Non-Real Estate	Unsecured	Total Loans
Residential mortgage loans[1]	1,216,625	-	-	1,216,625
Personal loans	141,299	86,583	3,425	231,307
Agricultural loans	721,380	74,753	8,688	804,821
Commercial loans	735,344	105,434	12,110	852,888
	2,814,648	266,770	24,223	3,105,641

[1]Residential mortgage loans include $311,655 of loans insured by Canada Mortgage and Housing Corporation or Genworth [$318,260 in 2017].

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

Economic scenarios

Libro determines ECL using multiple probability-weighted forward-looking scenarios. Libro considers both internal and external sources of information in order to achieve an unbiased, probability-weighted measure of the scenarios used. Libro prepares the scenarios using forecasted information to form a "base case" view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The process involved developing two additional economic scenarios and considering the relative probabilities of each outcome.

The "base case" represents the most likely outcome and is given a probability weighting of 80%. The other scenarios represent more optimistic or more pessimistic outcomes and are each given a weighting of 10%.

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

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

7) PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

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

	December 31, 2017						
[thousands of dollars]	Buildings and Components	Land	Leasehold Improvements	Furniture and Equipment	Electronic Equipment	Computer Equipment	Total
Cost:							
Opening balance	42,548	6,310	6,603	7,275	7,015	4,408	74,159
Additions and adjustments	3,651	422	326	821	1,065	630	6,915
Disposals and fully depreciated assets written off	(588)	(178)	(174)	-	-	-	(940)
As at December 31, 2017	45,611	6,554	6,755	8,096	8,080	5,038	80,134
Accumulated depreciation:							
Opening balance	(13,527)	-	(3,178)	(4,741)	(5,327)	(2,901)	(29,674)
Current year depreciation	(1,667)	-	(390)	(497)	(753)	(817)	(4,124)
Disposals, adjustments and fully depreciated assets written off	453	-	159	(12)	16	1	617
As at December 31, 2017	(14,741)	-	(3,409)	(5,250)	(6,064)	(3,717)	(33,181)
Net book value	30,870	6,554	3,346	2,846	2,016	1,321	46,953

Libro owns properties in which space not used by the credit union is rented to tenants for the purpose of earning rental income. The cost of the land and buildings with respect to floor space rented to tenants by Libro is $13,445 [$12,998 in 2017]. The land and buildings have a net book value of $9,248 [$9,311 in 2017].

The total gross revenue on credit union owned rental properties in the current year was $1,756 [$1,683 in 2017], which resulted in net income of $274 [$348 in 2017]. The net rental income or loss has been included in non-interest income.

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

8) INTANGIBLE ASSETS

Intangible assets consist of the following:

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

	December 31, 2017			
[thousands of dollars]	Computer Software	Banking System Software	Core Deposit Intangibles	Total
Cost:				
Opening balance	1,990	4,086	14,998	21,074
Additions and adjustments	964	-	-	964
Disposals and fully amortized assets written off	-	-	-	-
As at December 31, 2017	2,954	4,086	14,998	22,038
Accumulated amortization:				
Opening balance	(1,621)	(3,590)	(5,890)	(11,101)
Current year amortization	(604)	(152)	(2,143)	(2,899)
Disposals, adjustments and fully amortized assets written off	-	-	-	-
As at December 31, 2017	(2,225)	(3,742)	(8,033)	(14,000)
Net book value	729	344	6,965	8,038

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

9) OTHER ASSETS

Other assets consist of the following:

[thousands of dollars]	December 31, 2018	December 31, 2017
Prepaid items	**874**	484
Other receivables	**2,811**	1,011
Cheques and other items in transit, net [note 3[l]]	**26,718**	160
	30,403	1,655

10) LOANS PAYABLE

Libro has access to lines of credit facilities at Central 1 totalling $27,801 Canadian (CAD$) [$27,801 CAD$ in 2017] and $3,500 US$ [$3,500 US$ in 2017] and term and other loan facilities totalling $71,199 CAD$ [$71,199 CAD$ in 2017]. The largest draw on the line of credit facility was $32,308 CAD$ in 2018 [$13,060 CAD$ in 2017].

The balance of the lines of credit facilities at year-end totalled $18,447 [$6,286 in 2017]. The lines of credit are payable on demand and bear interest at 2.5% [1.75% in 2017], 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.

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, 2018, Libro had 105,356 [103,962 in 2017] owners who held a total of 5,008,125 membership shares [4,950,286 in 2017]. 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, 2018, there were 33,612,355 Class P shares outstanding [29,413,408 in 2017].

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, 2018, there were a total of 116,729,084 Class I shares outstanding [112,246,582 in 2017].

As at December 31, 2018, the number of Class I shares outstanding by series were as follows:

[number of shares]	December 31, 2018	December 31, 2017
Series 1	**3,256,017**	3,130,846
Series 2	**3,208,202**	3,090,314
Series 3	**8,329,922**	8,009,649
Series 4	**21,050,597**	20,241,191
Series 5	**80,884,346**	77,774,582
Total	**116,729,084**	112,246,582

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. As at December 31, 2018, the aggregate maximum amount that could be redeemed is $4,058 in Class P shares and $3,728 in Class I shares.

The continuity of outstanding shares is as follows:

[number of shares in thousands]	Membership Shares	Class P Shares	Class I Shares	Total
Outstanding, January 1, 2017	4,917	28,702	109,924	143,543
New shares issued	319	1,925	-	2,244
Shares redeemed	(286)	(1,395)	(2,074)	(3,755)
Shares issued as dividends	-	181	4,396	4,577
Outstanding, December 31, 2017	**4,950**	**29,413**	**112,246**	**146,609**
New shares issued	**338**	**5,745**	**-**	**6,083**
Shares redeemed	**(280)**	**(1,746)**	**(6)**	**(2,032)**
Shares issued as dividends	**-**	**200**	**4,489**	**4,689**
Outstanding, December 31, 2018	**5,008**	**33,612**	**116,729**	**155,349**
Less share issuance costs	**-**	**-**	**(154)**	**(154)**
Total carrying value of shares	**5,008**	**33,612**	**116,575**	**155,195**

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

In 2015, the credit union harmonized its dividend policy for all five series of Class I Investment Shares to pay a dividend rate the greater of 4.00% or a rate that exceeds by 1.25% the simple average of the yields on the monthly series of the Government of Canada five-year bonds during the fiscal years ending on or before December 31, 2020. For fiscal years ending after that date, the rate will be equal to or greater than the rate which exceeds by 1.25% the simple average of the yield on the monthly series of the Government of Canada five-year bonds during the fiscal year. In 2018, Libro declared a dividend of 4.00% [4.00% in 2017].

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

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:

[thousands of dollars]	December 31, 2018	December 31, 2017
Class P Profit share distribution - calculated as $1.00 for every $1,000 of average deposit and loan balances [$0.95 in 2017]	**6,609**	5,707
Class P Profit share dividend - calculated as 1.15% on owner Class P Profit share holdings as at year-end [0.75% in 2017]	**357**	196
Class I, Series 1 Investment share dividend of 4.00% [4.00% in 2017]	**130**	126
Class I, Series 2 Investment share dividend of 4.00% [4.00% in 2017]	**129**	124
Class I, Series 3 Investment share dividend of 4.00% [4.00% in 2017]	**333**	325
Class I, Series 4 Investment share dividend of 4.00% [4.00% in 2017]	**842**	814
Class I, Prosperity Series 5 Investment share dividend of 4.00% [4.00% in 2017]	**3,235**	3,111
Stock dividends payable at year-end	**11,635**	10,403
Accrued dividends from prior years and acquired on combination	**30**	24
Dividend expense	**11,665**	10,427

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

12) REGULATORY INFORMATION

[a] Regulatory capital

Libro's capital management plan is designed to establish a strong base for future growth, the payment of dividends and profit sharing, as well as provide a cushion in the event of market volatility. Libro's capital plan is designed to comply with the Act, which requires Libro to maintain regulatory capital of not less than 4% of total assets and 8% of a risk-weighted equivalent value. The risk-weighted equivalent value is calculated by applying risk-weighted percentages as prescribed by the Act to various assets, operational and interest rate risk criteria. As at December 31, 2018, the total risk-weighted equivalent value for Libro was $2,498,291 [$2,265,956 in 2017].

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

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

[thousands of dollars]	December 31, 2018	December 31, 2017
Tier 1 capital		
Membership shares	**5,008**	4,950
Investment and patronage shares	**150,187**	141,505
Stock dividends payable	**11,635**	10,403
Redeemable portion of shares	**(7,785)**	(7,118)
Retained earnings	**80,396**	71,811
Contributed surplus	**60,998**	60,998
Unqualified portion of fair value adjustments	**580**	580
Total Tier 1 capital	**301,019**	283,129
Tier 2 capital		
Redeemable portion of shares	**7,785**	7,118
Collective allowance for credit losses	**5,945**	905
AOCI defined benefit plans	**-**	(2,041)
Total Tier 2 capital	**13,730**	5,982
Total regulatory capital	**314,749**	289,111
% of total assets	**8.17%**	7.99%
% of risk-weighted assets	**12.60%**	12.76%

[b] Restricted party transactions

As at December 31, 2018, the aggregate value of loans, lines of credit, overdrafts and letters of credit outstanding to directors, officers, their spouses and related corporations amounted to $5,947 [$4,021 in 2017]. There was no allowance for credit losses required in respect of these credit facilities. Interest rates and other terms and conditions relating to loans to directors are the same as those offered to all owners of Libro. Terms and rates of loans offered to officers are the same as all terms and rates offered to all Libro staff. Loans committed to restricted parties were $nil [$450 in 2017].

Deposits held for restricted parties were $5,906 [$5,543 in 2017]. Terms and rates of deposits for officers and directors are the same as those offered to all Libro owners.

The total compensation paid to officers was $2,141 [$2,140 in 2017] and the total remuneration paid to elected representatives, including directors was $392 [$375 in 2017]. In addition to this remuneration, total reimbursement to directors and committee members for travel and out-of-pocket expenses for attendance at meetings was $263 [$282 in 2017].

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

[c] Executive compensation

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

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

[thousands of dollars]		December 31, 2017			
Name	Title	Salary	Variable Compensation	Monetary Value of Benefits	Total
Stephen Bolton	President & CEO	387	164	45	596
Rick Hoevenaars	EVP Finance & CFO	235	57	27	319
Carol Normandeau	EVP Advice & Service Delivery	232	54	26	312
Scott Ferguson	EVP Information Systems	219	53	25	297
Tania Goodine	EVP Engagement	214	52	27	293

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

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

[d] Deposit insurance

The net annual premium paid to DICO for insuring owners' deposits in the current year was $2,760 [$2,094 in 2017].

[e] Central 1 fees

The total fees paid to Central 1 amounted to $1,377 in the current year [$1,354 in 2017]. These fees were primarily in respect of banking and clearing services, and membership dues.

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

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.

The defined benefit pension plan is operated under the *Pension Benefits Act* (Ontario) (the "Pensions Benefits Act"). The Pension Benefits Act is administered by the Superintendent of Financial Services appointed by 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, including the amounts recorded on the Balance Sheets, and the components of net benefit expense:

	December 31, 2018		**December 31, 2017**	
[thousands of dollars]	**Pension Benefits**	**Sick Leave Benefits**	**Pension Benefits**	**Sick Leave Benefits**
Accrued benefit obligation				
Balance as at beginning of year	**52,699**	**1,881**	42,188	2,053
Current service cost	**4,194**	**-**	3,634	-
Interest cost	**1,978**	**62**	1,817	78
Benefits paid	**(1,048)**	**(197)**	(1,107)	(212)
Employee contributions	**143**	**-**	146	-
Actuarial (gain) loss	**(5,573)**	**(52)**	6,021	(38)
Balance as at end of year	**52,393**	**1,694**	52,699	1,881
Plan assets				
Fair value at beginning of year	**41,846**	**-**	36,039	-
Expected return on plan assets	**1,517**	**-**	1,497	-
Employer contributions	**3,893**	**197**	3,737	212
Employee contributions	**143**	**-**	146	-
Benefits paid	**(1,048)**	**(197)**	(1,107)	(212)
Actuarial (loss) gain on assets	**(2,681)**	**-**	1,534	-
Fair value as at end of year	**43,670**	**-**	41,846	-
Funded status - plan deficit	**(8,723)**	**(1,694)**	(10,853)	(1,881)

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

The supplementary employee retirement plan is included in the defined benefit pension plan. The weighted average duration of liabilities is 21.1 years [22.1 in 2017] for the defined benefit plan, 11.6 years [12.6 in 2017] for the supplementary employee retirement plan, and 8.0 years [8.5 in 2017] for the sick leave plan.

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

Contributions for the upcoming year are anticipated to be approximately $2,916 [$3,892 in 2018] for the defined benefit plans, and $197 [$212 in 2018] for the sick leave plan.

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

	December 31, 2018		December 31, 2017	
[thousands of dollars]	**Pension Benefits**	**Sick Leave Benefits**	**Pension Benefits**	**Sick Leave Benefits**
Current service cost	**4,194**	**-**	3,634	-
Net interest cost	**461**	**62**	320	78
Total included in salaries and employee benefits expense	**4,655**	**62**	3,954	78

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

	December 31, 2018		December 31, 2017	
[thousands of dollars]	**Pension Benefits**	**Sick Leave Benefits**	**Pension Benefits**	**Sick Leave Benefits**
Actuarial gain (loss) on assets	**(2,681)**	**-**	1,534	-
Actuarial gain (loss) on liabilities	**5,573**	**52**	(6,021)	38
Total gain (loss) recognized in other comprehensive income (loss)	**2,892**	**52**	(4,487)	38

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

	December 31, 2018		December 31, 2017	
[thousands of dollars]	**Pension Benefits**	**Sick Leave Benefits 2018**	**Pension Benefits**	**Sick Leave Benefits 2018**
Change in discount rate	**5,591**	**68**	(5,092)	(75)
Change in mortality rate	**-**	**-**	(364)	-
Other	**(18)**	**(16)**	(565)	113
Total actuarial gain (loss) on liabilities	**5,573**	**52**	(6,021)	38

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

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

	December 31, 2018		December 31, 2017	
[percentages]	**Pension Benefits**	**Sick Leave Benefits**	**Pension Benefits**	**Sick Leave Benefits**
Discount rate	**4.00%**	**4.00%**	3.50%	3.50%
Expected long-term rate of return on plan assets	**4.00%**	**-**	3.50%	-
Rate of compensation increase	**2.50%**	**2.50%**	2.50%	2.50%

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

Change in Benefit Obligations [thousands of dollars]	**Pension Benefits 2018**	**Sick Leave Benefits 2018**
1% increase in discount rate	**(9,797)**	**(130)**
1% decrease in discount rate	**12,061**	**140**
1% increase in rate of compensation increase	**3,470**	**136**
1% decrease in rate of compensation increase	**(3,257)**	**(127)**

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

(i) Equity risk
The plans hold balanced funds, which include equity investments, 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 the current year was $31 [$45 in 2017]. The contributions for the upcoming fiscal year are anticipated to be approximately $27 [$28 in 2017]. None of Libro's Executive Leadership Team participates in the defined contribution pension plan.

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

14) COMMITMENTS

[a] Lease obligations

Contractual obligations in respect of operating leases on credit union occupied premises as well as a vehicle amount to $6,916 [$6,269 in 2017]. 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:

[thousands of dollars]	Minimum Rent
2019	1,346
2020	1,248
2021	1,139
2022	914
2023	657
Thereafter	1,612

[b] Loan commitments

As at December 31, 2018, Libro had commitments to advance loans totalling $249,840 [$227,989 in 2017]. The mix of loans committed is consistent with existing funded portfolio balances.

[c] Undrawn lines of credit

As at December 31, 2018, Libro had undrawn lines of credit outstanding on behalf of owners amounting to $663,333 [$615,148 in 2017].

[d] Letters of credit

As at December 31, 2018, Libro had letters of credit outstanding on behalf of owners amounting to $36,447 [$34,212 in 2017].

[e] ECL on commitments

Included in the ECL in note 6 is $225 related to undrawn lines of credit and unused letters of credit.

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

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 FVTPL or designated under hedge accounting.

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.

	December 31, 2018		December 31, 2017	
Counterparty	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate swap agreements	**906**	**148**	901	320
Index-linked term deposit hedge agreements	**495**	**495**	1,038	1,038
	1,401	**643**	1,939	1,358

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, 2018, Libro was party to eight such agreements [eight in 2017] with Central 1. The agreements, in aggregate, represent a notional principal amount of $253,950 [$253,950 in 2017]. 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.

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

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

December 31, 2018

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

December 31, 2017

[thousands of dollars] Counterparty	Notional Amount	Maturity Date	Paying Rate Index	Receiving Rate Index	Paying Rate	Receiving Rate	Fair Value
Central 1	100,000	Jan. 2019	5-year swap rate - fixed	30-day CDOR	1.868%	1.441%	(280)
Central 1	50,000	Aug. 2019	5-year swap rate - fixed	30-day CDOR	1.865%	1.408%	(8)
Central 1	50,000	Sept. 2019	30-day CDOR	2-year swap rate - fixed	1.356%	1.905%	11
Central 1	50,000	Apr. 2020	5-year swap rate - fixed	30-day CDOR	1.283%	1.408%	869
Central 1	1,261	May 2021	10-year swap rate - fixed	30-day CDOR	1.860%	1.330%	10
Central 1	1,049	June 2021	10-year swap rate - fixed	30-day CDOR	3.070%	1.320%	(32)
Central 1	1,262	July 2021	10-year swap rate - fixed	30-day CDOR	1.890%	1.420%	10
Central 1	378	Oct. 2022	10-year swap rate - fixed	30-day CDOR	2.090%	1.340%	1
	253,950				1.390%	1.143%	581

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, 2018, Libro was not party to any such agreements [none in 2017] 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 $914 [$690 in 2017] 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 $200 [$690 in 2017] at year-end. These agreements represent a fair market value on a combined basis of nil [nil in 2017] at year-end.

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

Index-linked term deposit agreements
Libro has outstanding $12,248 [$13,075 in 2017] 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 $495 [$1,038 in 2017].

Libro has entered into agreements with Central 1 to offset the exposure to the indices associated with each product, whereby the credit union pays a fixed rate of interest for the term of each index-linked deposit on the face value of the deposits sold. At the end of the term, the credit union receives an amount equal to the amount that will be paid to depositors based on the performance of the indices. As at December 31, 2018, Libro had entered into such contracts in the amount of $12,248 [$13,075 in 2017]. 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 $495 [$1,038 in 2017].

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

As at December 31, 2018, Libro had one interest rate swap designated for hedge accounting which has a notional value of $50,000 and a maturity date of September 2019.

As at December 31, 2018, the effects of the designated cash flow hedge on the Balance Sheets are as follows:

[thousands of dollars]

Cash Flow Hedge	**Notional Amount**	**Carrying Amount**	**Line item in the Balance Sheets Where Hedging Instrument is Located**	**Change in the Fair Value used for Measuring Ineffectiveness for the Period**
Interest rate risk				
Pay variable/received fixed interest rate swap	**50,000**	**(126)**	Derivative financial instruments (liabilities)	**(137)**

As at December 31, 2018, the effects of the designated cash flow hedge on the Statements of Income are as follows:

[thousands of dollars]

Cash flow hedge	**Hedging Gain or Loss Recognized in OCI**	**Hedge Ineffectiveness Recognized in Profit or Loss**	**Line item in the Statements of Income of ineffectiveness**	**Line item in the Statements of Income for reclassification**
Interest rate risk				
Pay variable/received fixed interest rate swap	**(53)**	**71**	Investment income	Non-Interest Income

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

16) OWNERS' DEPOSITS

[thousands of dollars]	December 31, 2018	December 31, 2017
Demand deposits	**665,398**	651,897
Chequing deposits	**979,486**	922,598
Term deposits	**960,843**	932,277
Registered savings plans	**302,655**	314,934
Registered income funds	**188,267**	180,808
Registered tax free savings accounts	**314,076**	276,301
	3,410,725	3,278,815

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

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

[thousands of dollars]

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

[thousands of dollars]

December 31, 2017 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	1,694,268	879,161	281,696	205,992	137,634	80,064	3,278,815
Effective interest rate	0.55%	1.73%	2.06%	2.17%	2.14%	2.12%	1.21%

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

17) STATEMENTS OF INCOME AND CASH FLOW DISCLOSURES

[a] Interest income and expense

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

[thousands of dollars]	December 31, 2018	December 31, 2017
Interest Income		
Residential mortgage loans	**38,484**	34,711
Personal loans	**12,361**	11,835
Agricultural loans	**34,445**	29,278
Commercial loans	**45,088**	37,179
	130,378	113,003
Interest Expense		
Demand deposits	**6,801**	4,215
Chequing deposits	**3,808**	2,531
Term deposits	**18,334**	16,919
Registered savings plans	**6,026**	5,923
Registered income funds	**3,855**	3,587
Registered tax free savings accounts	**5,410**	4,271
	44,234	37,446

[b] Non-interest income

Non-interest income consists of the following:

[thousands of dollars]	December 31, 2018	December 31, 2017
Service fees	**11,922**	11,185
Commissions	**4,832**	5,472
Foreign exchange	**1,728**	1,567
Unrealized gains (losses) on investments	**(66)**	3,548
Income from property	**274**	348
Miscellaneous income	**-**	6
	18,690	22,126

[c] Supplemental cash flow disclosures

Total interest paid in the year on owners' deposits and securitization liabilities totalled $44,218 [$37,199 in 2017]. Total interest received on loans to owners and investments totalled $134,923 [$115,184 in 2017].

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

18) FINANCIAL INSTRUMENTS

The following table represents the fair values of Libro's financial instruments. The fair values disclosed do not include the value of assets that are not considered financial instruments. While the fair value amounts are intended to represent estimates of the amounts at which these instruments could be exchanged in a current transaction between willing parties, some of Libro's financial instruments lack an available trading market.

Consequently, the fair values presented are estimates derived using present value and other valuations techniques and may not be indicative of the net realizable values.

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.

	December 31, 2018			December 31, 2017		
[thousands of dollars]	**Book Value**	**Fair Value**	**Difference**	**Book Value**	**Fair Value**	**Difference**
Amortized Cost						
Loans to owners	**3,414,002**	**3,382,153**	**31,849**	3,105,641	3,065,602	40,039
Investments	**310,700**	**309,597**	**1,103**	415,247	413,221	2,026
Fair Value through Profit or Loss						
Investments	**20,406**	**20,406**	**-**	20,943	20,943	-
Investments - CUCO Co-op Shares	**141**	**141**	**-**	141	141	-
Index-linked deposits	**495**	**495**	**-**	1,038	1,038	-
Derivative financial instruments	**906**	**906**	**-**	901	901	-
Total financial assets	**3,746,650**	**3,713,698**	**32,952**	3,543,911	3,501,846	42,065
Amortized Cost						
Owners' deposits	**3,410,725**	**3,395,037**	**15,688**	3,278,815	3,279,119	(304)
Accrued and other liabilities	**7,406**	**7,406**	**-**	6,790	6,790	-
Loans payable	**18,447**	**18,447**	**-**	6,286	6,286	-
Securitization liabilities	**77,730**	**77,250**	**480**	10,331	10,420	(89)
Fair Value through Profit or Loss						
Index-linked deposits	**495**	**495**	**-**	1,038	1,038	-
Derivative financial instruments	**148**	**148**	**-**	320	320	-
Total financial liabilities	**3,514,951**	**3,498,783**	**16,168**	**3,303,580**	**3,303,973**	**(393)**

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.

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

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

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

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

	December 31, 2018			
[thousands of dollars]	**Level 1**	**Level 2**	**Level 3**	**Total**
Recorded at Fair Value				
Assets				
Investments	-	-	141	141
Index-linked deposits	-	495	-	495
Central 1 Class E shares	-	-	6,487	6,487
Central 1 Class A shares	-	-	1,413	1,413
Central 1 Class F shares	-	-	11,855	11,855
Derivative financial instruments	-	906	-	906
Total assets held at fair value	-	1,401	19,896	21,297
Liabilities				
Index-linked deposits	-	495	-	495
Derivative financial instruments	-	148	-	148
Total liabilities held at fair value	-	643	-	643
Fair Value Disclosed				
Assets				
Loans to owners	-	-	3,382,153	3,382,153
Investments	-	309,597	-	309,597
Total assets disclosed at fair value	-	309,597	3,382,153	3,691,750
Liabilities				
Owners' deposits	-	3,395,037	-	3,395,037
Loans payable	-	18,447	-	18,447
Securitization liabilities	-	77,250	-	77,250
Total liabilities disclosed at fair value	-	3,490,734	-	3,490,734

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

	December 31, 2017			
[thousands of dollars]	**Level 1**	**Level 2**	**Level 3**	**Total**
Recorded at Fair Value				
Assets				
Investments	-	-	141	141
Index-linked deposits	-	1,038	-	1,038
Central 1 Class E shares	-	-	8,643	8,643
Central 1 Class A shares	-	-	12,300	12,300
Derivative financial instruments	-	901	-	901
Total assets held at fair value	-	1,939	21,084	23,023
Liabilities				
Index-linked deposits	-	1,038	-	1,038
Derivative financial instruments	-	320	-	320
Total liabilities held at fair value	-	1,358	-	1,358
Fair Value Disclosed				
Assets				
Loans to owners	-	-	3,065,602	3,065,602
Investments	-	413,221	-	413,221
Total assets disclosed at fair value	-	413,221	3,065,602	3,478,823
Liabilities				
Owners' deposits	-	3,279,119	-	3,279,119
Loans payable	-	6,286	-	6,286
Securitization liabilities	-	10,420	-	10,420
Total liabilities disclosed at fair value	-	3,295,825	-	3,295,825

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 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.

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

19) INCOME TAXES

Significant components of the deferred tax assets are as follows:

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

[thousands of dollars]	January 1, 2017	Statement of income	Other comprehensive income (loss)	December 31, 2017
Non-capital losses available for carry	1,502	(1,502)	-	-
Allowance for credit losses	268	13	-	281
Employee future benefits	1,599	(65)	822	2,356
Other accrued expenses	-	-	-	-
Property and equipment	30	65	-	95
Fair value adjustments on acquisition	(1,501)	564	-	(937)
Deferred revenue	195	29	-	224
Share issuance costs	31	(1)	-	30
Financial instruments adjustments	(298)	298	-	-
Cash flow hedges	-	-	(17)	(17)
	1,826	(599)	805	2,032

In the prior year, Libro utilized $7,703 of non-capital losses carried forward from the combination with Hald-Nor Credit Union. A deferred tax benefit had previously been recorded in respect of these losses. No further non-capital losses remain in 2018.

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

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

	December 31, 2018		December 31, 2017	
[thousands of dollars]	Amount	%	Amount	%
Expected tax provision based on combined federal and provincial rate	**4,556**	**40%**	3,763	39%
Credit union deduction	**(807)**	**(7%)**	(667)	(7%)
General rate deduction	**(1,499)**	**(13%)**	(1,239)	(13%)
Permanent difference	**74**	**1%**	(379)	(4%)
Other	**(400)**	**(3%)**	(136)	(1%)
	1,924	**17%**	1,342	14%

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

	December 31, 2018		
[thousands of dollars]	Gross	Tax	Net of Tax
Actuarial gain (loss) in employee defined benefit plans	**2,944**	**(544)**	**2,400**
Financial instruments designated as cash flow hedges	**(67)**	**29**	**(38)**
Other comprehensive income (loss)	**2,877**	**(515)**	**2,362**

20) SECURITIZATION OF LOANS

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

[a] Securitization activity

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

[thousands of dollars]	December 31, 2018	December 31, 2017
Residential mortgages securitized	**69,712**	9,983
Net cash proceeds received	**68,584**	9,944
Outstanding balance of securitized mortgages	**77,537**	9,961

At year-end, the aggregate value of securitized loans outstanding amounted to $77,537 [$9,961 in 2017]. There were no mortgage loans that were delinquent as at December 31. In addition, there were no credit losses incurred on the mortgages transferred in 2018 or 2017.

[b] Securitization liabilities

Libro retains a securitization liability for mortgages transferred. The liability bears an average fixed interest rate of 2.53% [2.11% in 2017] and bears a weighted average maturity date of 2023 [2022 in 2017]. As at December 31, 2018, the liability was $77,730 [$10,331 in 2017].

21) RISK MANAGEMENT

[a] Liquidity risk

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

At year-end, Libro's liquidity ratio was 10.41% (13.03% in 2017) and assets held for liquidity purposes totalled $357,004 [$428,199 in 2017], consisting of $230,401 liquidity reserve deposits [$217,431 in 2017] and $126,603 cash and other qualifying deposits [$210,768 in 2017].

[b] Credit risk

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

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

(i) Credit quality

Credit quality of retail borrowers is measured in part by a standardized credit rating system, which considers payment history, current debt, age of accounts, type of credit and credit enquiries. The application of these scoring measures as at December 31 is as follows:

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

	December 31, 2017				
[thousands of dollars]	**Residential Mortgage Loans**	**Personal Loans**	**Agricultural Loans**	**Commercial Loans**	**Total**
Above standard	1,061,211	209,109	371,086	248,154	1,889,560
Standard	89,813	14,100	362,279	511,873	978,065
Below standard	65,601	8,098	71,456	92,861	238,016
	1,216,625	231,307	804,821	852,888	3,105,641

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.

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

[c] Market risk

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

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

The credit union's policy is to monitor positions on a monthly basis. Libro uses income simulation modeling to measure exposure to changes in interest rates over short-term periods. Earnings at risk is calculated by forecasting the net interest margin for the next 12-month period using most likely assumptions, including existing hedging activities. Most likely assumptions include management's best estimates for planned growth rates and the use of future interest rates. Planned growth rates are recorded at the start of the fiscal period as initially set out in the budget and modified to actual experience through the fiscal period. Future interest rates on new business and product renewals are determined using the future interest rates derived mathematically based on the term structure of interest rates. The impact of rate shock scenarios are measured against the most likely forecast ("MLF") as defined above. The resulting change in the forecast as a result of interest rate shocks is then compared to the MLF to determine the earnings at risk amount. Maximum change limits under these interest rate scenarios have been set out by the Board of Directors. These scenarios are based on hypothetical 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	Status
Most Likely Shocked + 200 basis points	**-10%**	**-4.79%**	**Compliant**
Most Likely Shocked + 100 basis points	**-5%**	**-1.93%**	**Compliant**
Most Likely Forecast Scenario	**0%**	**0.00%**	**Compliant**
Most Likely Shocked - 100 basis points	**-5%**	**0.46%**	**Compliant**
Most Likely Shocked - 200 basis points	**-10%**	**-5.60%**	**Compliant**

[d] Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of a change in foreign currency rates. Libro's net income is exposed to currency risk from US dollar investments and owner US dollar deposits. Libro mitigates currency risk of US dollar financial assets and liabilities by investing in offsetting US dollar financial instruments with similar terms. Currency risk is managed in accordance with the Board of Directors' Policy which the Board reviews annually. For a 1% instantaneous increase or decrease in exchange rate, Libro's net income would change by $1 [$1 in 2017].

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

22) ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities consist of the following:

[thousands of dollars]	December 31, 2018	December 31, 2017
Owner remittances to third parties	**1,950**	1,843
Salaries payable to employees	**4,953**	4,714
Accounts payable	**473**	188
Prosperity Fund payable	**30**	45
	7,406	6,790

23) COMPARATIVE FIGURES

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

24) IFRS 9 TRANSITION

The following tables set out the impact of adopting IFRS 9 on the Balance Sheets, and Statements of Owners' Equity including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

Reclassifications

The table provides a reconciliation between carrying amounts under IAS 39 to the balances reported under IFRS 9 as of January 1, 2018:

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

	IAS 39 Measurment		Remeasurement	IFRS 9 Measurement	
[thousands of dollars]	**Category**	**Amount**	**ECL**	**Category**	**Amount**
Financial Assets					
Cash and cash equivalents	Loans and receivables	14,139	-	Amortized cost	14,139
Accrued interest receivable	Loans and receivables	6,896	-	Amortized cost	6,896
Investments (1)	Loans and receivables	1,187	-	Amortized cost	1,187
Investments (2)	Loans and receivables	196,629	-	Amortized cost	196,629
Investments (3)	Loans and receivables	217,431	-	Amortized cost	217,431
Investments (4)*	Available for sale	21,491	-	FVTPL	21,491
Investments (5)	Held for trading	141	-	FVTPL	141
Loans to owners	Loans and receivables	3,098,623	(1,257)	Amortized cost	3,097,366
Derivative financial instruments	Held for trading	1,939	-	FVTPL	1,939
Other assets	Loans and receivables	1,655	-	Amortized cost	1,655
Total financial assets		**3,560,131**	**(1,257)**		**3,558,874**
Financial Liabilities					
Owners' deposits	Financial liabilities	3,278,815	-	Amortized cost	3,278,815
Accrued interest payable	Financial liabilities	15,642	-	Financial liabilities	15,642
Accrued and other liabilities	Financial liabilities	6,790	-	Financial liabilities	6,790
Derivative financial instruments	Held for trading	1,358	-	FVTPL	1,358
Loans payable	Financial liabilities	6,286	-	Financial liabilities	6,286
Securitization liabilities	Financial liabilities	10,331	-	Financial liabilities	10,331
Total financial liabilities		**3,319,222**	**-**		**3,319,222**

(1) Investments - Lease receivable
(2) Investments - Debt instruments at amortized cost
(3) Investments - Liquidity reserves
(4) Investments - Equity investments - available for sale*
(5) Investments - Equity instruments - held for trading

* Equity investments classified as available for sale consist of Central 1 Class A shares and Central 1 Class E shares. The credit union has not elected to account for these at FVOCI so are accounted as FVTPL under IFRS 9. However, there is no measurement impact to the change in accounting because of this change. A description of these investments is included in note 4.

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

Allowance for credit losses

The following table is a comparison of impairment allowances determined in accordance with IAS 39 to the corresponding impairment allowance determined in accordance with IFRS 9 as at January 1, 2018.

	IAS 39 as at December 31, 2017				IFRS 9 as at January 1, 2018			
[thousands of dollars]	Collectively Assessed	Individually Assessed	Total	Transition Adjustment	Stage 1	Stage 2	Stage 3	Total
Loans at amortized cost								
Residential mortgage loans	174	30	204	14	147	28	43	218
Personal loans	342	50	392	483	487	349	39	875
Agricultural loans	-	28	28	68	73	17	6	96
Commercial loans	389	6,005	6,394	692	758	3,596	2,732	7,086
Total allowance for credit losses	905	6,113	7,018	1,257	**1,465**	**3,990**	**2,820**	**8,275**

Impact to retained earnings

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

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