Financial Statements

Libro Credit Union Limited

December 31, 2017

Management's Responsibility for Financial Reporting

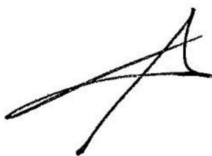
The accompanying financial statements of Libro Credit Union Limited and all the information in this annual report are the responsibility of Management and have been approved by the Board of Directors.

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

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

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

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



Stephen Bolton
President and
Chief Executive Officer

Rick Hoevenaars
Executive Vice President Finance and
Chief Financial Officer

March 6, 2018

INDEPENDENT AUDITORS' REPORT

To the Owners of
Libro Credit Union Limited

We have audited the accompanying financial statements of Libro Credit Union Limited, which comprise the balance sheets as at December 31, 2017 and 2016, and the statements of income, statements of comprehensive income, statements of owners' equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

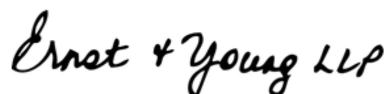
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Libro Credit Union Limited as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years ended December 31, 2017 and 2016 in accordance with International Financial Reporting Standards.



London, Canada
March 6, 2018

Chartered Professional Accountants
Licensed Public Accountants

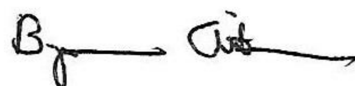
Balance Sheets

As at December 31

[thousands of dollars]	Note	2017	2016
Assets			
Cash and cash equivalents		**14,139**	22,716
Accrued interest receivable		**6,896**	5,737
Income taxes recoverable		**2,506**	1,369
Investments	**4**	**436,879**	344,595
Other assets	**9**	**1,655**	2,559
Loans to owners	**5, 6**	**3,098,623**	2,925,563
Derivative financial instruments	**15**	**1,939**	1,082
Property and equipment	**7**	**46,953**	44,485
Intangible assets	**8**	**8,038**	9,973
Deferred tax assets	**19**	**2,032**	1,826
Total assets		**3,619,660**	3,359,905
Liabilities and owners' equity			
Owners' deposits	**16**	**3,278,815**	3,044,954
Accrued interest payable		**15,642**	15,262
Accrued and other liabilities	**23**	**6,790**	7,536
Pension and other employee obligations	**13**	**12,734**	8,202
Derivative financial instruments	**15**	**1,358**	4,354
Loans payable	**10**	**6,286**	-
Securitization liabilities	**21b**	**10,331**	3,496
		3,331,956	3,083,804
Liabilities qualifying as regulatory capital	**12**		
Owners' capital accounts	**11**	**146,455**	143,389
Stock dividends payable	**11**	**10,403**	6,503
		156,858	149,892
Total liabilities		**3,488,814**	3,233,696
Contributed surplus		**60,998**	60,998
Retained earnings		**71,811**	63,625
Accumulated other comprehensive income (loss)		**(1,963)**	1,586
		130,846	126,209
Total liabilities and owners' equity		**3,619,660**	3,359,905

See accompanying notes

On behalf of the Board of Directors:



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	2017	2016
Interest income			
Interest on loans	**17**	**113,003**	108,133
Investment income		**3,605**	2,246
		116,608	110,379
Interest expense			
Interest on owners' deposits	**17**	**37,446**	36,163
Dividends on Class I investment shares	**11**	**4,497**	4,394
Interest on borrowings		**132**	175
		42,075	40,732
Net interest income		**74,533**	69,647
Non-interest income	**17**	**22,126**	20,618
Total revenue		**96,659**	90,265
Provision for credit losses	**6**	**1,722**	2,453
Non-interest expenses			
Salaries and employee benefits		**49,185**	49,793
General and administrative		**9,975**	9,951
Marketing and business development		**4,134**	3,790
Insurance		**2,722**	2,562
Systems and technology		**3,936**	3,633
Occupancy		**6,427**	6,313
Corporate and branch governance	**12**	**957**	1,014
Amortization of core deposit intangible	**8**	**2,143**	2,143
		79,479	79,199
Income before the undernoted		**15,458**	8,613
Dividends and profit sharing distributions	**11**	**5,930**	2,051
Income before income taxes		**9,528**	6,562
Provision for (recovery of) income taxes			
Current	**19**	**743**	1,882
Deferred	**19**	**599**	(868)
		1,342	1,014
Net income for the year		**8,186**	5,548

See accompanying notes

Statements of Comprehensive Income

Years ended December 31

[thousands of dollars]	2017	2016
Net income for the year	**8,186**	5,548
Other comprehensive income (loss)		
Items that will not be reclassified to income:		
Actuarial gain (loss) in employee defined benefit plans	**(4,449)**	2,986
Related income taxes	**822**	(582)
	(3,627)	2,404
Items that may be subsequently reclassified to income:		
Cash flow hedges - effective portion of changes in fair value	**95**	148
Related income taxes	**(17)**	(29)
Reclassification to income of gains on cash flow hedges	**-**	(92)
	78	27
Other comprehensive income (loss) for the year, net of income taxes	**(3,549)**	2,431
Total comprehensive income for the year, net of income taxes	**4,637**	7,979

See accompanying notes

Statements of Owners' Equity

Years ended December 31

[thousands of dollars]	2017	2016
Contributed surplus	**60,998**	60,998
Retained earnings		
Balance at beginning of year	**63,625**	58,077
Net income for the year	**8,186**	5,548
Balance at end of year	**71,811**	63,625
Accumulated other comprehensive income (loss), net of income taxes		
Balance at beginning of year	**1,586**	(845)
Other comprehensive income (loss) for the year	**(3,549)**	2,431
Balance at end of year	**(1,963)**	1,586
Total owners' equity at end of year	**130,846**	**126,209**

See accompanying notes

Libro Credit Union Limited

Statements of Cash Flows

Years ended December 31

[thousands of dollars]	Note	2017	2016
Cash provided by (used in)			
Operating activities			
Net income for the year		**8,186**	5,548
Add (deduct) non-cash items:			
Depreciation and amortization		**7,023**	6,604
Amortization of discount/premium on loans and deposits		**505**	1,108
Provision for credit losses		**1,722**	2,453
Loss on disposal		**323**	831
Deferred income taxes		**(206)**	(255)
Unrealized gains on interest rate swap agreements		**(3,853)**	(2,379)
Increase in stock dividends payable		**3,900**	4,152
Changes in operating assets and liabilities:			
Decrease (increase) in accrued interest receivable		**(1,159)**	297
Increase in income taxes recoverable		**(1,137)**	(949)
Decrease in other assets		**904**	32,345
Increase in loans to owners		**(175,416)**	(226,052)
Increase in owners' deposits		**233,990**	223,768
Increase (decrease) in accrued interest payable		**380**	(851)
Increase (decrease) in accrued and other liabilities		**(746)**	913
Increase in pension and other employee obligations		**983**	913
Proceeds from securitization of loans	**21**	**9,912**	-
Decrease in securitization liabilities		**(3,077)**	(665)
Cash provided by operating activities		**82,234**	47,781
Financing activities			
Increase (decrease) in owners' capital accounts		**3,066**	(1,351)
Increase in loans payable		**6,286**	-
Cash provided by (used in) financing activities		**9,352**	(1,351)
Investing activities			
Increase in investments		**(92,284)**	(36,739)
Purchase of property and equipment		**(6,915)**	(5,826)
Purchase of intangible assets		**(964)**	(501)
Cash used in investing activities		**(100,163)**	(43,066)
Net increase (decrease) in cash during the year		**(8,577)**	3,364
Cash and cash equivalents at beginning of year		**22,716**	19,352
Cash and cash equivalents at end of year		**14,139**	22,716

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 6, 2018. 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 available-for-sale financial assets are measured at fair value; and

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

[c] Currency

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

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

[a] Use of estimates and judgments

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

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

(i) Fair value of financial instruments
Where the fair value of financial assets and liabilities cannot be derived from active markets, Libro uses valuation techniques that include 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) Allowance for impairment on loans
Libro reviews its loan portfolio to assess impairment, and uses considerable judgment to determine whether or not a loan is impaired as a result of observable evidence. If a loan is considered to be impaired, the amount of the loss is based on management's best estimates. Further details regarding the impairment of loans are disclosed in notes 5 and 6.

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

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

[c] Interest income and expense
Interest income and expense is recognized in the Statements of Income for all interest-bearing financial instruments classified as held-to-maturity, available-for-sale debt instruments ("AFS"), loans and receivables and other financial liabilities using the effective interest rate method.

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

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

In calculating the effective interest, the credit union estimates cash flows (using projections based on its experience of owners' behaviour) considering all contractual terms of the financial instruments but excluding future credit losses. Fees, including those for early redemption, are included in the calculation

to the extent that they can be measured and are considered to be an integral part of the effective interest rate. Where it is not possible or practical to otherwise estimate reliably the cash flows or the expected life of a financial instrument, effective interest is calculated using the payments or receipts specified in the contract, and the full contractual term.

[d] Fees

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

[e] Financial assets and liabilities

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

A description of the various designation classifications follows:

Fair value through profit or loss

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable repayment dates, usually with interest, that are not debt securities or instruments classified as held for trading on initial recognition. Loans and receivables are initially recognized at fair value including direct and incremental transaction costs. They are subsequently valued at amortized cost using the effective interest rate method (see note 3[c]).

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

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

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

Financial liabilities
Financial liabilities are non-derivative financial liabilities and are measured at amortized cost using the effective interest rate method (see note 3[c]).

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

[f] Derivatives and hedge accounting
Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. Libro uses derivative financial instruments, primarily interest rate swaps, in order to manage interest rate exposure. Derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases as interest rate swap agreements.

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

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recognized in other comprehensive income (loss), while gains and losses in fair value relating to the ineffective portion are recognized immediately in the Statements of Income as Investment income. The amounts and timing of future cash flows are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying the effective portion of gains and losses on the derivatives designated as cash flow hedges.

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

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

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

[g] Cash and cash equivalents

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

[h] Property and equipment

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

Buildings	40 to 50 years straight line
Building components	15 to 30 years straight line
Leasehold improvements	Term of lease plus one renewal term
Furniture and equipment	5 to 10 years straight line
Electronic equipment	3 to 5 years straight line
Computer equipment	2 to 7 years straight line

Depreciation in the first year is prorated based on the number of months the asset is in service.

Depreciation methods, useful lives and residual value are reviewed annually and adjusted if necessary.

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

Impairment charges are included in the 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 pro-rated based on the number of months the asset is in service.

Intangible assets are subject to impairment review as described under note 3[h].

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

Tax expense recognized in the 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] Allowance for credit losses

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

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

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

[l] Employee benefit plans

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

Full actuarial valuations of the DB, SERP, and sick leave benefit plan are conducted no less frequently than every three years. The most recent valuation of these plans was prepared as at December 31, 2015.

(i) Defined benefit plans

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

Actuarial gains and losses are recognized immediately through other comprehensive income (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 assets 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.

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

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

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

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

[p] Loan securitization
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 loans 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 costs, using the effective interest rate method.

Securitized residential mortgages generally do not meet the derecognition requirements of IAS 39 and as a result, all loans are classified as loans and receivables and 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.

[q] Going concern

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

[r] Changes in accounting policy

Effective January 1, 2017, the credit union adopted several new and amended accounting pronouncements:

(i) Amendments to IAS 7 "Statement of Cash Flows"

In January 2016, the IASB issued amendments to IAS 7 "Statement of Cash Flows" with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g. gains and losses due to foreign currency movements). The amendment is effective from January 1, 2017. There is no material impact to Libro's financial statements.

(ii) Amendments to IAS 12 "Income Taxes"

In January 2016, the IASB issued amendments to IAS 12 "Income Taxes" with the intention to clarify the recognition of deferred tax assets for unrealized losses related to debt instruments measured at fair value. There is no material impact to Libro's financial statements.

Other standards, amendments and interpretations that are effective for the financial year beginning on January 1, 2017 are not material to the credit union.

[s] Future accounting changes

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

(i) IFRS 9 "Financial Instruments"

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

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

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

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

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

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

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

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

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

4) INVESTMENTS

Investments consist of the following:

[thousands of dollars]		December 31, 2017 $	December 31, 2017 Effective Rate	December 31, 2016 $	December 31, 2016 Effective Rate
Short-term investments (due within 1 year):					
Bank Investment Deposits, fair value of $26,467 [$41,355 in 2016]	i	**26,467**	**1.53%**	41,464	1.44%
Central 1 Liquidity Reserve Deposit, fair value of $24,344 [$40,710 in 2016]	i	**24,355**	**0.99%**	40,494	1.38%
Central 1 Deposits, fair value of $122,622 [$47,017 in 2016]	i	**122,617**	**1.73%**	47,049	1.11%
		173,439	**1.60%**	129,007	1.30%
Long-term investments (due beyond 1 year):					
Central 1 Liquidity Reserve Deposit, fair value of $190,808 [$161,119 in 2016]	i	**193,076**	**1.34%**	161,815	1.02%
Central 1 Deposits, fair value of $47,794 [$26,862 in 2016]	i	**47,545**	**2.46%**	26,931	2.06%
CUCO Co-op shares (Class B)	ii	**141**	**0.00%**	4,914	0.00%
Central 1 Class A shares	iii	**12,300**	**2.98%**	12,305	3.78%
Central 1 Class E shares	iii	**8,643**	**0.00%**	9,075	0.00%
Finance Lease Receivable	i	**1,187**	**3.51%**	-	0.00%
Other investments	iii	**548**	**0.00%**	548	0.00%
		263,440	**1.57%**	215,588	1.24%
		436,879	**1.58%**	344,595	1.26%

Financial Instrument Classifications:
- i Loans and receivables
- ii Held for trading
- iii Available-for-sale

Central 1 Liquidity Reserve Deposit

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

These investments meet the IAS 39 definition of loans and receivables. The terms and conditions of these instruments are consistent with a lending contract whereby cash flows are advanced to Central 1 with a commitment to repay the credit union at a specified rate of interest according to pre-set maturity dates.

Central 1 Deposits

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

Shares in Central 1

The credit union is required to keep an investment in shares of Central 1 as a condition of maintaining membership as determined by the Central 1 Board of Directors from time to time. They may be surrendered

upon withdrawal from membership for proceeds equal to the paid-in value, to be received in accordance with a Central 1 by-law providing for the redemption of share capital.

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

Central 1 Class E shares are carried at cost. These shares are not subject to annual rebalancing and the redemption value is not equal to par value. There is no active market for these shares, as they are issued only as a condition of membership in Central 1, and the fair value cannot be reliably measured.

CUCO Cooperative Association ("CUCO Co-op")

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

As the market for certain of the investments remains relatively illiquid, valuations for some components of the ABCP were provided by an independent valuation firm engaged by CUCO Co-op, who employed the use of valuation models. The calculation of the estimated fair market value is based on market conditions as at year-end and may not be reflective of future fair market values. Due to market conditions in the past year and the passage of time as the investments move closer to maturity, the fair market value of the investment has decreased by $4,307,000 [$108,000 increase in 2016] based on the valuation model received from CUCO Co-op. This amount has been reflected in Investment income.

Libro received $4,761,000 of distributions during the year [$748,000 in 2016], of which $466,000 [$748,000 in 2016], was recorded as a return of the initial capital invested, and the remaining $4,295,000 [$nil in 2016], was recorded as a dividend in Investment income.

5) LOANS TO OWNERS

[thousands of dollars]	December 31, 2017 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**

[thousands of dollars]	December 31, 2016 Principal Balance	Impaired Loans	Allowance for Credit Losses	Net Loans
Residential mortgage loans	1,129,753	1,060	136	1,129,617
Personal loans	251,266	120	692	250,574
Agricultural loans	761,375	1,937	187	761,188
Commercial loans	790,713	19,245	6,529	784,184
	2,933,107	22,362	7,544	2,925,563

Loans to owners can have either a variable or fixed-rate of interest and mature within 10 years. Variable rate loans are based on a “prime rate plus” formula with the rate above prime being determined by the size of the loan, the type of collateral offered, the purpose of the loan and the owner’s creditworthiness. Interest rates offered on fixed rate loans vary depending on the size of the loan, the type of collateral offered, the purpose of the loan, the owner’s creditworthiness and the loan term. All loans to owners have been designated as loans and receivables.

From time to time owner loans may be renegotiated, either as part of an ongoing owner relationship or in response to a change in the circumstances of the owner. Renegotiations and debt restructuring are in the normal course of the credit union’s business. It is possible that a renegotiation could result in an extension of the due date of a repayment; however, the new terms and new interest rates would reflect the current market rates and economic environment. These are treated as new agreements and the loan would not be considered delinquent or impaired. If an owner is in financial distress they may be placed on an interest-only payment plan. This will result in the loan continuing to be delinquent and the loan will be considered as part of the impairment policy.

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

	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**

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

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

[thousands of dollars]

December 31, 2017 Maturity	Variable	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 to 7 years	Over 7 to 10 years	Total
Total loans	**921,223**	**423,023**	**372,107**	**419,642**	**443,448**	**439,734**	**45,022**	**41,442**	**3,105,641**
Effective interest rate	**4.55%**	**3.56%**	**3.63%**	**3.43%**	**3.18%**	**3.20%**	**4.14%**	**3.89%**	**3.75%**

[thousands of dollars]

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

6) ALLOWANCE FOR CREDIT LOSSES

	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	**(214)**	**(702)**	**-**	**(1,556)**	**(2,472)**
Provision for credit losses	**280**	**206**	**(159)**	**1,395**	**1,722**
Balance, December 31, 2017	**202**	**394**	**28**	**6,394**	**7,018**

	December 31, 2016				
[thousands of dollars]	Residential Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	Total Allowance
Balance, January 1, 2015	90	427	12	7,008	7,537
Collection of accounts previously written off	9	145	15	44	213
Accounts written off	(64)	(832)	-	(1,763)	(2,659)
Provision for credit losses	101	952	160	1,240	2,453
Balance, December 31, 2016	136	692	187	6,529	7,544

A collective allowance of $905,000 [$688,000 in 2016] is included in the overall allowance for credit losses. Collective allowances represent the best estimate of probable losses within the loan portfolio that have not been individually identified. These losses are calculated using the probability based on 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 groups loans with similar risk profiles together. The probability that a loan in the portfolio has experienced a triggering event and is actually impaired but not yet individually identified is then applied against all loans in various risk categories that have not been individually identified as impaired loans to determine the collective provision. Accounts are written off after all reasonable attempts to collect have been exhausted.

Collateral

There are documented policies and procedures in place for the valuation of financial and non-financial collateral. The fair value of non-financial collateral is updated if there has been a significant change in the terms and conditions of the loan or the loan is considered impaired. For impaired loans, an assessment of the collateral is taken into consideration when estimating the expected future cash flows and net realizable amount of the loan. The amount and type of collateral and other credit enhancements required depend upon Libro's assessment of counterparty credit quality and repayment capacity. Libro'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 $15,202,000 [$14,548,000 in 2016].

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, 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**

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

[1]Residential mortgage loans include $318,260,000 of loans insured by Canada Mortgage Housing Corporation or Genworth [$326,176,000 in 2016].

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

7) PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	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**

	December 31, 2016						
[thousands of dollars]	Buildings and Components	Land	Leasehold Improvements	Furniture and Equipment	Electronic Equipment	Computer Equipment	Total
Cost:							
Opening balance	39,995	6,725	6,122	6,695	6,407	3,435	69,379
Additions and adjustments	3,074	-	481	644	613	1,014	5,826
Disposals and fully depreciated assets written off	(521)	(415)	-	(64)	(5)	(41)	(1,046)
As at December 31, 2016	42,548	6,310	6,603	7,275	7,015	4,408	74,159
Accumulated depreciation:							
Opening balance	(12,082)	-	(2,790)	(4,294)	(4,617)	(2,168)	(25,951)
Current year depreciation	(1,573)	-	(399)	(478)	(714)	(774)	(3,938)
Disposals, adjustments and fully depreciated assets written off	128	-	11	31	4	41	215
As at December 31, 2016	(13,527)	-	(3,178)	(4,741)	(5,327)	(2,901)	(29,674)
Net book value	29,021	6,310	3,425	2,534	1,688	1,507	44,485

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 $12,998,000 [$11,466,000 in 2016]. The land and buildings have a net book value of $9,311,000 [$7,383,000 in 2016].

The total gross revenue on credit union owned rental properties in the current year was $1,683,000 [$1,749,000 in 2016], which resulted in net income of $348,000 [$329,000 in 2016]. The net rental income or loss has been included in Non-interest income.

8) INTANGIBLE ASSETS

Intangible assets consist of the following:

	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**
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)**
As at December 31, 2017	**(2,225)**	**(3,742)**	**(8,033)**	**(14,000)**
Net book value	**729**	**344**	**6,965**	**8,038**

	December 31, 2016			
[thousands of dollars]	Computer Software	Banking System Software	Core Deposit Intangibles	Total
Cost:				
Opening balance	1,513	4,086	14,998	20,597
Additions and adjustments	501	-	-	501
Disposals and fully amortized assets written off	(24)	-	-	(24)
As at December 31, 2016	1,990	4,086	14,998	21,074
Accumulated amortization:				
Opening balance	(1,274)	(3,438)	(3,747)	(8,459)
Current year amortization	(371)	(152)	(2,143)	(2,666)
Disposals, adjustments and fully amortized assets written off	24	-	-	24
As at December 31, 2016	(1,621)	(3,590)	(5,890)	(11,101)
Net book value	369	496	9,108	9,973

9) OTHER ASSETS

Other assets consist of the following:

[thousands of dollars]	December 31, 2017	December 31, 2016
Prepaid items	**484**	674
Other receivables	**1,011**	1,723
Cheques and other items in transit, net [note 3[m]]	**160**	162
	1,655	2,559

10) LOANS PAYABLE

Libro has access to lines of credit facilities at Central 1 totalling $27,800,580 Canadian (CAD$) [$27,800,580 CAD$ in 2016] and $3,500,000 US$ [$3,500,000 US$ in 2016] and term and other loan facilities totalling $71,199,420 CAD$ [$71,199,420 CAD$ in 2016]. The largest draw on the line of credit facility was $13,059,755 CAD$ in 2017 [$5,087,885 US$ in 2016].

The balance of the lines of credit facilities at year-end totalled $6,286,000 [$nil in 2016]. The lines of credit are payable on demand and bear interest at 1.75%, 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, 2017, Libro had 103,962 [103,180 in 2016] owners who held a total of 4,950,286 membership shares [4,916,925 in 2016]. 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, 2017, there were 29,413,408 Class P shares outstanding [28,702,074 in 2016].

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, 2017, there were a total of 112,246,582 Class I shares outstanding [109,925,155 in 2016].

As at December 31, 2017, the number of Class I shares outstanding by series were as follows: 3,130,846 Series 1 [3,341,825 in 2016], 3,090,314 Series 2 [3,047,364 in 2016], 8,009,649 Series 3 [8,177,216 in 2016], 20,241,191 Series 4 [20,237,094 in 2016] and 77,774,582 Series 5 [75,121,656 in 2016].

Class P and I shares are redeemable by the holder only under certain restricted conditions. The aggregate maximum amount that can be redeemed in any year cannot exceed 10% of the outstanding balance, including any dividends declared but not yet paid, of either the Class P or each series of the Class I shares, provided regulatory capital requirements are met. For fiscal year 2018, the aggregate maximum amount that could be redeemed is $3,532,000 in Class P shares and $3,586,000 in Class I shares.

[number of shares in thousands]	Membership Shares	Class P Shares	Class I Shares	Total
Outstanding, January 1, 2016	4,845	29,024	110,871	144,740
New shares issued	385	1,730	-	2,115
Shares redeemed	(313)	(2,275)	(2,235)	(4,823)
Shares issued as dividends	-	223	1,134	1,357
Outstanding, December 31, 2016	**4,917**	**28,702**	**109,770**	**143,389**
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**	**112,092**	**146,455**

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

In 2015, the credit union harmonized its dividend policy for all five series of Class I Investment Shares to pay a dividend rate the greater of 4.00% or a rate which exceeds by 1.25% the simple average of the yields on the monthly series of the Government of Canada five-year bonds during the fiscal years ending on or before December 31, 2020. For fiscal years ending after that date, the rate will be equal to or greater than the rate which exceeds by 1.25% the simple average of the yield on the monthly series of the Government of Canada five-year bonds during the fiscal year. In 2017, Libro declared a dividend of 4.00% [4.00% in 2016].

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, 2017	December 31, 2016
Class P Profit share distribution - calculated as $0.95 for every $1,000 of average deposit and loan balances [$0.36 in 2016]	**5,707**	1,930
Class P Profit share dividend - calculated as 0.75% on owner Class P Profit share holdings as at year-end [0.70% in 2016]	**196**	176
Class I, Series 1 Investment share dividend of 4.00% [4.00% in 2016]	**126**	134
Class I, Series 2 Investment share dividend of 4.00% [4.00% in 2016]	**124**	122
Class I, Series 3 Investment share dividend of 4.00% [4.00% in 2016]	**325**	328
Class I, Series 4 Investment share dividend of 4.00% [4.00% in 2016]	**814**	812
Class I, Prosperity Series 5 Investment share dividend of 4.00% [4.00% in 2016]	**3,111**	3,001
Stock dividends payable at year-end	**10,403**	6,503
Accrued dividends from prior years and acquired on combination	**24**	(58)
Dividend expense	**10,427**	6,445

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

12) REGULATORY INFORMATION

[a] Regulatory capital

Libro's capital management plan is designed to establish a strong base for future growth, the payment of dividends and profit sharing, as well as provide a cushion in the event of market volatility. Libro's capital plan is designed to comply with the Act, which requires Libro to maintain regulatory capital of not less than 4% of total assets and 8% of a risk-weighted equivalent value. The risk-weighted equivalent value is calculated by applying risk-weighted percentages as prescribed by the Act to various assets, operational and interest rate risk criteria. As at December 31, 2017, the total risk-weighted equivalent value for Libro was $2,265,956,000 [$2,162,385,000 in 2016].

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

[thousands of dollars]	December 31, 2017	December 31, 2016
Tier 1 capital		
Membership shares	**4,950**	4,917
Investment and patronage shares	**141,505**	138,472
Stock dividends payable	**10,403**	6,503
Redeemable portion of shares	**(7,118)**	(6,685)
Retained earnings	**71,811**	63,625
Contributed surplus	**60,998**	60,998
Unqualified portion of fair value adjustments	**580**	580
Total Tier 1 capital	**283,129**	268,410
Tier 2 capital		
Redeemable portion of shares	**7,118**	6,685
Collective allowance for credit losses	**905**	688
AOCI defined benefit plans	**(2,041)**	-
Total Tier 2 capital	**5,982**	7,373
Total regulatory capital	**289,111**	275,783
% of total assets	**7.99%**	8.21%
% of risk-weighted assets	**12.76%**	12.75%

[b] Restricted party transactions
As at December 31, 2017, the aggregate value of loans, lines of credit, overdrafts and letters of credit outstanding to directors, officers, their spouses and related corporations amounted to $4,021,000 [$6,399,000 in 2016]. 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 $450,000 [$10,000 in 2016].

Deposits held for restricted parties were $5,543,000 [$5,604,000 in 2016]. 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 $2,140,000 [$1,998,000 in 2016] and the total remuneration paid to elected representatives, including directors was $375,000 [$397,000 in 2016]. In addition to this remuneration, total reimbursement to directors and committee members for travel and out-of-pocket expenses for attendance at meetings was $282,000 [$320,000 in 2016].

[c] Executive compensation
The Act requires disclosure of the five highest paid officers and employees where the remuneration paid during the year exceeded $150,000. The names, positions and remuneration paid during the year of these officers and employees are as follows:

[thousands of dollars]			December 31, 2017		
Name	Title	Salary	Variable Compensation	Monetary Value of Benefits	Total
Stephen Bolton	President & CEO	387	164	54	605
Rick Hoevenaars	EVP Finance & CFO	235	57	36	328
Carol Normandeau	EVP Advice & Service Delivery	232	54	35	321
Scott Ferguson	EVP Information Systems	219	53	34	306
Tania Goodine	EVP Engagement	214	52	34	300

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

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

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

[d] Deposit insurance
The net annual premium paid to DICO for insuring owners' deposits in the current year was $2,094,000 [$1,973,000 in 2016].

[e] Central 1 fees
The total fees paid to Central 1 amounted to $1,354,000 in the current year [$1,339,000 in 2016]. These fees were primarily in respect of banking and clearing services, and membership dues.

13) EMPLOYEE FUTURE BENEFITS

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

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, 2017		December 31, 2016	
[thousands of dollars]	Pension Benefits	Sick Leave Benefits	Pension Benefits	Sick Leave Benefits
Accrued benefit obligation				
Balance at beginning of year	**42,188**	**2,053**	39,991	2,228
Current service cost	**3,634**	**-**	3,565	-
Interest cost	**1,817**	**78**	1,815	90
Benefits paid	**(1,107)**	**(212)**	(934)	(152)
Employees' contributions	**146**	**-**	150	-
Actuarial gain (loss)	**6,021**	**(38)**	(2,399)	(113)
Balance at end of year	**52,699**	**1,881**	42,188	2,053
Plan assets				
Fair value at beginning of year	**36,039**	**-**	32,499	-
Expected return on plan assets	**1,497**	**-**	1,399	-
Employer contributions	**3,737**	**212**	2,451	152
Employee contributions	**146**	**-**	150	-
Benefits paid	**(1,107)**	**(212)**	(934)	(152)
Gain on assets	**1,534**	**-**	474	-
Fair value at end of year	**41,846**	-	36,039	-
Funded status - plan deficit	**(10,853)**	**(1,881)**	(6,149)	(2,053)

The supplementary employee retirement plan is included in the defined benefit pension plan. The weighted average duration of liabilities is 22.1 years [21.3 in 2016] for the defined benefit plan, 12.6 years [12.2 in 2016] for the supplementary employee retirement plan, and 8.5 years [8.5 in 2016] for the sick leave plan.

Assets held within the pension plan consist of balances in the CUMIS Retirement Security Fund (0.01%), units of Franklin Templeton's Balanced Trust Fund (46.56%), and Mawer Investment Management's Balanced Fund (53.43%).

Contributions for the upcoming year are anticipated to be approximately $3,892,000 [$3,757,000 in 2017] for the defined benefit plans, and $212,000 [$153,000 in 2017] for the sick leave plan.

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

	December 31, 2017		December 31, 2016	
[thousands of dollars]	Pension Benefits	Sick Leave Benefits	Pension Benefits	Sick Leave Benefits
Current service cost	**3,634**	**-**	3,565	-
Net interest cost	**320**	**78**	416	90
Total included in salaries and employee benefits expense	**3,954**	**78**	3,981	90

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

	December 31, 2017		December 31, 2016	
[thousands of dollars]	**Pension Benefits**	**Sick Leave Benefits**	**Pension Benefits**	**Sick Leave Benefits**
Actuarial gain on assets	**1,534**	**-**	474	-
Actuarial gain (loss) on liabilities	**(6,021)**	**38**	2,399	113
Total gain (loss) recognized in other comprehensive income (loss)	**(4,487)**	**38**	2,873	113

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

[thousands of dollars]	**Pension Benefits 2017**	**Sick Leave Benefits 2017**
Change in discount rate	**(5,092)**	**(75)**
Change in mortality rate	**(364)**	**-**
Other	**(565)**	**113**
Total actuarial gain (loss) on liabilties	**(6,021)**	**38**

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

	December 31, 2017		December 31, 2016	
[percentages]	**Pension Benefits**	**Sick Leave Benefits**	**Pension Benefits**	**Sick Leave Benefits**
Discount rate	**3.50%**	**3.50%**	4.00%	4.00%
Expected long-term rate of return on plan assets	**3.50%**	**-**	4.00%	-
Rate of compensation increase	**2.50%**	**2.50%**	2.50%	2.50%

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

Change in Benefit Obligations [thousands of dollars]	**Pension Benefits 2017**	**Sick Leave Benefits 2017**
1% increase in discount rate	**(10,255)**	**(153)**
1% decrease in discount rate	**12,745**	**166**
1% increase in rate of compensation increase	**3,734**	**161**
1% decrease in rate of compensation increase	**(3,489)**	**(149)**

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 $45,000 [$57,000 in 2016]. The contributions for the upcoming fiscal year are anticipated to be approximately $28,000 [$52,000 in 2017]. None of Libro's Executive Leadership Team participates in the defined contribution pension plan.

14) COMMITMENTS

[a] Lease obligations
Contractual obligations in respect of operating leases on credit union occupied premises as well as a vehicle amount to $6,269,000 [$5,897,000 in 2016]. 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
2018	1,186
2019	950
2020	765
2021	689
2022	593
Thereafter	2,086

[b] Loan commitments
As at December 31, 2017 Libro had commitments to advance loans totalling $227,989,000 [$145,848,000 in 2016]. The mix of loans committed is consistent with existing funded portfolio balances.

[c] Undrawn lines of credit
As at December 31, 2017 Libro had undrawn lines of credit outstanding on behalf of owners amounting to $615,148,000 [$566,068,000 in 2016].

[d] Letters of credit
As at December 31, 2017 Libro had letters of credit outstanding on behalf of owners amounting to $34,212,000 [$30,416,000 in 2016].

15) DERIVATIVE FINANCIAL INSTRUMENTS

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

	December 31, 2017		**December 31, 2016**	
[thousands of dollars]	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate swap agreements	**901**	**320**	-	3,272
Index-linked term deposit hedge agreements	**1,038**	**1,038**	1,082	1,082
	1,939	**1,358**	1,082	4,354

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

Interest rate swap agreements
Libro enters into interest rate swap agreements in order to hedge against exposure to interest rate fluctuations. As at December 31, 2017 Libro was party to eight such agreements [seven in 2016] with Central 1. The agreements, in aggregate, represent a notional principal amount of $253,950,000 [$204,095,000 in 2016]. 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.

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

December 31, 2017

Counterparty [thousands of dollars]	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**

December 31, 2016

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

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, 2017 Libro was not party to any such agreements [none in 2016] 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 $690,000 [$2,915,000 in 2016] 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 $690,000 [$2,915,000 in 2016] at year-end. These agreements represent a fair market value on a combined basis of nil [nil in 2016] at year-end.

Index-linked term deposit hedge agreements

Libro has outstanding $13,075,000 [$13,401,000 in 2016] in index-linked term deposits to its owners. The index-linked term deposits are three and five-year deposits that pay interest at the end of the term, based on performance of a variety of indices. The embedded derivative associated with these deposits is presented in liabilities and has a fair value of $1,038,000 [$1,082,000 in 2016].

Libro has entered into hedge agreements with Central 1 to offset the exposure to the indices associated with each product, whereby the credit union pays a fixed rate of interest for the term of each index-linked deposit on the face value of the deposits sold. At the end of the term, the credit union receives an amount equal to the amount that will be paid to depositors based on the performance of the indices. As at December 31, 2017, Libro had entered into such contracts in the amount of $13,075,000 [$13,401,000 in 2016]. The agreements are secured by a general security agreement covering all assets of the credit union. The embedded derivative associated with these agreements is presented in assets and has a fair value of $1,038,000 [$1,082,000 in 2016].

16) OWNERS' DEPOSITS

[thousands of dollars]	December 31, 2017	December 31, 2016
Demand deposits	**651,897**	610,953
Chequing deposits	**922,598**	810,147
Term deposits	**932,277**	886,630
Registered savings plans	**314,934**	322,470
Registered income funds	**180,808**	171,396
Registered tax free savings accounts	**276,301**	243,358
	3,278,815	3,044,954

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

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

[thousands of dollars] December 31, 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%**

[thousands of dollars] December 31, 2016 Maturity	Demand	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 7 years	Total
Total deposits	1,536,711	634,168	450,284	180,413	127,623	115,755	3,044,954
Effective interest rate	0.44%	1.58%	2.14%	2.21%	2.25%	2.14%	1.17%

17) STATEMENT OF INCOME AND CASH FLOW DISCLOSURES

[a] Interest income and expense

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

[thousands of dollars]	December 31, 2017	December 31, 2016
Interest Income		
Residential mortgage loans	**34,711**	33,401
Personal loans	**11,835**	12,621
Agricultural loans	**29,278**	28,460
Commercial loans	**37,179**	33,651
	113,003	108,133
Interest Expense		
Demand deposits	**4,215**	3,796
Chequing deposits	**2,531**	2,065
Term deposits	**16,919**	16,661
Registered savings plans	**5,923**	6,264
Registered income funds	**3,587**	3,514
Registered tax free savings accounts	**4,271**	3,863
	37,446	36,163

[b] Non-interest income

Non-interest income consists of the following:

[thousands of dollars]	December 31, 2017	December 31, 2016
Service fees	**11,185**	11,130
Commissions	**5,472**	5,357
Foreign exchange	**1,567**	1,411
Unrealized gains on investments	**3,548**	2,667
Income from property	**348**	329
Miscellaneous income (loss)	**6**	(276)
	22,126	20,618

[c] Supplemental cash flow disclosures

Total interest paid in the year on owners' deposits and securitization liabilities totalled $37,199,000 [$37,189,000 in 2016]. Total interest received on loans to owners and investments totalled $115,184,000 [$110,568,000 in 2016].

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, 2017			December 31, 2016		
[thousands of dollars]	**Book Value**	**Fair Value**	**Difference**	**Book Value**	**Fair Value**	**Difference**
Loans and Receivables						
Loans to owners	**3,105,641**	**3,065,602**	**40,039**	2,933,107	2,945,403	(12,296)
Investments	**415,247**	**413,221**	**2,026**	317,753	317,063	690
Available for Sale						
Investments	**12,848**	**12,848**	**-**	21,928	21,928	-
Fair Value through Profit or Loss						
Investments	**141**	**141**	**-**	4,914	4,914	-
Index-linked deposits	**1,038**	**1,038**	**-**	1,082	1,082	-
Derivative financial instruments	**901**	**901**	**-**	-	-	-
Total financial assets	**3,535,816**	**3,493,751**	**42,065**	3,278,784	3,290,390	(11,606)
Other Liabilities						
Owners' deposits	**3,278,815**	**3,279,119**	**(304)**	3,044,954	3,050,717	(5,763)
Accrued and other liabilities	**6,790**	**6,790**	**-**	7,536	7,536	-
Loans payable	**6,286**	**6,286**	**-**	-	-	-
Securitization liabilities	**10,331**	**10,420**	**89**	3,496	3,496	-
Fair Value through Profit or Loss						
Index-linked deposits	**1,038**	**1,038**	**-**	1,082	1,082	-
Derivative financial instruments	**320**	**320**	**-**	3,272	3,272	-
Total financial liabilities	**3,303,580**	**3,303,973**	**(215)**	3,060,340	3,066,103	(5,763)

Estimated fair values are determined as follows:

(i) Fair values for items that are short term in nature approximate their book value. These include cash and cash equivalents, accrued interest receivable, other assets, accrued and other liabilities and accrued interest payable. Fair values for floating rate financial instruments are equal to book value as the interest rates automatically reprice to market.

(ii) Investments are valued using quoted market prices where available. Cost is used where no ready market values are available.

(iii) Fixed-rate loans are valued by discounting the contractual future cash flows at current market rates for loans with similar credit risks.

(iv) Fixed-rate deposits are valued by discounting the contractual future cash flows using market rates currently being offered for deposits with similar terms.

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

(i) Level 1 - Unadjusted quoted prices in active markets for identical financial assets and financial liabilities;

(ii) Level 2 - Inputs other than quoted prices that are observable for the financial asset or financial liability either directly or indirectly; and

(iii) Level 3 - Inputs that are not based on observable market data.

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

	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
Derivative financial instruments	-	901	-	901
Total assets held at fair value	-	1,939	141	2,080
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

	December 31, 2016			
[thousands of dollars]	**Level 1**	**Level 2**	**Level 3**	**Total**
Recorded at Fair Value				
Assets				
Investments	-	-	4,914	4,914
Index-linked deposits	-	1,082	-	1,082
Total assets held at fair value	-	1,082	4,914	5,996
Liabilities				
Index-linked deposits	-	1,082	-	1,082
Derivative financial instruments	-	3,272	-	3,272
Total liabilities held at fair value	-	4,354	-	4,354
Fair Value Disclosed				
Assets				
Loans to owners	-	-	2,945,403	2,945,403
Investments	-	317,063	-	317,063
Total assets disclosed at fair value	-	317,063	2,945,403	3,262,466
Liabilities				
Owners' deposits	-	3,050,717	-	3,050,717
Securitization liabilities	-	3,496	-	3,496
Total liabilities disclosed at fair value	-	3,054,213	-	3,054,213

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.

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

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

	December 31, 2017	**December 31, 2016**
[thousands of dollars]	**Investments**	**Investments**
Balance, beginning of year	**4,914**	5,554
Increase (decrease) in carrying value	**(12)**	108
Settlements	**(4,761)**	(748)
Balance, end of year	**141**	4,914

The increase in carrying value and settlements on Level 3 assets is presented as Investment income and is related to the investment in CUCO Co-op (see note 4). There were no transfers in or out of Level 3 during 2017 or 2016.

19) INCOME TAXES

Significant components of the deferred tax assets are as follows:

[thousands of dollars]	January 1, 2017	Statement of income	Other comprehensive income (loss)	December 31, 2017
Non-capital losses available for carry forward	**1,502**	**(1,502)**	**-**	**-**
Allowance for credit losses	**268**	**13**	**-**	**281**
Employee future benefits	**1,599**	**(65)**	**822**	**2,356**
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**

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

Libro has utilized $7,703,000 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.

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

	December 31, 2017		December 31, 2016	
[thousands of dollars]	Amount	%	Amount	%
Expected tax provision based on combined federal and provincial rate	**3,763**	**39%**	2,592	40%
Credit union deduction	**(667)**	**(7%)**	(682)	(10%)
General rate deduction	**(1,239)**	**(13%)**	(682)	(10%)
Permanent difference	**(379)**	**(4%)**	69	1%
Other	**(136)**	**(1%)**	(283)	(6%)
	1,342	**14%**	1,014	15%

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

	December 31, 2017		
[thousands of dollars]	Gross	Tax	Net of Tax
Actuarial gain (loss) in employee defined benefit plans	**(4,449)**	**822**	**(3,627)**
Financial instruments designated as cash flow hedges	**95**	**(17)**	**78**
Other comprehensive income (loss)	**(4,354)**	**805**	**(3,549)**

20) TRANSFERS OF LOANS RECEIVABLE

Libro periodically may sell mortgage loans to other financial institutions as described in note 3[p]. The aggregate outstanding value of loans transferred amounted to $nil as at December 31, 2017 [$205,000 in 2016]. The net gain or loss on the sale of mortgages resulting from these transfers is immediately recognized in the Statements of Income as Non-interest income. None of the mortgage loans were delinquent as at year-end. In addition, there were no credit losses incurred on the mortgages transferred in 2017 or 2016.

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

[thousands of dollars]	December 31, 2017	December 31, 2016
Cash flows remitted on collections	**(214)**	(387)
Servicing fees received	**1**	2

The terms of the credit union's lending policies require Libro to maintain a portfolio limit on commercial and agricultural loans not to exceed 55% of total deposits and regulatory capital. This limit is calculated on a rolling 90-day basis and any excess must be corrected within 90 days. The credit union was within this limit throughout all of 2017 and 2016.

21) SECURITIZATION OF LOANS

Libro periodically may securitize mortgages through the transfer of mortgage loans to a special purpose entity as described in note 3[p] 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, 2017	December 31, 2016
Residential mortgages securitized	**9,983**	-
Net cash proceeds received	**9,944**	-
Outstanding balance of securitized mortgages	**9,961**	3,496

At year-end, the aggregate value of securitized loans outstanding amounted to $9,961,000 [$3,496,000 in 2016]. 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 2017 or 2016.

[b] Securitization liabilities
Libro retains a securitization liability for mortgages transferred. The liability bears an average fixed interest rate of 2.11% [2.15% in 2016] and bears a weighted average maturity date of 2022 [2017 in 2016]. As at December 31, 2017, the liability was $10,331,000 [$3,496,000 in 2016].

22) RISK MANAGEMENT

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

At year-end, Libro's liquidity ratio was 13.03% (11.17% in 2016) and assets held for liquidity purposes totalled $428,199,000 [$340,469,000 in 2016], consisting of $217,431,000 liquidity reserve deposits [$202,309,000 in 2016] and $210,768,000 cash and other qualifying deposits [$138,160,000 in 2016].

[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.

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, 2017				
[thousands of dollars]	Residential Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	Total
Above standard	**1,026,337**	**202,890**	**371,086**	**248,154**	**1,848,467**
Standard	**124,687**	**20,316**	**362,279**	**511,873**	**1,019,155**
Below standard	**65,601**	**8,101**	**71,456**	**92,861**	**238,019**
	1,216,625	**231,307**	**804,821**	**852,888**	**3,105,641**

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

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

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

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

[c] Market risk

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

Libro uses income simulation modeling to measure exposure to changes in interest rates over short-term periods. Earnings at risk is calculated by forecasting the net interest margin for the next 12-month period using most likely assumptions. Most likely assumptions include management's best estimates for planned growth rates and the use of future interest rates. Planned growth rates are recorded at the start of the fiscal period as initially set out in the budget and modified to actual experience through the fiscal period. Future interest rates on new business and product renewals are determined using the future interest rates derived mathematically based on the term structure of interest rates. The impact of rate shock scenarios are measured against the most likely forecast ("MLF") as defined above. The resulting change in the forecast as a result of interest rate shocks is then compared to the MLF to determine the earnings at risk amount. Maximum change limits under these interest rate scenarios have been set out by the Board of Directors. These scenarios are based on hypothetical simulations assuming the markets are shocked with 100 or 200 basis point volatility. At the current time, Libro is in compliance with all limits set by the Board of Directors' Policy.

The policy limits and most likely projections are as follows:

Asset Liability Management Limits	Maximum Change Limit	Projected Change to Earnings	Status
Most Likely Shocked + 200 basis points	-10%	-4.21%	Compliant
Most Likely Shocked + 100 basis points	-5%	-1.59%	Compliant
Most Likely Forecast Scenario	0%	0.00%	Compliant
Most Likely Shocked - 100 basis points	-5%	-2.89%	Compliant
Most Likely Shocked - 200 basis points	-10%	-6.12%	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 $243 [$1,380 in 2016].

23) ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities consist of the following:

[thousands of dollars]	December 31, 2017	December 31, 2016
Owner remittances to third parties	**1,843**	1,366
Salaries payable to employees	**4,714**	5,396
Accounts payable	**188**	708
Prosperity Fund payable	**45**	66
	6,790	7,536

24) COMPARATIVE FIGURES

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