ANNUAL REPORT
2018

COLLABORATE
INSPIRE
STRENGTHEN

Stabilization Central
CREDIT UNION

Contents

Message from the Chairperson

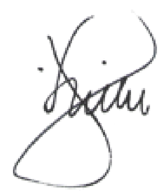
The Board of Directors for Stabilization Central Credit Union continues to work **collaboratively** with credit unions with the objective of building a **stronger**, more sustainable credit union system. **Collaborating** and working together is the only way of ensuring a **strong** viable system in support of our members in communities throughout British Columbia. We are proud of the work Stabilization Central has conducted to support credit unions and their members.

The Board has worked diligently towards our strategic plan, which was confirmed this year at our planning event. The Board has clearly articulated our vision and mission for the road ahead for Stabilization Central and our support for B.C. credit unions. The plan continues to be structured around our three pillars – Engage, Support and Create. *"Engage"* is a key element for Stabilization Central to ensure all credit unions have access to support. *"Support"* refers to our work with credit unions to add value wherever possible. Historically, this has been the core mandate of Stabilization Central for BC credit unions. *"Create"* captures our forward looking focus on adding value for all our stakeholders. It is incumbent upon Stabilization Central to continually seek ways to support all credit unions. Management is working closely with the Board of Directors to ensure we deliver on our plan.

As shown in our financial results, Stabilization Central experienced a net loss this past year resulting from an increase in Master Bond claims and the negative impact on our bond portfolio from rising interest rates. However, we are confident that with a moderation in interest rates and reduced administration costs of our Master Bond Program, the financial strength of Stabilization Central is strong as we move forward.

The Board of Directors is pleased to welcome two new Directors to our Board; representing the North and the Kootenay Regions. These Directors will be confirmed at our Annual General Meeting this year and we are encouraged with the skills these new Directors bring to the oversight of Stabilization Central. Thank you to everyone who expressed an interest to take an active role on the Board of Stabilization Central.

Stabilization Central continues to work with management for greater **collaboration** and value creation for all credit unions. On behalf of the Board of Directors we wish to thank you for your ongoing support and **collaboration** with Stabilization Central. We are optimistic in the work we are pursuing with you and for the future of the system.



Jim Miller
Chairperson, Board of Directors

Message from the CEO

We are proud of the support that we have delivered to the BC credit unions over the past year. We look forward to continually pursuing our goal of contributing to you and to strengthen all credit unions. We seek **collaborations** and partnerships that add value to credit unions in order to build a **stronger** credit union sector for British Columbia.

The Board of Directors and management met during the year to reaffirm our strategic plan as we move forward; emphasizing our three pillars – *Engage, Support and Create*. Our commitment continues as we strive to add value for all BC credit unions.

Negative earnings we experienced over this past year were the direct result of two factors; the increase in Master Bond claims over the prior year, and the increase in interest rates, which has had a negative impact on the bond portfolio that Stabilization Central Credit Union is required to maintain to ensure our income tax status as a deposit insurance corporation. A minimum of fifty percent of the investment portfolio must be held in government bonds. With the increase in interest rates during this past year, the majority of the portfolio has seen a decrease in value, as is expected in a rising rate environment. However, with the flattening of the yield curve in early 2019, it is anticipated that the portfolio will remain positive for the coming year; assuming no major global events negatively impact Canadian bond yields.

Master Bond Program claims were 65% greater in 2018 than in the previous year, primarily due to an increase in on-line banking claims. The combination of a reduction in administrative costs by moving the Master Bond Program Administration into Stabilization Central and remaining an attractive position in the commercial insurance market for our excess coverage underscores our confidence in a strong future for the Master Bond Program.

Following the success of the Leadership Competencies framework and the launch of the 360-assessment tool in 2018, we are proud to have partnered with Canadian Credit Union Association ("CCUA") to pilot a board of director evaluation program that compares individual results to other directors from credit unions across Canada. This is an important and objective tool to bring a benchmark to director evaluations that was not previously available. The feedback report also contains recommendations for areas of development which are unique to the board member completing the evaluation. Feedback has been very positive from the 100 directors who participated in the pilot program.

We are pleased to report that the leadership development/employee secondment program is underway with two credit unions exploring opportunities with their leadership candidates. Sharing our expertise as a credit union system supports each other while developing our leaders. Similar programs have operated successfully in other provinces.

Stabilization Central is proud to be the primary financial sponsor for the BC Young Leaders again for 2019. The BC Young Leaders is an important network of young leaders who will succeed as the next generation of credit union leaders for British Columbia credit unions. While we endeavour to **inspire** these individuals, we are in turn **inspired** by their enthusiasm, engagement and energy.

Thank you to all credit unions and stakeholders for your support and engagement with Stabilization Central Credit Union as we collaborate to strengthen the BC Credit Union System.

Doug Eveneshen
Chief Executive Officer

Master Bond Program

The Master Bond Program (MBP) has been protecting and serving B.C. credit unions since 1972. The combination of good risk management practices by credit unions, producing favourable claims experience and responsible cost containment, has resulted in stable insurance costs. As system assets have grown, the MBP assessment cost per million of assets has steadily declined.

Stabilization Central Credit Union owns and manages the MBP. The MBP Committee of Stabilization Central's Board decided, in 2017, to consolidate all MBP operations within Stabilization Central. This transition took place in the second quarter of 2018 and provides increased efficiency, enhanced control and stability to the program. The MBP Committee provides the required oversight for effective and continued efficient management of the program.

The Plastic Card Financing Plan was wound up in 2018. There was unequal distribution of losses under the program. Those disadvantaged by the Plan were credited an equal amount on their Master Bond Program Assessment for 2019. Plastic Card losses are once again covered under an endorsement of the Master Bond Program.

Financial highlights

Financial income for 2018 totalled $1.52 million and was comprised of investment income of $28,600 and assessment income of $1.491 million, both reduced from the previous year. The claims paid expense in 2018 was $1.2 million. This represents an increase in claims, driven primarily by online banking coverage, forgery claims and with costs associated with the wind-up of the Plastic Card Financing Plan.

Despite the withdrawal of Coast Capital from the program, insurance levels were maintained and the total net assessment to the system was decreased for 2019 coverage. Increased assessments are anticipated for 2020 to ensure the program remains healthy.

Corporate Governance

The Board of Directors of Stabilization Central Credit Union of British Columbia is comprised of 6 elected representatives from each region which comprise credit unions grouped on asset-size and regions and up to three at large appointed directors. At fiscal year-end 2018, four directors were credit union chief executive officers or general managers, one director was senior management and two were credit union directors. All have a professional or business background including financial, accounting, legal, governance and enterprise risk management that contributes significant expertise at the Board table. In addition to their credit union involvement, directors sit on various other boards including the Galiano Loan Fund Society, Rotary Club of Aldergrove, Credit Union Foundation of B.C., Credit Union Executives Society (CUES), B.C. Real Estate Association, BCCA, ICBC, and the Motor Dealer Customer Corporation Ltd.

All of Stabilization Central's directors participate in the national system's Credit Union Director Achievement (CUDA) program. Some directors also have the ICD.D designation from the Institute of Corporate Directors as well as the CCD designation from the Credit Union Executive Society (CUES). The organization has an effective director orientation program in place. In addition, all directors are members of the Institute of Corporate Directors. Opportunities to attend conferences, workshops and take courses to enhance the knowledge and expertise in areas of governance are provided as per the Director Education Policy of the organization. When possible, speakers from varying areas of expertise are invited to provide education session for directors.

Board of Directors and Terms of Office

Jim Miller
Chairperson, 2016 - 2019

Appointed Director*
Chief Executive Officer (retired)
Creston & District Credit Union

Paul Johnson
Director, 2017 - 2020

VP, Enterprise Risk, Projects & Corporate Governance
Coastal Community Credit Union

Darlene Hyde
Director, 2017 - 2020

Director, Westminster Savings Credit Union

Anita Braha
Director, 2018 - 2021

Chairperson, Vancity Savings Credit Union
(Appointed Director)

Kelly Marshall
Vice Chair, 2018 - 2021

Chief Executive Officer
Summerland & District Credit Union

Dave Stene
Director, 2016 - 2019

Chief Executive Officer
Bulkley Valley Credit Union

Gus Hartl
Director, 2018 - 2021

Chief Executive Officer
Aldergrove Credit Union

*Jim Miller was the elected representative from the Kootenay Region until his July 1st, 2018 retirement as CEO of Creston & District Credit Union. Mr. Miller was appointed to the Board until the close of the 2019 AGM.

Committees

Committee	Members	Functions
Audit & Risk 4 meetings	Paul Johnson, Chairperson Jim Miller Gus Hartl	The Audit & Risk Committee's responsibilities include oversight of the activities of the external auditor, assessment of accounting policies and the adequacy of internal controls. In addition, the oversight of ERM, which includes ensuring the organization has effective risk management processes in place.
Governance & Conduct Review 4 meetings	Anita Braha, Chairperson Kelly Marshall Darlene Hyde	The Governance & Conduct Review Committee assists the Board in fulfilling its corporate governance responsibilities and is responsible for establishing policies and procedures to address conflict of interest, standards of conduct and to maintain sensitive information confidential.
Investment & Loan 4 meetings	Gus Hartl, Chairperson Dave Stene Anita Braha Doug Eveneshen (Management)*	The Investment and Loan Committee is responsible for ensuring there is an appropriate, prudent policy to govern the employment of the funds entrusted to the organization and to oversee the employment of those funds.
Human Resources 4 meetings	Jim Miller, Chairperson Kelly Marshall Paul Johnson	The HR Committee oversees the Human Resources policies and practices of SCCU including the terms of employment of the CEO.
Nominating & Elections 2 meetings	Darlene Hyde, Chairperson Anita Braha Gus Hartl	The Nominations & Elections Committee oversees the director election process, including ensuring that qualified candidates are nominated for director positions.
Master Bond Program 4 meetings	Dave Stene, Chairperson Kelly Marshall Darlene Hyde	The Master Bond Program Committee is responsible to ensure effective and consistent oversight of the Master Bond Program (MBP).
Rules Review Committee 1 meeting	Anita Braha, Chairperson Dave Stene Kelly Marshall	The Rules Review Committee is mandated to review in detail the Rules of Stabilization Central and provide recommendations for rule changes if appropriate.
Stabilization Advisory Committee 4 meetings	Kelly Marshall, Chairperson Jim Miller Paul Johnson Dave Stene Darlene Hyde Anita Braha Gus Hartl	The purpose of the Stabilization Advisory Committee is to oversee the organization's credit union stabilization activities.

*The CEO is a Voting Officer Member of the Investment & Loan Committee.

Director Disclosure

Stabilization Central Credit Union provides directors with the following compensation:

- $500 per board meeting attended
- $250 per committee meeting attended
- $500 paid once every quarter for preparation time
- $8,000 honorarium for Board Chair; $4,800 honorarium for Vice Chair
- $1,500 honorarium for chairing each of the committees.
- Reimbursement of expenses including travel, accommodations, parking, meals for meetings, training and for expenses related to approved representation of the credit union.
- Director Education Policy provides up to $10,000 over a term (three-year period) for each director for training, to attend educational sessions and conferences. *Per diems for education are not included in this amount*
- In 2018, there were a total of 6 Board meetings and 27 Committee meetings held
- A two-day strategic planning session was also held

By ordinary resolution, the members in attendance at the Annual General Meeting held on April 27th, 2012, approved an aggregate amount of $100,000 to be available for compensation to directors (note this is for all directors in total, not individually).

For fiscal year 2018, the total remuneration for Stabilization Central directors was $80,050. The compensation received for each director is summarized in the following table:

Name	Regions	Meeting Fees	Expense Reimbursement	Education and Conferences
Jim Miller Chairperson	Kootenays	$8,000 Board Chair Hon. $1,500 Governance & HR Chair Hon. Total Comp: $9,500	$0	$0
Creston & District (Jim Miller)	Kootenays	$6,750 Total Comp: $6,750	$7,096	$0
Summerland & District Credit Union (Kelly Marshall) Vice Chairperson (May-December)	Okanagan	$4,800 Vice Chair Hon. $1,500 SAC Chair Hon. $7,250 Total Comp: $13,550	$5,259	$8,306
Aldergrove Credit Union (Gus Hartl)	Lower Mainland	$8,250 Total Comp: $8,250	$1,386	$479
Darlene Hyde	Large CU's	$750 Audit & Risk Chair Hon. (Jan-April) $1,500 Nominating Chair Hon. $10,500 Total Comp: $12,750	$1,260	$7,867
Coastal Community Credit Union (Paul Johnson)	Island	$1,000 Audit & Risk Chair Hon (May-Dec) $500 Investment & Loan Chair Hon (Jan-April) $9,750 Total Comp: $11,250	$5,067	$2,730
Bulkley Valley Credit Union (Dave Stene)	Northline	$1,500 MBP Chair Hon. $6,750 Total Comp: $8,250	$3,756	$0
Anita Braha	Appointee	$500 Rules Review Chair Hon. (Jan-April) $500 Nominating Chair Hon. (Jan-April) $1,500 Governance & CRC Chair Hon. $7,250 Total Comp: $9,750	$670	$1,069

*Note that there are increased travel expenses for directors required to travel from outside of the Lower Mainland to attend Meetings.
**Per diems of the current directors who are operators are paid directly to their respective credit unions.

CEO Disclosure

The compensation philosophy for Stabilization Central Credit Union is to provide a competitive total program consistent with market-based practices for all personnel. Market data is gathered and a benchmark for employee compensation is established at a P75 level for the sector. Given the unique mandate of Stabilization Central, a compensation review was conducted for the CEO role by the Human Resources Committee of the Board whereby a benchmark was determined utilizing the CEO compensation data of the average asset size of those credit unions that Stabilization Central has supported within the past several years.

Key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling the activities of Stabilization Central. The amount of total compensation paid to the key management personnel during 2018 was $698,182 (December 31, 2017 - $769,268).

Financial Statements

Independent Auditors' Report

To the Members of Stabilization Central Credit Union of British Columbia

Opinion
We have audited the financial statements of Stabilization Central Credit Union of British Columbia (Stabilization Central), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of profit or loss for the year then ended
- the statement of comprehensive loss for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

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

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"Auditors' Responsibilities for the Audit of the Financial Statements"** section of our auditors' report. We are independent of Stabilization Central in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of thefinancial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing Stabilization Central's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Stabilization Central or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing Stabilization Central's financial reporting process.

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

We also:

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

KPMG LLP

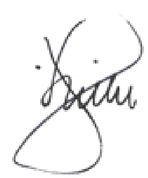
Chartered Professional Accountants

Vancouver, Canada
April 3, 2019

Statements of Financial Position

As at December 31, 2018 and 2017	Notes	2018	2017
Assets			
Cash	6	$ **805,671**	$ 60,269
Deposits with regulated financial institutions	7	**1,419,464**	2,210,254
Investment securities	8	**43,167,523**	44,548,389
Accounts receivable	9	**850,154**	1,206,854
Property and equipment	10	**5,947**	7,349
Prepaid expenses		**13,717**	13,519
Other assets		**33,763**	33,763
		$ **46,296,239**	$ 48,080,397
Liabilities			
Accounts payable and accrued liabilities	6	$ **268,171**	$ 230,025
Provision for master bond claims	12	**514,469**	328,087
		782,640	558,112
Equity			
Share capital	13	**42,573**	42,573
Contributed surplus		**1,383,659**	1,383,659
Retained earnings		**44,087,367**	46,373,372
Accumulated other comprehensive loss		**–**	(277,319)
		45,513,599	47,522,285
		$ 46,296,239	$ 48,080,397
Commitments	14		

Approved by the Directors:



Jim Miller
Chairperson

Paul Johnson,
Chairperson — Audit & Risk Committee

See accompanying notes to the financial statements.

Statements of Profit or Loss

For the years ended	Notes	2018	2017
Assessments		$ **1,491,002**	$ 1,565,995
Financial income			
Interest income		**46,740**	13,041
Pooled fund distributions		**1,789,609**	2,376,626
Gains on disposal of financial instruments		**12,173**	34,109
Change in fair value of financial instruments		**(1,443,970)**	–
Total financial income		**404,552**	2,423,776
Other income		**3,144**	3,007
		1,898,698	3,992,778
Direct costs			
Claims paid	12	**1,205,400**	714,414
Insurance and brokerage		**536,611**	539,296
Master bond claims administration		**267,110**	293,130
Increase in provision for master bond claims		**186,382**	32,079
		2,195,503	1,578,919
Operating expenses			
Salaries and benefits	6,15	**784,962**	805,825
Professional services	6	**205,451**	313,154
Corporate projects	6	**141,950**	62,847
Office and occupancy	6,14	**108,112**	111,167
Travel and meetings		**100,468**	80,527
Subcontract fees		**90,944**	220,252
Other	7	**80,851**	60,938
Directors remuneration	6	**80,285**	92,306
Investment advisory fee		**76,672**	93,751
Data processing and systems development	6	**42,186**	39,063
		1,711,881	1,879,830
Profit (loss) before income taxes		**(2,008,686)**	534,029
Income taxes	11	**–**	10,884
Profit (loss)		$ **(2,008,686)**	$ 523,145

See accompanying notes to the financial statements.

Statements of Comprehensive Loss

For the Years Ended December 31, 2018 and 2017		2018		2017
Profit loss	$	**(2,008,686)**	$	523,145
Other comprehensive income, net of tax				
Items that may be reclassified subsequently to profit or loss				
Fair value reserves (available-for-sale financial assets)				
Net change in fair value of available-for-sale financial assets[1]		–		(320,356)
Reclassification of realized gains on available-for-sale financial assets to profit or loss[2]		–		(29,804)
Other comprehensive loss, net of tax		–		(350,160)
Comprehensive income, net of tax	$	**(2,008,686)**	$	172,985
Income taxes (recoveries) on items that may be reclassified subsequently to profit or loss				
Net change in fair value of available-for-sale financial assets	$	–	$	6,580
Reclassification of realized gains on available-for-sale assets to profit or loss	$	–	$	4,304

See accompanying notes to the financial statements.

Statements of Changes in Equity

As at December 31, 2018 and 2017		Share Capital		Contributed Surplus		Retained Earnings		Accummulated Other Comprehensive Income		Total Equity
Balance at January 1, 2018	$	42,573	$	1,383,659	$	46,373,372	$	(277,319)	$	47,522,285
Change on initial adoption of IFRS 9 (Note 3)		–		–		(277,319)		277,319		–
Restated balance at January 1, 2018		42,573		1,383,659		46,096,053		–		47,522,285
Total comprehensive income										
Loss		–		–		(2,008,686)		–		(2,008,686)
Balance at December 31, 2018	**$**	**42,573**	**$**	**1,383,659**	**$**	**44,087,367**	**$**	**–**	**$**	**45,513,599**
Balance at January 1, 2017	$	42,573	$	1,383,659	$	45,850,227	$	72,841	$	47,349,300
Total comprehensive income										
Profit		–		–		523,145		–		523,145
Other comprehensive loss, net of tax		–		–		–		(350,160)		(350,160)
Total comprehensive income		–		–		523,145		(350,160)		172,985
Balance at December 31, 2017	$	42,573	$	1,383,659	$	46,373,372	$	(277,319)	$	47,522,285

See accompanying notes to the financial statements.

Statements of Cash Flows

For the Years Ended December 31, 2018 and 2017	2018	2017
Cash flows from operating activities		
Profit (loss)	**$ (2,008,686)**	$ 523,145
Adjustments for:		
Depreciation	**1,402**	17,618
Gains on disposal of financial instruments	**(12,173)**	(34,109)
Change in fair value of financial instruments	**1,443,970**	–
Increase in provision for master bond claims	**186,382**	32,079
Interest income	**(46,740)**	(13,041)
	(435,845)	525,692
Change in accounts recievable	**356,700**	(1,206,854)
Change in prepaid expenses	**(198)**	(5,023)
Change in accounts payable and accrued liabilities	**38,146**	23,457
Interest received	**36,477**	2,787
Net cash used in operating activities	**(4,720)**	(659,941)
Cash flows from investing activities		
Change in deposits with regulated financial institutions	**801,053**	(2,200,000)
Change in investment securities	**(50,931)**	2,609,218
Change in property and equipment	**–**	{66)
Net cash from investing activities	**750,122**	409,152
Increase (decrease) in cash	**745,402**	(250,789)
Cash - beginning of year	**60,269**	311,058
Cash - end of year	**$ 805,671**	$ 60,269

See accompanying notes to the financial statements.

Notes to the Financial Statements

Years ended December 31, 2018 and 2017

1. General information

Stabilization Central Credit Union of British Columbia (Stabilization Central) is domiciled in Canada with a registered office located at 1441 Creekside Drive, Vancouver, British Columbia, V6J 4S7, Canada. Stabilization Central was incorporated under the *Credit Union Incorporation Act (British Columbia) and designated as a stabilization authority under the Financial Institutions Act (British Columbia).*

The purpose of Stabilization Central is to strengthen credit unions in British Columbia, which are also required to be members of Stabilization Central. Stabilization Central accomplishes this through the following two programs:

a. Stabilization Fund

Stabilization Central develops programs to promote credit unions' self-discipline, monitors credit unions for emerging risks, and works co-operatively with credit unions to ensure appropriate corrective actions are taken if weaknesses are identified. Stabilization Central may assume, by delegation from the Financial Institutions Commission of British Columbia (FICOM), responsibility for the supervision of credit unions and may also provide management resources to act as the administrator of a credit union. Stabilization Central maintains the Stabilization Fund to provide or arrange stabilization and other assistance for member credit unions that encounter problems, including financial assistance for deposit protection purposes. Operations are financed by earnings on Stabilization Fund's equity and member assessments, if required.

Stabilization Central has entered into a Credit Union Financial Assistance Agreement (CUFAA) with the Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) and FICOM. The terms of this agreement require that Stabilization Central shall maintain a fund of at least $30.0 million for British Columbia credit unions' stabilization and deposit insurance purposes (Committed Fund). Details of CUFAA agreement are provided in Note 14(b). Stabilization Central meets with CUDIC and FICOM annually to review the terms of CUFAA.

b. Master Bond Fund

The Master Bond Fund provides bonding protection for all credit unions in British Columbia and their subsidiaries. The Master Bond Fund self-insures against smaller risks and obtains insurance against larger risks. Stabilization Central assumes 100% of the risk for the first $1.0 million of individual credit union losses, less any applicable credit union deductible, to a maximum annual aggregate assumed loss of $5.0 million. Stabilization Central maintains the Master Bond Fund to settle claims within the retained limits. Stabilization Central insures against individual losses in excess of $1.0 million with independent insurance companies up to a single loss limit of $60.0 million and an aggregate annual loss limit of $120.0 million. Operations are financed by member assessments and by earnings on Master Bond Fund's securities.

Stabilization Central had previously entered into a service agreement with Central 1 Credit Union (Central 1) to provide claims administration services to assist in carrying out the mandate of the Master Bond Fund. Effective March 31, 2018, Stabilization Central manages the mandate of the Master Bond Fund inhouse.

2. Basis of Presentation

a. Statement of compliance

These Financial Statements have been prepared in accordance with *International Financial Reporting Standards (IFRS)* as issued by the International Accounting Standards Board (IASB).

This is the first set of Stabilization Central's annual financial statements in which IFRS 9, Financial Instruments, has been applied. Changes in accounting policies are described in Note 3.

With the exception of IFRS 9 adoption, the policies set out below have been consistently applied to all the periods presented in Stabilization Central's annual financial statements.

The annual financial statements were authorized for issue by the Board of Directors on April 3, 2019.

b. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the financial assets classified as available-for-sale which are measured at fair value.

c. Functional and presentation currency

These financial statements are presented in Canadian dollars, which is Stabilization Central's functional currency.

d. Use of estimates and judgments

In preparing the financial statements in accordance with IFRS, management must exercise judgements and make estimates and assumptions that affect the application of accounting policies and the carrying amounts of assets and liabilities, net income and related disclosures. Actual results may differ materially from those estimates. Significant areas for which management must make subjective or complex estimates and judgments include the provision for master bond claims.

While management makes its best estimates and assumptions, actual results may differ materially from those estimates and assumptions. Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. Change in accounting policies

The adoption of IFRS 9, Financial Instruments, on January 1, 2018 has resulted in changes in Stabilization Central's accounting policies for classification and measurement of financial assets and financial liabilities, as well as impairment of financial assets.

Stabilization Central adopted IFRS 9 prospectively and did not restate comparative periods. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings as at January 1, 2018.

Under IFRS 9, financial assets are classified and measured at amortized cost, fair value through other comprehensive income (FVOCI) and FVTPL. The classification of a financial asset under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39, Financial Instruments: Recognition and Measurement, categories of held-to-maturity, loans and receivables, and available-for-sale.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. As Stabilization Central measures its financial assets at FVTPL or holds only short-term financial assets at amortized cost, the impairment requirements under the new standard do not impact these financial statements.

As permitted by IFRS 9, an election is available to continue to apply the hedge accounting requirements of IAS 39. However, Stabilization Central has not applied hedge accounting under either standard. Therefore, the hedge accounting requirements under the new standard do not impact these financial statements.

IFRS 9 largely retains the existing requirements of IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on Stabilization Central's accounting policies related to financial liabilities.

See Note 4 for the new financial instruments accounting policy.

The following table shows the measurement categories in accordance with IAS 39 prior to the adoption of IFRS 9 and the new measurement categories under IFRS 9 for Stabilization Central's financial assets and financial liabilities as at January 1, 2018:

	IAS 39 Measurement Cateogry		IAS 39 Carrying Amount Dec 31 2017	IFRS 9 Measrement Cateogry		IFRS 9 Carrying Amount Jan 1 2018
Financial Assets						
Cash	Loans and receivables	$	60,269	Amortized Cost	$	60,269
Deposit with regulated financial institutions	Loans and receivables		2,210,254	Amortized Cost		2,210,254
Investment securities	Available-for-sale		44,548,389	FVTPL		44,548,389
Accounts receivable	Loans and receivables		1,206,854	Amortized Cost		1,206,854
Other assets [1]	Available-for-sale		33,763	FVTPL		33,763
Total financial assets		$	48,059,529		$	48,059,529
Financial Liabilities						
Accounts payable and accrued liabilities	Other liabilities	$	230,025	Amortized Cost	$	230,025

1 Other assets include 100 shares of Central 1's class C shares and 100 class B shares, and 33,563 preferred shares of CUPP Services Ltd. (CUPP).

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on January 1, 2018:

	IAS 39 Carrying Amount Cateogry	Adjustment for Reclassification	Total IFRS 9 Adjustments	IFRS 9 Carrying Amount Jan 1 2018
Financial Assets				
Cash	$ 60,269	$ –	$ –	$ 60,269
Deposit with regulated financial institutions	2,210,254	–	–	2,210,254
Investment securities [1]	44,548,389	–	–	44,548,389
Accounts receivable	1,206,854	–	–	1,206,854
Property and equipment	7,349	–	–	7,349
Prepaid expenses	13,519	–	–	13,519
Other assets [2]	33,763	–	–	33,763
	$ 48,080,397	$ –	$ –	$ 48,080,397
Liabilities				
Accounts payable and accured liabilities	$ 230,025	$ –	$ –	$ 230,025
Provision for master bond claims	328,087	–	–	328,087
	558,112	–	–	558,112
Equity				
Share capital	42,573	–	–	42,573
Contributed surplus	1,383,659	–	–	1,383,659
Retained earnings [3]	46,373,372	(277,319)	(277,319)	46,096,053
Accumulated other comerehensive loss [3]	(277,319)	277,319	277,319	
	$ 47,522,285	$ –	$ –	$ 47,522,285

[1] The following reclassification adjustments have been made upon adoption of IFRS 9:
- Investment securities of $44.5 million previously classified as available-for-sale were reclassified to FVTPL upon transition to IFRS 9.

[2] The following reclassification adjustments have been made upon adoption of IFRS 9:
- Other assets which include 100 shares of Central 1's class B shares and 100 class C shares, and 33,563 preferred shares of CUPP, previously classified as available-for-sale were reclassified to FVTPL upon transition to IFRS 9.

[3] Amounts reclassfied between retained earnings and AOCI relate to unrealized gains/losses on underlying assets, which has been reclassified following the reclassification of the underlying assets, as noted above.

4. Significant accounting policies

The significant accounting policies used in the preparation of these financial statements are summarized below:

(a) Financial assets and financial liabilities

Recognition and initial measurement

Stabilization Central initially recognizes financial assets on the date on which they are acquired and recognizes financial liabilities on the date on which they are issued. Regular way purchases and sales of financial assets are recognized on the settlement date at which Stabilization Central commits to purchase or sell the assets. A financial asset or liability is measured initially at fair value, plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issuance. For a financial asset or liability measured at FVTPL, transaction costs are recognized immediately in profit or loss.

Classification and subsequent measurement (policy applicable from January 1, 2018)

i) Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice e.g. whether management's strategy focuses on earning contractual interest revenue, or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to Stabilization Central's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how Stabilization Central's stated objectives for managing the financial assets are achieved and how cash flows are realized.

ii) Contractual cash flows characteristics assessment

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time, and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as for profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI), Stabilization Central considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

If the contractual terms of a financial asset give rise to contractual cash flows that are not SPPI, it is classified as at FVTPL.

iii) Financial assets

Under IFRS 9, all financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, FVOCI or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- The contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

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

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

All other financial assets that do not meet the criteria for classification as subsequently measured at either amortized cost or FVOCI, are measured at FVTPL with all changes in fair value recognized in profit or loss.

iv) Financial liabilities

Stabilization Central classifies its financial liabilities as measured at amortized cost and subsequently measured at amortized cost using the effective interest method.

Classification and subsequent measurement (policy applicable before January 1, 2018)

All financial assets and liabilities must be classified based on their characteristics, management's intention, or management's choice of category in certain circumstances. When initially recognized, all financial assets are classified at FVTPL, available-for-sale, loans and receivables, or held-to-maturity, while all financial liabilities are classified as either FVTPL or as other financial liabilities measured at amortized cost.

Impairment on financial assets

At each reporting date, Stabilization Central assesses whether there is objective evidence that financial assets not carried at FVTPL are impaired. Stabilization Central considers various factors in the impairment evaluation process, including, but not limited to, significant financial difficulty of the borrower or issuer, default or delinquency in payments of interest or principal, and the disappearance of an active market for the security. It may also include other observable data related to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group or the economic conditions affecting the industry or region, and a decline in fair value not related to interest rates.

A financial asset or group of financial assets is deemed to be impaired when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due. For the financial assets classified as available-for-sale and FVTPL, a significant or prolonged decline in the fair value of the security below its costs is objective evidence of impairment, resulting in the recognition of an impairment loss.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through other comprehensive income or profit or loss.

(b) Derecognition

Stabilization Central derecognizes a financial asset when the contractual rights to the cash flows for the financial asset expire, or when it transfers the right to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. When Stabilization Central neither transfers nor retains substantially all the risks and rewards of ownership related to a financial asset, it derecognizes the financial asset that it no longer controls.

In transactions which Stabilization Central neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset but it retains control over the asset, Stabilization Central continues to recognize the asset to the extent of its continuing involvement in that asset, determined by the extent to which it is exposed to changes in the value of the transferred asset.

On derecognition of a financial asset, the difference between the carrying value of the asset and the sum of the consideration received and any cumulative gain or loss that has been recognized in other comprehensive income is recognized as profit or loss.

Where Stabilization Central enters into a transaction whereby it transfers assets but retains all or substantially all the risks and rewards of ownership, the transferred assets are not derecognized. Transfers of assets where Stabilization Central retains all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

On derecognition of a financial liability, the difference between the carrying value extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

Stabilization Central derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

(c) Cash

Cash comprises the balance held with Central 1. Cash is carried at amortized cost in the Statement of Financial Position.

(d) Deposits with regulated financial institutions

Deposits with regulated financial institutions are initially classified as amortized cost (from January 1, 2018) and loans and receivables (before January 1, 2018). These deposits are initially measured at fair value plus incremental direct transactions costs. Subsequently, these deposits are measured at amortized cost using the effective interest method. Interest income earned is included in the Statement of Profit or Loss using the accrual basis of accounting.

(e) Investment securities

Policy applicable from January 1, 2018

Investment securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. These securities comprise of mutual fund units which do not give rise to contractual cash flows that are SPPI on the principal amount outstanding. As such, they are initially classified and subsequently measured as FVTPL under IFRS 9. Subsequent to the initial recognition, unrealized gains and losses on these securities are recognized in the statement of profit or loss.

Stabilization Central also holds 100 shares of Central 1 's Class C shares and 100 Class B shares and 33,563 preferred shares of CUPP Services Ltd (CUPP). These investments are included under other assets. Stabilization Central holds these investments for the purpose of accessing for services. These investments do not give rise to contractual cash flows that are SPPI on the principal amount outstanding. As such, they are classified and measured at FVTPL under IFRS 9 with changes in fair value recognized in the statement of profit or loss.

Policy applicable prior to January 1, 2018

Investment securities were classified as available-for-sale and are measured at fair value at each reporting date. Fair value changes are recognized, net of applicable income taxes, in the Statement of Comprehensive Income until the investments are sold or impaired, whereupon the cumulative gains and losses previously recognized in OCI are reclassified to profit or loss as a reclassification adjustment.

The investments in shares of Central 1 and CUPP, which do not have a quoted market price in an active market and for which a reliable valuation cannot be obtained, are carried at cost. There is no ready market for the shares of these entities and accordingly, no reliable measurement of fair value can be determined.

(f) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are recognized initially at fair value along with any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

(g) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is recognized in the Statement of Profit or Loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the pattern of consumption of future economic benefits embodied in the asset.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and is recognized net within other income in the Statement of Profit or Loss.

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

Furniture, fixtures and equipment	3 to 10 years
Leaseholds	Lesser of the useful life of the leaseholds or the term of the lease

Depreciation methods, useful lives and residual values are reassessed at the end of each reporting period and adjusted if appropriate.

(h) Leases

Stabilization Central has entered into lease agreements for its premises with Central 1. These lease agreements are accounted for as operating leases as they do not transfer substantially all the risks and benefits incidental to ownership of the leased property. Payments made under operating leases are recognized in the Statement of Profit or Loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Subsequent to December 31, 2018, Stabilization Central terminated the lease agreement with Central 1 with the lease term ending July 31, 2019.

(i) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when one party agrees to compensate another party (the policyholder) if a specified uncertain future event (other than a change in a financial variable) adversely affects the policyholder. Insurance risk is significant, if and only if, an insured event could cause Stabilization Central to pay significant additional benefits. Any contracts not meeting the definition of an insurance contract are classified as an investment contracts or a service contracts. Investment contracts are those contracts that transfer significant financial risk which is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price, credit rating or index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Stabilization Central has not classified any contracts as investment contracts or service contracts.

When significant insurance risk exists, the contract is accounted for as an insurance contract in accordance with IFRS 4, Insurance Contracts. Contracts that may be considered investment contracts and/or service contracts will follow the measurement principles in IFRS 9, (previously IAS 39).

Stabilization Central, through its participation in the Master Bond program, self-insures against certain risks which meet the definition of insurance risk. As such, the underlying contractual agreements are accounted for as insurance contracts.

(j) Provision for master bond claims

The provision for master bond claims includes an estimate of the costs of investigating and settling claims discovered prior to the reporting date, based on a detailed review of claim files and on claims settlement experience.

(k) Income taxes

Income tax expense comprises current and deferred taxes. Current and deferred taxes are recognized in profit or loss except to the extent that it relates to items recognized directly in equity.

Current tax

Current tax is the enacted tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxable payable in respect of previous years.

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting

purposes and the amounts used for taxation purposes.
Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if:

- there is a legally enforceable right to offset current tax liabilities against current tax assets;
- they relate to income taxes levied by the same tax authority on the same taxable entity; or
- they relate to income taxes levied by the same tax authority on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Revenue recognition

Assessments

Assessments are received from member credit unions and are generally recognized as revenue on a straight-line basis over the term of the assessment period.

Financial income

Interest income and pooled fund distributions are recognized when earned, collectible and the amount can be reasonably estimated.

Interest income presented in the Statement of Profit or Loss includes interest income on deposits, classified as amortized cost (from January 1, 2018) and loans and receivables (before January 1, 2018), calculated on an effective interest basis.

Pooled fund distributions include investment income from investment securities classified as FVTPL (from January 1, 2018) and available-for-sale (before January 1, 2018).

Gains on disposal of financial instruments recorded in the Statement of Profit or Loss include gains from disposal of investment securities. To the extent these have previously been recognized in OCI, they are transferred from there to profit and loss upon derecognition.

Change in fair value of financial instruments include the fair value changes for investment securities at FVTPL (from January 1, 2018).

(m) Post-employment benefits

Stabilization Central is a participating member of the B.C. Credit Union Employees' Pension Plan (the Plan), a multi-employer defined benefit plan in which plan assets and liabilities are pooled and actuary does not determine an individual employer's own unfunded liability. Each member credit union is exposed to the actuarial risks of the other employers with the result that, in management's opinion, there is no reasonable way to allocate any defined benefit obligations. The Plan is therefore accounted for on a defined contribution basis.

5. New standards and interpretations not yet adopted

FRS 16 – Leases

In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases, and related interpretations. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset (ROU) representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard, and lessors continue to classify leases as finance or operating leases.
The lease liabilities are initially measured at the present value of the lease payments that are not paid on the commencement date, discounted using Stabilization Central's weighted average incremental borrowing rate (IBR) on that date. The IBR is the rate of interest that Stabilization Central would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment.

The ROU assets are initially measured at cost on the lease commencement date which comprise the initial lease liability, lease payments made at or before the commencement date, initial direct costs, and estimated costs to dismantle and remove the underlying assets or to restore the underlying assets to the conditions required by the contracts.

The ROU assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful lives of the ROU assets or the end of the lease term. The estimated useful lives of the ROU assets are determined on the same basis as those of property and equipment. Subsequent to the initial measurement, Stabilization Central will measure the ROU assets at cost less any accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability.

On transition and subsequently, Stabilization Central will elect to apply recognition exemptions to shortterm leases and leases of low-value items. Short-term leases are leases for which the lease term as determined under IFRS 16 is 12 months or less. These recognition exemptions allow Stabilization Central to continue recognize these leases as operating leases and the related lease payments as an expense on a straight-line basis over the lease term.

The termination notice to end the existing lease agreement with Central 1, effective July 31, 2019, resulted in an insignificant impact on transition to IFRS 16 on January 1, 2019 as Stabilization Central applied the recognition exemptions to short term leases. Stabilization Central entered into a new lease agreement with another lessor with lease term starting October 1, 2019. The ROU asset and lease liability related to the new lease agreement will be recognized at the beginning of the lease term.

IFRS 17 – Insurance Contracts (formerly IFRS 4)

On May 18, 2017, the IASB issued IFRS 17, Insurance Contracts, a new standard that replaces IFRS 4, Insurance Contracts. IFRS 17 introduces consistent accounting for all insurance contracts. It sets out the requirements to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires the recognition of profit when insurance services are delivered, rather than when insurance premiums are received.

IFRS 17 has a mandatory effective date for annual periods beginning on or after January 1, 2021. Stabilization Central intends to adopt IFRS 17 for the annual period beginning on January 1, 2021. Stabilization Central is not able to determine the impact of IFRS 17 on its financial statements at this time.

6. Related party transactions

a. Transactions with key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Stabilization Central. The amount of total compensation paid to the key management personnel during 2018 was $698,182 (December 31, 2017 - $769,268).

The fees paid to the Board of Directors was $80,285 for the year ended December 31, 2018 (December 31, 2017 - $92,306).

b. Other related party transactions

Central 1 provides services to Stabilization Central, including premises rental, the administration of claims for the Master Bond Fund until March 31, 2018, accounting services, human resources services and information system management services under various contractual agreements. The total amounts paid to Central 1 under these agreements during the year was $218,083 (December 31, 2017 - $462,561).

Included in accounts payable and accrued liabilities at December 31, 2018 is $2,573 (December 31, 2017 - $6,397), payable to Central 1.

Cash balances are held with or owed to Central 1.

7. Deposits with regulated financial institutions

Deposits with regulated financial institutions consist of fixed income instruments with a weighted average interest rate of 2.1 % (December 31, 2017 -1.9%) and a weighted average term to maturity of 0.3 years (December 31, 2017 -0.7 years).

		Maturity						
		< 1 year	1 -5 years	> 5 years		Dec 31 2018		Dec 31 2017
Amortized Cost	$	1,419,464	–	–	**$**	**1,419,464**	$	**2,210,254**
Fair Value						**1,400,000**	$	**2,200,000**

8. Investment Securities

Total investment securities classified as available-for-sale included in the Statements of Financial Position are as follows:

		Dec 31 2018		Dec 31 2017
Fair value				
Pooled bond funds	**$**	**30,294,268**	$	30,880,856
Pooled equity funds		**12,873,255**		13,667,533
Total	**$**	**43,167,523**	$	44,548,389
Cost				
Pooled bond funds	**$**	**31,601,201**	$	31,669,533
Pooled equity funds		**13,287,609**		13,156,172
Total	**$**	**44,888,810**	$	44,825,705

9. Accounts receivable

The accounts receivable balance primarily consists of the distribution from TD pooled fund that was received subsequent to the December 31, 2018 year end was $835,663 (December 31, 2017: $1,206,661).

10. Property and Equipment

		Furniture and Fixtures		Equipment		Leasehold Improvements		Total
Cost								
Balance at Jan 1 2018	**$**	**39,564**	**$**	**58,603**	**$**	**106,717**	**$**	**204,884**
Balance at Dec 31 2018	**$**	**39,564**	**$**	**58,603**	**$**	**106,717**	**$**	**204,884**
Balance at Jan 1 2017	$	39,564	$	58,603	$	106,717	$	204,884
Balance as at Dec 31 2017	$	39,564	$	58,603	$	106,717	$	204,884
Depreciation								
Balance at Jan 1 2018	**$**	**32,215**	**$**	**58,603**	**$**	**106,717**	**$**	**197,535**
Depreciation		**1,402**		**–**		**–**		**1,402**
Balance as at Dec 31 2017	**$**	**33,617**	**$**	**58,603**	**$**	**106,717**	**$**	**198,937**
Balance at Jan 1 2017	$	28,266	$	55,714	$	95,937	$	179,917
Depreciation		3,949		2,889		10,780		17,618
Balance as at Dec 31 2017	$	32,215	$	58,603	$	106,717	$	197,535
Carrying Value								
Balance at Dec 31 2018	**$**	**5,947**	**$**	**–**	**$**	**–**	**$**	**5,947**
Balance as at Dec 31 2017	$	7,349	$	–	$	–	$	7,349

11. Provision for Income Tax

a. Income tax expense

Stabilization Central is a deposit insurance corporation for income tax purposes and pays income taxes on its taxable income at the applicable tax rate. Income for tax purposes excludes Stabilization Fund and Master Bond Fund assessments made against its member credit unions as well as related financial assistance given to or paid on behalf of member credit unions.

	Dec 31 2018	Dec 31 2017
Deferred income tax expense reported in Profit for the year	**$ –**	$ 10,884
Deferred income tax recovery reported in Other comprehensive loss for the year	**–**	(10,884)
Deferred income tax expense in comprehensive income (loss)	**$ –**	$ –

b. Effective tax rate

Stabilization Central's effective tax rate differs from the amount that would be computed by applying the federal and provincial statutory rates of 12.00% (December 31, 2017 -12.62%).

	Dec 31 2018	Dec 31 2017
Income taxes otherwise payable based on reported profit or loss using the statutory rate of 12.00% (2017 -12.62%)	**$ (240,974)**	$ 67,395
Adjustments for effect of:		
Assessments to members excluded from income for tax purposes	**$ (178,920)**	$ (197,629)
Assistance to members expense	**167,014**	90,159
Non-taxable trading gain and dividend income	**(50,261)**	(86,982)
Change in allowance against unused tax losses	**299,856**	134,822
Other	**3,285**	3,119
Income tax expense	**–**	$ 10,884

12. Provision for Master Bond Claims

Changes in provision for master bond claims are as follows:

		Dec 31 2018		Dec 31 2017
Provision balance, beginning of year	**$**	**328,087**	$	296,008
Add: claims reported during the year		**1,391,782**		746,493
Less: claims paid during the year		**(1,205,400)**		(714,414)
Provision balance, end of year	**$**	**514,469**	$	328,087

13. Share Capital

a. Authorized:
Stabilization Central may issue an unlimited number of Class A voting shares at par value of $1 per share. Class A shares are held by member credit unions only, with each member's shareholding based on its consolidated assets. Class A voting rights are based on the number of members of individual credit union and not the number of Stabilization Central shares held.

Stabilization Central may issue an unlimited number of Class B non-voting shares at par value of $1 per share.

b. Issued:

		Dec 31 2018		Dec 31 2017
32,301 Class A shares (2016 - 32,301)	**$**	**32,301**	$	32,301
10,272 Class B shares (2016 - 10,272)		**10,272**		10,272
	$	**42,573**	$	42,573

14. Commitments

a. Lease commitments

Stabilization Central leases premises. Future minimum operating lease commitments are as follows:

		Dec 31 2018		Dec 31 2017
Due within one year	**$**	**56,310**	$	70,542
Due after one year and within five years		**363,461**		141,085
	$	**419,771**	$	211,627

Total lease payments, including operating costs, charged to the Statement of Profit or Loss for the year ended December 31, 2018 were $70,542 (December 31, 2017 - $66,240). In February 2019 Stabilization Central entered into a new 10-year premises lease at a new location with payments ranging from $90,960 to $102,330 over the term of the lease

b. CUFAA agreement

During the term of CUFAA agreement (Note 1 (a)) Stabilization Central shall replenish the Committed Fund to $30.0 million within 90 days if at any time the Committed Fund decreases to a level below $30.0 million as a result of payment on the deposit insurance guarantee or provision of financial assistance to credit unions. However, if the proposed payment is in excess of $30.0 million, Stabilization Central's liability under this agreement shall be limited in the aggregate to $30.0 million.

Stabilization Central is required to report the status of the Committed Fund at least annually and otherwise as requested by either FICOM or CUDIC from time to time.

15. Post-employment benefits

Every three years, an actuarial valuation is performed to assess the financial position of the multiemployer plan, the adequacy of the funding level, and to determine the present value of accrued pension benefits and recommended plan contributions based on projections of the employees' average compensation levels at retirement. The most recent actuarial valuation for the multi-employer plan, which was conducted as at December 31, 2015, indicated a going concern unfunded liability in the 1. 75% Division of $25.1 million (December 31, 2012 - $32.3 million) and a solvency deficiency of $123.0 million (December 31, 2012 - $129.9 million). The deficit is targeted to be financed over time through increased contributions. The recommended minimum required employer contributions to the 1.75% Division increased from 14.8% as of October 1, 2013 to 15.05% effective January 1, 2017.

As this is a multi-employer plan, the assets and liabilities are pooled and the actuary does not determine an individual employer's own unfunded liability. It is not possible to determine the portion of the deficit related to Stabilization Central.

The next actuarial valuation for the multi-employer plan should be performed no later than as at December 31, 2018 with results available in 2019.

During the year ended December 31, 2018, Stabilization Central made contributions to the Plan in respect of its employees totaling $69,239 (December 31, 2017 - $49,621), which represent less than 0.2% (December 31, 2017 - less than 0.2%) of total annual contributions to the Plan. Such contributions are included in salaries and benefits expense in the Statement of Profit or Loss.

16. Capital Management

Stabilization Central's management seeks to maintain a capital adequate to support its stabilization activities through return on its investment portfolio, rather than by member assessments.

In order to support the activities of the Master Bond Fund, management seeks to maintain a capital in the form of share capital, contributed surplus, retained earnings, and accumulated OCI at an appropriate level. Stabilization Central relies on a combination of member assessments and investment returns on assets attributable to Master Bond Fund to offset the insurance and operating expenses, and over the medium term, to provide for the growth of members' equity at a rate commensurate with the long-term requirements of Master Bond Fund.

17. Financial Instruments – Fair Value

Certain financial instruments are recognized in the Statement of Financial Position at fair value, including investment securities classified at FVTPL (from January 1, 2018) and available-for-sale (before January 1, 2018). The fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants which takes place in the principal (or most advantageous) market at the measurement date under current market conditions. The fair value of financial instruments is best evidenced by unadjusted quoted prices in active markets. When there is no quoted price in an active market, valuation techniques which maximize the use of relevant observable inputs and minimize the use of unobservable inputs are used to derive the fair value.

Financial instruments are recorded at fair value upon initial recognition, which is normally equal to the fair value of the consideration given or received. Where financial instruments are measured at fair value subsequent to initial recognition, fair value is determined as described above. The use of valuation techniques to determine the fair value of a financial instrument requires management to make assumptions such as the amount and timing of future cash flows, discount rates and use of appropriate benchmarks and spreads.

For all financial assets and liabilities, other than deposits with regulated financial institutions, the carrying amounts approximate fair value due to the immediate or short-term nature of these balances.

Investment securities are reflected at fair value in the Statement of Financial Position. The fair value of Stabilization Central's deposits with regulated financial institutions is disclosed in Note 7.

Stabilization Central measures fair value using the following hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 – Inputs that are quoted market price (unadjusted) in an active market for an identical instrument.

Level 2 – Inputs other than quoted prices included within Levei 1 that are observable, either directly or indirectly. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – Inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect the differences between the instruments.

Transfers into and out of Level 1, 2, and 3 occur when there are changes to the relevant inputs which are consistent with the characteristics of the asset or liability. For the years ended December 31, 2018 and December 31, 2017, Stabilization Central had no transfers into and out of Level 1, 2 and 3.

The fair value of all financial instruments recognized at fair value on the Statement of Financial Position or otherwise disclosed is determined by the use of Level 1 inputs in the fair value hierarchy.

The carrying value of cash, deposits with regulated financial institutions, accounts receivable, and accounts payable and accrued liabilities approximates their fair value given their short-term nature. These financial instruments are classified as Level 2 in the fair value hierarchy because while prices are available, there is no active market for these instruments.

18. Risk Management

The nature of Stabilization Central's holdings of financial instruments exposes Stabilization Central to insurance, credit, liquidity, and market risk.

a. Insurance risk

The principle risk Stabilization Central faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the size and complexity of member credit unions and the location of the properties insured. Therefore, the objective of Stabilization Central is to ensure sufficient capital is available to meet its obligations arising from future claim payments.

Stabilization Central manages its insurance risk exposure through imposing underwriting limits and deductibles as described in Note 1, using another insurance company as the excess insurer, and regular review of actual claim experience and product pricing.

The insurance risk of the programs that Stabilization Central offers vary, and separate limits have been established for each program as described in Note 1.

Due to the short-tail nature of claims settlement, Stabilization Central is not exposed to significant insurance risk.

b. Credit risk

Credit risk is the risk of loss or opportunity cost resulting from the default or failure of a borrower, endorser, guarantor, or issuer to fulfil their financial obligations as they come due.

Stabilization Central's key exposure to credit risk is in connection with its deposits within regulated financial institutions and its accounts receivable. As the deposits have a term to maturity of less than one year and accounts receivable are expected to settle within one year credit risk is not expected to be significant.

Stabilization Central has engaged professional investment managers to manage its investment portfolio in accordance with Stabilization Central's Investment Policy, which is subject to annual review by the Board of Directors. Stabilization Central's Investment Policy specifies the amount that may be invested in approved asset classes and provides restrictions on the credit quality of each issuer of securities that may be acquired.

c. Liquidity risk

Liquidity risk is the risk of financial loss that Stabilization Central is unable to generate sufficient cash or its equivalent in a timely and cost-effective manner to meet its obligations as they come due. As the provider of bonding protection for credit unions under the Master Bond Fund, Stabilization Central is required to ensure that it has adequate funds available to settle claims as they come due. Stabilization Central monitors its financial obligations closely and maintains a significant proportion of its investment portfolio in highly liquid pooled funds, which may be liquidated to meet these obligations if required.

Stabilization Central's financial liabilities are normally settled within three months of the year-end.

d. Market risk

Interest rate risk
Interest rate risk is the risk that fair value or future cash flows of a

financial instrument will fluctuate because of changes in market interest rates. Stabilization Central reviews the impact of an increase or decrease in interest rates of 100 basis points on its total equity on an annual basis. As at December 31, 2018, Stabilization Central is exposed to interest rate risk through its deposits with regulated financial institutions (December 31, 2017 - nil exposure). As the deposits have a term to maturity of less than one year interest rate risk is not considered to be significant.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at December 31, 2018 and 2017, Stabilization Central primarily invests in pooled funds denominated in Canadian dollars. Accordingly, Stabilization Central is not exposed to significant currency risk.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Price risk is moderated by Stabilization Central through careful selection of pooled funds and diversification of pooled fund investments. As at December 31, 2018, had the fair value of the Stabilization Central's publicly listed investments increased or decreased by 10%, with all other factors remaining constant, Stabilization Central's total equity would have increased or decreased by approximately $4,316,752 (December 31, 2017 - $4,454,839). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Summarized Statements of Financial Position and Profit (Unaudited)

As at December 31, 2018 and 2017	Year 2018 Stabilization Fund	Year 2018 Master Bond Fund	Year 2018 Total	Year 2017 Total
Assets				
Investment securities	$ 38,258,645	$ 4,908,878	$ 43,167,523	$ 44,548,389
Other	2,619,890	508,826	3,128,716	3,532,008
	$ 40,878,535	$ 5,417,704	$ 46,296,239	$ 48,080,397
Liabilities and equity				
Liabilities	$ 266,697	$ 515,943	$ 782,640	$ 558,112
Equity	40,611,838	4,901,761	45,513,599	47,522,285
	$ 40,878,535	$ 5,417,704	$ 46,296,239	$ 48,080,397
Financial and other income	$ 379,118	$ 1,519,580	1,898,698	$ 3,992,778
Direct Costs				
Claims Paid	–	1,205,400	1,205,400	714,414
Insurance and brokerage	–	536,611	536,611	539,296
Master bond claims administration	–	267,110	267,110	293,130
Increase in provision for master bond claims	–	186,382	186,382	32,079
	–	2,195,503	2,195,503	1,578,919
Operating expenses				
Salaries and benefits	784,962	–	784,962	805,825
Professional services	180,712	24,739	205,451	313,154
Corporate projects	135,664	6,286	141,950	62,847
Office and occupancy	108,112	–	108,112	111,167
Travel and meetings	96,290	4,178	100,468	80,527
Subcontract fees	90,944	–	90,944	220,252
Other	51,199	29,652	80,851	60,938
Directors remuneration	72,257	8,028	80,285	92,306
Investment advisory fee	69,404	7,268	76,672	93,751
Data processing and systems development	42,186	–	42,186	39,063
	1,631,730	80,152	1,711,881	1,879,830
Profit (loss) before income taxes	$ (1,252,612)	$ (756,074)	$ (2,008,686)	$ 534,029