Stabilization Central
CREDIT UNION

Engage. Support. Create.

Annual Report 2017

Contents

Message from the Chairperson

Stabilization Central continues to work collaboratively with credit unions, regulators and stakeholders towards a common goal of a confident, sustainable credit union system to support the communities where we live and work around the province. Only through working together can we achieve this vision.

We are pleased to have successfully recruited a CEO to support our vision and mission in the work that Stabilization Central undertakes. The new CEO was previously the President & CEO for a mid-sized BC credit union for several years and brings that experience in his role. We are grateful to Jennifer Scott who supported Stabilization Central as Interim CEO during the transition.

The Board has worked hard to document our strategic plan which was distributed in late 2017. The plan clearly articulates our vision and mission for the future of Stabilization Central. The plan is structured into three pillars – *Engage, Support and Create*. Management is working closely with the Board of Directors to ensure that we deliver on our plan.

Over the past year our Board has been working to enhance our rules to better align our structure and governance with credit union best practices. Key changes in the rules remove the reference to Peer Groups and create regional representation together with asset groupings to ensure continued alignment with credit unions. In addition, the proposed rules contemplate expanding the number of directors from seven to nine with two additional appointed directors allowed. This change would allow for directors who may not be officers or directors of credit unions to be appointed to the board to meet skills requirements or to ensure adequate representation. The proposed rules are being presented for Member vote at our Annual General Meeting in 2018.

The Board of Directors made the decision in 2017 to transition the administration of the Master Bond Program to within Stabilization Central. This decision was based upon a comprehensive review which identified operating efficiencies while enhancing management of claims to ensure a consistent delivery of service to all credit unions. This move will reduce our administrative costs while strengthening the oversight of the program.

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 thank you for your ongoing support and collaboration with Stabilization Central and our peers. We are optimistic in the work that we are pursuing with you.

Jim Miller
Chairperson, Board of Directors

Message from the CEO

It was an honour to be chosen as the CEO for Stabilization Central Credit Union in the latter part of 2017. The timing is ideal with new leadership at Central 1 Credit Union, the provincial regulator and stakeholders to collaborate and build a stronger BC Credit Union system. Unlike other jurisdictions we have the distinct advantage of having a stabilization authority to provide support before regulatory intervention occurs. Having a stabilization authority should add confidence for BC residents in the knowledge that there is such support for their community credit unions.

The Board of Directors and management have collaborated to create a documented strategic plan that clearly articulates the strategic direction for Stabilization Central. The plan focuses on three pillars – *Engage, Support and Create*. Our commitment has been to visit with all credit unions and/or credit union CEOs to "*Engage*" with all members of Stabilization Central. With new leadership at Central 1 and working with the provincial regulator, the timing is ideal to build and strengthen key relationships in support of credit unions. Collaborating and working together is the only way of establishing a sustainable credit union system. *"Support"* refers to the engagements with credit unions to add value wherever possible. Historically, this has been the historical core mandate of Stabilization Central for BC credit unions. *"Create"* is about creating value for those credit unions who have not utilized Stabilization Central services in the recent past. It is incumbent upon Stabilization Central to continually seek ways to support all credit unions.

Following the successful launch of the Leadership Competencies framework last year with the tremendous support of many credit union HR professionals in collaboration with the Hay Group, Stabilization Central has partnered with KWELA Leadership & Talent Management, together with another group of credit union HR executive, to launch an affordable 360 assessment tool for credit unions. The support of the credit unions has been integral to launching this program, which is anticipated for April 2018.

Many of the same credit unions are assisting in establishing a staff secondment program. To provide leadership development opportunities for BC credit union employees, it was determined that a secondment program would allow an employee to work with another credit union to support them in the specialization that the seconded employee can offer. Similar programs have operated successfully in other provinces. Work is being undertaken to launch this initiative in 2018.

Stabilization Central is proud to sponsor the BC Young Leaders for 2018. Working with the group presents an opportunity to encourage and support the next generation of credit union leadership for British Columbia.

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 (SCCU) owns and manages the MBP and had claims administration management contracted to Central 1 Credit Union. The MBP Committee of SCCU's Board decided in 2017 to consolidate all MBP operations with Stabilization Central. This change provides efficiency, enhanced control and stability to the program. The MBP Committee provides the required oversight for effective and continued efficient management of the program.

Financial highlights
Financial and other income for 2017 totalled $1.74 million and was comprised of investment income of $175,000 and assessment income of $1.57 million. The claims paid expense in 2016 was $916,000. This represents an increase in claims, driven by online banking coverage, plastic card losses and forgery claims.

The financial results at year-end led to the MBP Committee's authorization of a $1.0 million return of surplus funds to qualifying credit unions, disbursed in conjunction with the 2018 MBP renewal.

Corporate Governance

The Board of Directors of Stabilization Central Credit Union of British Columbia is comprised of six elected representatives from each peer group which comprise credit unions grouped on asset-size or regional bases and one at large appointed director. At fiscal year-end 2017, 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 wide 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 BC, Credit Union Executives Society (CUES), BCCA, ICBC, Motor Dealer Customer Corporation Ltd, and Summerland Financial Services.

All of Stabilization Central's directors participate in the national system's Credit Union Director Achievement (CUDA) program. The organization has a very 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. Quarterly, 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

Chief Executive Officer
Creston & District Credit Union

Paul Johnson
Director, 2017 - 2020

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

Darlene Hyde
Director, 2017 - 2020

Chairperson, Westminster Savings Credit Union

Anita Braha
Director, 2015 - 2018

Chairperson, Vancity Savings Credit Union
(Appointed Director)

Kelly Marshall
Vice Chair, 2015 - 2018

Chief Executive Officer
Summerland & District Credit Union

Dave Stene
Director, 2016 - 2019

Chief Executive Officer
Bulkley Valley Credit Union

Gus Hartl
*Director, 2017 - 2018**

Chief Executive Officer
Aldergrove Credit Union

*Gus Hartl was appointed in 2017 to complete the term of retiring Peer Group Six representative Gene Blishen.

Committees

Committee	Members	Functions
Audit & Risk 4 meetings	Darlene Hyde, Chairperson Paul Johnson Jim Miller	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 to the oversight of ERM, which includes ensuring the organization has effective risk management processes in place.
Conduct Review 1 meeting	Anita Braha, Chairperson Kelly Marshall Paul Johnson	The Conduct Review Committee 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	Paul Johnson, Chairperson Anita Braha Gus Hartl 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.
Governance & HR 4 meetings	Jim Miller, Chairperson Kelly Marshall Anita Braha	The Governance & HR Committee assists the Board in fulfilling its corporate governance responsibilities and oversees the Human Resources policies and practices of SCCU including the terms of employment of the CEO.
Nominating 2 meetings	Darlene Hyde, Chairperson Dave Stene Jim Miller	The Nominating Committee oversees the director election process, including ensuring that qualified candidates are nominated for director positions.
Master Bond Program 4 meetings	Dave Stene, Chairperson Darlene Hyde Gus Hartl	The Master Bond Program Committee is responsible to ensure effective and consistent oversight of the Master Bond Program (MBP).
Stabilization Advisory Committee 4 meetings	Kelly Marshall, Chairperson Dave Stene Paul Johnson Jim Miller Darlene Hyde Anita Braha Gus Hartl	The purpose of the Stabilization Advisory Committee is to oversee the organization's credit union stabilization activities.
Rules Review Committee 3 meetings	Anita Braha, Chairperson Kelly Marshall Dave Stene	The Rules Review Committee is mandated to review in detail the Rules of Stabilization Central and provide recommendations for rule changes if appropriate.

*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 following committees: Governance & HR, Investment & Loan, Master Bond Program, Stabilization Advisory (SAC) and Audit & Risk
- $750 honorarium for chairing the Conduct Review Committee, the Nominating Committee and the Rules Review Committee
- 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 2017, there were a total of 8 Board meetings and 31 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 2017, the total remuneration for Stabilization Central directors was $92,306. The compensation received for each director is summarized in the following table:

Name	Peer Group	Meeting Fees	Expense Reimbursement	Education and Conferences
Jim Miller Chairperson	3	$8,000 Board Chair Hon. $1,500 Governance & HR Chair Hon. Total Comp: $9,500	$0	$0
Creston & District (Jim Miller)	3	$12,750 Total Comp: $12,750	$9,607	$0
Mount Lehman Credit Union (Gene Blishen, Vice Chair)	6	$1,600 Vice-Chair Hon. (Jan-April) $500 MBP Committee Chair Hon.(Jan-April) $7,250 Total Comp: $9,350	$0	$0
Aldergrove Credit Union (Gus Hartl)	6	$2,000 Total Comp: $2,000	$0	$555
Angela Kaiser	5	$4,000 Total Comp: $4,000	$112	$51
Darlene Hyde	5	$1,000 Audit & Risk Chair Hon. (May-Dec) $500 Nominating Chair Hon. (May-Dec) $6,000 Total Comp: $7,500	$1,052	$1,575
Coastal Community Credit Union (Paul Johnson)	4	$500 Audit & Risk Chair Hon (Jan-April) $1,000 Investment & Loan Chair Hon (May-Dec) $12,500 Total Comp: $14,000	$3,611	$8,782
Summerland & District Credit Union (Kelly Marshall) Vice Chairperson (May-December)	2	$3,200 Vice Chair Hon. (May-Dec) $1,000 SAC Chair Hon. (May-Dec) $250 Nominating Chair Hon. (Jan-April) $9,750 Total Comp: $13,700	$6,585	$900
Bulkley Valley Credit Union (Dave Stene)	1	$1,000 MBP Chair Hon. (May-Dec) $500 Investment & Loan Chair Hon (Jan-April) $9,250 Total Comp: $10,750	$5,240	$0
Anita Braha	Appointee	$500 Rules Review Chair Hon. (May-Dec) $750 CRC Chair Hon. $9,506 Total Comp: $10,750	$557	$291

There was a total of $8,201 for non-allocated board meeting related expenses (meeting room, catering costs and board dinners)
*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 Governance and HR 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 2017 was $457,755.00 (For the year ending December 31, 2016 - $267,967.00). This includes a transition of CEOs and severance costs.

Financial Statements

Independent Auditors' Report

To the Members of Stabilization Central Credit Union of British Columbia

We have audited the accompanying financial statements of Stabilization Central Credit Union of British Columbia, which comprise the statement of financial position as at December 31, 2017, the statements of profit, comprehensive income (loss), changes in equity and cash flows for the year then ended, and notes, comprising 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we 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 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 Stabilization Central Credit Union of British Columbia as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Finanancial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
April 5, 2018

Statements of Financial Position

As at December 31, 2017 and 2016	Notes	2017	2016
Assets			
Cash	5	**$ 60,269**	$ 311,058
Deposits with regulated financial institutions	6	**2,210,254**	–
Investment securities	7	**44,548,389**	47,473,658
Accounts receivable	8	**1,206,854**	–
Property and equipment	9	**7,349**	24,901
Deferred tax assets	10	**–**	10,884
Prepaid expenses		**13,519**	8,496
Other assets		**33,763**	33,763
		$ 48,080,397	$ 47,862,760
Liabilities			
Accounts payable and accrued liabilities	5	**230,025**	206,568
Deferred tax liabilities	10	**–**	10,884
Provision for master bond claims	11	**328,087**	296,008
		558,112	513,460
Equity			
Share capital	12	**42,573**	42,573
Contributed surplus		**1,383,659**	1,383,659
Retained earnings		**46,373,372**	45,850,227
Accumulated other comprehensive income (loss)		**(277,319)**	72,841
		47,522,285	47,349,300
		$ 48,080,397	$ 47,862,760
Commitments	13		

Approved by the Directors:

Jim Miller
Chairperson

Darlene Hyde,
Chairperson — Audit & Risk Committee

See accompanying notes to the financial statements.

Statements of Profit

For the Years Ended December 31, 2017 and 2016	Notes	2017	2016
Assessments		**$ 1,565,995**	$ 1,516,186
Financial income			
Gains on disposal of financial instruments		**34,109**	2,069,937
Pooled fund distributions		**2,376,626**	1,437,502
Interest income		**13,041**	466,706
		2,423,776	3,974,145
Other income		**3,007**	2,748
		3,992,778	5,493,079
Direct costs			
Claims paid	11	**714,414**	789,107
Insurance and brokerage		**539,296**	623,249
Master bond claims administration		**293,130**	290,870
Increase in provision for master bond claims		**32,079**	18,804
		1,578,919	1,722,030
Operating expenses			
Salaries and benefits	5,14	**805,825**	647,511
Professional services	5	**313,154**	218,748
Subcontract fees		**220,252**	83,160
Office and occupancy	5,13	**111,167**	105,142
Investment advisory fee		**93,751**	108,137
Directors remuneration	5	**92,306**	82,800
Travel and meetings		**80,527**	86,218
Corporate projects	5	**62,847**	65,964
Other	5	**60,938**	31,837
Data processing and systems development	5	**39,063**	31,850
		1,879,830	1,461,367
		3,458,749	3,183,397
Profit before income taxes		**534,029**	2,309,682
Income tax expense			
Deferred income tax expense	10	**10,884**	189,620
Profit for the year		**$ 523,145**	$ 2,120,062

See accompanying notes to the financial statements.

Statements of Comprehensive Income

For the Years Ended December 31, 2017 and 2016		2017		2016
Profit for the year	**$**	**523,145**	$	2,120,062
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)**		588,975
Reclassification of realized gains on available-for-sale financial assets to profit or loss[2]		**(29,804)**		(1,800,844)
Other comprehensive loss, net of tax		**(350,160)**		(1,211,869)
Comprehensive income, net of tax	**$**	**172,985**	$	908,193
Income taxes (recoveries) on items that may be reclassified subsequently to profit or loss				
[1] Net change in fair value of available-for-sale financial assets	**$**	**(6,580)**	$	79,472
[2] Reclassification of realized gains on available-for-sale assets to profit or loss	**$**	**(4,304)**	$	(269,092)

See accompanying notes to the financial statements.

Statements of Changes in Equity

As at December 31, 2017 and 2016		Share Capital		Contributed Surplus		Retained Earnings		Accummulated Other Comprehensive Income		Total Equity
Balance at January 1, 2017	$	42,573	$	1,383,659	$	45,850,227	$	72,841	$	47,349,300
Total comprehensive income for the year										
Profit for the year		–		–		523,145		–		523,145
Other comprehensive loss, net of tax										
Fair value reserve (available-for-sale financial assets, 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**
Balance at January 1, 2016	$	42,573	$	1,383,659	$	$43,730,165	$	1,284,710	$	$46,441,107
Total comprehensive income for the year										
Profit for the year		–		–		2,120,062		–		2,120,062
Other comprehensive loss, net of tax										
Fair value reserve (available-for-sale financial assets, net of tax)		–		–		–		(1,211,869)		(1,211,869)
Total comprehensive income		–		–		2,120,062		(1,211,869)		908,193
Balance at December 31, 2016	$	42,573	$	1,383,659	$	45,850,227	$	72,841	$	47,349,300

See accompanying notes to the financial statements.

Statements of Cash Flows

For the Years Ended December 31, 2017 and 2016	2017	2016
Cash flows from operating activities		
Profit for the year	**$ 523,145**	$ 2,120,062
Adjustments for:		
Gains on disposal of financial instruments	**(34,109)**	(2,069,937)
Increase in provision for master bond claims	**32,079**	18,804
Depreciation	**17,618**	18,452
Interest income	**(13,041)**	(466,706)
	525,692	(379,325)
Change in prepaid expenses	**(5,023)**	2,991
Change in accounts payable and accrued liabilities	**23,457**	(104,431)
Change in accounts receivable	**(1,206,854)**	–
Change in other assets	**–**	72
Interest received	**2,787**	374,649
Net cash used in operating activities	**(659,941)**	(106,044)
Cash flows from investing activities		
Change in deposits with regulated financial institutions	**(2,200,000)**	–
Change in investment securities	**2,609,218**	489,644
Change in property and equipment	**(66)**	–
Net cash from investing activities	**409,152**	489,644
Increase (decrease) in cash	**(250,789)**	383,600
Cash (bank indebtedness) - beginning of year	**311,058**	(72,542)
Cash - end of year	**$ 60,269**	$ 311,058

See accompanying notes to the financial statements.

Notes to the Financial Statements

Years ended December 31, 2017 and 2016

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 have 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 13(b). Stabilization Central meets with CUDIC and FICOM annually to review the terms of CUFAA. The initial term of this agreement is of five years and shall automatically extend at the end of the initial term.

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. A contract with insurance companies insures against individual losses in excess of $1.0 million 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 equity.

Stabilization Central has 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.

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).

The policies set out below have been consistently applied to all the periods presented in the Financial Statements.

The annual financial statements were authorized for issue by the Board of Directors on April 5, 2018.

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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

3. Accounting policies

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

a. Financial assets and liabilities

Recognition

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. A financial asset or liability is measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issuance.

Classification

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

Classification of Stabilization Central's financial assets and liabilities are described in Notes 3(b) to 3(e).

Fair value measurement

Note 15 contains information on the measurement of financial assets and liabilities recognized in the Statements of Financial Position at fair value.

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. Transactions in 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. Any rights and obligations retained following the asset transfer are recognized as a separate asset or liability in the Statements of Financial Position.

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 (OCI) 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.

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

Identification and measurement of impairment
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 financial assets classified as available-for-sale, 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 profit or loss.

b. Cash

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

c. Deposits with regulated financial institutions

Deposits with regulated financial institutions are classified as loans and receivables and initially measured at fair value plus incremental direct transaction costs. Subsequently, these deposits are measured at amortized cost using the effective interest method. Interest income earned is included in the Statements of Profit using the accrual basis of accounting.

d. Financial assets

Investment securities are 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 Statements 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. Interest income on available-for-sale assets included in the Statements of Profit is determined using the effective interest rate method.

Stabilization Central also invests in equity securities classified under other assets. Equity securities that do not have a quoted market price in an active market and for which a reliable valuation cannot be obtained are carried at cost. These are investments in Central 1's class C shares and CUPP services Class B shares. There is no ready market for the shares of these entities and accordingly, no reliable measurement of fair value can be determined.

e. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other financial liabilities. They 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

f. 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 Statements of Profit 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 Statements of Profit.

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.

g. 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 Statements of Profit 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.

h. 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 IAS 39, *Financial Instruments: Recognition and Measurement*.

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.

i. 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.

j. 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 or in OCI.

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 not recognized for the following temporary differences:

- the initial recognition of an asset or a liability in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax liabilities are recognized for all taxable temporary differences except when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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.

k. 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 Statements of Profit includes interest on available-for-sale assets measured at fair value.

Gains on disposal of financial instruments recorded in the Statements of Profit include gains from disposal of available-for-sale securities. To the extent these have previously been recognized in OCI, they are transferred from there to profit and loss upon derecognition.

l. 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.

4. New standards and interpretations not yet adopted

IFRS 9 – Financial Instruments

In July 2014, International Accounting Standards Board (IASB) issued the complete version of IFRS 9, Financial Instruments, which will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 is effective for Stabilization Central for the annual periods beginning on or after January 1, 2018. As permitted, Stabilization Central will not restate the comparative period financial statements, but instead recognize the transition impact through adjustments to the opening balances of retained earnings and accumulated other comprehensive income as at January 1, 2018.

Under IFRS 9, financial assets will be classified as amortized cost, FVTPL, or fair value through other comprehensive income (FVOCI) based on our business model for managing assets and the characteristics of the contractual cash flows of the financial assets.

Upon transition, the business model assessment will be based on the facts and circumstances as at January 1, 2018. Debt instruments that have contractual cash flows representing solely payments of principal and interest (SPPI) and are managed within a business model that is held-to-collect, are classified as amortized cost. Debt instruments that meet the SPPI test and are managed within a business model that is held-to-collect and for sale, are classified as FVOCI with changes in fair value recognized in OCI until the asset is derecognized, upon which the cumulative gain or loss previously recognized in OCI is reclassified to profit or loss. All other debt instruments will be classified and measured as FVTPL.

Equity instruments would generally be measured at FVTPL unless an irrevocable election is made to classify these instruments at FVOCI which will result in change in fair value recognized in OCI with no subsequent impact to profit or loss upon the sale of the instruments.

The classification and measurement of financial liabilities remain essentially unchanged under IFRS 9 except for financial liabilities designated as FVTPL.

IFRS 9 introduces a new expected credit loss (ECL) model applicable for all debt instruments financial assets classified as amortized cost or FVOCI. Compared to the current incurred loss model under IAS 39, the new ECL will result in an allowance for credit losses being recorded regardless of whether there has been an actual loss event. For financial assets that are credit impaired or have experienced a significant increase in credit risk, the loss allowance is recognized based on expected credit losses that result from possible default events over the expected lifetime (lifetime ECL). The loss allowance for all other financial assets are recognized based on the expected credit losses that result from possible default events within twelve months of the reporting date (twelve months ECL).

Based on Stabilization Central's assessment, this standard's expected impact on the classification and measurement of financial assets and financial liabilities of Stabilization Central will be:

- financial instruments currently measured at available-for-sale under IAS 39 will be measured at FVTPL under IFRS 9. These are investments in mutual funds units which do not meet the SPPI criterion and are not eligible for FVOCI election.
- financial instruments currently measured at amortized cost are: cash, deposits with regulated financial institutions, other assets, and accounts payable and accrued liabilities. These instruments will continue to be measured at amortized cost under IFRS 9.

Based on Stabilization Central's assessment, changes to the impairment model are not expected to have a material impact on the financial assets of Stabilization Central. This is because the financial assets at amortized cost are short-term and/or of high credit quality.

IFRS 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 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.

IFRS 16 has a mandatory effective date for annual periods beginning on or after January 1, 2019. The standard may be adopted retrospectively by applying the new lease definition to all contracts, or as of the application date by adjusting the retained earnings at that date and applying the new definition only to new contracts. Stabilization Central is not able to determine the impact of IFRS 16 on its financial statements at this time.

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.

5. 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 2017 was $769,268 (December 31, 2016 - $571,271).

The fees paid to the Board of Directors was $92,306 for the year ended December 31, 2017 (December 31, 2016 - $82,800).

b. Other related party transactions

Central 1 provides services to Stabilization Central, including premises rental, the administration of claims for the Master Bond Fund, 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 $462,561 (December 31, 2016 - $453,365).

Included in accounts payable and accrued liabilities at December 31, 2017 is $6,397 (December 31, 2016 - $11,960), payable to Central 1.

Cash / bank indebtedness balances are held with or owed to Central 1.

6. Deposits with regulated financial institutions

Deposits with regulated financial institutions are registered in the name of Central 1. They consist of fixed income instruments with a weighted average interest rate of 1.9% and a weighted average term to maturity of 0.7 years.

	Maturity				
	< 1 year	1 -5 years	> 5 years	Dec 31 2017	Dec 31 2016
Amortized Cost	$ 2,210,254	–	–	**$ 2,210,254**	$ –

7. Investment Securities

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

		Dec 31 2017		Dec 31 2016
Fair value				
Pooled bond funds	**$**	**30,880,856**	$	30,283,430
Pooled equity funds		**13,667,533**		15,070,760
Pooled money market funds		**–**		2,119,468
Total	**$**	**44,548,389**	$	47,473,658
Cost				
Pooled bond funds	**$**	**31,669,533**	$	30,967,329
Pooled equity funds		**13,156,172**		14,302,327
Pooled money market funds		**–**		2,120,275
Total	**$**	**44,825,705**	$	47,389,931

8. Accounts receivable

The accounts receivable balance consists of the distribution from TD pooled fund that was received subsequent to the year end.

9. Property and Equipment

		Furniture and Fixtures		Equipment		Leasehold Improvements		Total
Cost								
Balance at Jan 1 2017	**$**	**39,498**	**$**	**58,603**	**$**	**106,717**	**$**	**204,818**
Acquisition		**66**		**–**		**–**		**66**
Balance as at Jan 1 2017 and Dec 31 2017	**$**	**39,564**	**$**	**58,603**	**$**	**106,717**	**$**	**204,884**
Balance at Jan 1 2016		39,498		58,603		106,717		204,818
Balance as at Dec 31 2016	$	39,498	$	58,603	$	106,717	$	204,818
Depreciation								
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**
Balance at Jan 1 2016	$	24,316	$	52,806	$	84,343	$	161,465
Depreciation		3,950		2,908		11,594		18,452
Balance as at Dec 31 2016	$	28,266	$	55,714	$	95,937	$	179,917
Carrying Value								
Balance at Dec 31 2017	**$**	**7,349**	**$**	**–**	**$**	**–**	**$**	**7,349**
Balance as at Dec 31 2016	$	11,232	$	2,889	$	10,270	$	24,901

10. 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 2017	Dec 31 2016
Deferred income tax expense reported in Profit for the year	**$ 10,884**	$ 189,620
Deferred income tax recovery reported in Other comprehensive loss for the year	**(10,884)**	(189,620)
Deferred income tax expense in comprehensive income (loss)	**$ –**	$ –

b. Deferred tax assets and liabilities

Deferred tax assets and liabilities consist of the following temporary differences:

	Dec 31 2017	Dec 31 2016
Deferred tax assets - losses carried forward	**$ –**	$ 10,884
Deferred tax liabilities - financial instruments	**$ –**	$ (10,884)

Deferred tax assets related to non-capital losses carried forward of $1,060,792 (December 31, 2016 - $970,599) were not recognized as it is not probable that these losses will be utilized by Stabilization Central in the foreseeable future. In 2016, $10,884 of deferred tax assets were recognized representing the benefit of non-capital losses recognized to the extent of deferred tax liabilities recognized. The $1,060,792 of losses will expire as follows:

Year	Amount
2027	$ 42,803
2028	7,434
2029	86,536
2030	99,859
2031	116,771
2032	43,323
2033	311,079
2034	178,996
2035	56,933
2036	–
2037	117,058
	$ 1,060,792

c. Effective income tax

		Dec 31 2017		Dec 31 2016
Income taxes otherwise payable based on reported profit using the statutory rate of 12.62% (2016 - 13.0%)	**$**	**67,395**	$	300,259
Adjustments for effect of:				
Assessments to members excluded from income for tax purposes		**(197,629)**		(196,498)
Assistance to members expense		**90,159**		105,028
Non-taxable trading gain and dividend income		**(86,982)**		(166,209)
Change in allowance against unused tax losses		**134,822**		144,500
Other		**3,119**		2,540
Income tax expense	**$**	**10,884**	$	189,620

11. Provision for Master Bond Claims

Changes in provision for master bond claims are as follows:

		Dec 31 2017		Dec 31 2016
Provision balance, beginning of year	**$**	**296,008**	$	277,204
Add: claims reported during the year		**746,493**		807,911
Less: claims paid during the year		**(714,414)**		(789,107)
Provision balance, end of year	**$**	**328,087**	$	296,008

12. 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 2017		Dec 31 2016
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

13. Commitments

a. Lease commitments

Stabilization Central leases premises, owned by Central 1, with the lease extending until December 31, 2020. Future minimum operating lease commitments are as follows:

		Dec 31 2017		Dec 31 2016
Due within one year	**$**	**70,542**	$	66,240
Due after one year and within five years		**141,085**		–
	$	**211,627**	$	66,240

Total lease payments, including operating costs, charged to the Statements of Profit for the year ended December 31, 2017 were $66,240 (December 31, 2016 - $66,240).

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.

14. Post-employment Benefits

Every three years, an actuarial valuation is performed to assess the financial position of the multi-employer 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, 2017, Stabilization Central made contributions to the Plan in respect of its employees totaling $49,621 (December 31, 2016 - $57,930), which represent less than 0.2% (December 31, 2016 – less than 0.2%) of total annual contributions to the Plan. Such contributions are included in salaries and benefits expense in the Statements of Profit.

15. 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.

16. Financial Instruments – Fair Value

Certain financial instruments are recognized in the Statements of Financial Position at fair value, including investment securities classified as available-for-sale. 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 classified as loans and receivables, the carrying amounts approximate fair value due to the immediate or short-term nature of these balances.

Investment securities are reflected at fair value on the Statements of Financial Position.

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 Level 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.

The fair value of all financial instruments recognized at fair value on the Statements of Financial Position or otherwise disclosed is determined by the use of Level 1 inputs in the fair value hierarchy as at December 31, 2017 (December 31, 2016 – Level 1).

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. During the year 2017, Stabilization Central had no transfers into and out of Level 1, Level 2 and Level 3. For the year ended December 31, 2016, Stabilization transferred all investment securities from Level 2 to Level 1.

17. 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. The maximum exposure to credit risk is the carrying value of these instruments in the financial statements. The fair value of the instruments as discussed in Note 6 and Note 7.

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, 2017, Stabilization Central is exposed to interest rate risk through its deposits with regulated financial institutions (December 31, 2016 – nil exposure). Stabilization Central accounts for these deposits at amortized cost, therefore, a change in interest rates at the reporting date would not affect total equity.

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, 2017 and 2016, 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, 2017, 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 $4,454,839 (December 31, 2016 - $4,747,366). 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, 2017 and 2016	Year 2017 Stabilization Fund	Year 2017 Master Bond Fund	Year 2017 Total	Year 2016 Total
Assets				
Investment securities	$ 40,495,720	$ 4,052,669	$ 44,548,389	$ 47,473,658
Other	3,522,379	9,629	3,532,008	389,102
	$ 44,018,099	$ 4,062,298	$ 48,080,397	$ 47,862,760
Liabilities and equity				
Liabilities	$ 228,169	$ 329,943	$ 558,112	$ 513,460
Equity	43,789,930	3,732,355	47,522,285	47,349,300
	$ 44,018,099	$ 4,062,298	$ 48,080,397	$ 47,862,760
Financial and other income	$ 2,249,318	$ 1,743,460	$ 3,992,778	$ 5,493,079
Direct Costs				
Claims Paid	–	714,414	714,414	789,107
Increase in provision for master bond claims	–	32,079	32,079	18,804
Insurance and brokerage	–	539,296	539,296	623,249
Master bond claims administration	–	293,130	293,130	290,870
	–	1,578,919	1,578,919	1,722,030
Operating expenses				
Salaries and benefits	805,825	–	805,825	647,511
Professional services	241,803	71,351	313,154	218,747
Subcontract fees	220,252	–	220,252	83,160
Office and occupancy	111,167	–	111,167	105,143
Investment advisory fee	87,101	6,650	93,751	108,137
Directors remuneration	83,075	9,231	92,306	82,800
Travel and meetings	75,453	5,074	80,527	86,217
Corporate projects	62,847	–	62,847	65,965
Other	41,768	19,170	60,938	31,837
Data processing and systems development	39,063	–	39,063	31,850
	1,768,354	111,476	1,879,830	1,461,367
Profit before income taxes	$ 480,964	$ 53,065	$ 534,029	$ 2,309,682