

a beacon of
stability

Stabilization Central Credit Union of British Columbia
2008 ANNUAL REPORT



We work in partnership with credit unions providing proactive, customized solutions and valuable information so as to strengthen their business practices, with a focus on self sufficiency and sound financial management.

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Report of Chairperson & CEO

20 Years Assisting BC Credit Unions in Navigating difficult Times

In 2009 Stabilization Central Credit Union (SCCU) celebrates 20 years as an independent credit union system-owned organization that has demonstrated an ability to successfully assist credit unions under stress rehabilitate themselves, and in some instances, assist in the “orderly transition” into a new entity through merger or amalgamation.

We are proud of our history and the many credit unions we have assisted in difficult times. A number of those SCCU has assisted were not under supervision. As a supervisor, our first concern is for the safety of the depositors’ funds followed by a general concern that the members perceive it as “business as usual” during the difficult times of rehabilitation or orderly transition.

At SCCU we use the terms “business as usual” and “orderly transition”, as in our view these are necessary to retain the confidence of the members during rehabilitation or transition.

Our success has been the result of several factors, one of which has been retaining on contract successful former credit union executives who bring a variety of skills to our organization. This has allowed us to maintain a minimum full time staff and contract the specialized skills required in the rehabilitation and transition assignments.

Navigating Risk

As the current global economy presents all of us with challenges, SCCU continues to provide valuable services to credit unions large and small, with a primary focus on risk management, contingency planning and monitoring.

Risk management remains an ongoing initiative for SCCU as our board and management continue to champion Enterprise Risk Management (ERM). We currently host 21 credit unions’ risk management software (Methodware) on our system.

As part of our ongoing commitment to ERM and Contingency Planning, SCCU published a timely series of discussion papers on current risk issues, highlighting specific areas of interest to boards and management. We will continue to produce relevant risk management discussion papers throughout 2009. To date, publications include:

Impact of the Rise of the Canadian Dollar

December 2007

Eying the Future (Early Warning Indicators)

March 2008

Results Driven Credit Unions (Supervision Experience)

July 2008

Overcoming Inertia (Member Focus)

November 2008

Adding Value through Board Assessment

March 2009



Alan Bajkov
Chief Executive Officer



Tony Clare
Chairperson

Stabilization Activities

Guiding Supervised Credit Unions Through 2008

At the beginning of 2008, Khalsa Credit Union, Greater Victoria Savings and Lake View Credit Union were under supervision. Greater Victoria merged with Vancity in January of 2008. Lake View was released from supervision in June of 2008.

In September, 2008, SCCU's board concluded that, after a number of years of overseeing the supervision of Khalsa Credit Union, SCCU's involvement with that credit union should come to an end. As a result, SCCU formally requested the Financial Institutions Commission (FICOM) to assume conduct of the supervision of Khalsa Credit Union. FICOM granted SCCU's request and assumed conduct of the supervision of that credit union in November, 2008.

In addition to the aforementioned, SCCU worked with several credit unions facing potential regulatory intervention.

Financial Results

Revenues were up \$1,070,309 over 2007, on a consolidated basis. Higher net gains on the sale of investments and increased Master Bond assessments more than offset the decline in Investment Income.

Net earnings were lower by \$225,524 over the previous year. This decline is due to the increase in Direct Expenses, notably provisions for claims.

Administrative Expenses were down for the second consecutive year.

The investment portfolio unrealized gains declined by \$2,921,733, as reflected in "Accumulated other comprehensive income".

The benefits of SCCU's 2007 restructuring were realized again in 2008, with Administrative Expenses in the Stabilization Fund declining \$414,000 over the prior year. Administrative Expenses have declined \$873,000 since 2006.

Master Bond Activities

The Master Bond Program

In 1991, FICOM assigned SCCU with responsibility for the Master Bond Program. SCCU contracts Central 1 Credit Union for the program's day-to-day operations, but retains responsibility for strategic oversight and overall program delivery. The program is operated in accordance with several fundamental principles:

- The primary responsibility for the management of covered risks rests with each credit union.
- Each credit union's claims experience influences its assessment and deductible limits.
- A periodic actuarial review of the program's retained risk level ensures that it is adequate to cover expected losses. Excess insurance is in place for infrequently occurring large losses.
- Program management achieves equity within the credit union system while being market competitive. Subsequently, the assessments paid by credit unions (by asset size category) are compared with claims experience.

The Master Bond Program provides ongoing education through regular bulletins, seminars, and visits to credit union premises, ensuring that credit unions are aware of ongoing and emerging risks.

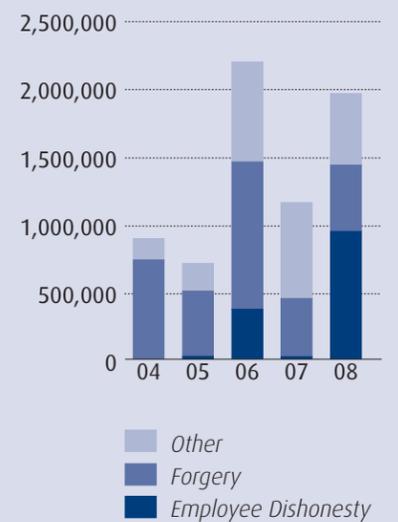
In 2008, the program achieved the following important objectives.

- Effective risk control by member credit unions and positive negotiations for excess insurance resulted in a reduced assessment of \$3,000,000, 6.6% lower than the 2007-2008 assessment of \$3,211,939.
- Claims reported under the Master Bond Program totaled \$1.95 million, falling within tolerances.
- All claims were within the self-insured retention of the Master Bond Fund. The excess insurance coverage for the program remains attractive to underwriters in a competitive insurance market.

Stabilization Central Credit Union partially funds Central 1 Credit Union's Fraud Alert System. This system contributed to the first reduction in annual debit fraud losses reported to Interac® by B.C. credit unions. 2008 losses were 6% lower compared to 2007.

Claims History over Five Years

Master Bond Program
Newly Reported Losses
(Payments and Reserves)



Adopting solutions that are both long-term, cost-efficient and in the best interests of the credit union system.

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Financial Review

Management's Responsibility for Financial Reporting

These financial statements have been prepared by the management of Stabilization Central Credit Union of British Columbia, who is responsible for their reliability, completeness and integrity. They conform in all material respects with generally accepted accounting principles and have been prepared in accordance with the requirements of the Financial Institutions Act of British Columbia. The financial information presented elsewhere in this Annual Report is consistent with the information in the financial statements.

The credit union's systems of internal control and reporting procedures are designed to provide reasonable assurance that financial records are complete and accurate, and to safeguard the assets of the organization. These systems include establishment and communication of standards of business conduct throughout the organization to prevent conflicts of interest and the unauthorized disclosure of information, as well as to provide assurance that all transactions are authorized and that proper records are maintained.

The credit union's Audit Committee and Board of Directors oversee management's responsibilities for the financial reporting and internal control systems.

KPMG LLP, the external independent auditors appointed by the membership, have examined these financial statements in accordance with Canadian generally accepted auditing standards. They have full and complete access to, and meet periodically with, the Audit Committee to discuss their audit and matters arising therefrom. Their report appears herein.



Alan Bajkov
Chief Executive Officer

Auditors' Report

To The Members of
Stabilization Central Credit Union of British Columbia

We have audited the balance sheet of Stabilization Central Credit Union of British Columbia as at December 31, 2008 and the statements of operations and retained earnings, comprehensive income, accumulated other comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Stabilization Central as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The current year's supplementary information included in Schedules 1, 2 and 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



KPMG LLP
Vancouver, Canada
February 20, 2009

Balance Sheet

As at December 31	Notes	2008	2007
Assets			
Cash	10	\$ 172,363	\$ 88,981
Investments	4, 9(b)	43,390,296	45,330,251
Credit union deposits		859,332	842,688
Prepaid insurance		390,190	380,942
Future income taxes		110,779	—
Other assets		107,876	330,959
		\$ 45,030,836	\$ 46,973,821
Liabilities and Members' Equity			
Accounts payable and accrued liabilities		\$ 355,051	\$ 591,023
Future income taxes		—	450,816
Unearned assessments		1,510,421	1,620,882
Provision for master bond claims		1,042,981	941,794
		2,908,453	3,604,515
Members' Equity			
Share capital	6	42,573	42,573
Contributed surplus		1,383,659	1,383,659
Retained earnings		40,678,671	39,003,861
Accumulated other comprehensive income		17,480	2,939,213
		42,122,383	43,369,306
Commitments			
	9		
		\$ 45,030,836	\$ 46,973,821

See accompanying notes to financial statements.

Approved on behalf of the Board,



Tony Clare
Chairperson, Board of Directors



Angela Kaiser
Chairperson, Audit Committee

Statements of Operations and Retained Earnings

Years ended December 31	Notes	2008	2007
Revenue			
Interest income		\$ 1,052,885	\$ 1,363,028
Pooled fund distributions		894,923	975,162
Net gains on sale of investments		1,309,120	717,802
Assessments		3,139,864	2,270,491
		6,396,792	5,326,483
Direct expenses (recoveries)			
Bond claims and insurance		2,617,381	1,057,279
Provision for credit union financial assistance, net of recoveries	5	(22,733)	36,651
		2,594,648	1,093,930
Administrative expenses			
Salaries & benefits	10	1,274,489	1,403,887
Office		91,173	199,627
Professional services		50,245	154,419
Travel and meetings		117,891	135,788
Investment advisory fee		129,591	131,357
Directors remuneration		43,400	61,000
Data processing and systems development		61,883	43,736
Other		339,436	293,030
		2,108,108	2,422,844
Total expenses		4,702,756	3,516,774
Earnings (loss) before income taxes		1,694,036	1,809,709
Income taxes (recovery)	7		
Current		—	(17,058)
Future		19,226	(73,567)
		19,226	(90,625)
Net earnings		1,674,810	1,900,334
Retained earnings, beginning of year		39,003,861	37,103,527
Retained earnings, end of year		\$ 40,678,671	\$ 39,003,861

See accompanying notes to financial statements.

Statements of Comprehensive Income

Years ended December 31	2008	2007
Net earnings (loss)	\$ 1,674,810	\$ 1,900,334
Other comprehensive income, net of tax		
Net unrealized losses on available-for-sale assets ¹	(1,807,934)	(894,421)
Reclassification of gains on available-for-sale assets to net income ²	(1,113,799)	(602,953)
Other comprehensive income	(2,921,733)	(1,497,374)
Comprehensive income	\$ (1,246,923)	\$ 402,960
Income taxes (recoveries) deducted from above items		
¹ Net unrealized losses on available-for-sale assets	\$ (361,801)	\$ (170,363)
² Reclassification of gains on available-for-sale assets to net income	\$ (195,321)	\$ (114,848)

Statements of Accumulated Other Comprehensive Income

Years ended December 31	Notes	2008	2007
Balance, beginning of year		\$ 2,939,213	\$ —
Transition adjustments on adoption of new accounting standards	3	—	4,436,587
Other comprehensive income, net of tax		(2,921,733)	(1,497,374)
Balance, end of year		\$ 17,480	\$ 2,939,213

See accompanying notes to financial statements.

Statements of Cash Flows

Years ended December 31	2008	2007
Cash provided by (used in):		
Operations		
Net earnings	\$ 1,674,810	\$ 1,900,334
Items not involving cash:		
Net change in bond amortization	28,222	(85,941)
Net change in accrued interest	76,623	5,760
Net gains on sale of investments	(1,309,120)	(717,802)
	470,535	1,102,351
Changes in other non-cash working capital items		
Prepaid expenses	(9,248)	58,109
Payable and accruals	(235,972)	(13,386)
Provision for master bond claims	101,187	(520,403)
Unearned assessments	(110,461)	957,318
Future income tax assets and liabilities	(4,473)	479,414
Other	223,083	36,079
	(35,884)	997,131
Investments		
Net (purchase) disposition of investments	(351,269)	(1,813,235)
Increase in credit union deposits	—	(19,146)
	(351,269)	(1,832,381)
Increase (decrease) in cash and cash equivalents	83,382	267,101
Cash and cash equivalents, beginning of year	88,981	(178,120)
Cash and cash equivalents, end of year	\$ 172,363	\$ 88,981
Supplemental cash flow information:		
Income taxes (refunded) paid	\$ —	\$ (101,083)

Cash and cash equivalents includes cash and bank indebtedness.

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended December 31, 2008 and 2007

1 Governing legislation and operations

The purpose of Stabilization Central Credit Union of British Columbia (Stabilization Central) is to strengthen British Columbia's credit unions, which are also required to be members. Stabilization Central is incorporated under the Credit Union Incorporation Act and designated as the stabilization authority under the Financial Institutions Act.

(a) Stabilization Fund:

Stabilization Central develops programs to promote credit union self discipline, monitors credit unions for emerging risk, and works in co-operation with credit unions to ensure appropriate corrective action is taken if weaknesses are identified. Stabilization Central may assume, by delegation from the Financial Institutions Commission, 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 and may 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 member assessments and earnings on Stabilization Fund equity.

An unrestricted letter of credit of \$20 million, obtained from Central 1 Credit Union was provided to the Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) in 2005 on behalf of Stabilization Central. CUDIC, may, at its sole discretion, call on this facility to support its deposit insurance obligations.

(b) Master Bond Fund:

The Master Bond Fund provides bonding protection for all British Columbia credit unions. The Fund self-insures against limited risks and obtains insurance against major risks. Stabilization Central assumes 100% of the risk for the first \$1,025,000 of individual 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 self-insurance limits. A contract with an insurance company insures against individual losses in excess of \$1,025,000 up to a single loss limit of \$45 million and aggregate losses to an annual maximum loss limit of \$90 million. Operations are financed by risk based member assessments and by earnings on Master Bond Fund equity.

Notes to Financial Statements

Year ended December 31, 2008 and 2007

2 Significant accounting policies

(a) Basis of presentation:

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) as determined by the Canadian Institute of Chartered Accountants (CICA). These financial statements include the combined assets of the Stabilization Fund and the Master Bond Fund. Accompanying schedules provide details as to the financial position and the operations for each fund.

(b) Use of estimates:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period.

Certain amounts recorded in the financial statements, including provisions for unpaid claims provision for credit union assistance and accounting for income taxes require management to make subjective or complex judgments. Actual results could differ materially from those estimates.

(c) Investments:

Stabilization Central has classified or designated its investments as available-for-sale and held-to-maturity.

Investments are recognized on a settlement date basis, with transaction costs added to cost base of available-for-sale securities. Fair value changes between the trade date and settlement date are accounted for in the same manner as recognized assets in the same classification/designation category.

Investments classified as available-for-sale are recognized at fair value with changes in fair value recorded in other comprehensive income (OCI), net of tax. Equity securities, designated as available for sale in respect of which market information is not readily available are recognized at cost in the balance sheet.

Investments that Stabilization Central has both the ability and the intent to hold until maturity are classified as held-to-maturity and are recognized on the balance sheet at amortized cost using the effective interest rate method.

Interest income on available-for-sale and held-to-maturity assets included in net earnings is determined using the effective interest rate method. Realized gains and losses on disposal are credited or charged to net earnings under net gains on sale of investments. Income on pooled fund investments is recorded at the date of settlement of the distribution.

Where other than temporary impairment in the fair value of Stabilization Central's securities exists, Stabilization Central records a provision against the underlying asset, which is included in net earnings at the time the impairment is identified.

(d) Credit union deposits:

Credit union deposits are designated as held-to-maturity and are recognized on the balance sheet at amortized cost.

(e) Provision for credit union financial assistance:

Stabilization Central may provide financial assistance either directly to a credit union or to support an acquisition by, or merger with, another credit union. Financial assistance may be in the form of a grant, loan, deposit, guarantee of asset values, or the purchase of substandard loans.

Assistance offered to credit unions exposes Stabilization Central to possible financial obligations based on the occurrence or non-occurrence of certain events after the reporting date. Where Stabilization Central has issued financial guarantees which meet the definition of a derivative, such derivatives are recognized on the balance sheet at fair value.

A provision for financial assistance is established which represents management's estimate of the fair value of Stabilization Central's obligations under these agreements. Changes in the fair value of Stabilization Central's obligations related to credit union financial assistance are recognized in the Statement of Operations under Provision for credit union financial assistance.

(f) 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 balance sheet date. Estimates are based on detailed review of claim files and on claims settlement experience.

(g) Revenue recognition:

Assessments are recognized on a straight line basis over the term of the assessment period.

(h) Future income taxes:

Stabilization Central follows the asset and liability method of accounting for income taxes, whereby future income tax assets and liabilities are recognized for the expected future income tax consequences attributable to temporary differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(i) Pension plan:

Stabilization Central is a participating member of the Central 1 Credit Union Employees' Pension Plan, a contributory defined-benefit multi-employer pension plan. Insufficient information is available to apply defined benefit accounting. Therefore, this plan is accounted for on a defined contribution basis.

Notes to Financial Statements

Year ended December 31, 2008 and 2007

2 Significant accounting policies (continued)

(j) Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

3 Change in accounting policies

(a) 2008 changes:

Effective January 1, 2008 Stabilization Central adopted CICA Handbook Sections 1535 – *Capital Disclosures*, 3862 – *Financial Instruments, Disclosures* and 3863 – *Financial Instruments, Presentation*. These standards require Stabilization Central to provide additional information with respect to the management of the capital of the organization as well as the risks that the organization is exposed to as a result of the financial instruments it holds. These standards have no impact on the recognition and measurement of amounts included in the financial statements.

(b) 2007 changes:

Effective January 1, 2007 Stabilization Central adopted CICA Handbook sections 1530- *Comprehensive Income* and 3855, *Financial Instruments - Recognition and Measurement*.

On adoption of these new standards, Stabilization Central increased the carrying value of its investment portfolio by \$5,281,650 recognized a future tax liability of \$845,063 and recorded an adjustment to AOCI of \$4,436,587. Also on transition, credit union deposits were designated as held-to-maturity.

(c) Future changes:

- (i) Effective January 1, 2009, Stabilization Central will adopt ECI-173 – Credit Risk and the Fair Value of Financial Assets and Liabilities, which clarifies that an entity's own risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial instruments, including derivative instruments. This EIC will be applied retrospectively without restatement of prior periods.
- (ii) The CICA has announced its intention to harmonize Canadian GAAP with International Financial Reporting Standards (IFRS), the changes will be effective for Stabilization Central's 2011 fiscal year with comparatives for the 2010 fiscal year to be presented in accordance with IFRS. The nature and timing of changes required to the Company's financial statements as a result of implementing IFRS is not readily determinable at this time.

4 Change in accounting policies

Amortized cost of investments classified as available for sale are as follows:

	Effective interest rate	Maturity			2008 Total	2007 Total
		Less than 1 year	1 to 5 years	Over 5 years		
Bonds						
Government of Canada	3.55%	\$ 1,074,098	\$ 1,999,428	\$ 9,362,428	\$ 12,435,954	\$ 14,845,780
Provincial and municipal	4.46	—	—	9,457,768	9,457,768	10,429,601
Corporate	2.74	—	1,283,644	408,796	1,692,440	476,249
		1,074,098	3,283,072	19,228,992	23,586,162	25,751,630
Pooled bond funds	—				10,470,691	9,413,909
Pooled equity funds	—				8,982,952	6,312,168
Other investments	—				330,285	353,480
Amortized cost					\$ 43,370,090	\$ 41,831,187

Fair value of investments classified as available for sale at December 31, 2008 was as follows:

	Amortized Cost	Fair Value
Bonds	23,586,162	24,504,943
Pooled bond funds	10,470,691	10,172,997
Pooled equity funds	8,982,952	8,381,637
Other investments	330,285	330,719
Total	\$ 43,370,090	\$ 41,831,187

Securities are recognized on the balance sheet at fair value as at December 31, 2008.

Stabilization Central is exposed to interest rate risk as changes in interest rates could have adverse consequences on Stabilization Central's cash flows, fixed income investments, financial position and earnings. The fair value of Stabilization Central's investments is affected by changes in interest rates.

Stabilization Central is also exposed to changes to the market price of its pooled equity funds. Changes in the value of those instruments could have adverse consequences on Stabilization Central's financial position and earnings.

Notes to Financial Statements

Year ended December 31, 2008 and 2007

5 Provision for credit union assistance

(a) Chemainus Credit Union:

During 2004, Coastal Community Credit Union purchased all of the assets and assumed all the liabilities of Chemainus Credit Union. Chemainus Credit Union was under the delegated supervision of Stabilization Central at the time. In relation to this transaction, Stabilization Central has agreed to indemnify Coastal Community in the event they experience losses for credit and contingent risks assumed in excess of a specific amount. No provision has been made at this time, as it is considered by management to be unlikely that there will be any payments made under this agreement.

(b) Other Financial Assistance Agreements:

In 1999, financial assistance was provided to arrange the acquisitions of Sointula Credit Union and of Alert Bay and District Credit Union by Evergreen Savings Credit Union. In 2001, financial assistance was provided to arrange the acquisition of K.C.P. Credit Union by Valley First Credit Union.

The estimated cost of these financial assistance agreements was recognized in the accounts of Stabilization Central in 1999 and 2001. These agreements included the purchase of a portfolio of loans, the guarantee of loans, and protection for contingent risks. Based on a current estimate of Stabilization Central's remaining obligations under these agreements, and the residual value of purchased loans, management determined that no provision is required.

In 2007, limited financial assistance was provided for the acquisition of Arrow Credit Union by VantageOne Credit Union. This agreement covered a portion of the costs required to upgrade the Arrow branch located in Edgewood, BC. In 2007, Stabilization Central recorded a charge to earnings of \$60,000 related to this agreement.

6 Share capital

Authorized:

Stabilization Central may issue an unlimited number of Class A voting shares of \$1 each par value. Class A shares are held by member credit unions only, with each member's shareholding based on its total assets. Class A voting rights are based on the number of members of that credit union and not the number of Stabilization Central shares held.

Stabilization Central may issue an unlimited number of Class B non-voting shares of \$1 each par value. Each member's Class B shareholding requirement is based on its proportionate participation in the Master Bond Fund.

	2008	2007
Issued:		
Class A shares	\$ 32,301	\$ 32,301
Class B shares	10,272	10,272
	\$ 42,573	\$ 42,573

7 Income taxes

Stabilization Central is a deposit insurance corporation for income tax purposes, and pays income taxes on its taxable income at the applicable reduced 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.

A reconciliation of the income tax recognized in the financial statements to that which would be determined using the statutory rates is presented below.

	2008		2007	
Income taxes otherwise payable based on reported net earnings using the statutory rate	\$ 252,750	14.92 %	\$ 307,651	17.00 %
Adjustments for effect of:				
Assessments to members excluded from income for tax purposes	(458,810)	(27.08)	(367,391)	(20.30)
Assistance to members not deductible from income for tax purposes	263,020	15.53	23,702	1.31
Non-taxable dividend income	(56,915)	(3.36)	(51,409)	(2.84)
Effect of change in tax rates	—	—	—	—
Other differences	19,181	1.14	(3,178)	(0.17)
Income taxes per financial statements	\$ 19,226	1.15 %	\$ (90,625)	(5.00)%

8 Pension plan

As at December 31, 2006, the multi-employer plan actuary reported that the plan had an excess of plan assets over actuarial liabilities for accrued pension benefits of \$9.0 million. The plan actuary further reported that, by making use of the actuarial surplus, no change would be required to be made to the current level of employer contributions prior to January 1, 2010. During the year, Stabilization Central made contributions to the plan in respect of its employees totalling \$24,260 (2007 - \$31,953). An actuarial review, which would be effective as at December 31, 2009, is expected to be completed during 2010.

Notes to Financial Statements

Year ended December 31, 2008 and 2007

9 Commitments

(a) Lease commitments:

Stabilization Central leases premises, owned by Central 1 Credit Union, with the lease extending until 2010. Annual payments under the lease, including operating costs, approximate \$14,000 per year.

(b) Collateral for credit facilities:

Certain investments have been pledged to Central 1 Credit Union as security for credit facilities, which includes the special line of credit of \$20 million (note 1(a)) and an operating line of credit of \$2 million.

The aggregate of the principal balances outstanding on these lines of credit and the undrawn amount under all outstanding letters of credit shall not exceed 95% of the market value of the collateral.

10 Related party transactions:

Central 1 Credit Union provides services to Stabilization Central including the administration of claims for Master Bond Fund, accounting services, human resources services and information systems management services under various contractual arrangements. The total amounts paid to Central 1 Credit Union under these agreements during the year was \$1,116,993 (2007 - \$1,026,332).

Stabilization Central's leases office space from Central1 Credit Union.

Cash balances are held with Central 1 Credit Union.

11 Fair value of financial instruments:

Management used the following assumptions in determining the fair value of each class of financial instrument included in the financial statements.

For all assets and liabilities, other than the investments balance, the credit union deposits, and the provision for master bond claims, the carrying amounts approximate fair value due to the immediate or short-term nature of these balances.

As the interest rate on credit union deposits is reset periodically, the fair value of these instruments does not differ materially for book value.

12 Nature and extent of risks arising from financial instruments

Credit Risk:

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial commitments. Stabilization Central is exposed to credit risk in its investment activities which are summarized in

Note 4. 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 Stabilization Central's 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.

Liquidity Risk:

Liquidity risk is the risk of being unable to obtain funds at a reasonable price or within a reasonable time period to meet obligation as they come due. As provider of bonding protection for credit unions under the Master Bond Fund, Stabilization Central is required to ensure that its 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, government-issued securities which may be liquidated to meet these obligations if required.

Market Risk:

Market risk refers to the risk of loss resulting from changes in interest rates and market prices. The level of market risk to which Stabilization Central is exposed varies with market conditions, future price and market movements, and the composition of Stabilization Central's investment portfolio. Stabilization Central reviews the impact of an increase or decrease in interest rates of 100 basis points on its Earnings before income taxes on an annual basis. As at December 31, 2008, an immediate and sustained 100 basis points shift in interest rates would result in a change in expected Earnings before income taxes for the coming year of less than 2% of the current amount.

Note 4 provides a summary of Stabilization Central's exposure to changes in interest rates on its holdings of interest-bearing investments and its exposure to changes in the market value of its non-interest bearing investments.

13 Capital management

As indicated in Note 1, management seeks to maintain 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 capital in the form of Share capital, Contributed surplus and Retained earnings at an appropriate level. Stabilization Central relies on a combination of member assessments and investment returns in the Master Bond Fund to ensure that earnings are available to offset the Funds' insurance and operating expenses, and to provide for the growth of Member's Equity at a rate commensurate with the long term requirements of the Fund.

Fund Assets, Liabilities & Members' Equity

Schedule 1

As at December 31	Stabilization Fund		Master Bond Fund		Total	
	2008	2007	2008	2007	2008	2007
Assets						
Cash	\$ 170,190	\$ 84,959	\$ 2,173	\$ 4,022	\$ 172,363	\$ 88,981
Investments	35,210,930	36,464,924	8,179,366	8,865,327	43,390,296	45,330,251
Credit union deposits	859,332	842,688	—	—	859,332	842,688
Prepaid insurance	11,804	—	378,386	380,942	390,190	380,942
Future income taxes	(246,418)	—	357,197	—	110,779	—
Other	72,937	139,610	34,939	191,349	107,876	330,959
	\$ 36,078,775	\$ 37,532,181	\$ 8,952,061	\$ 9,441,640	\$ 45,030,836	\$ 46,973,821
Liabilities and Members' Equity						
Accounts payables and accrued liabilities	\$ 354,008	\$ 326,252	\$ 1,043	\$ 264,771	\$ 355,051	\$ 591,023
Future income taxes	—	558,660	—	(107,844)	—	450,816
Unearned assessments	—	—	1,510,421	1,620,882	1,510,421	1,620,882
Provision for master bond claims	—	—	1,042,981	941,794	1,042,981	941,794
	354,008	884,912	2,554,445	2,719,603	2,908,453	3,604,515
Members' equity						
Share capital	32,301	32,301	10,272	10,272	42,573	42,573
Contributed surplus	—	—	1,383,659	1,383,659	1,383,659	1,383,659
Retained earnings	35,681,661	34,176,972	4,997,010	4,826,889	40,678,671	39,003,861
Accumulated other comprehensive income	10,805	2,437,996	6,675	501,217	17,480	2,939,213
	35,724,767	36,647,269	6,397,616	6,722,037	42,122,383	43,369,306
	\$ 36,078,775	\$ 37,532,181	\$ 8,952,061	\$ 9,441,640	\$ 45,030,836	\$ 46,973,821

Fund Operations & Retained Earnings

Schedule 2

Year ended December 31	Stabilization Fund		Master Bond Fund		Total	
	2008	2007	2008	2007	2008	2007
Operations						
Revenue						
Interest Income	\$ 875,318	\$ 1,121,773	\$ 177,567	\$ 241,255	\$ 1,052,885	\$ 1,363,028
Pooled fund distributions	743,996	802,558	150,927	172,604	894,923	975,162
Net gains on sale of investments	1,086,215	590,751	222,905	127,051	1,309,120	717,802
Assessments	—	—	3,139,864	2,270,491	3,139,864	2,270,491
	2,705,529	2,515,082	3,691,263	2,811,401	6,396,792	5,326,483
Direct expenses						
Insurance and brokerage	—	—	781,061	830,109	781,061	830,109
Claims	—	—	1,836,320	227,170	1,836,320	227,170
	—	—	2,617,381	1,057,279	2,617,381	1,057,279
Credit union financial assistance (recovery)	(22,733)	36,651	—	—	(22,733)	36,651
	(22,733)	36,651	2,617,381	1,057,279	2,594,648	1,093,930
Administrative expenses						
Salaries and directors remuneration	578,684	814,853	739,205	650,034	1,317,889	1,464,887
Office	74,528	181,970	16,645	17,657	91,173	199,627
Other	397,251	468,007	301,795	290,323	699,046	758,330
	1,050,463	1,464,830	1,057,645	958,014	2,108,108	2,422,844
Earnings (loss) before income taxes	1,677,799	1,013,601	16,237	796,108	1,694,036	1,809,709
Income taxes (recovery)	173,110	112,689	(153,884)	(203,314)	19,226	(90,625)
Net earnings (loss)	1,504,689	900,912	170,121	999,422	1,674,810	1,900,334
Retained earnings, beginning of year	34,176,972	33,276,060	4,826,889	3,827,467	39,003,861	37,103,527
Retained earnings, end of year	\$ 35,681,661	\$ 34,176,972	\$ 4,997,010	\$ 4,826,889	\$ 40,678,671	\$ 39,003,861

Comprehensive Income & Accumulated Other Comprehensive Income

Schedule 3

Years ended December 31	Stabilization Fund		Master Bond Fund		Total	
	2008	2007	2008	2007	2008	2007
Net Earnings	\$ 1,504,689	\$ 900,912	\$ 170,121	\$ 999,422	\$ 1,674,810	\$ 1,900,334
Other comprehensive income net of tax						
Net unrealized losses on available-for-sale assets, net of tax	(1,501,959)	(736,409)	(305,975)	(158,012)	(1,807,934)	(894,421)
Reclassification of gains on available-for-sale assets to net income, net of tax	(925,234)	(496,232)	(188,565)	(106,721)	(1,113,799)	(602,953)
Other comprehensive income	(2,427,193)	(1,232,641)	(494,540)	(264,733)	(2,921,733)	(1,497,374)
Comprehensive income	\$ (922,504)	\$ (331,729)	\$ (324,419)	\$ 734,689	\$ (1,246,923)	\$ 402,960
Accumulated other comprehensive income, beginning of year	\$ 2,437,996	\$ —	\$ 501,217	\$ —	\$ 2,939,213	\$ —
Transition adjustments on adoption of new accounting standards (note 3)	—	3,670,637	—	765,950	—	4,436,587
Other comprehensive income, net of tax	(2,427,191)	(1,232,641)	(494,542)	(264,733)	(2,921,733)	(1,497,374)
Accumulated other comprehensive income, end of year	\$ 10,805	\$ 2,437,996	\$ 6,675	\$ 501,217	\$ 17,480	\$ 2,939,213

Board of Directors, Staff and Committees

Board of Directors & Terms of Office

Brian Bentley
Vice Chairperson
2007 - 2010

Chief Executive Officer,
Integris Credit Union

Gene Blishen
Director
2007 - 2009

General Manager,
Mount Lehman
Credit Union

Tony Clare
Chairperson
2007 - 2009

Director,
Summerland & District
Credit Union

Angela Kaiser
Director
2008 - 2011

Director,
Prospera Credit Union

Doug Lang
Director
2008 - 2011

Director,
Coastal Community
Credit Union

Jim Miller
Director
2007 - 2010

Chief Executive Officer,
Creston & District
Credit Union

Jack Whittaker
Director

Director,
Osyoos Credit Union

Management & Staff

Alan Bajkov
Chief Executive Officer

Paola Wilford
Executive Assistant

Committee	Members	Functions
Audit	Full Board Angela Kaiser, Chairperson	The Audit Committee's responsibilities include oversight of the activities of the external auditor, assessment of accounting policies and the adequacy of the internal controls.
Conduct Review	Jack Whittaker, Chairperson Brian Bentley Tony Clare	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 and Loan	Full Board, plus CEO Jim Miller, Chairperson	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.
Executive	Tony Clare, Chairperson Brian Bentley, Vice-Chairperson Jack Whittaker	The Executive Committee discharges responsibilities of the Board of Directors as delegated, and oversees the terms of employment of the CEO.
Nominating	Jim Miller, Chairperson Angela Kaiser Doug Lang	The Nominating Committee oversees the director election process, including ensuring that qualified candidates are nominated for director positions.
Risk Assessment Advisory	Brian Bentley, Chairperson Full Board and CEO	The Risk Assessment Advisory Committee oversees the risk assessment activities of the organization, this includes receiving reports on credit union system risk matters and providing direction.

STABILIZATION
CENTRAL CREDIT UNION

Stabilization Central Credit Union of British Columbia

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