



Partnership. Redefined.

2011 ANNUAL REPORT
STABILIZATION CENTRAL CREDIT UNION OF BRITISH COLUMBIA

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 the CHAIRPERSON

2011 was one of the most challenging years in the era of Stabilization Central Credit Union (SCCU). While the theme for 2010 was “Building Bridges”, at the start of the year, the Board actually questioned if in fact there really was still a need for a self-regulating stabilization entity in BC.

In discussion with our members however, it became apparent that the vast majority of BC credit unions believed that there was a need for a self-regulating organization to ensure that the credit union system remained strong and healthy.

To meet the needs of BC credit unions, the Board realized it needed to make several changes and early in the year the transition began. The governance structure of the organization was thoroughly reviewed and enhanced. To assist in its oversight of the Master Bond Program (MBP), an independent advisor to the Board was engaged providing valuable feedback on the effectiveness of the program. In addition, a Risk Advisory committee was established to assist in identifying new emerging risks that could potentially affect BC credit unions.

At the executive level, a leadership change occurred which set the pace for the balance of 2011. Bill Moffatt assumed the role of CEO at the end of July and has worked relentlessly to regain the trust and confidence of the credit union system and reestablish relationships with our stakeholders including Central 1, Financial Institutions Commission (FICOM) and our member credit unions. With the change in leadership, focus returned to the primary mandate of SCCU: to ensure a stable operating environment exists and to work proactively with credit unions in identifying and mitigating emerging risks.

The question of ‘value proposition’ was raised during the year. The Board and management believe strongly that the value of this organization is derived in proactively helping credit unions facing governance, operational or financial challenges. Value is added by helping to create peer discipline, mitigating potential reputational risk and providing oversight of the master bond program. We are firmly committed to enhancing our communication with both credit union executives and directors to ensure that all stakeholders understand the role and value of a self regulating stabilization entity.



The theme for this year is appropriately labeled “Partnership Redefined”. To be successful, partnerships must be based on trust, respect and confidence. These are virtues and values that must be earned and built on continuously. During 2011, SCCU provided the foundation for the Solutions Centre and in the process developed many effective partnerships. Together, we are building an entity that will enhance credit union operations and promote the cooperative spirit amongst BC Credit Unions in the coming years.

I am proud to be part of an organization that has built a bridge to new opportunities and heightened strength in the credit union system. I would like to thank our members for your renewed support and belief in this

organization. I would also like to thank the management, staff and board for their belief in the value of a self-regulating organization throughout very challenging times.

The bridge is built, the relationships are renewed, and the future for credit unions is found in self- regulation, discipline, collaboration and redefined partnerships.



Angela Kaiser

Chairperson, Board of Directors



Report of the CEO

2011 was a year in which Stabilization Central (SCCU) renewed and redefined working relationships with key stakeholders and partners.

SCCU is a proactive organization dedicated to working in partnership with British Columbia Credit Unions to improve their operations and to assist in managing the risks credit unions must deal with on a daily basis. Through SCCU, credit unions access services such as the MBP and Enterprise Risk Management (ERM) workshops that focus on governance and risk oversight responsibilities through Director education.

We work closely with FICOM to assist credit unions facing potential regulatory intervention. SCCU provides proactive assistance in developing strategic solutions to the issues identified by FICOM, or as requested by Credit Union Boards and/or management.

My key focus for 2011 was to forge valuable collaborative relationships with our partners and key stakeholders.

Our relationship with FICOM has strengthened and SCCU's services are recommended to credit unions before serious regulatory intervention is required.

SCCU does not just provide advice and assistance only on matters raised by the regulator. We find that once we begin working with a credit union, they bring other issues to us and seek our advice and assistance on a variety of operational, governance, or regulatory issues.

SCCU continues to work on a contractor model and has a small permanent staff. Contract personnel are retained as required to assist credit unions. The contractor's skills are matched to the needs of the credit union. Our contractors are all former credit union senior executives.

Our relationship with Central 1 has been strengthened and regular meetings are held with the executives and staff of both organizations. Central 1 continues to provide effective administrative services to SCCU including risk management services, accounting, marketing, and human resources.

We are being called by credit unions with increasing frequency to provide assistance in many areas.

In closing, I thank our staff, contractors, Board, Solutions Centre Advisory colleagues, and our members and partners for their unwavering support.



Bill Moffatt

Chief Executive Officer



Solutions CENTRE

The Solutions Centre now represents thirty four B.C. credit unions of all sizes with assets in excess of \$30 billion dollars.

The Solutions Centre provides a vehicle for credit unions to align with partners, vendors and other businesses, for mutual benefit which would not accrue to individual credit unions on their own. The Solutions Centre is focused on driving efficiency, fostering innovation and being a source of information and intelligence for its member credit unions.

The Solutions Centre strives to ensure communication within the group and with external stakeholders is timely, transparent, valuable and consistent.

The Solutions Centre works with its member credit unions to source, drive, and deliver initiatives that will create efficiencies and reduce costs.

Members have proven in the last year that credit unions can be cooperative. This was evident based on the level of collaboration that was witnessed at each opportunity. The group collectively saved over \$1.5 million dollars on a group ATM-Cash Recycler purchase, gained consensus on a group Credit Card program, and some have aligned to create a Wealth Management Credit Union Service Organization, to name just a few.

The Solutions Centre is being looked upon to help redefine the cooperative landscape through its vision "We bring value to our member credit unions through cooperation and collaboration."



Master Bond PROGRAM

In 1991, responsibility for the MBP was assigned to Stabilization Central (SCCU) by FICOM. SCCU contracts the day-to-day operations of the program to Central 1 Risk Management, but retains responsibility for funding, strategic oversight, governance, and overall program delivery.

The MBP is operated in accordance with several fundamental principles which include:

- Primary responsibility for the management of the risks covered under the bond program rests with each credit union: the program should not create a moral hazard that would conflict with this responsibility;
- The program should be managed to achieve internal equity and, at the same time, be market competitive;
- The level of risk retained within the program should reflect the expected level of losses. Insurance protecting the MBP should only be relied upon for infrequently occurring large losses.

The MBP provides education and ensures credit unions are aware of ongoing and emerging risks through regular bulletins, seminars, and visits to credit union premises. In 2012, an advisory committee consisting of key Risk Management personnel from Credit Unions around B.C., was relaunched to assist in identifying emerging risks.

In the 2010–2011 MB Policy term, total claims were within the forecasted range and the gross assessment for the subsequent 2011–2012 MB Policy term was the same \$2.3 million as the 2010–2011 term. \$1,000,000 of surplus in the fund was distributed at the 2011 renewal, which reduced the net assessment to Credit Unions to only \$1.3 million.

The Assessment Allocation Committee, struck in 2010 and comprised of representatives from credit unions, Stabilization Central, Central 1, and FICOM, completed its review in early 2011. The Committee thoroughly analyzed the assessment process, as well as the MBP's coverage and cost as compared to the general insurance marketplace. The Committee submitted its findings and recommendations for improvements to the Board of Stabilization Central and all recommendations were implemented for the 2011–2012 term.

FINANCIAL RESULTS—MASTER BOND PROGRAM

The financial results for the MBP in 2011 finished with a Loss Before Tax of \$989,500, 18% worse than 2010, which was primarily due to a single large employee fraud loss incurred late in 2011. This loss, however, was absorbed by the contingency reserves that exist within the MBP for that specific purpose. There is also a very strong probability of a substantive recovery on the claim in 2012. The MBP Investment Portfolio remained at \$5.6 million at year-end.

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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 International Financial Reporting Standards 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.



Bill Moffatt

Chief Executive Officer
March 21, 2012
Vancouver, Canada

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 statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of Stabilization Central Credit Union of British Columbia as at as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
March 21, 2012
Vancouver, Canada



Statement of FINANCIAL POSITION

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
ASSETS			
Cash and cash equivalents ⁹	\$ 434,048	\$ 633,739	\$ 143,916
Investment securities ⁶	47,224,840	46,878,750	46,933,604
Property and equipment ⁷	33,589	43,318	50,155
Deferred tax assets ⁸	428,632	308,390	201,361
Prepaid expenses	365,314	374,419	407,910
Other	78,044	95,396	31,889
TOTAL ASSETS	\$ 48,564,467	\$ 48,334,012	\$ 47,768,835
LIABILITIES			
Accounts payable and accrued liabilities ⁹	\$ 466,225	\$ 617,169	\$ 466,557
Deferred tax liabilities ⁸	433,089	382,063	246,574
Deferred management and administration fees	165,189	112,979	-
Deferred assessments ¹⁰	651,750	1,152,268	1,433,530
Provision for master bond claims ¹¹	1,882,108	1,338,216	1,998,550
TOTAL LIABILITIES	3,598,361	3,602,695	4,145,211
EQUITY			
Share capital ¹²	42,573	42,573	42,573
Contributed surplus	1,383,659	1,383,659	1,383,659
Retained earnings	40,764,900	40,857,048	40,617,491
Accumulated other comprehensive income	2,774,974	2,448,037	1,579,901
TOTAL EQUITY	44,966,106	44,731,317	46,623,624
TOTAL LIABILITIES AND EQUITY	\$ 48,564,467	\$ 48,334,012	\$ 47,768,835

Commitments (note 14)

See accompanying notes to financial statements.

Approved by the Directors:


Angela Kaiser
Chairperson, Board of Directors


Bryan Fisher
Chairperson, Audit Committee



Statement of PROFIT OR LOSS

Years Ended December 31, 2011 and 2010

2011 **2010****FINANCIAL INCOME**

Interest income	\$ 1,082,124	\$ 1,098,204
Pooled fund distributions	761,330	703,261
Gains on disposal of financial instruments	1,240,773	736,582
	3,084,227	2,538,047

OTHER INCOME

Management and administration fees	102,300	80,625
Assessments	1,975,765	2,792,414
Projects and other income	43,322	147
	2,121,387	2,873,186
	5,205,614	5,411,233

DIRECT COSTS

Claims administration ⁹	885,021	913,825
Insurance and brokerage	729,798	776,698
Claims paid ¹¹	878,828	2,716,068
Increase (decrease) in provision for master bond claims	543,892	(660,334)
Credit union financial assistance (recovery)	(1,888)	(3,600)
	3,035,651	3,742,657

Years Ended December 31, 2011 and 2010

2011 **2010****OPERATING EXPENSES**

Salaries and benefits ⁹	761,511	301,830
Salaries - contractors	227,987	215,994
Office and occupancy ⁹	117,936	91,114
Professional services	607,258	355,803
Travel and meetings	179,370	145,318
Stakeholder meetings	10,733	-
Investment advisory fee	141,985	136,993
Directors remuneration ⁹	63,133	44,600
Data processing and systems development ⁹	103,779	55,218
Corporate projects	17,041	76,428
Other	151,620	112,750
	2,382,353	1,536,048
	5,418,004	5,278,705
Profit (Loss) before income taxes	(212,390)	132,528
Income tax recovery ⁸	(120,242)	(107,029)
Profit (Loss) for the year	\$ (92,148)	\$ 239,557

See accompanying notes to financial statements

Statement of COMPREHENSIVE INCOME

Year Ended December 31, 2011 and 2010

	2011	2010
Profit (Loss) for the year	\$ (92,148)	\$ 239,557
Other comprehensive income, net of tax		
Fair value reserve (available-for-sale assets)		
Net change in fair value ¹	1,400,205	1,505,280
Reclassification of gains on available for sale assets to profit or loss ²	(1,073,268)	(637,144)
Other comprehensive income, net of tax	326,937	868,136
Comprehensive income, net of tax	\$ 234,789	\$ 1,107,693
Income taxes (recoveries) deducted from above items		
¹ Net change in fair value of available-for-sale assets	\$ 218,530	\$ 234,927
² Reclassification of gains on available-for-sale assets to profit or loss	\$ (167,504)	\$ (99,438)

See accompanying notes to financial statements

Statement of CHANGES IN EQUITY

		Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
<i>Year Ended December 31, 2011</i>						
Balance at January 1, 2011	\$	42,573	\$ 1,383,659	\$ 40,857,048	\$ 2,448,037	\$ 44,731,317
Total comprehensive income for the year						
Loss for the year				(92,148)		(92,148)
Other comprehensive income, net of tax						
Fair value reserve (available-for-sale assets)		-	-	-	326,937	326,937
Total comprehensive income (loss)		-	-	(92,148)	326,937	234,789
Balance at December 31, 2011	\$	42,573	\$ 1,383,659	\$ 40,764,900	\$ 2,774,974	\$ 44,966,106

		Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
<i>Year Ended December 31, 2010</i>						
Balance at January 1, 2010	\$	42,573	\$ 1,383,659	\$ 40,617,491	\$ 1,579,901	\$ 43,623,624
Total comprehensive income for the year						
Profit for the year				239,557		239,557
Other comprehensive income, net of tax						
Fair value reserve (available-for-sale assets)		-	-	-	868,136	868,136
Total comprehensive income		-	-	239,557	868,136	1,107,693
Balance at December 31, 2010	\$	42,573	\$ 1,383,659	\$ 40,857,048	\$ 2,448,037	\$ 44,731,317

See accompanying notes to financial statements



Statement of CASH FLOWS

Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (Loss) for the year	\$ (92,148)	\$ 239,557
Adjustments for :		
Net change in bond amortization	4,227	54,165
Gains on disposal of financial instruments	(1,240,773)	(736,582)
Increase (decrease) in provision for master bond claims	543,892	(660,334)
Depreciation	17,302	19,912
Interest income	(1,082,124)	(1,098,204)
Deferred income tax recovery	(69,216)	28,460
Change in prepaid expenses	9,105	33,491
Change in accounts payable and accrued liabilities	(150,944)	150,612
Change in deferred revenue	(448,308)	(168,283)
Change in other assets	17,352	(63,507)
Interest received	1,113,044	1,175,754
Net cash from operating activities	(1,378,591)	(1,024,959)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investment securities	1,186,473	1,527,857
Acquisition of property and equipment	(7,573)	(13,075)
Net cash from investing activities	1,178,900	1,514,782
Increase (decrease) in cash and cash equivalents	(199,691)	489,823
Cash and cash equivalents - beginning of year	633,739	143,916
Cash and cash equivalents - end of year	\$ 434,048	\$ 633,739

See accompanying notes to financial statements



Notes to FINANCIAL STATEMENTS

Years Ended December 31, 2011 and 2010

1. GOVERNING LEGISLATION AND OPERATIONS

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 is 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 British Columbia's credit unions, which are also required to be members.

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 earnings on Stabilization Fund equity and member assessments, if required.

An unrestricted letter of credit of \$20 million, obtained from Central 1 Credit Union (Central) and renewed annually, 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 and their subsidiaries. The Fund self-insures against smaller risks and obtains insurance against larger risks. Stabilization Central assumes 100% of the risk for the first \$1.025 million of individual credit union losses, less any applicable credit union deductible, to a maximum annual aggregate assumed loss of \$5 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 million up to a single loss limit of \$45 million and an aggregate annual loss limit of \$90 million. Operations are financed by risk based member assessments and by earnings on Master Bond Fund equity.

2. BASIS OF PRESENTATION

A) STATEMENT OF COMPLIANCE

These financial statements have been prepared using International Financial Reporting Standards (IFRS) accounting policies which were adopted by Stabilization Central for its fiscal year beginning on January 1, 2011. Stabilization Central adopted IFRS in accordance with IFRS 1, *First Time Adoption of International Financial Reporting Standards*. IFRS was applied retroactively.

Stabilization Central's financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Canadian GAAP differs in some areas from IFRS. Note 5 discloses the impact of transition to IFRS on Stabilization Central's reported financial statements.



The annual financial statements were authorized for issue by the Board of Directors on March 21, 2012.

B) BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis except for the available-for-sale financial assets and cash and cash equivalents 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

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions based on information as of the date of the financial statements. The valuation of provision for master bond claims, certain financial assets and liabilities and income taxes are the most significant components of Stabilization Central's financial statements subject to management estimates and judgments. Actual results could 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. SIGNIFICANT ACCOUNTING POLICIES

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

A) 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 (the insurer) agrees to compensate another party (the policyholder) if a specified uncertain future event (the insured event) adversely affects the policyholder.

Stabilization Central, through its participation in the Master Bond program, self-insures against certain risks which meet the definition of insurance risk under IFRS 4, Insurance Contracts. As such, the underlying contractual agreements are accounted for as insurance contracts.

Any contracts not meeting the definition of an insurance contract are classified as investment contracts or service contracts, as appropriate, and will follow the measurement principles in IAS 39, *Financial Instruments* or IAS 18, *Revenue Recognition*.

The provision for master bond claims includes an estimate of the costs of investigating and settling claims discovered prior to the reporting date. Estimates are based on detailed review of claim files and on claims settlement experience. Stabilization Central is not exposed to significant insurance risk.

B) FINANCIAL ASSETS AND LIABILITIES

i) 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. 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, transaction costs that are directly attributable to its acquisition or issuance.

Stabilization Central derecognizes a financial asset when the contractual rights to the cash flows for the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Stabilization Central derecognizes a financial liability when its contractual obligations are discharged or expire.

ii) Classification

Classification of investment securities is described in Note 3(c).

Cash and cash equivalents, which are classified as loans and receivables, include unrestricted balance held with a financial institution and are highly liquid financial assets with original maturities of less than three months.

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

iii) Fair value measurement

Note 16 contains information on the measurement of financial assets and liabilities recognized in the Statement of Financial Position at fair value.

iv) Identification and measurement of impairment

At the end of each reporting period, Stabilization Central assesses whether objective evidence of impairment exists for the financial assets either individually or collectively. For the financial assets classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its costs is an 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.

C) INVESTMENT SECURITIES

Investment securities are recognized on a settlement date basis, with transaction costs added to the cost base. 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.

Investment securities classified as available-for-sale are measured at fair value with changes in fair value recorded in other comprehensive income (OCI), net of tax.

Interest income on available-for-sale assets included in Statement of Profit or Loss is determined using the effective interest rate method. Realized gains and losses on disposal are credited or charged to the Statement of Profit or Loss under gains (losses) on disposal of financial instruments. Income on pooled fund investments is recorded at the date of settlement of the distribution.



D) PROPERTY AND EQUIPMENT

Property and equipment are measured at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the pattern of consumption of future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative years 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 each reporting period and adjusted if appropriate.

Impairment reviews are performed when there are indications that the carrying value may not be recoverable. Impairment losses are recognized in the Statement of Profit or Loss as an expense.

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 Statement of Financial Position 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 Profit or Loss under provision for credit union financial assistance.

F) REVENUE RECOGNITION

i) Interest income and pooled fund distributions

Interest income and pooled fund distributions are recognized when earned, collectible and the amount can be reasonably estimated. Interest income and pooled fund distributions presented in the Statement of Profit or Loss includes interest on available-for-sale assets measured at fair value.

ii) Gains (losses) on disposal of financial instruments

Gains (losses) on disposal of financial instruments recorded in the Statement of Profit or Loss include gains (losses) from disposal of available-for-sale securities. They are calculated as the difference between the net sales proceeds and the original or amortized costs and are recorded on occurrence of the sale transaction. To the extent these have previously been recognized in other comprehensive income, they are transferred therefrom to profit and loss.

iii) Other income

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. The deferred assessments represent assessments received related to insurance risk expiring subsequent to the year end.

Management and administration fees are recognized on a straight-line basis over the term of the contract. The deferred management and administration fees represent fees received related to services to be provided subsequent to the year end.



(G) INCOME TAXES

Income tax expense (recovery) 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 other comprehensive income.

(i) 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.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that future taxable benefit will be available against which the deductible temporary differences can be utilized.

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 assets and liabilities are 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 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 and they relate to income taxes levied by the same tax authority on the same taxable entity.

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.

H) EMPLOYEE BENEFITS

Stabilization Central is a participating member of the B.C. Credit Union Employees' Pension Plan, a defined-benefit, multi-employer pension plan in which plan assets are not tracked by contributor and plan liabilities are not tracked by participants. As insufficient information is available to apply defined benefit accounting, this plan is therefore accounted for on a defined contribution basis.

4. FUTURE ACCOUNTING POLICIES

Stabilization Central may be impacted in the future by the proposed changes in the following IFRS:

i) IFRS 4 – Insurance Contracts

The IASB issued an exposure draft proposing changes to the accounting standard for insurance contracts in July 2010. The IASB's intention is to replace IFRS 4, *Insurance Contracts*, which allows different local liability measurement practices across jurisdictions, with a single standard for the measurement of insurance contracts to be applied across all jurisdictions adopting IFRS. The proposal would require an insurer to measure insurance liabilities using a model focusing on the amount, timing, and uncertainty of future cash flows associated with fulfilling its insurance contracts. This is vastly different from the connection between insurance assets and liabilities considered under current valuation methods and may cause significant volatility in the results of Stabilization Central.

Stabilization Central will continue to measure provision for master bond claims using the current valuation methods until such time when a new IFRS for insurance contract measurement is effective. The effective date of the final standard, which has not yet been determined, is not expected to be before January 1, 2014. The impact of these changes is not readily determinable at this time.



ii) IFRS 9 – Financial Instruments

In November 2009, the IASB issued IFRS 9, *Financial Instruments* (IFRS 9) which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued additions to IFRS 9 relating to financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39) with a less complex and improved standard for financial instruments.

The main changes to the requirements of IAS 39 are summarized below:

All financial assets that are currently in the scope of IAS 39 will be classified as either amortized cost or fair value. The available-for-sale, held-to-maturity and loans and receivables categories will no longer exist. Financial assets are to be measured at amortized cost if the contractual cash flows of the instrument are solely payments of principal and interest on the principal outstanding and the entity demonstrates the intention of holding the financial assets for the collection of the contractual cash flows. With certain exceptions that are not anticipated to be significant to Stabilization Central, all other financial assets are to be measured at fair value, with changes in fair value recognized in profit or loss.

An entity would be permitted to designate a financial asset otherwise meeting the amortized cost criteria at fair value through profit or loss if doing so significantly reduces or eliminates an accounting mismatch.

The second and third phases in IASB's project to replace IAS 39 will address impairment of financial assets measured at amortized cost and hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2015. In addition, the IASB is working with the US Financial Accounting Standards Board to reduce the inconsistencies between US GAAP and IFRS in accounting for financial instruments. The impact of IFRS 9 may change as a consequence of further developments resulting from the IASB's project to replace IAS 39. As a result, it is impracticable to quantify the impact of IFRS 9 as at the date of publication of these financial statements.

The IASB has decided to postpone the mandatory application of IFRS 9 until 2015. IFRS 9 is required to be applied retrospectively.

5. ADOPTION OF IFRS

These are the first annual audited financial statements prepared in accordance with IFRS. Previously, Stabilization Central's financial statements were prepared in accordance with Canadian GAAP. At transition to IFRS, Stabilization Central applied IFRS 1 which requires Stabilization Central to reconcile its equity and total comprehensive income reported in accordance with Canadian GAAP to IFRS.

The adoption of IFRS has not changed Stabilization Central's Statements of Profit or Loss, Comprehensive Income, and Changes in Equity; however, it has resulted in a presentation change to Stabilization Central's Statements of Financial Position and Cash Flows.

A) STATEMENT OF CASH FLOWS

Interest income received for the year-ended December 31, 2010 is presented separately on the Statement of Cash Flows in accordance with IAS 7, *Statement of Cash Flows*.

B) PROPERTY AND EQUIPMENT

Under previous GAAP, property and equipment were included in other assets on the Statement of Financial Position (formerly Balance Sheet). IAS 1, *Presentation of Financial Statements*, requires separate presentation of property and equipment on the Statement of Financial Position.



6. INVESTMENT SECURITIES

i) Amortized costs of investment securities classified as available-for-sale are as follows:

	Effective Interest Rate	Maturity			2011 Total	2010 Total
		< 1 Year	1 to 5 years	> 5 Years		
Bonds						
Government of Canada	3.02%	\$ 4,174,487	\$ 821,488	\$ 10,197,313	\$ 15,193,288	\$ 15,325,346
Provincial and municipal	3.71%	-	-	13,653,403	13,653,403	14,289,243
Corporate	3.77%	-	769,629	106,945	876,574	614,607
Total		\$ 4,174,487	\$ 1,591,117	\$ 23,957,661	\$ 29,723,265	\$ 30,229,196
Pooled bond funds					9,046,737	8,099,215
Pooled equity funds					5,246,777	5,720,241
Amortized cost					\$ 44,016,779	\$ 44,048,652

ii) Fair value of investment securities classified as available-for-sale is as follows:

	2011	2010
Bonds	\$ 31,642,434	\$ 31,158,710
Pooled bond funds	9,202,031	8,262,290
Pooled equity funds	6,380,375	7,457,750
Fair Value	\$ 47,224,840	\$ 46,878,750

7. PROPERTY AND EQUIPMENT

	Furniture & Fixtures	Equipment	Leaseholds	Total
As at January 1, 2010				
Cost	\$ 21,192	\$ 34,919	\$ 48,746	\$ 104,857
Accumulated depreciation	(4,673)	(28,906)	(21,123)	(54,702)
Net book value at January 1, 2010	16,519	6,013	27,623	50,155
Additions		13,075		13,075
Depreciation	(2,119)	(8,044)	(9,749)	(19,912)
Net book value at December 31, 2010	14,400	11,044	17,874	43,318
Additions	7,573	-	-	7,573
Depreciation	(2,877)	(4,676)	(9,749)	(17,302)
Net book value at December 31, 2011	\$ 19,096	\$ 6,368	\$ 8,125	\$ 33,589

8. INCOME TAXES

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 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.

	2011	2010
Deferred income tax recovery reported in Profit (Loss) for the year	\$ (120,242)	\$ (107,029)
Deferred income tax expense reported in Other comprehensive income	51,026	135,489
Deferred income tax expense (recovery) in comprehensive income	\$ (69,216)	\$ 28,460

8. INCOME TAXES CONTINUED...

B) DEFERRED TAX ASSETS AND LIABILITIES

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

	2011	2010
Deferred tax assets - losses carried forward	\$ 428,632	\$ 308,390
Deferred tax liabilities - financial instruments	\$ (433,089)	\$ (382,063)

C) EFFECTIVE INCOME TAX

	2011	2010
Income taxes otherwise payable (recoverable) based on reported profit or (loss) using the statutory rate	\$ (28,672)	\$ 17,891
Adjustments for effect of:		
Assessments to members excluded from income for tax purposes	(266,467)	(375,384)
Assistance to members not deductible from income for tax purposes	191,812	276,628
Non-taxable dividend income	(21,383)	(29,053)
Others	4,468	2,889
Income taxes (recovery) per financial statements	\$ (120,242)	\$ (107,029)

9. RELATED PARTY TRANSACTIONS

A) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel include Stabilization Central's Executive management. The amount of total compensation paid to the Key management personnel during 2011 is \$675,977 (2010 -\$249,342). In addition to salaries and short-term benefit expenses, this amount also includes termination benefits of \$264,000 (2010 - Nil).

Note that there are no costs associated with Long Term Benefits or Share Based payments.

The fees paid to the Board of Directors are \$63,133 (2010 - \$44,600).

B) OTHER RELATED PARTY TRANSACTIONS

Central 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 under these agreements during the year was \$1,215,160 (2010 - \$1,231,884).

Included in accounts payable and accrued liabilities at December 31, 2011 is \$280,670 (2010 - \$360,943) is payable to Central.

Cash balances are held with Central.

10. DEFERRED ASSESSMENTS

	2011	2010
Balance, beginning of year	\$ 1,152,268	\$ 1,433,530
Add: amount received	1,475,247	2,511,152
Less: amount earned	(1,975,765)	(2,792,414)
Balance, end of year	\$ 651,750	\$ 1,152,268

11. PROVISION FOR MASTER BOND CLAIMS

Reconciliation of changes in provision for master bond claims is as follows:

	2011	2010
Provision balance, beginning of year	\$ 1,338,216	\$ 1,998,550
Add: claims reported during the year	1,422,720	2,055,734
Less: claims paid during the year	(878,828)	(2,716,068)
Provision balance, end of year	\$ 1,882,108	\$ 1,338,216

12. 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 consolidated 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.

	December 31 2011	December 31 2010	January 1 2010
Issued:			
Class A shares	\$ 32,301	\$ 32,301	\$ 32,301
Class B shares	10,272	10,272	10,272
	\$ 42,573	\$ 42,573	\$ 42,573

13. EMPLOYEE BENEFITS

As at December 31, 2009, the multi-employer plan actuary reported that the plan had a shortfall of plan assets over actuarial liabilities for accrued pension benefits of \$34.1 million. During the year ended December 31, 2011, Stabilization Central made contributions to the plan in respect of its employees totaling \$27,432 (2010 - \$19,804), which represent less than 0.01% of total annual contributions to the plan.

Effective January 1, 2010 changes were made to the plan's provisions to address this shortfall including increasing employee contributions and increasing the normal retirement date from age 60 to 62. An actuarial review, which would be effective as at December 31, 2012, is expected to be completed during 2013.

14. COMMITMENTS

A) LEASE COMMITMENTS

Stabilization Central leases premises, owned by Central 1 Credit Union, with the lease extending until 2015. Annual payment under the lease, including operating costs, was approximately \$41,500 in 2011 (2010 - \$16,000), and will increase to \$43,500 in 2012 due to renting an extra parking space.

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.

15. CAPITAL MANAGEMENT

Stabilization Central's 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 (the Fund), management seeks to maintain capital in the form of share capital, contributed surplus, retained earnings, and accumulated other comprehensive income at an appropriate level. Stabilization Central relies on a combination of member assessments and investment returns on assets attributable to the Fund to offset the Funds' 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 the Fund.

16. FINANCIAL INSTRUMENTS—FAIR VALUE

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The best evidence of fair value is a quoted bid price for financial assets held or an offer price for financial liabilities from an active market.

Investment securities are reflected at fair value on the statement of financial position. For all other financial assets and financial liabilities, the carrying amounts approximate fair value due to the immediate or short-term nature of these balances.

All financial instruments measured at fair value are categorized into one of three hierarchy levels. Each level is based on the transparency of the inputs used to measure that fair value of the assets or liabilities.

Level 1—quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2—inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3—inputs for the asset or liability that are not based on observable market data (unobservable inputs);

The fair value of all financial instruments recognized at fair value on the Statement of Financial Position is determined by the use of Level 2 inputs in the fair value hierarchy.



17. RISK MANAGEMENT

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's maximum exposure to credit risk is the fair value of the instruments as discussed in Note 6. 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.

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 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, 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 total equity on an annual basis. As at December 31, 2011, an immediate and sustained 100 basis points shift in interest rates would result in a change in the total equity of less than 2% (2010 - 2%) of the current amount.



Board of DIRECTORS, STAFF, AND COMMITTEES

BOARD OF DIRECTORS & TERMS OF OFFICE

Angela Kaiser

Chairperson, 2011 - 2014

Chairperson, Prospera Credit Union

Jim Miller

Vice Chairperson, 2010 - 2013

Chief Executive Officer, Creston & District Credit Union

Gene Blishen

Director, 2009 - 2012

General Manager, Mount Lehman Credit Union

Tony Clare

Director, 2009 - 2012

Director, Summerland & District Credit Union

Bryan Fisher

Director, 2011 - 2014

General Manager, Union Bay Credit Union

Dave Stene

Director, 2011 - 2012

Chief Executive Officer, Bulkley Valley Credit Union

Jack Whittaker

Director

Director, Osoyoos Credit Union

(Central 1 Credit Union Appointed)

MANAGEMENT & STAFF

Bill Moffatt

Chief Executive Officer

Leiha Fiddler

Sr. Vice President

Paola Wilford

Executive Assistant

Committees	Members	Functions
Audit	Bryan Fisher (Chairperson) Jack Whittaker Dave Stene	The Audit Committee's responsibilities include oversight of the activities of the external auditor, assessment of accounting policies and the adequacy of internal controls.
Conduct Review	Jack Whittaker (Chairperson) Tony Clare Dave Stene	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	Tony Clare (Chairperson) Jim Miller Bryan Fisher	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.
Master Bond Program	Angela Kaiser (Chairperson) Gene Blishen Jim Miller	The Master Bond Program Committee is responsible to ensure effective and consistent oversight of the Master Bond Program (MBP).
Nominating	Jim Miller (Chairperson) Angela Kaiser Bryan Fisher	The Nominating Committee oversees the director election process, including ensuring that qualified candidates are nominated for director positions.
Governance & HR	Angela Kaiser (Chairperson) Gene Blishen Jim Miller	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.





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STABILIZATION
CENTRAL CREDIT UNION

Statements of FINANCIAL POSITION AND PROFIT OR LOSS

(UNAUDITED)

	STABILIZATION FUND 2011	SOLUTIONS CENTRE 2011	MASTER BOND FUND 2011	TOTAL 2011	2010
<i>As at December 31, 2011</i>					
ASSETS					
Investment securities	\$ 41,602,030	\$ -	\$ 5,622,810	\$ 47,224,840	\$ 46,878,750
Other	(565,951)	268,627	1,636,951	1,339,627	1,455,262
	\$ 41,036,079	\$ 268,627	\$ 7,259,761	\$ 48,564,467	\$ 48,334,012
LIABILITIES AND EQUITY					
Liabilities	\$ 329,577	\$ 397,714	\$ 2,871,070	\$ 3,598,361	\$ 3,602,695
Equity	40,706,502	(129,087)	4,388,691	44,966,106	44,731,317
	\$ 41,036,079	\$ 268,627	\$ 7,259,761	\$ 48,564,467	\$ 48,334,012
Financial and other income	\$ 2,737,793	\$ 144,155	\$ 2,323,666	\$ 5,205,614	\$ 5,411,233
Direct costs (recoveries)	(1,888)	-	3,037,539	3,035,651	3,742,657
OPERATING EXPENSES					
Salaries and benefits	585,861	175,650	-	761,511	301,830
Salaries - contractors	227,987	-	-	227,987	215,994
Office and occupancy	106,678	-	11,258	117,936	91,114
Professional services	490,481	59,199	57,578	607,258	355,803
Travel and meetings	112,559	14,945	51,866	179,370	145,318
Stakeholder meetings	-	10,733	-	10,733	-
Investment advisory fee	123,527	-	18,458	141,985	136,993
Directors remuneration	56,820	-	6,313	63,133	44,600
Data processing and systems development	64,184	23,613	15,982	103,779	55,218
Corporate projects	13,685	75	3,281	17,041	76,428
Other	40,779	-	110,841	151,620	112,750
	1,822,561	284,215	275,577	2,382,353	1,536,048
Profit (loss) before income taxes	\$ 917,120	\$ (140,060)	\$ (989,450)	\$ (212,390)	\$ 132,528

