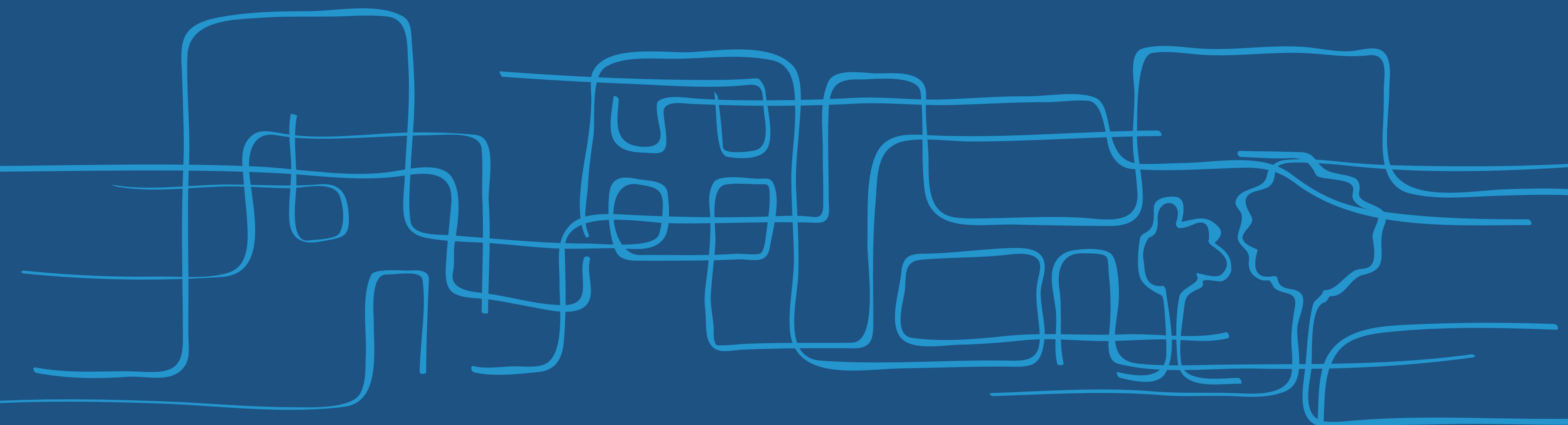


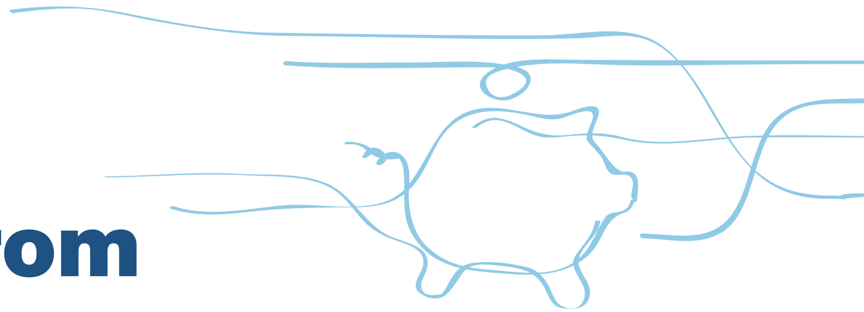
Working Together Becoming Stronger

2012 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.

Contents



"...value is added to all credit unions every time we effectively assist a credit union encountering financial, governance or regulatory concerns."

Message from the Chairperson

During 2012 Stabilization Central Credit Union continued to rebuild its foundation by focusing on member and stakeholder relationships and by re-establishing our role as a stabilization entity.

The ability to effectively fulfill our mandate requires a level of trust and accountability and during the summer of 2012 member survey results indicated our members viewed Stabilization Central as being dependable and trustworthy. This was demonstrated by working directly with five credit unions in BC. While Stabilization Central may not directly interact with every credit union, value is added to all credit unions every time we effectively assist a credit union encountering financial, governance or regulatory concerns.

We organized member groups to discuss emerging issues including the Risk Advisory Committee that reports directly to the Master Bond Committee of the Board. We continued to build a close but independent relationship with FICOM to ensure that there is strong communication and sharing of information. Management played an active role in dialoguing with credit unions on the changing regulatory landscape and the potential impact on their organizations providing advice and guidance on how to mitigate emerging risks.

The Board of Directors of Stabilization Central has continued to enhance its governance during the past year. Focus in 2012 was on reviewing our rules, adding director education to agendas and moving to an electronic platform. In addition processes were put in place for the Board to conduct Peer Evaluations in early 2013 to ensure that board governance practices continue to be developed and enhanced for strong and focused leadership and strategic direction.

The Board also engaged an external consultant specializing in insurance to conduct an independent review of the Master Bond Program which confirmed that solid processes were in place and effective oversight was being provided. The Board continued to provide oversight of the Solutions Centre working with the Advisory Committee to resolve governance issues that emerged as this division continued to expand its projects and operations.

During the final quarter of 2012 Directors were fully engaged in fulfilling one of the primary responsibilities of a Board by conducting a national CEO search. With the growing demand for intervention and stabilization services during this period of increasingly complex financial, economic and regulatory demands, the Board was pleased to announce the selection of Chad Boyko as the new CEO bringing with him a solid background in the risk and regulatory environment.

Looking ahead I believe we are well positioned to continue to stay abreast of credit union needs by proactively identifying emerging risks. With our new CEO in place our focus will be on our self-regulatory function in having strong methodologies in place to quickly respond to needs. With a committed Board and strong management, we will continue to work on enhancing our communication, interaction and engagement with our members. Credit Unions are co-operatives that present a unique business model that is gaining renewed momentum in this 21st century. As a member owned Central, our role will be to continue to act as an intermediary between credit unions and the regulatory authorities to ensure that credit unions are a strong and viable alternative to other financial institutions in British Columbia. By working together… BC credit unions will be stronger.

Angela Kaiser
Chairperson, Board of Directors

Message from the CEO

Stabilization Central Credit Union has seen the past several years punctuated by frequent reviews of its role and relevance by both its member credit unions and the provincial regulator. Last year's theme for the Annual Report spoke of redefining partnerships and we believe that during the past year, we have been successful in that regard.

Our successful partnerships with the credit unions and the regulator have been demonstrated by a number of 2012 initiatives.

We worked with credit unions under Letters of Stabilization Services, a concept developed by SCCU several years ago as an alternative to the more intensive forms of regulatory intervention - supervision and administration. The Superintendent has encouraged credit unions to utilize Stabilization Central resources under this arrangement and close collaboration with FICOM staff.

At year end, SCCU was supporting five credit unions of various asset sizes under Letters of Stabilization Services, one voluntarily and four referred by FICOM. As evidence of the success of the program, an additional credit union was assisted to successfully resolve their issues in 2012, and another will have attained its goals shortly. All of the credit unions we are working with are making progress on their issues. Additionally, one of the FICOM referral credit unions has voluntarily asked that we continue to assist them by extending their Letter beyond its initial expiry.

SCCU has also collaborated with most of the credit unions in the province through the work of the Solutions Centre and Master Bond Program, and with a group of large credit unions on specific risk issues.

CM Boyko

Chad Boyko
Chief Executive Officer

"Last year's theme for the Annual Report spoke of redefining partnerships and we believe that during the past year, we have been successful in that regard."

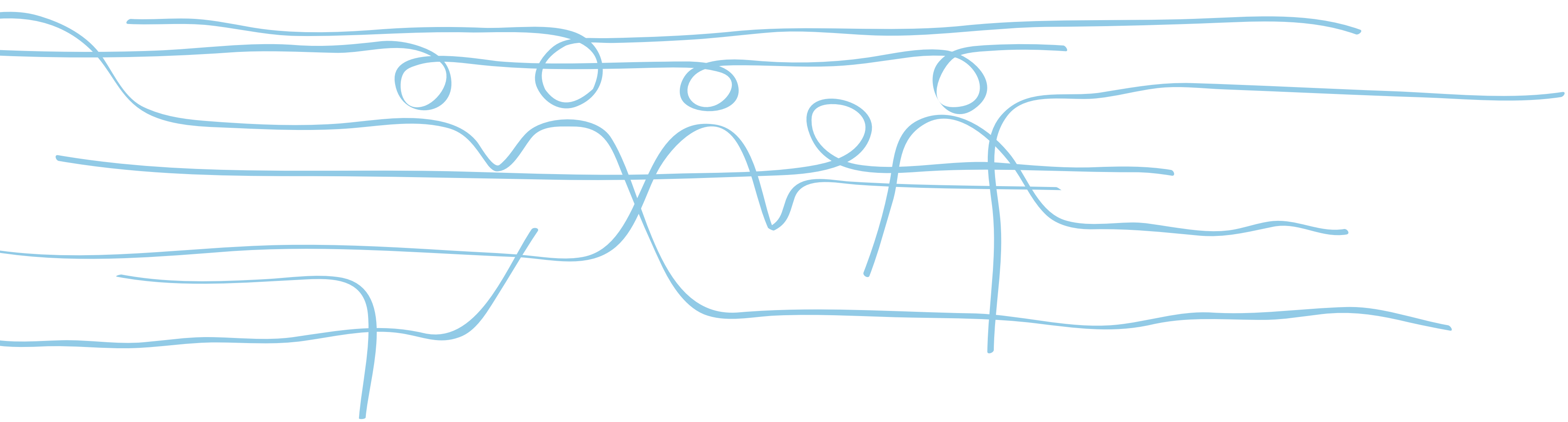
Solutions Centre

The Solutions Centre currently represents thirty-six B.C. credit unions of all sizes covering the majority of the assets of the B.C. System.

The Solutions Centre is a vehicle allowing credit unions to collaborate on a voluntary basis to attain efficiencies and drive innovations that they may not be able to realize on an individual basis.

In 2012 the Solutions Centre successfully completed the most significant project to date through the creation of a credit card program. The ability of credit unions of varying sizes to work together on initiatives such as the CUETS partnership aligns with the Solutions Centre vision to "…bring value to our member credit unions through cooperation and collaboration."

At the fall Solutions Centre Conference, it was determined that it was time to enhance the level of creativity and innovation provided by the Solution Centre to its members and a Request for Proposal was issued to organizations with the potential to host such an operation.



Master Bond Fund

The Credit Union Master Bond Program (MBP) is administered by the Risk Management Department of Central1 on behalf of Stabilization Central.

The operating objective of the MBP is to combine effective loss prevention support for credit unions with a risk finance solution that collects assessment revenue it retains in a fund for use in the event of a severe loss. Participating credit unions with low loss experience are rewarded with lower premiums and rebates.

From the positive results the MBP achieved in 2012 it is evident that loss prevention programs implemented by credit unions were effective, as claims made under the program were among the lowest ever recorded.

Total claim payments and claim reserves for claims reported for the MBP were $325,000 in 2012. This is the lowest they have been since 1999.

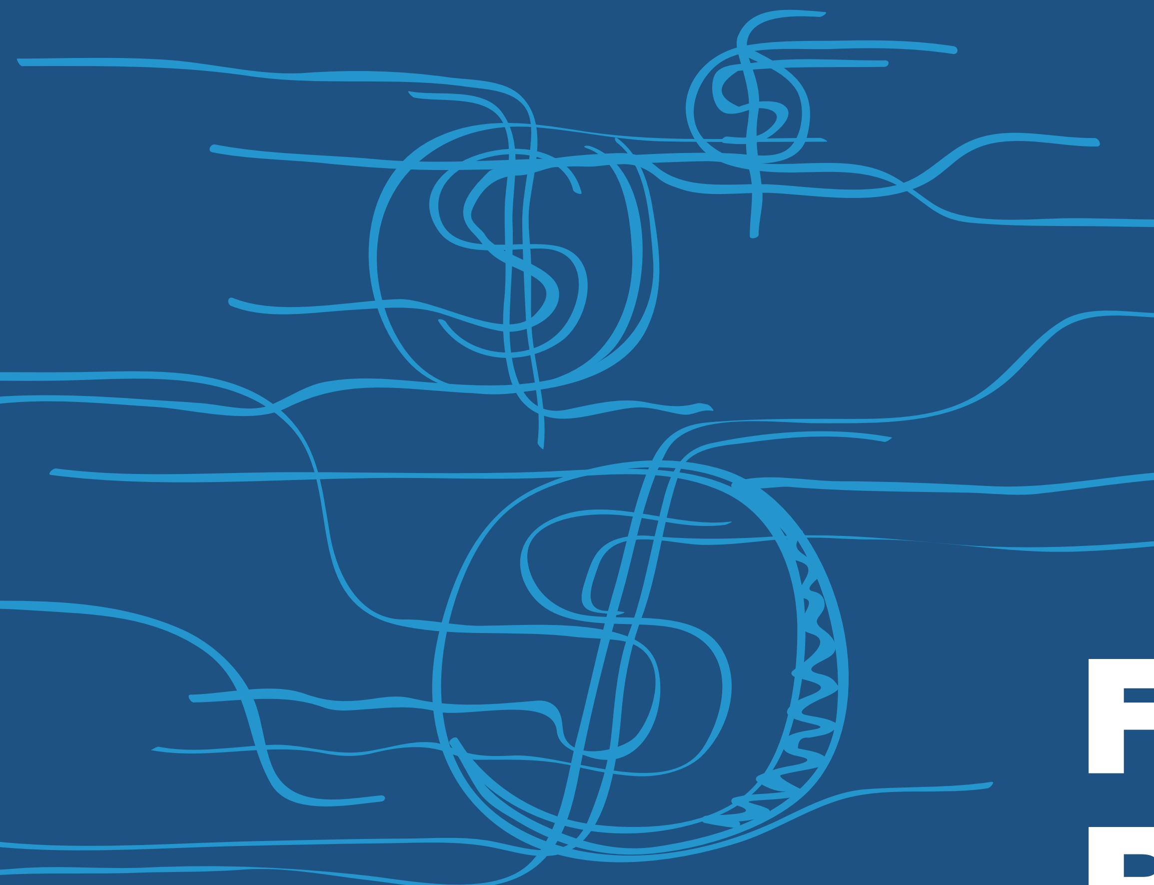
In comparison annual MBP claims (net of plastic card skimming losses) from 2007-2011 ranged from $460,000 to $1.8 million, with the median annual claims total being $840,000.

These low claim figures are attributed to the work that credit unions have completed on their risk management and security programs and the support of the Risk Management Department.

The MBP provides coverage for losses which have low frequency but high severity. Reduced claims one year may not mean that losses will remain low in consecutive years. Historically, however, the MBP has experienced low losses since inception which has enabled program administrators to obtain enhanced coverage at reasonable rates.

During 2012 the insurers that provide our excess coverage (coverage above our self-insured limit) renewed on the same rates and terms as 2011, which is effectively a reduction when considering the increase in B.C. credit union system assets from $53 million to $57 million.

The MBP assessment in 2012 was $2.5 million which is less than the $2.6 million assessment in 2001. Considering that B.C. credit union system assets have more than doubled since that time, increasing from $26 million to $57 million, risk management programs implemented by credit unions coupled with the MBP continue to provide value for BC credit unions.



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.

CM Boyko

Chad Boyko
Chief Executive Officer
April 3, 2013
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 statement of financial position as at December 31, 2012, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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 audit is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of Stabilization Central Credit Union of British Columbia as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
April 3, 2013
Vancouver, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

Statement of Financial Position

As at December 31, 2012 and 2011

	DEC 31 2012	DEC 31 2011
ASSETS		
Cash [8]	$ 1,138,969	$ 434,048
Investment securities [5]	45,892,816	47,224,840
Property and equipment [6]	80,283	33,589
Deferred tax assets [7]	237,185	428,632
Prepaid expenses	362,088	365,314
Other	121,188	78,044
TOTAL ASSETS	**$ 47,832,529**	**$ 48,564,467**
LIABILITIES		
Accounts payable and accrued liabilities [8]	$ 566,599	$ 466,225
Deferred tax liabilities [7]	237,185	433,089
Deferred management and administration fees	77,220	165,189
Deferred assessments [9]	1,103,708	651,750
Provision for master bond claims [10]	547,000	1,882,108
TOTAL LIABILITIES	**2,531,712**	**3,598,361**
EQUITY		
Share capital [11]	42,573	42,573
Contributed surplus	1,383,659	1,383,659
Retained earnings	42,354,849	40,764,900
Accumulated other comprehensive income	1,519,736	2,774,974
TOTAL EQUITY	**45,300,817**	**44,966,106**
TOTAL LIABILITIES AND EQUITY	**$ 47,832,529**	**$ 48,564,467**

Commitments [13]

Approved by the Directors:

Angela Kaiser
Chairperson, Board of Directors

Bryan Fisher
Chairperson, Audit Committee

See accompanying notes to financial statements.

Statement of Profit or Loss

For the Years Ended December 31, 2012 and 2011	2012	2011
FINANCIAL INCOME		
Interest income	$ 995,147	$ 1,082,124
Pooled fund distributions	779,527	761,330
Gains on disposal of financial instruments	2,008,096	1,240,773
	3,782,770	**3,084,227**
OTHER INCOME		
Management and administration fees	179,967	102,300
Assessments [9]	1,804,057	1,975,765
Projects and other income	65,895	43,322
	2,049,919	**2,121,387**
	5,832,689	**5,205,614**
DIRECT COSTS		
Claims administration [8]	1,015,384	885,021
Insurance and brokerage	717,813	729,798
Claims paid [10]	1,216,194	878,828
Increase (decrease) in provision for master bond claims	(1,335,108)	543,892
Credit union financial assistance (recovery)	-	(1,888)
	1,614,283	**3,035,651**

For the Years Ended December 31, 2012 and 2011	2012	2011
OPERATING EXPENSES		
Salaries and benefits [8,12]	633,658	761,511
Subcontract fees	358,548	227,987
Office and occupancy [8]	149,192	117,936
Professional services [8]	502,381	607,258
Travel and meetings	174,120	190,103
Investment advisory fee	142,471	141,985
Directors remuneration [8]	68,532	63,133
Data processing and systems development [8]	238,908	103,779
Corporate projects	28,275	17,041
Other [8]	140,924	151,620
	2,437,009	**2,382,353**
	4,051,292	**5,418,004**
Profit (Loss) before income taxes	**1,781,397**	**(212,390)**
Income tax expense (recovery) [7]	**191,448**	**(120,242)**
Profit (Loss) for the year	**$ 1,589,949**	**$ (92,148)**

See accompanying notes to financial statements.

Statement of Comprehensive Income

For the Years Ended December 31, 2012 and 2011	2012	2011
Profit (Loss) for the year	$ 1,589,949	$ (92,148)
Other comprehensive income (loss), net of tax		
Fair value reserve (available-for-sale assets)		
Net change in fair value [1]		
Reclassification of gains on available-for-sale assets to	481,765	1,400,205
profit or loss[2]	(1,737,003)	(1,073,268)
Other comprehensive income (loss), net of tax	(1,255,238)	326,937
Comprehensive income, net of tax	**$ 334,711**	**$ 234,789**
Income taxes (recoveries) deducted from above items		
[1]Net change in fair value of available-for-sale assets	**$ 75,189**	**$ 218,530**
[2]Reclassification of gains on available-for-sale assets to profit or loss	**$ (271,093)**	**$ (167,504)**

See accompanying notes to financial statements

Statement of Changes in Equity

For the Year Ended December 31, 2012	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance at January 1, 2012	$ 42,573	$ 1,383,659	$ 40,764,900	$ 2,774,974	$ 44,966,106
Total comprehensive income (loss) for the year					
Profit for the year	-	-	1,589,949	-	1,589,949
Other comprehensive loss, net of tax					
Fair value reserve (available-for-sale assets)	-	-	-	(1,255,238)	(1,255,238)
Total comprehensive income (loss)	-	-	1,589,949	(1,255,238)	334,711
Balance at December 31, 2012	$ 42,573	$ 1,383,659	$ 42,354,849	$ 1,519,736	$ 45,300,817

For the Year Ended December 31, 2011	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
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	-	-	(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

See accompanying notes to financial statements

Statement of Cash Flows

For the Years Ended December 31, 2012 and 2011	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (Loss) for the year	$ 1,589,949	$ (92,148)
Adjustments for :		
Net change in bond amortization	(56,997)	4,227
Gains on disposal of financial instruments	(2,008,096)	(1,240,773)
Increase (decrease) in provision for master bond claims	(1,335,108)	543,892
Depreciation	16,339	17,302
Interest income	(995,147)	(1,082,124)
Deferred income tax recovery	(4,457)	(69,216)
Change in prepaid expenses	3,226	9,105
Change in accounts payable and accrued liabilities	100,374	(150,944)
Change in deferred revenue	363,989	(448,308)
Change in other assets	(43,144)	17,352
Interest received	949,434	1,113,044
Net cash from operating activities	**(1,419,638)**	**(1,378,591)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in investment securities	2,187,592	1,186,473
Acquisition of property and equipment	(63,033)	(7,573)
Net cash from investing activities	**2,124,559**	**1,178,900**
Increase (decrease) in cash	704,921	(199,691)
Cash - beginning of year	434,048	633,739
Cash - end of year	**$ 1,138,969**	**$ 434,048**

See accompanying notes to financial statements

Notes to Financial Statements

Years Ended December 31, 2012 and 2011

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 1) 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) as issued by the International Accounting Standards Board. The annual financial statements were authorized for issue by the Board of Directors on April 3, 2013.

b) BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis except for the available-for-sale financial assets 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. Significant areas subject to estimation and judgments are provision for master bond claims and income taxes. 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 INSTRUMENTS

i) Recognition

Stabilization Central initially recognizes financial instruments 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 comprise unrestricted balance held with a financial institution and highly liquid financial assets with original maturities of less than three months when acquired. Stabilization Central classifies its cash and cash equivalents balance as loans and receivables.

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 15 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) 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 presented in the Statement of Profit or Loss includes interest on available-for-sale assets measured at fair value.

ii) Gains on disposal of financial instruments

Gains on disposal of financial instruments recorded in the Statement of Profit or Loss include gains 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 there from 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 on the statement of financial position 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 on the statement of financial position represent fees received related to services to be provided subsequent to the year end.

f) 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.

g) 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. Stabilization Central is exposed to the actuarial risks of the other employers with the result that, in management's opinion, there is no reasonable way to allocate any defined benefit obligations. This plan is therefore accounted for on a defined contribution basis.

4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At December 31, 2012, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these financial statements. Those which are relevant to Stabilization Central's financial statements are discussed below.

a) 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.

A final standard is not expected to be effective until at least January 1, 2014. The impact of these changes is not readily determinable at this time.

b) IFRS 9 – FINANCIAL INSTRUMENTS

In November 2009, the IASB issued IFRS 9, '*Financial Instruments*' ('IFRS 9 (2009)') which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued additions to IFRS 9 ('IFRS 9 (2010)') relating to financial liabilities. Together, these changes represent 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 IASB has decided to postpone the mandatory application of IFRS 9 until January 1, 2015. IFRS 9 is required to be applied retrospectively.

The main changes associated with the replacement of IAS 39 with IFRS 9 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.

Stabilization Central intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on January 1, 2015. It is expected that IFRS 9, when initially applied, will have a significant impact on Stabilization Central's financial statements, since it will be required to be applied retrospectively. However, the Company is not able at this time to estimate reasonably the impact that IFRS 9 (2010) will have on the financial statements.

c) IFRS 13 – FAIR VALUE MEASUREMENT

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements. Stabilization Central intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The impact of the adoption of this IFRS has not yet been determined.

5. INVESTMENT SECURITIES

a) AMORTIZED COSTS OF INVESTMENT SECURITIES CLASSIFIED AS AVAILABLE-FOR-SALE ARE AS FOLLOWS:

	Effective Interest Rate	Maturity < 1 Year	Maturity 1 to 5 years	Maturity > 5 Years	2012 Total	2011 Total
Bonds						
Government of Canada	3.79%	$ 9,801,187	$ 1,964,222	$ 2,140,946	$ 13,906,355	$ 15,193,288
Provincial and municipal	4.27%	-	-	10,966,763	10,966,763	13,653,403
Corporate		-	-	-	-	876,574
Total					**24,873,118**	**29,723,265**
Pooled bond funds					13,916,912	9,046,737
Pooled equity funds					5,345,865	5,246,777
Amortized cost					**$ 44,135,895**	**$ 44,016,779**

b) FAIR VALUE OF INVESTMENT SECURITIES CLASSIFIED AS AVAILABLE-FOR-SALE IS AS FOLLOWS:

	2012	2011
Bonds	$ 24,929,979	$ 31,642,434
Pooled bond funds	14,051,127	9,202,031
Pooled equity funds	6,911,710	6,380,375
Fair Value	**$ 45,892,816**	**$ 47,224,840**

6. PROPERTY AND EQUIPMENT

	Furniture & Fixtures	Equipment	Leasehold Improvements	Total
As at January 1, 2011	$ 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**
Additions	8,363	-	54,670	63,033
Depreciation	(2,946)	(4,357)	(9,036)	(16,339)
Net book value at December 31, 2012	**$ 24,513**	**$ 2,011**	**$ 53,759**	**$ 80,283**

7. 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 tax rate. Income for tax purposes excludes Stabilization Fund and Master Bond Fund assessments made against its member credit unions as well as related financial assistance given to or paid on behalf of member credit unions.

	2012	2011
Deferred income tax expense (recovery) reported in Profit or Loss for the year	$ 191,448	$ (120,242)
Deferred income tax expense (recovery) reported in Other comprehensive income	(195,904)	51,026
Deferred income tax recovery in comprehensive income	**$ (4,456)**	**$ (69,216)**

b) DEFERRED TAX ASSETS AND LIABILITIES

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

	2012	2011
Deferred tax assets - losses carried forward	$ 237,185	$ 428,632
Deferred tax liabilities - financial instruments	$ (237,185)	$ (433,089)

Deferred tax assets related to losses carried forward of $248,600 (2011 – nil) were not recognized as it is not probable that these losses will be utilized by Stabilization Central in the foreseeable future.

c) EFFECTIVE INCOME TAX

	2012	2011
Income taxes otherwise payable (recoverable) based on reported profit or (loss) using the statutory rate of 13.5% (2011 –13.5%)	$ 240,488	$ (28,672)
Adjustments for effect of:		
Assessments to members excluded from income for tax purposes	(243,157)	(266,467)
Assistance to members expense (recovery)	(16,053)	191,812
Non-taxable dividend income	(32,771)	(21,383)
Allowance against unused tax losses & other	242,941	4,468
Income taxes expense (recovery)	**$ 191,448**	**$ (120,242)**

8. 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 2012 was $563,487 (2011 – $675,977). In addition to salaries and short-term benefit expenses, this amount includes termination benefits of $156,465 (2011 – $264,000).

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

The fees paid to the Board of Directors was $68,532 (2011 – $63,133).

b) OTHER RELATED PARTY TRANSACTIONS

Central 1 provides services to Stabilization Central, including premises rental, the administration of claims for the Master Bond Fund, accounting services, human resources services and information system management services under various contractual agreements. The total amounts paid to Central 1 under these agreements during the year was $1,443,530 (2011 – $1,215,160).

Included in accounts payable and accrued liabilities at December 31, 2012 is $331,528 (2011 – $280,670) is payable to Central 1.

Cash balances are held with Central 1.

9. DEFERRED ASSESSMENTS

	2012	2011
Balance, beginning of year	$ 651,750	$ 1,152,268
Add: amount received	2,256,015	1,475,247
Less: amount earned	(1,804,057)	(1,975,765)
Balance, end of year	**$ 1,103,708**	**$ 651,750**

10. PROVISION FOR MASTER BOND CLAIMS

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

	2012	2011
Provision balance, beginning of year	$ 1,882,108	$ 1,338,216
Add: claims reported during the year	(118,914)	1,422,720
Less: claims paid during the year	(1,216,194)	(878,828)
Provision balance, end of year	**$ 547,000**	**$ 1,882,108**

11. SHARE CAPITAL

AUTHORIZED:

Stabilization Central may issue an unlimited number of Class A voting shares at par value of $1. 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 at par value of $1.

	2012	2011
Issued:		
32,301 Class A shares (2011 - 32,301)	$ 32,301	$ 32,301
10,272 Class B shares (2011 - 10,272)	10,272	10,272
	$ 42,573	**$ 42,573**

12. 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, 2012, Stabilization Central made contributions to the plan in respect of its employees totaling $16,990 (2011 - $27,432), which represent less than 0.01% (2011 – 0.01%) of total annual contributions to the plan. Such contributions are included in salaries and benefits expense in the statement of profit or loss.

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.

Stabilization Central started to contribute to a Registered Retirement Savings Plan in August 2012. For the period ended December 31, 2012, Stabilization Central made contributions of $13,835 to the plan. Such contributions are included in salaries and benefits expense in the statement of profit or loss.

13. COMMITMENTS

a) LEASE COMMITMENTS

Stabilization Central leases premises, owned by Central 1, with the lease extending until 2015. Future minimum operating lease commitments are as follows:

	2012	2011
Not later than one year	$ 61,588	$ 45,177
More than one year and less than five years	123,176	184,764
More than five years	-	-
	$ 184,764	**$ 229,941**

Total lease payments, including operating costs, charged to profit for the year were $45,177 in 2012 (2011 - $41,500), and will increase to approximately $61,588 effective January 1, 2013.

b) COLLATERAL FOR CREDIT FACILITIES

Certain investments have been pledged to Central 1 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.

14. 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.

15. 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.

16. 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 5. 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, foreign currency rates and market prices (other price risk). 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, 2012, an immediate and sustained 100 basis points shift in interest rates would result in a change in the total equity of less than 2% (2011 - 2%) of the current amount. As at December 31, 2012 and 2011, Stabilization Central is not exposed to significant foreign currency risk or other price risk.

Summarized Financial Statements by Fund (unaudited)

Due to distinctly independent nature of each of three funds, it is useful to individually disclose their performance. Following is the summarized statement of financial position and profit or loss for 2012 by each fund.

STATEMENTS OF FINANCIAL POSITION AND PROFIT OR LOSS (BEFORE INCOME TAXES)

As at December 31

	STABILIZATION FUND	SOLUTIONS CENTRE	MASTER BOND FUND	2012 TOTAL	2011 TOTAL
ASSETS					
Investment securities	$ 41,075,814	$ –	$ 4,817,002	$ 45,892,816	$ 47,224,840
Other	(484,420)	524,844	1,899,289	1,939,713	1,339,627
	$ 40,591,394	**$ 524,844**	**$ 6,716,291**	**$ 47,832,529**	**$ 48,564,467**
LIABILITIES AND EQUITY					
Liabilities	$ (123,803)	$ 630,763	$ 2,024,752	$ 2,531,712	$ 3,598,361
Equity	40,715,197	(105,919)	4,691,539	45,300,817	44,966,106
	$ 40,591,394	**$ 524,844**	**$ 6,716,291**	**$ 47,832,529**	**$ 48,564,467**
FINANCIAL AND OTHER INCOME	$ 3,448,612	$ 244,448	$ 2,139,629	$ 5,832,689	$ 5,205,614
DIRECT COSTS	–	–	1,614,283	1,614,283	3,035,651
OPERATING EXPENSES					
Salaries and benefits	505,488	128,170	–	633,658	761,511
Subcontract fees	358,335	213	–	358,548	227,987
Office and occupancy	101,122	819	47,251	149,192	117,936
Professional services	427,138	49,807	25,436	502,381	607,258
Travel and meetings	111,715	12,957	49,448	174,120	190,103
Investment advisory fee	126,802	–	15,669	142,471	141,985
Directors remuneration	61,679	–	6,853	68,532	63,133
Data processing and systems development	153,467	3,886	81,555	238,908	103,779
Corporate projects	19,185	5,504	3,586	28,275	17,041
Other	39,035	16,181	85,708	140,924	151,620
	1,903,966	217,537	315,506	2,437,009	2,382,353
PROFIT (LOSS) BEFORE INCOME TAXES	**$ 1,544,646**	**$ 26,911**	**$ 209,840**	**$ 1,781,397**	**$ (212,390)**

Corporate Governance

The Board of Directors of Stabilization Central Credit Union of British Columbia is comprised of 1 elected representative from each of six peer groups which comprise credit unions grouped on asset-size or regional bases and one appointed director from Central 1 Credit Union. At fiscal year -end 2012, four directors were credit union chief executive officers or general managers and three were credit union directors. All have a professional or business background that contributes significant expertise at the board table.

All of Stabilization Central's directors participate in the national system's Credit Union Director Achievement (CUDA) program. The organization has a very effective New Director Orientation Program in place. In addition, all directors are members of the Institute of Corporate Directors. Opportunities to attend conferences, workshops and take courses to enhance the knowledge and expertise in areas of governance are provided. Quarterly, speakers from varying areas of expertise are invited to provide education sessions for directors.

BOARD OF DIRECTORS & TERMS OF OFFICE

Angela Kaiser
Chairperson, 2011 – 2014
Chairperson, Prospera Credit Union

Gene Blishen
Vice Chairperson, 2012 – 2015
General Manager, Mount Lehman Credit Union

Jim Miller
Director, 2010 – 2013
Chief Executive Oficer, Creston & District Credit Union

Jeff Holm
Director, 2012 – 2015
Director, Interior Savings Credit Union

Bryan Fisher
Director, 2011 – 2014
General Manager, Union Bay Credit Union

Dave Stene
Director, 2012 - 2013
Chief Executive Officer, Bulkley Valley Credit Union

Jack Whittaker
Director
Director, Osoyoos Credit Union
(Central 1 Credit Union Appointed)

COMMITTEES

Each of Stabilization Central's committees has its own terms of reference and workplan.

Audit Committee

Bryan Fisher (Chairperson)
Jack Whittaker
Jim Miller

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 Committee

Jim Miller (Chairperson)
Jack Whittaker
Jeff Holm

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 Committee

Dave Stene (Chairperson)
Jeff Holm
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.

Governance & HR Committee

Angela Kaiser (Chairperson)
Gene Blishen
Dave Stene

The Governance & HR Committee assists the Board in fulfilling its corporate governance responsibilities and oversees the Human Resources policies and practices of SCCU including the terms of employment of the CEO.

Nominating Committee

Jeff Holm (Chairperson)
Angela Kaiser
Gene Blishen

The Nominating Committee oversees the director election process, including ensuring that qualified candidates are nominated for director positions.

Master Bond Program Committee

Gene Blishen (Chairperson)
Bryan Fisher
Angela Kaiser

The Master Bond Program Committee is responsible to ensure effective and consistent oversight of the Master Bond Program (MBP).

Rules Task Force Committee

Jack Whittaker (Chairperson)
Dave Stene
Jim Miller

The Rules Task Force is responsible for reviewing the Rules of the organization and recommending amendments to the Board to ensure that they remain current.

REMUNERATION

Directors are paid $400 per diems for Board and Committee meetings. The Chairperson and Vice Chairperson receive an annual honorarium of $4,800 and $2,400.00 respectively in addition to meeting per diems. In 2012, there were a total of 6 Board meetings, 14 Committee meetings, and a two day planning session held. The total remuneration for Stabilization Central directors was $68,532.

www.stabil.com

STABILIZATION
CENTRAL CREDIT UNION