CREATING CLARITY FROM COMPLEXITY

2021 Annual Report

Stabilization Central
CREDIT UNION

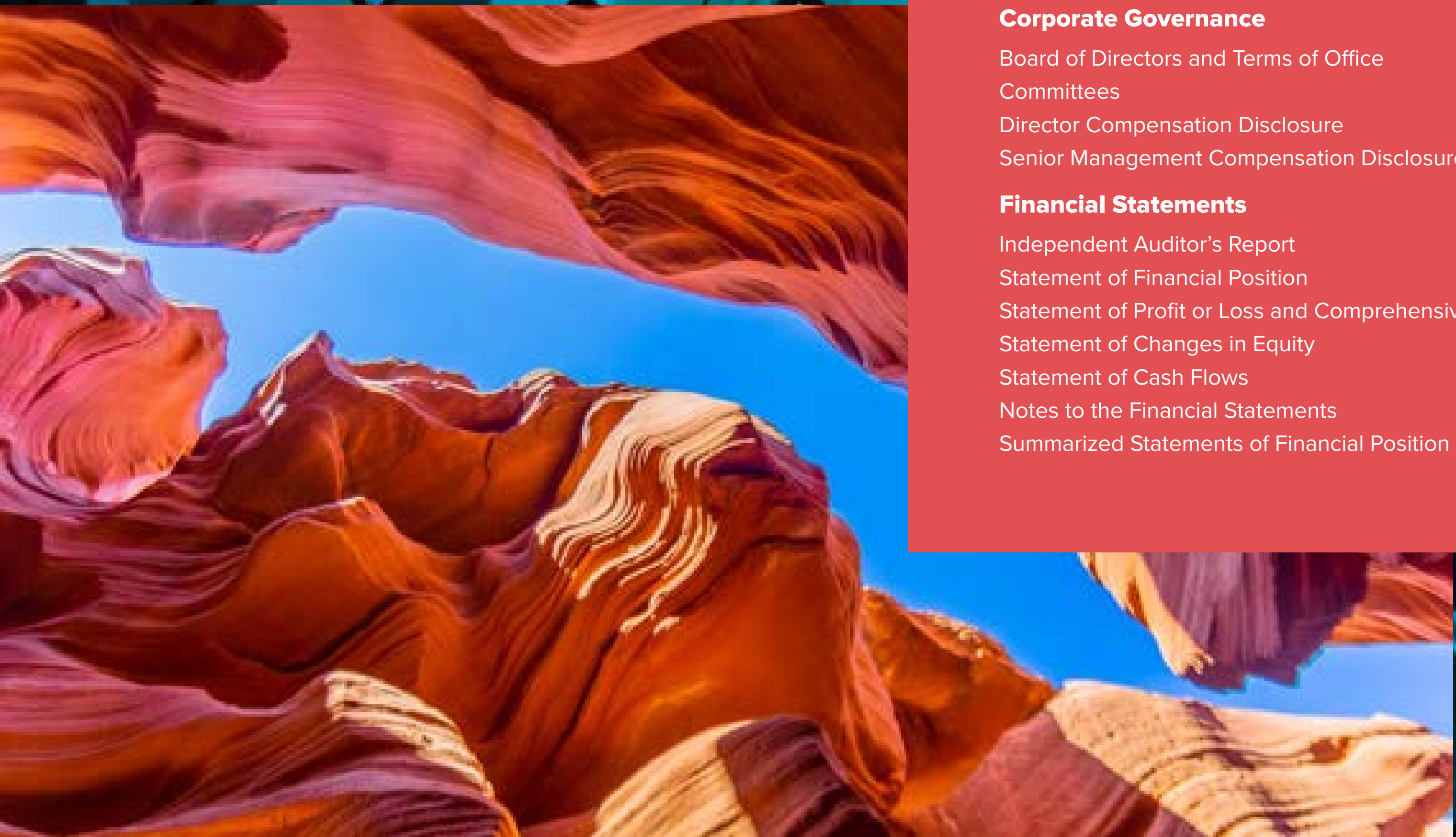
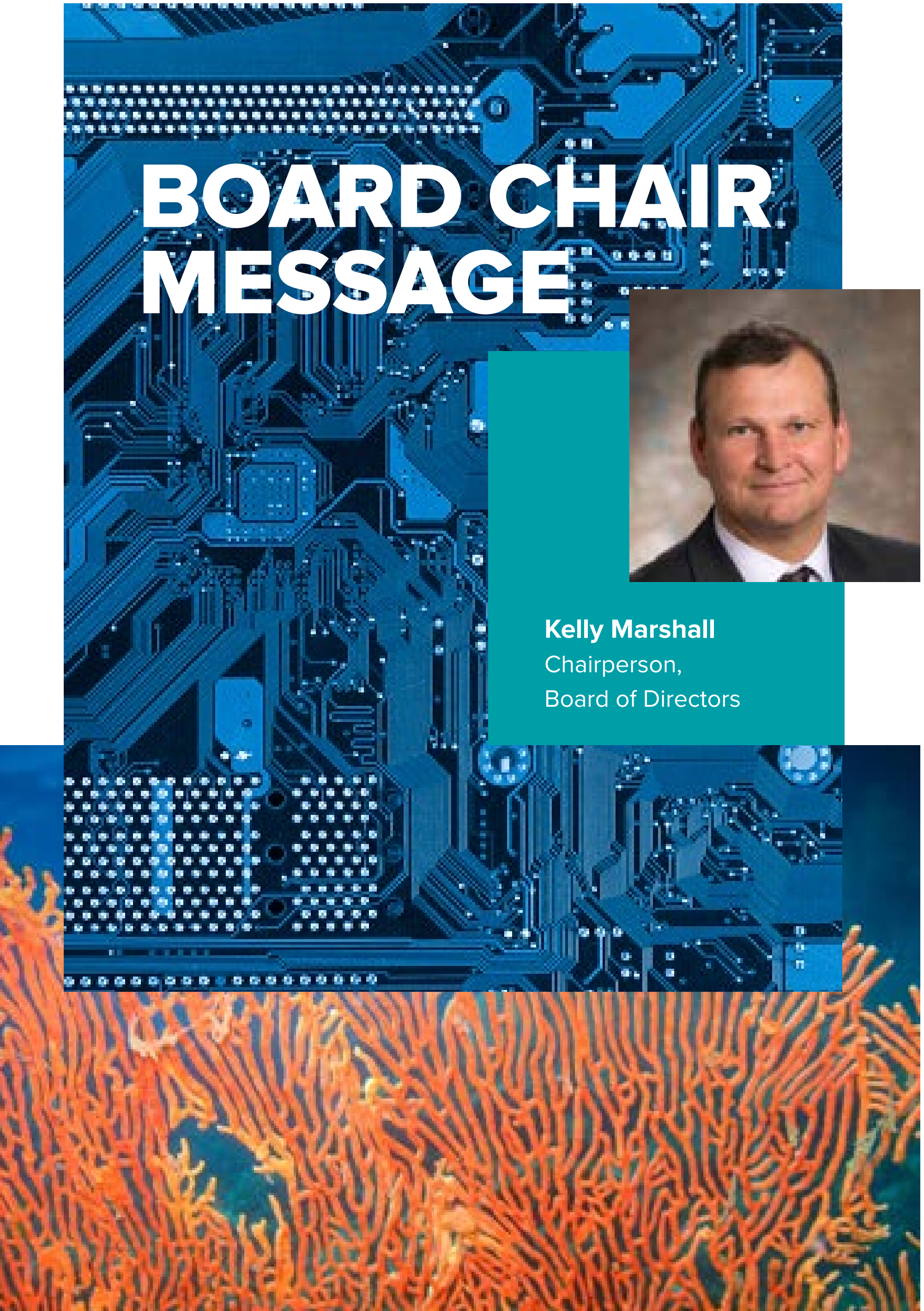


Table of Contents



BOARD CHAIR MESSAGE

Kelly Marshall
Chairperson,
Board of Directors

Dear Members,

For over two years, we have been navigating through extraordinary uncertainty as a result of the COVID-19 pandemic. The global health crisis has challenged us on many levels and has impacted every facet of our lives. These unprecedented times were further exacerbated in early summer when our communities were shaken by the tragic discovery of unmarked graves at former BC residential school sites. Additionally, the toll of climate change, resulting in heat waves, floods and wildfires that devastated communities throughout the province also impacted the lives of thousands. One thing was clear throughout 2021, in the face of all complex challenges, BC credit unions' commitment to their members was unwavering.

BC's credit unions demonstrated resilience and strength by adapting to provide their members with necessary financial services as well as disaster relief support to impacted areas. Credit unions also took quick action to recognize the inaugural National Day for Truth and Reconciliation in meaningful ways to learn and to recognize past and present injustices of Indigenous Peoples. For Stabilization Central, supporting credit unions through these uncertain and complex times is tied to our mandate to provide strength and stability to BC credit unions.

The strength of any organization is linked to the passion and talent of its people. In 2021, Stabilization Central added Bill Corbett as CEO and Frank Chong as SVP, Risk & Finance as the two newest members of our team. With many years of credit union and regulatory experience between them, the support of their dedicated team and clear direction from the Stabilization Central Board, a refreshed and refocused approach was developed for how our organization shows up in the system.

We recognize that the regulatory environment for the system is changing as the risks we all face evolve, and that the regulator's expectations for addressing those risks is increasing. We also understood that there was a need to adjust our value proposition for the credit union system to assist in navigating this complex environment. Our newly refreshed Strategic Plan prioritizes services that credit unions have asked for, while trying to anticipate future needs that will help to create clarity out of the challenging landscape.

Throughout the year, Stabilization Central continued to focus on its primary mandate to provide stabilization services and support to credit unions, and to work with credit unions to improve their operations. Our involvement increased significantly with credit unions that have been assigned a higher intervention stage rating. We assisted seven credit unions under increased regulatory supervision with their rehabilitation efforts. The challenges faced by these credit unions included long-term financial viability, credit quality, risk management and governance. We are pleased to report that three credit unions we've been working with have had their intervention stage ratings improved, and one was returned to a stage rating of zero.

The proactive, voluntary work with credit unions also increased significantly in 2021. Credit unions reached out for support on issues related to governance, business continuity planning, enterprise risk management and merger guidance. Recognizing that the level of consolidation in the system has increased dramatically, we responded by distributing a Merger Reference Guide to aid credit unions with understanding the process, the regulatory requirements and other critical considerations. We anticipate that the need for merger guidance will continue to be a strategic consideration for many credit unions.

In 2021, Stabilization Central re-established and strengthened our relationships with system partners and with BC credit unions. As mentioned, we worked closely with the BC Financial Services Authority (BCFSA) to provide stabilization support to a record number of staged credit unions. In addition, Stabilization Central collaborated with Canadian Credit Union Association (CCUA) and Central 1 on various initiatives. We believe that we are a stronger system when we leverage one another's wisdoms and strengths through collaboration with all partners and stakeholders.

As governance practices evolve and the level of responsibility for directors increases, Boards must ensure they maintain pace with best practices. In 2021, Stabilization Central's Board strengthened its own governance policies and oversight practices including a refresh of the Board Governance Manual to align with new legislation and best practices. Updates were made to all committee terms of references, amendments were proposed to our Rules, and enhancements were made to the director appointment process as part of our commitment to ensuring a strong, diverse, and qualified Board.

As we look ahead, the Board will be assessing the effectiveness of the Master Bond Program to ensure we are meeting the needs of credit unions. We are also mindful of the emerging risks that credit unions face and what is on the horizon including a different interest rate environment, talent and resourcing challenges, continued competition from the banks, monolines, fintechs and brokers, and the myriad of yet unidentified risks. We will continue to look for opportunities to connect with our members and to provide support where you need it most.

In closing, this will be my last term as Chair of the Stabilization Central Board, and it is with gratitude and humility that I have had the opportunity to be in this position for the past three years as part of a wonderful team and an amazing system.

Thank you to my fellow directors as well as Bill and the entire team at Stabilization Central. In 2021, you demonstrated yet again what a stellar and dedicated group of people you are. There is a lot of work ahead; however, we can be proud of the efforts made towards maintaining and enhancing a strong and viable system.

To our members, thank you for your continued support and for the ongoing dialogue. Our commitment is that we will continue to work hard in ensuring that Stabilization Central remains focused on relevant issues that we are all facing in these complex times and into the future.

Kelly Marshall
Chairperson, Board of Directors

CEO MESSAGE

Bill Corbett
Chief Executive Officer

As I reflect on my first year,

I am proud of how the Stabilization Central team has increased its focus and presence in the credit union system. Our skills and expertise continues to grow and we've built a significant amount of new infrastructure to support our work with credit unions. This would not have been possible without the support and engagement of so many of you – our members.

The addition of Frank Chong as the Senior Vice-President, Risk and Finance to our strong team has elevated our skills and expertise as well as our capacity and the renewed focus at Stabilization Central in 2021 has supported the team's engagement in our work. Recent events led us, as a team, to take the Indigenous Canada course on First Nations cultural awareness. Engaging in this together allowed us to improve our listening and understanding of these issues and the impact on Indigenous peoples across Canada.

This strong team will allow us to move our new Strategic Plan forward and help credit unions navigate the growing complexities in financial services within an increasingly complex world. To do so, we have divided our focus into three lines of business that reflect our areas of focus and support:

- **Stabilization Services** to support credit unions with increased regulatory supervision and the Stabilization Fund
- **Master Bond Program** to provide fidelity bonding protection and endorsements including Computer Crime
- **Elective Services** to increase our proactive support for upcoming changes in regulatory expectations and other required support

Stabilization Services

We have been able to build a new framework to scale our stabilization services work which has improved the effectiveness of our onboarding and remediation support for credit unions under increased regulatory supervision. Supporting seven credit unions through remediation work in 2021 has been both a challenge and a rewarding experience. Our effectiveness in supporting this work has improved and we are grateful to the members we have supported in this way for the positive feedback we have received on this key element of our mandate.

We are pleased to report that a new Protocol Agreement and a new Information Sharing Agreement with the regulator were finalized during the year. These agreements detail how the two organizations will continue to work together, and on behalf of all BC credit unions, to maintain a strong and healthy credit union system.

Going forward we will continue to enhance the efficiency and effectiveness of our work with credit unions that need supervisory support. We will pursue broader discussions with credit unions, and the regulator, about support for staged credit unions, and will be reviewing the funding model to ensure it is sustainable in the long term.

Master Bond Program

This program continues to face new and increasingly complex risks, in particular from cybercrime. These continue to be a challenge for many credit unions, however through the implementation of new controls by many credit unions and the support of system providers such as Central 1, we are seeing improvements. At the same time, forgery losses which relate to the core fidelity bonding program, have begun to increase. We appreciate, and encourage, our members' ongoing diligence and attention to controls over these risks.

For 2022, we were able to place our excess insurance coverages for the Master Bond Program at no premium increase. We are particularly proud of this accomplishment in an increasingly hard insurance market, and an environment of significantly higher premiums for many others. We appreciate the ongoing support of Willis Towers Watson who are our partners in securing this coverage (up to $120 million) on behalf of our members.

Going forward we will be taking the opportunity to assess the effectiveness of the Master Bond Program to ensure that credit unions have the protections they need under this program in a cost-effective way, while still maintaining the core fidelity bonding at the heart of the Master Bond Program.

Elective Services

Many new proactive tools have been created or enhanced for the benefit of all credit unions, and we have improved our responsiveness for frequent ad-hoc requests across the system. Early in 2021, we released a Merger Reference Guide as a reference to credit unions in the system. This has been used by many in the system, and we are also grateful for the feedback we have received. We intend to update this guide in 2022.

We will further accelerate and scale this work in 2022 in response to increasing expectations of the regulator and this growing need in the system. Delivering tools and resources in advance of the need, will ensure that credit unions are supported and ready when new regulatory guidance is in place. These will be developed collaboratively with members across the system in order to leverage the broad skill sets available and elements that may have already been created.

Thank you to all of our members and system partners for your ongoing support. Stabilization Central looks forward to continuing to collaborate with credit union Boards and Executive teams as we support you in the year ahead.

Bill Corbett
Chief Executive Officer

DASHBOARD

Stabilization Activities

- Regulatory remediation support to 7 credit unions
- 3 credit unions had intervention stage rating improvements including 1 credit union that was moved to stage 0
- Enhanced framework of tools to support staged credit unions
- Signed a renewed Protocol Agreement with BCFSA
- Signed a renewed Information Sharing Agreement with BCFSA

Elective Services

- New and improved website and template resource library for credit unions
- Developed 3 new policy templates and renewed 3 existing policy templates
- Developed a Merger Reference Guide
- Conducted Board governance evaluations for 2 credit unions
- Conducted Board risk appetite surveys for 3 credit unions

Master Bond Program

- Bonded over 1,850 individuals
- Processed 191 MBP claims
- Secured excess insurance coverage with no increase in premiums
- Developed a new assessment model
- Developed a new claims analysis report

Did you know that Stabilization Central is a unique organization for BC credit unions that does not exist elsewhere in North America (and maybe not even across the world)!

STABILIZATION ACTIVITIES

Stabilization Central has the in-house expertise, tools and vast experience in providing remediation support to BC credit unions. Stabilization Central's well-established relationship with the regulator, robust understanding of regulatory expectations and sound knowledge of credit union operations positions us to provide customized guidance to every credit union we work with. In 2021, Stabilization Central provided regulatory remediation support to seven credit unions with an elevated intervention stage rating. This included working directly with the Boards and management of credit unions to review and provide feedback on submissions to the regulator, offer advice and direction on how to approach change management, clarify regulator expectations and strengthen the risk culture across the organization. Stabilization Central also provides quality contractors with subject matter expertise in a variety of disciplines to provide guidance and recommendations for enhancements of existing policies and procedures, conduct independent file reviews and facilitate educational workshops for Boards.

- Stabilization Central provided voluntary support to a credit union that needed support which resulted in them not having their stage rating increased (staged).
- Stabilization Central continued to work in collaboration with system partners such as Central 1, the Canadian Credit Union Association on providing input to industry consultations.
- Stabilization Central participated on the Market Code of Conduct Working Group to support in the development of BC's first ever credit union developed Market Code.
- Stabilization Central continued to strengthen its relationship with the BC Financial Services Authority (BCFSA) and the Credit Union Deposit Insurance Corporation (CUDIC).
- A renewed Protocol Agreement and Information Sharing Agreement was signed with the BCFSA.
- Work commenced on renewing the Credit Union Financial Assistance Agreement with CUDIC.

Did you know...
Stabilization Central has provided direct or voluntary stabilization support to over 49 credit unions since it was established in 1989?

ELECTIVE SERVICES

Stabilization Central provides proactive support to BC credit unions by way of developing tools, templates and guides to support the system with what it needs most.

In 2021, Stabilization Central continued to grow its elective services offerings. There were several services that Stabilization Central provided to BC credit unions in 2021:

- Stabilization Central continued to build out its resource library and improved the website that houses the library:
  - Developed an Outsourcing Policy and Compliance Policy template
  - Revised its existing Capital Management Policy, Capital Contingency Plan and Liquidity and Funding Risk Management Policy templates
  - Partnered with Central 1 Treasury to revise the Investment and Lending Policy template to align it with the Mandatory Liquidity Pool changes that occurred in early 2021
- Given the consolidation occurring within the BC system and that more credit unions are having conservations about mergers as part of their strategic planning discussions, Stabilization Central developed a Merger Reference Guide to support in those considerations.
- Credit unions are responsible for being compliant with several different pieces of legislation and regulatory guidelines. In 2021, Stabilization Central developed an inventory of legislation that impacts BC credit unions.

Did you know...
Stabilization Central is available to you and your Boards, at any time, to provide perspectives on system trends, advice or to act as a sounding board?

- Effective governance practices are critical to every credit union. Stabilization Central conducted Board governance evaluations for 2 credit unions and offered recommendations on enhancing current governance practices as well as an accountability mechanism for ensuring the improvements were implemented.
- Stabilization Central consulted with several credit union Boards providing perspectives and facilitating discussion on industry trends, risk management practices, mergers and acquisitions, strategic planning, governance best practices, and regulatory compliance.
- A credit union's risk appetite acts as a compass for the credit union's operations to ensure the activities the credit union does are aligned with the level of risk and control environment that is created.
  - Stabilization Central worked with three credit unions to conduct Board risk appetite surveys to help revise their risk appetite frameworks.

MASTER BOND PROGRAM

Financial Summary

The MBP experienced a net loss of $0.8M. Revenues have remained steady at $1.6M, which was primarily comprised of $1.4M in assessment income and $0.2M of investment income. The direct costs to the program significantly increased in 2021. Net claims expense increased by more than by $0.3M for a total of $1.1M in 2021 (this includes $0.6M in reserve losses carried over to 2022). The increase in investment income helped to offset the increases in claims expenses for 2022.

To ensure that the program is funded adequately, the total assessment charged to all participants increased from $1.4M to $1.6M for 2022. Stabilization Central carefully considered the increasing claims and costs to the program and determined that the increase was required to ensure the financial viability of the program in the short and long term. The MBP continued to remain a revenue-neutral program with the primary objective to cover direct claims and administration costs.

Did you know...
the Master Bond Program was established in 1972 by the Credit Union Reserve Board and was transferred to Stabilization Central in 1991?

Summary of 2021 Claims & Analysis

Overall, claims paid by the MBP significantly increased in 2021. This was driven primarily by the increasing online banking losses experienced by credit unions. Online banking losses still make up about 75% of the dollar amount of paid claims, which rose by almost $0.1M year over year.

One of the most significant emerging trends during the year was an increase in forgery claims. Over $0.2M in forgery claims were paid in 2021 causing this trend to become a key focus and concern to the program. Stabilization Central took steps to increase awareness on forgery incidents and worked with credit union system partners to mitigate future losses. However, forgery losses are projected to continue in 2022 due to an overall increase in losses seen across Canada.

A major event that took place in late 2021 was a series of brute force attacks against Canadian credit unions. The claims were paid under Online Banking coverage, however the threat of continued cyber-attacks against credit unions remains a major concern.

Stabilization Central conducted a comprehensive claims analysis in 2021. This report, which can be found on **Stabilization Central's website**, provides credit unions an in-depth look into claims statistics and emerging trends and risks related to the MBP.

New Assessment Model

In 2021, Stabilization Central engaged Willis Towers Watson (WTW), Stabilization Central's excess insurance broker, to validate the MBP assessment model. The purpose of this validation was to review and understand the key drivers and assumptions of the model. As a part of the review, WTW recommended that a series of changes be made to improve the assessment calculation and allocation. The primary change resulted in assets, Full Time Equivalency (FTE), and three years MBP claims experience as the basis of member assessments. The new model was reviewed by WTW to ensure it was functioning appropriately. This model was used for the 2022 MBP assessment. It will be utilized going forward to provide credit unions with greater transparency around how the assessment fees are calculated. This achievement marks an important milestone for the continued improvement of the program. A communication to all members was sent out in Fall 2021.

Excess Insurers

WIth the assistance of WTW, Stabilization Central was able to secure excess insurance coverage as per the requirements of the MBP. Even with the current hard insurance market, all excess insurers renewed coverage for the MBP with no increase in premiums and with the same/similar terms for 2022. The structure remains unchanged with all six insurers retaining the same positions in the excess insurance layering. CUMIS was renewed as the provider of Securities Transfer (STAMP) Bond coverage. There was a small increase of premiums for STAMP in 2022, which was expected due to the premiums remaining unchanged for several years previous.

Table 1. 2022 Excess Insurance

	Insured Limits ($)	Total Annual Premium ($)	AM Best Financial Strength Rating
Berkshire Hathaway Specialty Insuarnce	10M	174,500	“A++“ Stable
AIG Canada	10M xs 10M	67,500	“A“ Stable
Axis Insurance & Reinsurance	10M xs 20M	58,000	“A“ Stable
Zurich	10M xs 30M	47,250	“A“ Stable
CV Star	10M xs 40M	42,000	“A“ Stable
Liberty Mutual Insurance	10M xs 50M	32,200	“A“ Stable
Total	**60M**	**421,450**	**“A“ Stable**

Increased Awareness of Fraud Exposure

The evolving nature of fidelity risks presented new challenges to the MBP in 2021. In response, Stabilization Central is continuing to promote awareness of emerging trends and increasing risks. With the implementation of initiatives such as the MBP Quarterly Communication, Stabilization Central is striving to be more proactive in the BC credit union system in sharing fraud awareness and connecting credit unions to build strength against emerging risks. The following trends and risks are highlights which Stabilization Central has been monitoring and reporting on to the system.

Did you know…
two-factor authentication can significantly reduce e-transfer fraud?

Cyber Risk

The cyber risks to credit unions continue to rise, causing high levels of concern to credit unions and industry insurers. With brute force attacks occurring across the Canadian credit union system in 2021, these risks and concerns are reinforced. Proper information and technology security and internal procedures should be reviewed regularly to ensure adequate protection. This includes a thorough review of insurance coverage against cyber-attack related losses and costs.

Online Banking

Online banking losses continue to increase and pose risk to the credit union system. The push for the implementation of transactional two-factor authentication remains a key focus of Stabilization Central and the credit union system. Additionally, low online banking limits for Interac e-transfers® and bill payments, increased online banking security features such as strong personal access codes, and member education are steps credit unions should be taking to reduce the risk of online banking losses.

Employee Dishonesty

The risk of employee dishonesty and associated losses (both financially and reputationally) is becoming an increasing trend in Canada. Employee dishonesty rates are increasing in Canadian credit unions, causing a large issue for fidelity bond insurers. With the COVID-19 pandemic reaching its second full year, financial distress levels of Canadians are high. Financial distress is one of the leading causes of employee dishonesty. While the MBP has not had a large dishonesty claim since 2017, employee dishonesty cases remain a key issue for the MBP.

Did you know…
all new credit union employees (part-time, full-time, or contract) as well as any new Board members are required to be bonded by Stabilization Central?

CORPORATE GOVERNANCE

The Board of Directors of Stabilization Central is comprised of six elected representatives from each region which include credit unions grouped on asset-size and regions and up to three at large appointed directors. At fiscal year-end 2021, three directors were credit union Chief Executive Officers, one director was a credit union President, three directors were credit union directors, and one director was independent of the credit union system. All have a professional or business background including financial, accounting, legal, governance, insurance and real estate that contributes significant expertise at the Board table. In addition to their credit union involvement, Directors sit on various other boards including the Galiano Loan Fund Society, Strida Canada, Credit Union Foundation of BC, Credit Union Executives Society (CUES), Canadian Credit Union Association (CCUA), World Council of Credit Unions (WOCCU), and Insurance Council of BC

All of Stabilization Central's directors participate in the national system's Credit Union Director Achievement (CUDA) program and four directors have their Accredited Canadian Credit Union Director (ACCUD) designations. Some directors also have the ICD.D designation from the Institute of Corporate Directors as well as the CCD designation from the Credit Union Executives Society (CUES). The organization has an effective director orientation program in place.

In addition, all directors are members of the Institute of Corporate Directors and the Credit Union Executive Society (CUES). Opportunities to attend conferences, workshops and take courses to enhance the knowledge and expertise in areas of governance are provided as per the Director Education Policy of the organization. When possible, speakers from varying skill sets are invited to provide education sessions for directors. These affiliations and programs ensure that all directors maintain a high level of expertise in order to perform their roles.

The Board of Stabilization Central also recognizes that as governance evolves and the accountabilities of directors' increase, it is incumbent on them to ensure the governance of the organization keeps pace with leading governance practices. During the past year, various enhancements were made to the organization's corporate governance including the review of Stabilization Central's Rules to ensure alignment with changes to legislation; a refresh of all committees' terms of reference to reflect best practices; a complete rewrite of Stabilization Central's Governance Manual and the creation and implementation of a new Director Appointment Policy.

Board of Directors and Terms of Office

Kelly Marshall

Chairperson, 2021-2024

Chief Executive Officer
Summerland & District
Credit Union

Anita Braha

Vice Chairperson, 2018-2021

Chairperson
Vancity Savings Credit Union
(Appointed Director)

Linda Bowyer

Director, 2020-2023

Chief Executive Officer
First Credit Union

Gus Hartl

Director, 2018-2024*

Chief Executive Officer
Aldergrove Credit Union

Darlene Hyde

Director, 2021-2023

Chief Executive Officer
BC Real Estate Association
(Appointed Director)

Colin MacKinnon

Director, 2020-2023

Director
Prospera Credit Union

Bill Wilby

Director, 2019-2022

Vice Chairperson
Grand Forks Credit Union

Jim Zimmerman

Director, 2019-2022

Chief Executive Officer
Williams Lake & District
Credit Union

**Gus Hartl retired from the credit union system in 2022. A newly elected director from Region Six will fulfill the remaining two years of Gus' term.*

Committees

Committee	Members	Functions
Audit & Risk 4 meetings	Colin MacKinnon, Chairperson Anita Braha Jim Zimmerman	The Audit & Risk Committee's responsibilities include oversight of the activities of the external auditor, assessment of accounting policies and the adequacy of internal controls. In addition, the oversight of ERM, which includes ensuring the organization has effective risk management processes in place.
Governance & Conduct Review 5 meetings	Darlene Hyde, Chairperson Gus Hartl Bill Wilby	The Governance & Conduct Review Committee assists the Board in fulfilling its corporate governance responsibilities and is responsible for establishing policies and procedures to address conflict of interest, standards of conduct and to maintain sensitive information confidential.
Human Resources 4 meetings	Anita Braha, Chairperson Linda Bowyer Kelly Marshall	The HR Committee oversees the Human Resources policies and practices of Stabilization Central including the terms of employment of the CEO.
Investment & Loan 4 meetings	Gus Hartl, Chairperson Colin MacKinnon Bill Wilby Bill Corbett (Management)*	The Investment & Loan Committee is responsible for ensuring there is an appropriate and prudent policy to govern the employment of the funds entrusted to the organization.
Master Bond Program 4 meetings	Bill Wilby, Chairperson Colin MacKinnon Jim Zimmerman	The Master Bond Program Committee is responsible to ensure effective and consistent oversight of the Master Bond Program (MBP).
Nominations & Elections 4 meetings	Linda Bowyer, Chairperson Darlene Hyde Kelly Marshall	The Nominations & Elections Committee oversees the director election process, including ensuring that qualified candidates are nominated for Director positions.
Stabilization Advisory Committee 4 meetings	Jim Zimmerman, Chairperson Anita Braha Linda Bowyer Gus Hartl Darlene Hyde Colin MacKinnon Kelly Marshall Bill Wilby	The purpose of the Stabilization Advisory Committee is to oversee the organization's credit union stabilization activities.

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

Director Compensation Disclosure

Stabilization Central provides directors with the following compensation:

- $500 per board meeting attended
- $250 per committee meeting attended
- $5,500 annual retainer for every director for non- meeting preparation time.
- $9,200 honorarium for Board Chair; $5,520 honorarium for Vice Chair
- $1,725 honorarium for chairing each of the committees.
- Reimbursement of expenses including travel, accommodations, parking, meals for meetings, training and for expenses related to approved representation of the credit union.
- The Director Education Policy provides up to $10,000 over a term (three-year period) for each director for training, to attend educational sessions and conferences. *Per diems for education are not included in this amount.*
- In 2021, there were a total of 9 Board meetings and 29 Committee meetings held.
- A one and a half day strategic planning session was held.
- One half-day governance workshop was attended by all directors.

By ordinary resolution, the members in attendance at the Annual General Meeting held on June 18, 2020, approved an aggregate amount of $200,000 to be available for compensation to directors (note this is for all directors in total, not individually).

For fiscal year 2021, the total remuneration for Stabilization Central directors was **$114,045**.

Name	Region	Attendance Board & Committees	Meeting Fees	Expense Reimbursement	Education & Conferences
Kelly Marshall Chairperson	Okanagan	20/21	$9,200 Board Chair Honorarium $5,500 Annual Retainer $4,750 Per Diems* **Total Comp: $19,450**	$3,117	$0
Anita Braha Vice Chairperson	Appointee	21/21	$5,520 Vice Chair Honorarium $1,725 HR Committee Chair Honorarium $5,500 Annual Retainer $5,750 Per Diems **Total Comp: $18,495**	$1,619	$0

The compensation received for each director is summarized below:

Name	Region	Attendance Board & Committees	Meeting Fees	Expense Reimbursement	Education & Conferences
Linda Bowyer	Island	21/21	$1,725 Nominations & Elections Chair Honorarium $5,500 Annual Retainer $5,500 Per Diems **Total Comp: $12,725**	$2,157	$10,000
Gus Hartl	Lower Mainland	21/22	$1,725 Investment & Loan Committee Chair Honorarium $5,500 Annual Retainer $4,250 Per Diems* **Total Comp: $11,475**	$1,084	$0
Darlene Hyde	Appointee	22/22	$1,725 Governance & CRC Chair Honorarium $5,500 Annual Retainer $4,250 Per Diems **Total Comp: $11,475**	$287	$6,159
Colin MacKinnon	Large Credit Unions	25/25	$1,725 Audit & Risk Chair Honorarium $5,500 Annual Retainer $5,750 Per Diems **Total Comp: $12,975**	$0	$0
Bill Wilby	Kootenays	26/26	$1,725 MBP Chair Honorarium $5,500 Annual Retainer $7,750 Per Diems **Total Comp: $14,975**	$1,434	$1,043
Jim Zimmerman	Northline	21/21	$1,725 Stabilization Advisory Committee Chair Honorarium $5,500 Annual Retainer $5,250 Per Diems **Total Comp: $12,475**	$1,448	$0

**Per Diem Amounts paid to the credit union*

Senior Management Compensation Disclosure

The compensation philosophy for Stabilization Central Credit Union is to provide a competitive total program consistent with market-based practices for all personnel. Market data is gathered and a benchmark for employee compensation is established at a P50 level for the sector. In 2020, a compensation review was conducted for the CEO role as well as the leadership positions by the Human Resources Committee of the Board through an independent third party.

Key management personnel are defined as those persons having authority and responsibility for planning, directing, and controlling the activities of Stabilization Central. The amount of compensation paid to the key management personnel during 2021 was $619,168. (December 31, 2020 - $900,012).

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the members of Stabilization Central Credit Union of British Columbia

Opinion

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

- the statement of financial position as at December 31, 2021
- the statement of profit or loss and other comprehensive income (loss) for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Stabilization Central as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of Stabilization Central in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditors' report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the annual report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing Stabilization Central's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Stabilization Central or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Stabilization Central's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Stabilization Central's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Stabilization Central's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Stabilization Central to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

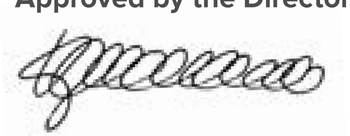
KPMG LLP

Chartered Professional Accountants
Vancouver, Canada
March 31, 2022

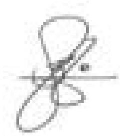
Statement of Financial Position

December 31, 2021, with comparative information from 2020	Notes		2021		2020
Assets					
Cash		**$**	**197,848**	$	372,954
Investment securities	5		**46,799,806**		47,050,291
Accounts receivable	6		**1,262,572**		557,921
Deferred tax assets	7		**153,190**		159,650
Property and equipment	8		**702,940**		793,805
Prepaid expenses			**45,479**		470,882
Other assets			**33,789**		33,788
		$	**49,195,624**	$	49,439,291
Liabilities					
Accounts payable and accrued liabilities		**$**	**364,413**	$	347,455
Deferred tax liabilities	7		**153,190**		159,650
Unearned assessment			**53,517**		121,989
Provision for master bond claims	9		**724,537**		95,478
Lease obligation	10		**606,868**		679,446
			1,902,525		1,404,018
Equity					
Share capital	11		**35,138**		35,138
Contributed surplus			**1,383,659**		1,383,659
Retained earnings			**45,874,302**		46,616,476
			47,293,099		48,035,273
		$	**49,195,624**	$	49,439,291
Commitments	12				

Approved by the Directors:



Kelly Marshall
Chairperson



Colin MacKinnon
Chairperson — Audit & Risk Committee

See accompanying notes to the financial statements.

Statement of Profit or Loss and Comprehensive Income (Loss)

Year ended December 31, 2021, with comparative information for 2020	Notes		2021		2020
Assessments		$	**1,413,627**	$	1,319,275
Financial income					
Interest income			**-**		7,480
Pooled fund distributions			**2,187,222**		1,583,527
Gains (Losses) on disposal of financial instruments			**200,195**		(40,357)
Change in fair value of financial instruments			**(58,733)**		364,776
Total financial income			**2,328,684**		1,915,426
Financial expenses					
Interest paid on lease obligation	10		**23,789**		25,813
Net financial income			**2,304,895**		1,889,613
Other income	10		**27,503**		31,842
Total financial and other income			**3,746,025**		3,240,730
Direct costs					
Claims paid	9		**1,144,625**		780,135
Insurance and brokerage			**471,450**		455,000
Master bond claims administration			**105,200**		150,576
Increase in provision for master bond claims	9		**629,059**		7,007
			2,350,334		1,392,718
Operating expenses					
Salaries and benefits	13, 14		**888,527**		701,860
Subcontract fees			**273,823**		499,116
Professional services			**290,990**		448,416
Office and occupancy			**206,555**		207,997
Directors remuneration	14		**113,374**		151,520
Investment advisory fee			**81,033**		80,241
Travel and meetings			**73,829**		58,035
Data processing and systems development			**72,959**		36,277
Corporate projects			**71,194**		59,040
Other			**65,581**		54,770
			2,137,865		2,297,272
			4,488,199		3,689,990
Comprehensive loss		$	**(742,174)**	$	(449,260)

See accompanying notes to the financial statements.

Statement of Changes in Equity

		Share Capital		Contributed Surplus		Retained Earnings		Total Equity
Balance at January 1, 2021	$	35,138	$	1,383,659	$	46,616,476	$	48,035,273
Comprehensive Loss		–		–		(742,174)		(742,174)
Balance at December 31, 2021	**$**	**35,138**	**$**	**1,383,659**	**$**	**45,874,302**	**$**	**47,293,099**
Balance at January 1, 2020	$	35,138	$	1,383,659	$	47,065,736	$	48,484,533
Comprehensive Loss		–		–		(449,260)		(449,260)
Balance at December 31, 2020	**$**	**35,138**	**$**	**1,383,659**	**$**	**46,616,476**	**$**	**48,035,273**

See accompanying notes to the financial statements.

Statement of Cash Flows

Year ended December 31, 2021, with comparative information from 2020		2021		2020
Cash flows from operating activities				
Comprehensive loss	$	**(742,174)**	$	(449,260)
Adjustments for:				
Depreciation		**103,469**		101,169
(Gain) loss on disposal of financial instruments		**(200,195)**		40,357
Change in fair value of financial instruments		**58,733**		(364,776)
Increase in provision for master bond claims		**629,059**		7,007
Interest income		**-**		(7,480)
		(151,108)		(672,983)
Net change in accounts receivable		**(704,651)**		273,229
Net change in prepaid expenses		**425,403**		(416,726)
Net change in unearned revenue		**(68,472)**		121,989
Net change in accounts payable and accrued liabilities		**16,958**		(29,454)
Interest received		**-**		10,028
Net cash used in operating activities		**(481,870)**		(713,917)
Cash flows from investing activities				
Net change in deposits with regulated financial institutions		**-**		500,000
Net change in securities		**391,946**		(56,590)
Net change in property and equipment		**(12,604)**		(27,658)
Net cash from investing activities		**379,342**		415,752
Cash flows from financing activities				
Net Change in lease obligation		**(72,578)**		(61,883)
Net cash used in financing activities		**(72,578)**		(61,883)
Decrease in cash		**(175,106)**		(360,048)
Cash - beginning of year		**372,954**		733,002
Cash - end of year	$	**197,848**	$	372,954

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2021

1. General information

Stabilization Central Credit Union of British Columbia (Stabilization Central) is located in Canada with a registered office located at Suite 100, 1095 West Pender Street, Vancouver, British Columbia, V6E 2M6, Canada. Stabilization Central was incorporated under the *Credit Union Incorporation Act (British Columbia)* and designated as a stabilization authority under the *Financial Institutions Act (British Columbia)*.

The purpose of Stabilization Central is to provide stability and strength to BC credit unions which are also required to be members of Stabilization Central. Stabilization Central accomplishes this by mitigating risk in the system through proactive support as well as through its delegated authority from the BC Financial Services Authority (BCFSA) to supervise credit unions.

Stabilization Central administers two funds:

(a) Stabilization Fund

Stabilization Central maintains the Stabilization Fund to provide or arrange stabilization support and other assistance for member credit unions that encounter challenges, including financial assistance for deposit protection purposes. Operations are financed by earnings on Stabilization Fund's equity and member assessments, if required. The last assessment on the Stabilization Fund was in 2002.

Stabilization Central has entered into a Credit Union Financial Assistance Agreement (CUFAA) with the Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) and BCFSA. The terms of this agreement require that Stabilization Central shall maintain a fund of at least $30.0 million for British Columbia credit unions' stabilization and deposit insurance purposes (Committed Fund).

(b) Master Bond Fund

The Master Bond Fund provides fidelity bonding protection for all credit unions in British Columbia and their subsidiaries. Stabilization Central self-insures 100% of the risk for the first $1.0 million of individual credit union losses to a maximum annual aggregate loss of $5.0 million. Stabilization Central maintains the Master Bond Fund to settle claims within the retained Excess insurance is secured with commercial carriers to insure single losses to $60 million and aggregate losses to $120 million. All carriers are "A" rated or better through AM Best. Operations are financed by member assessments and by earnings on the Master Bond Fund's equity.

On March 11, 2020, the outbreak of the novel strain of the coronavirus ("COVID-19") was officially declared a pandemic by the World Health Organization and has resulted in emergency measures to contain the spread of the virus. As a result, global financial markets have expected significant volatility. The crisis continued through 2021 and is ongoing. It is difficult to estimate the ultimate impact or duration of COVID-19 on Stabilization Central's operations.

2. Basis of presentation

(a) Statement of compliance

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

The policies set out below have been consistently applied to all the periods presented in Stabilization Central's annual financial statements.

The annual financial statements were authorized for issue by the Board of Directors on March 31, 2022.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the Financial instruments at Fair Value Through Profit or Loss (FVTPL) which are measured at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

In preparing the financial statements in accordance with IFRS, management must exercise judgments and make estimates and assumptions that affect the application of accounting policies and the carrying amounts of assets and liabilities, net income and related disclosures. Actual results may differ materially from those estimates. Significant areas for which management must make subjective or complex estimates and judgments include the provision for master bond claims, discount rate used for calculating the net present value of lease obligations and calculation of expected credit loss (ECL).

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

3. Significant accounting policies

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

(a) Financial assets and financial liabilities

Recognition and initial measurement

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

Classification and subsequent measurement

i) Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice e.g. whether management's strategy focuses on earning contractual interest revenue, or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to Stabilization Central's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how Stabilization Central's stated objectives for managing the financial assets are achieved and how cash flows are realized.

ii) Contractual cash flows characteristics assessment

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

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

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

iii) Financial assets

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

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

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

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

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

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

iv) Financial liabilities

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

(b) Derecognition

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

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

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

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

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

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

(c) Cash

Cash is carried at amortized cost in the statement of financial position.

(d) Investment securities

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

(e) Other assets

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

(f) Accounts payable and accrued liabilities

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

(g) Property and equipment

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

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

Depreciation is recognized in the statement of profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the pattern of consumption of future economic benefits embodied in the asset. The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and is recognized net within other income in the statement of profit or loss.

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

Furniture, fixtures and equipment	3 to 10 years
Leaseholds	Lesser of the useful life of the leaseholds or the term of the lease
Right-of-use assets	Term of the lease

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

(h) Insurance contracts

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

When significant insurance risk exists, the contract is accounted for as an insurance contract.

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

(i) Provision for master bond claims

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

(j) Leases

As a lessee

A lessee recognizes a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard, and lessors continue to classify leases as finance or operating leases.

The lease liabilities are initially measured at the present value of the lease payments that are not paid on the commencement date, discounted using Stabilization Central's weighted average incremental borrowing rate (IBR) on that date. The IBR is the rate of interest that Stabilization Central would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment.

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

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

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

As a lessor

For all transactions where Stabilization Central is a lessor, it determines at the inception of the lease whether the lease is an operating or finance lease.

To classify each lease, the group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to the ownership of the underlying asset. If this is the case the lease is considered as finance lease; if not, then it is an operating lease.

Acting as a lessor, Stabilization Central only has operating lease arrangements in place. The lease payments received under these lease agreements are recognized as income on straight-line basis over the lease term as part of Other Income.

(k) Revenue recognition

Assessments

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

Financial income

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

Interest income presented in the statement of profit or loss includes interest income on deposits, classified as amortized cost, calculated on an effective interest basis.

Pooled fund distributions include investment income from investment securities classified as FVTPL. Gains on disposal of financial instruments recorded in the statement of profit or loss include gains from disposal of securities.

Change in fair value of financial instruments include the fair value changes for securities at FVTPL.

(l) Post-employment benefits

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

(m) Income taxes

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

Current tax

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

Deferred tax

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

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

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

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

4. New standards and interpretations not yet adopted

IFRS 17 – Insurance Contracts

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

IFRS 17 has a mandatory effective date for annual periods beginning on or after January 1, 2023. Stabilization Central intends to adopt IFRS 17 for the annual period beginning on January 1, 2023. Stabilization Central is not able to determine the impact of IFRS 17 on its financial statements at this time.

5. Investment securities

Investment securities classified as FVTPL included in the statement of financial position are as follows:

		Dec 31, 2021		Dec 31, 2020
Fair value				
Pooled bond funds	**$**	**33,112,774**	$	33,469,627
Pooled equity funds		**13,687,032**		13,580,664
Total	**$**	**46,799,806**	$	47,050,291
Average cost				
Pooled bond funds	**$**	**33,555,403**	$	32,342,881
Pooled equity funds		**11,851,771**		13,256,045
Total	**$**	**45,407,174**	$	45,598,926

6. Accounts receivable

The accounts receivable balance mainly consists of the distribution from the TD pooled funds that were received subsequent to the December 31, 2021 year end and totaled $1,262,572 (December 31, 2020: $557,921).

7. Provision for income tax

(a) Income tax expense

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

(b) Deferred tax assets and liabilities

Deferred tax assets related to non-capital losses carried forward of $1,366,505 (2020 - $1,329,365) were not recognized as it is not probable that these losses will be utilized by Stabilization Central in the foreseeable future.

At the end of the year $ 153,190 (2020 - $159,650) of deferred tax assets were recognized representing the benefit of non-capital losses recognized to the extent of deferred tax liabilities recognized. The $1,366,505 of losses will expire as follows:

Year		Amount
2027	$	37,666
2028		6,542
2029		76,151
2030		87,876
2031		102,759
2032		38,124
2033		273,749
2034		157,517
2035		50,101
2036		-
2037		103,011
2038		118,730
2039		92,854
2040		184,283
2041		37,142
	$	**1,366,505**

(c) Effective tax rate

Stabilization Central's effective tax rate differs from the amount that would be computed by applying the federal and provincial statutory rates of 11.00% (2020 – 11.00%).

		Dec 31, 2021		Dec 31, 2020
Income taxes otherwise (refundable)/ payable based on reported profit or loss using the statutory rate of 11.00% (2020 - 11.00%)	**$**	**(81,639)**	$	(49,419)
Adjustments for effect of:				
Assessments to members excluded from income for tax purposes		**(155,499)**		(145,120)
Assistance to members expense		**195,105**		86,586
Non-taxable trading gain and dividend income		**(15,560)**		(61,541)
Change in allowance against unused tax losses		**68,695**		175,058
Deferred income tax for fixed assets		**(5,091)**		(8,906)
Other		**(6,011)**		3,342
Income tax expense	**$**	**–**	$	–

8. Property and equipment

		Furniture & Fixtures		Equipment		Leasehold Improvements		Right-of-use Asset		Total
Cost										
Balance at Jan 1 2021	**$**	**73,077**	**$**	**68,125**	**$**	**171,397**	**$**	**809,771**	**$**	**1,122,370**
Acquisition		**3,903**		**8,701**		**-**		**-**		**12,604**
Balance at Dec 31 2021	**$**	**76,980**	**$**	**76,826**	**$**	**171,397**	**$**	**809,771**	**$**	**1,134,974**
Balance at Jan 1 2020	$	70,816	$	59,651	$	154,474	$	809,771	$	1,094,712
Acquisition		2,261		8,474		16,923		-		27,658
Balance as at Dec 31 2020	$	73,077	$	68,125	$	171,397	$	809,771	$	1,122,370
Depreciation										
Balance at Jan 1 2021	**$**	**42,154**	**$**	**61,606**	**$**	**123,584**	**$**	**101,221**	**$**	**328,565**
Depreciation		**4,692**		**4,865**		**12,935**		**80,977**		**103,469**
Balance as at Dec 31 2021	**$**	**46,846**	**$**	**66,471**	**$**	**136,519**	**$**	**182,198**	**$**	**432,034**
Balance at Jan 1 2020	$	36,985	$	58,674	$	111,493	$	20,244	$	227,396
Depreciation		5,169		2,932		12,091		80,977		101,169
Balance as at Dec 31 2020	$	42,154	$	61,606	$	123,584	$	101,221	$	328,565
Carrying Value										
Balance as at Dec 31 2021	**$**	**30,134**	**$**	**10,355**	**$**	**34,878**	**$**	**627,573**	**$**	**702,940**
Balance as at Dec 31 2020	$	30,923	$	6,519	$	47,813	$	708,550	$	793,805

9. Provision for master bond claims

Changes in provision for master bond claims are as follows:

		Dec 31, 2021		Dec 31, 2020
Provision balance, beginning of year	**$**	**95,478**	$	88,471
Add: claims reported during the year		**1,773,684**		787,142
Less: claims paid during the year		**(1,144,625)**		(780,135)
Provision balance, end of year	**$**	**724,537**	$	95,478

10. Leases

Stabilization Central leases its head office premises for a term of ten years with an option to renew the lease after that date. Lease payments are to be negotiated after five years to reflect market rentals.

The right-of-use asset related to the leased premises does not meet the definition of investment property and is classified as property and equipment (see note 8).

The following amounts have been recognized in profit or loss:

		Dec 31, 2021		Dec 31, 2020
Interest on lease liability	**$**	**23,789**	$	25,813
Income from sub-leasing ROU Asset present in Other income	**$**	**27,500**	$	30,250

The following table presents the analysis of undiscounted lease payments and lease obligation included in the statement of financial position.

		Dec 31, 2021		Dec 31, 2020
Less than one year	**$**	**96,077**	$	85,844
One to five years		**396,813**		392,265
More than five years		**281,408**		382,032
		774,298		860,141
Less: Interest expense to be recognized over the lease term		**(92,910)**		(116,698)
Lease liabilities included in the statement of financial position		**681,388**		743,443
Less: Current portion included in accounts payable and accrued liabilities		**(74,520)**		(63,997)
	$	**606,868**	$	679,446

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date. During 2021, Stabilization Central ended the sub-lease arrangement of a portion of their premises.

		Dec 31, 2021		Dec 31, 2020
Less than one year	**$**	**-**	$	31,006
One to two years		**-**		21,013
Two to three years				-
	$	**-**	$	52,019

11. Share capital

(a) Authorized:

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

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

(b) Issued:

		Dec 31, 2021		Dec 31, 2020
25,100 Class A shares (2020 - 25,100)	**$**	**25,100**	$	25,100
10,038 Class B shares (2020 - 10,038)		**10,038**		10,038
	$	**35,138**	$	35,138

12. Commitments

CUFAA agreement

During the term of CUFAA agreement (Note 1(a)) Stabilization Central shall replenish the Committed Fund to $30.0 million within 90 days. Stabilization Central's liability under this agreement shall be limited in the aggregate to $30.0 million.

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

13. Post-employment benefits

Every three years, an actuarial valuation is performed to assess the financial position of the multi-employer plan, the adequacy of the funding level, and to determine the present value of accrued pension benefits and recommended plan contributions based on projections of the employees' average compensation levels at retirement. The most recent actuarial valuation for the multi-employer plan, which was conducted as at December 31, 2018, indicated a going concern unfunded liability in the 1.75% Division of $31.5 million (December 31, 2015 - $25.1 million) and a solvency deficiency of $99.5 million (December 31, 2015 - $123.0 million).

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

The last actuarial valuation for the multi-employer plan was performed as at December 31, 2021 with results available later in 2021.

During the year ended December 31, 2021, Stabilization Central made contributions to the Plan in respect of its employees totaling $89,860 (December 31, 2020 - $45,975). Such contributions are included in salaries and benefits expense in the statement of profit or loss.

14. Related party transactions

Transactions with key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Stabilization Central. The amount of total compensation paid to the key management personnel during 2021 was $619,168 (December 31, 2020 - $900,012).

The fees paid to the Board of Directors was $113,374 for the year ended December 31, 2021 (December 31, 2020 - $151,520).

15. Capital Management

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

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

16. Financial Instruments – Fair Value

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

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

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

Investment securities are reflected at fair value on a recurring basis in the statement of financial position. The fair value of Stabilization Central's deposits with regulated financial institutions is disclosed in Note 5.

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

Level 1:

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

Level 2:

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

Level 3:

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

Transfers into and out of Level 1, 2, and 3 occur when there are changes to the relevant inputs which are consistent with the characteristics of the asset or liability. For the years ended December 31, 2021 and December 31, 2020, Stabilization Central had no transfers into and out of Level 1, 2 and 3.

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

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

17. Risk Management

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

(a) Insurance risk

The principal risk Stabilization Central faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. Therefore, the objective of Stabilization Central is to ensure sufficient capital is available to meet its obligations arising from future claim payments.

Stabilization Central manages its insurance risk exposure through imposing underwriting limits and deductibles as described in Note 1, by placing stop loss coverage, and regular review of actual claim experience and assessment analysis.

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

(b) Credit risk

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

Stabilization Central's key exposure to credit risk is in connection with its deposits within regulated financial institutions and its accounts receivable. The maximum exposure to credit risk is the carrying value of these instruments in the financial statements. The fair value of the instruments as discussed in Note 5.

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

(c) Liquidity risk

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

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

(d) Market risk

Interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at December 31, 2021 and 2020, Stabilization Central does not have significant direct exposure to interest rate risk.

However, Stabilization Central has indirect exposure to interest rate risk through its investment in pooled bond funds.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at December 31, 2021 and 2020, Stabilization Central primarily invests in pooled funds denominated in Canadian dollars. Accordingly, Stabilization Central is not exposed to significant currency risk.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Price risk is moderated by Stabilization Central through careful selection of pooled funds and diversification of pooled fund investments. As at December 31, 2021, had the fair value of the Stabilization Central's investment securities increased or decreased by 10%, with all other factors remaining constant, Stabilization Central's total equity would have increased or decreased by approximately $4,679,981 (December 31, 2020 - 4,705,029). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Summarized Statements of Financial Position and Profit & Loss (Unaudited)

(Expressed in thousands of dollars)

	2021			2020
As at December 31	**Stabilization Fund**	**Master Bond Fund**	**Total**	**Total**
Assets				
Investment securities	$ 41,408	$ 5,392	$ 46,800	$ 47,050
Others	2,597	(201)	2,396	$2,389
	$ 44,005	**$ 5,191**	**$ 49,196**	$ 49,439
Liabilities and Equity				
Liabilities	$ 1,096	$ 807	$ 1,903	$ 1,404
Equity	42,909	4,384	47,293	48,035
	$ 44,005	**$ 5,191**	**$ 49,196**	$ 49,439

	2021			2020
For the years ended December 31, 2021 and 2020	**Stabilization Fund**	**Master Bond Fund**	**Total**	**Total**
Financial and other income	**$ 2,083**	**$ 1,663**	**$ 3,746**	$ 3,241
Direct cost				
Claims paid	-	1,145	1,145	780
Increase in provision of Master Bond claims	-	629	629	7
Insurance and brokerage	-	471	471	455
Master Bond claims administration	-	105	105	151
	$ -	**$ 2,350**	**$ 2,350**	$ 1,393
Operating expenses				
Salaries and benefits	889	-	889	702
Subcontract fees	274	-	291	499
Professional services	248	43	274	449
Office and occupancy	191	16	207	208
Director remuneration	101	12	113	152
Investment advisory fee	72	9	81	80
Corporate projects	71	-	74	59
Travel and meetings	70	4	73	58
Other	38	27	71	54
Data and systems development	73	-	65	36
	$ 2,027	**$ 111**	**$ 2,138**	$ 2,297
Comprehensive income (loss)	**$ 56**	**$ (798)**	**$ (742)**	$ (449)