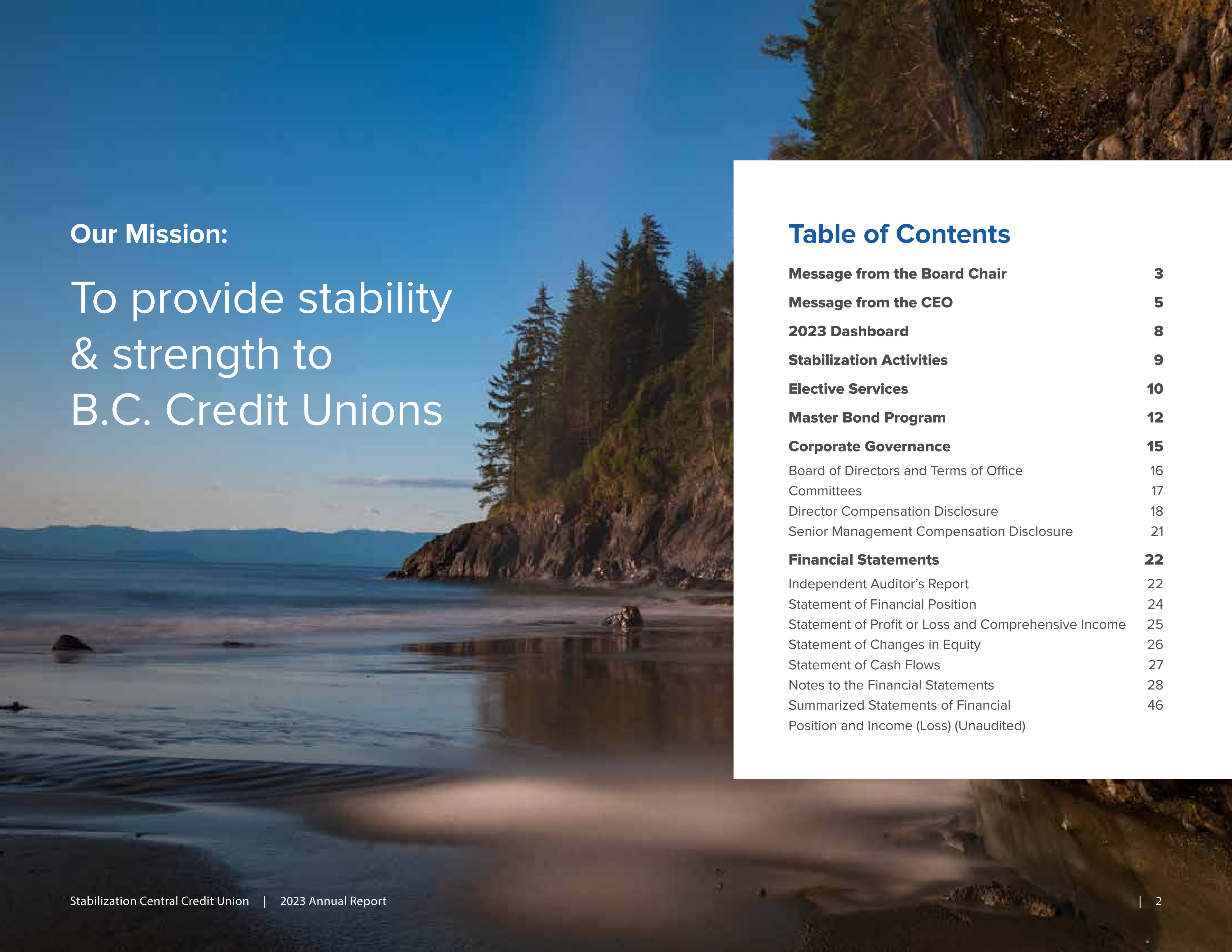
Stabilization Central

CREDIT UNION

Charting future possibilities

2023 Annual Report



Our Mission:

To provide stability & strength to B.C. Credit Unions

Table of Contents

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Board Chair Message

Over the course of 2023, Stabilization Central's Board of Directors and management reflected on how to position the organization to best support our member credit unions during a time of volatility and rapid change. This uncertainty was the impetus to reevaluate our strategy and chart a future path with new possibilities as we, like many of our members, navigated financial and strategic challenges.

The Board of Directors reaffirmed our critical role as the stabilization authority with a mandate to support B.C. credit unions that are facing challenges. The work we do in this area, in collaboration with the BC Financial Services Authority (BCFSA), remains our primary function. The Board also made the strategic decision to invest in our proactive advisory elective services business line. This includes advisory support services that range from toolkit implementation to merger support, as well as the development of resources, including robust toolkits to help credit unions implement and comply with regulatory requirements. In addition to providing education and implementation support for the three toolkits distributed in late 2022 — related to recovery planning, information security, and outsourcing — Stabilization Central prioritized strong governance.

Solid governance is the foundation for high-functioning boards and operationally sound organizations. The regulatory expectations and responsibilities of directors have significantly increased, and governance challenges are commonly identified in our rehabilitation and proactive work with credit unions.

In 2023, Stabilization Central developed a governance toolkit that provides foundational tools and templates to better support boards and management. This became the first toolkit made available for a fee to British Columbia credit unions and was the topic of a panel discussion at the Governance Professionals of Canada Collaboration Summit in the late fall.

This year also marked Stabilization Central's first venture outside our provincial borders to market toolkits to credit unions across the country. The benefits are twofold: providing valuable resources to credit unions, regardless of jurisdiction, and utilizing the fees associated with sales to support the work we do in B.C. This strategy is in its early stages and is evolving, with much of the focus on establishing partnerships in other provinces.

As a system, we are in flux, with credit unions trying to navigate uncertainties that include managing new and emerging risks, addressing financial and regulatory pressures, and keeping up with advances in technology and increased service expectations from members. This has inspired us to look at ways we can be of most value to our members and support system sustainability along with our own. To this end, we embarked on a consultative process with the system on the stabilization fund, our current funding model, and the services we presently provide to credit unions. The feedback we received has resulted in a review of our strategy and will guide the organization's work and focus in 2024.

Our members have clearly indicated that the services and coverages we offer under the Master Bond Program (MBP) are valuable. In 2023, we explored options for providing the coverages that credit unions have requested while also managing the risks for Stabilization Central.

Our objective is to continue ensuring a cost-effective and fair bonding program that benefits all. This work will continue in 2024 and will include an opportunity to engage with the system.

Stabilization Central's Board is proud of our efforts to elevate the organization's own practices and model good governance. The work in this area inspired some of the tools included in the governance toolkit we have made available to the system. In 2023, we reviewed our Rules, took steps to evolve our Enterprise Risk Management (ERM) framework, and implemented a new governance policy around information security.

Undoubtedly, 2023 has been difficult; however, the engagement and support from our members and from our partners, both in and beyond B.C., has energized us to look ahead with optimism. I want to acknowledge my fellow Directors for their dedication and guidance, as well as Bill Corbett and his small but mighty team for their ongoing hard work. As we continue through another year of uncertainty, it is good to reflect that credit unions are resilient, and as a cooperative system, we can work together to address some of the emerging challenges. This will require collaboration and a fresh approach to align our strategy with your strategies. We look forward to charting these new paths.

Darlene Hyde
Chair, Stabilization Central Credit Union

This year, in the spirit of being more proactive, we have dedicated our efforts to empowering credit unions to implement essential enhancements.

CEO Message

While 2023 was a year full of challenges, there were also new opportunities. Economic conditions continued to be volatile. The rapid rise of interest rates, along with persistent high inflation, caused everyone to rethink strategies, plans, and everyday events. These pressures were coupled with risks, including cyber security, as well as increased regulatory expectations and therefore required novel perspectives on managing risk and governing credit unions.

Stabilization Central was catalyzed to find new ways of supporting credit unions, individually and collectively, through these issues. We also had many opportunities to convene for discussions on finding opportunities to address challenges, manage risks, and look to the future.

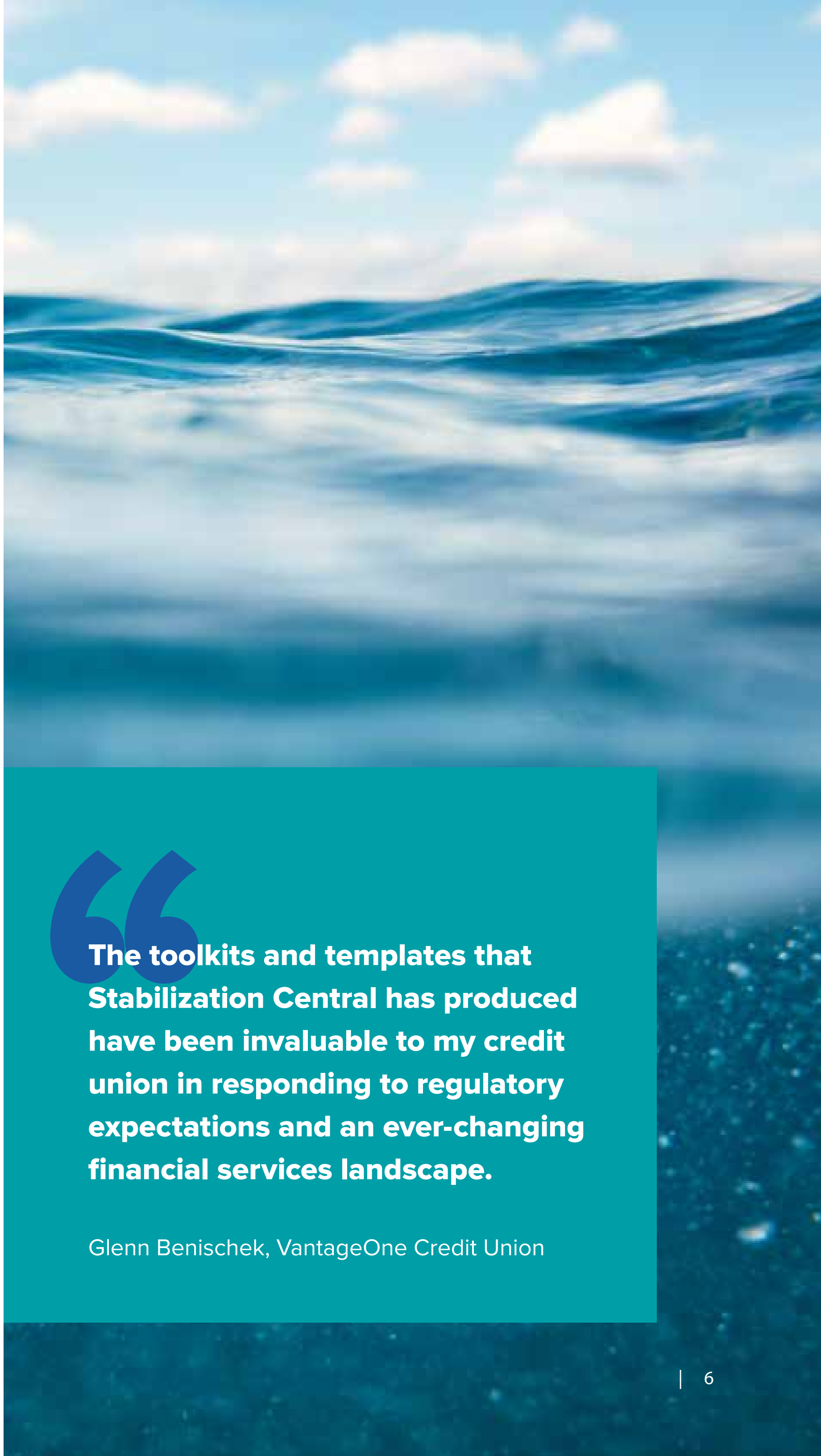
One of these opportunities, and a highlight of the year, was the World Credit Union Conference, held in Vancouver and co-hosted by the World Council of Credit Unions and the Canadian Credit Union Association. Bringing together credit unions from around the world was a unique opportunity to learn, connect, and share in our own beautiful province. I had the pleasure of participating in two speaking engagements at the conference, and Stabilization Central was gratified to host many B.C. credit unions as well as new contacts from around the world at our reception.

Our ongoing remediation support continues to be the foundation of much of our work. We have continued to support credit unions with elevated intervention stage ratings through a range of operational and foundational activities, and to address growing financial pressures in the current economic climate. Further areas of focus have included looking at staged credit unions' risk profiles and ensuring they have plans in place to manage current risks and mitigate those that can be anticipated. We appreciate the close collaboration with credit union boards and executive teams.

In line with being more proactive, in 2023 Stabilization Central expanded its efforts beyond staged credit union engagements to include voluntary assignments. Often initiated at the recommendation of the BCFSA, this work fosters proactive engagement between Stabilization Central and credit unions to address emerging concerns or potential risks prior to them escalating.

A key focus in 2022 was the creation of several toolkits to support credit unions in responding to regulatory guidance. In 2023, we helped credit unions implement these toolkits and found ways to bring credit unions together to identify common solutions. We were pleased to have many of you trust our advisory support, and we appreciated opportunities to work more broadly with your management teams and boards on areas of strategic importance to your credit unions. Our governance toolkit was released in late 2023. While not in response to specific new regulatory guidance, it offers credit unions and their boards additional tools, resources, and advice to help them develop their governance practices. We will continue to create and revise our toolkits to ensure they remain relevant and helpful to our members and others who wish to leverage them. In 2024, we expect to support strategy development and commercial lending practices.

In 2023, we took our first foray into opportunities outside of B.C., with credit unions in Alberta, Saskatchewan, and Ontario. These included partnerships with other organizations so that together, we can find ways to collaborate across provincial borders. We are looking forward to continuing to enhance our collaboration and cooperation in the national credit union system.



The toolkits and templates that Stabilization Central has produced have been invaluable to my credit union in responding to regulatory expectations and an ever-changing financial services landscape.

Glenn Benischek, VantageOne Credit Union

The Master Bond Program (MBP) was a significant area of focus for Stabilization Central this year. The coverages under the program were able to support many of our members for small and larger losses they incurred. Losses have been much higher in recent years, and as a result, we were required to recover this shortfall in addition to our regular assessment for 2024. We did not make this decision lightly, and with these higher assessments for 2024, we have been able to restore the program's foundation.

While it is important for the MBP to compensate credit unions for insurable losses incurred, we are mindful that the system cannot sustain a growing burden of these payments. In 2023, we were able to refine our options and determine a proposed path forward for the program. The new strategy will include ways to ensure we are offering the coverages our members need, as well as being able to appropriately assess the risk individual credit unions present to the program. We will also include areas where all credit unions can mitigate their own risk of losses. In 2024, we will be sharing our plans with all of our program participants to solicit your feedback and perspectives as we finalize the future structure of the MBP.

We have made other changes in response to challenging financial results in 2022, taking several steps to restore our profitability. We have diversified our revenue base with some of the additional services mentioned above, and have introduced some new fees and cost-recovery procedures for our elective and stabilization services. Further, the changes we made in our investment portfolio have allowed us to capture better returns on our invested capital. Within the context of falling bond yields at the end of 2023, our investment portfolio was able to recapture some market value, which recovered some of the prior year's losses. We will continue to work on these opportunities to ensure we maintain a solid financial foundation to support our members' needs.

All indications are that 2024 will see continuing challenging times for credit unions, and we are revisiting our own strategies and approaches to the future. We will continue to involve our members in those conversations to ensure we are meeting your changing needs while being mindful of system changes that will significantly affect our role, among others across the system. Within this rapidly evolving reality, I am confident that Stabilization Central will continue to develop resources and expertise that you, our members, will find helpful as you navigate the challenges ahead. I am grateful to the team here at Stabilization Central, our excellent team of contractors, and the guidance of our Board. They are all here to support you as we individually and collectively chart future directions for our credit unions and the system overall.

Bill Corbett
Chief Executive Officer

2023 Dashboard

Elective Services

- Completed a comprehensive review and update of the online resource library for credit unions.
- Delivered a Lessons Learned leadership paper on Anti-Money Laundering and Counter Terrorist Financing.
- Provided valuable advisory support to 19 credit unions.
- Built a five-module Governance Toolkit, the first fee-based toolkit licensed by 12 credit unions.
- Established a partnership with National Consulting Ltd. and licensed rights to the Information Security Toolkit to support Saskatchewan credit unions.
- Launched a pilot with BCFSA on proactively supporting a credit union in completing a series of self-assessments to develop an actionable roadmap of improvements that will assist as the organization continues to grow in size and complexity.

Stabilization Activities

- Regulatory remediation support to several credit unions, with combined assets of $6B.
- Successfully resolved 45 supervisory requirements and recommendations issued by the provincial regulator. This resulted in several credit unions seeing their intervention stage rating assigned to zero (i.e., de-staged).
- Enhanced methodologies to assist supervised credit unions, including standard processes for both on- and offboarding.
- Expanded its efforts beyond staged credit union assessments to include voluntary assignments as part of its proactive approach. These assignments foster proactive engagement between Stabilization Central and credit unions to address emerging concerns or potential risks.

Master Bond Program

- Bonded over 1,250 employees, officers, and directors.
- Processed and paid 165 MBP claims.
- Secured excess insurance coverage with a premium decrease of 2.6% across all layers.
- Negotiated several changes in MBP Policy wording to broaden and clarify coverage for 2024.
- Conducted two presentations to credit union executive teams on the MBP and claim case studies.

Stabilization Activities

Stabilization Central stands as a proactive enabler of the B.C. credit union system, fostering resilience, collaboration, and stability. Leveraging extensive expertise, strategic tools, and a deep understanding of regulatory requirements, Stabilization Central is committed to delivering tailored remediation support to B.C. credit unions of all sizes.

Following the progress made in 2022, there were fewer requirements and recommendations for resolution this year. Throughout the year, our team provided remediation support to several credit unions with elevated intervention stage ratings, resulting in the resolution of 45 regulatory requirements. This involved close collaboration with credit union boards and executive teams, encompassing a range of activities such as providing management guidance, reviewing submissions to the regulator, clarifying regulatory expectations, offering advisory support, validating policy changes, and fostering a robust risk culture. Remediation efforts also extended beyond foundational issues to address financial pressures, aligning with the regulator's emphasis on financial health.

In 2023, Stabilization Central expanded its efforts beyond staged credit union assessments to include voluntary assignments as part of its proactive approach. These assignments, initiated at the recommendation of the BCFSA, foster proactive engagement between Stabilization Central and credit unions to address emerging concerns or potential risks.

The expert consultants at Stabilization Central played a pivotal role in providing risk management support and strategic guidance. Their contributions included enhancing policies and procedures, conducting independent file reviews, and facilitating educational workshops and training sessions.

Similar to the previous year, collaboration with regulatory bodies such as the BCFSA and the Credit Union Deposit Insurance Corporation (CUDIC) remained integral to Stabilization Central's mission. These partnerships ensured a coordinated effort to identify and address emerging risks within credit unions. Moreover, Stabilization Central actively engaged with industry stakeholders, including the Canadian Credit Union Association (CCUA), and participated in working groups to provide input on industry consultations.

Elective Services

Stabilization Central's Elective Services business line was created to leverage the learnings and expertise from our remediation work so we can provide proactive support to credit unions. In 2023, we experienced a notable surge in the uptake of advisory services. Emphasizing the importance of a robust supporting infrastructure, efforts were concentrated on building and enhancing systems to ensure the efficient delivery of high-quality, proactive services to the B.C. credit union system.

Resources

Governance Toolkit

In collaboration with a distinguished governance expert, Stabilization Central successfully introduced its first fee-based toolkit on governance. The modules within this toolkit focused on foundational elements crucial to credit unions' governance infrastructure, ranging from director onboarding to minute-taking. The toolkit garnered strong uptake, with licenses granted to 12 credit unions, reflecting its positive reception within the system.

Online Resource Library Review

As part of our commitment to having quality resources for our members, Stabilization Central conducted a thorough review of its online resource library, which is available to credit unions. The objective was to ensure that the tools and templates housed in the library remained up-to-date and aligned with industry best practices and regulatory expectations. The resources for Enterprise Risk Management, Liquidity, Lending, and Information Security were reviewed and updated, and four new tools were added. A How-To Guide was created for each of the subject-matter areas to assist users with navigating the available tools and their uses.

Advisory Services

Stabilization Central saw the most demand for its advisory services to date, with 19 engagements in 2023. The combined expertise within the organization and the team of contractors enabled Stabilization Central to quickly respond to credit unions' needs in a wider range of areas, including:

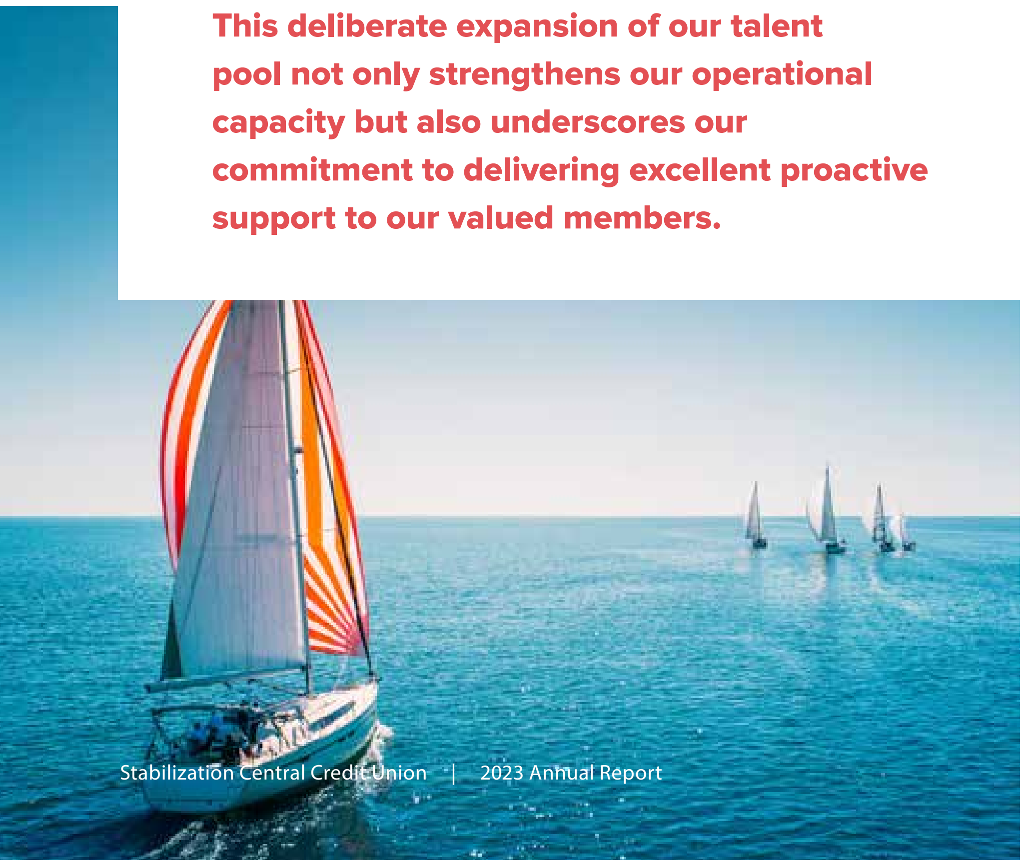
- recovery planning development and review
- risk framework enhancements
- board risk governance
- merger preparedness
- outsourcing
- operational assessments
- post-remediation support

Strengthening the Foundation of Elective Services

Stabilization Central dedicated significant effort to fortifying the foundation of its Elective Services. The focus was on enhancing the supporting infrastructure through a meticulous approach to internal documentation and processes, member-facing supports, and contractor engagement and performance management. Stabilization Central continued to strengthen its existing relationships with system partners, Central 1 and CCUA, as well as forged new connections to further enable collaboration across the system in supporting B.C. credit unions.

A key aspect of this initiative was the strategic onboarding of several highly skilled contractors. These new additions have proven to be invaluable assets to the Stabilization Central team, contributing their expertise to further augment the capabilities of our Elective Services support offerings.

This deliberate expansion of our talent pool not only strengthens our operational capacity but also underscores our commitment to delivering excellent proactive support to our valued members.



Beyond B.C.

Stabilization Central successfully extended its outreach beyond the borders of B.C., forging impactful relationships with various credit unions, centrals, regulatory bodies, and industry organizations nationwide. This strategic initiative aimed to learn from new partners across Canada, and to enhance awareness of our support services. Through these collaborations, Stabilization Central gained invaluable insights into the broader credit union landscape, identifying potential opportunities for collaboration to address systemic challenges faced by credit unions.

In alignment with our commitment to providing unwavering support to our members, Stabilization Central took a significant step by expanding its toolkit offerings to credit unions operating outside of B.C. This expansion not only diversified our reach but also generated revenue, enabling the organization to develop tools that continue to bolster support for our member credit unions within B.C.

A partnership was established with National Consulting Ltd., resulting in the licensing of the Information Security Toolkit. The collaboration aimed to assist Saskatchewan credit unions in building the critical IS infrastructure essential for safeguarding their members. This venture exemplifies our commitment to finding ways of supporting our member credit unions through the formation of new partnerships and showcases our adaptability and proactive approach to meeting the evolving needs of the credit union ecosystem.

Going forward, we will continue to focus on the evolving needs of our members. We are always looking for opportunities to support, and we welcome any feedback on these plans. It is expected that strategy supports and commercial lending tools will be part of the 2024 offerings.

Master Bond Program

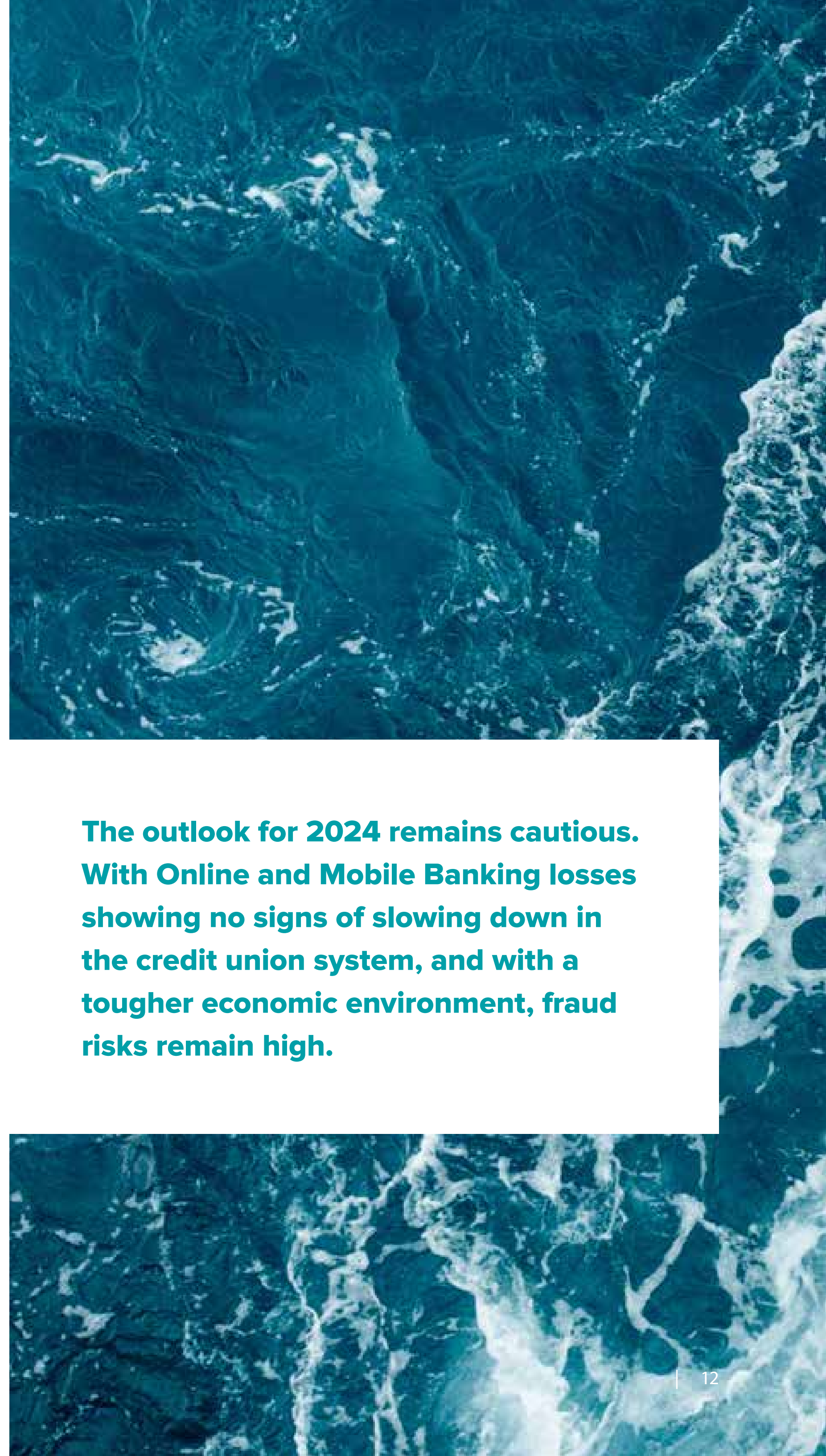
Claims Summary

This was an extraordinary year for MBP claims. Online and Mobile Banking were the primary claims under the program, representing 94% of the volume of claims, although only 41% of the dollar value of claims paid in 2023, at $1.1M. Several large claims were paid in 2023, including a large Dishonesty claim that resulted in a $0.7M payment, and an Automated Bank Machine (ABM) loss of $0.5M. Additionally, several Forgery and Fraudulent Instructions claims were paid out, totaling $0.2M.

Stabilization Central has released its annual claims report for 2023, which is available on its secure website. The report provides an in-depth look at the claims paid, financial ratios for the program, and insights into key trends and risks.

Financial Summary

In 2023, the MBP experienced a surplus of $1.55M. This restored the Master Bond Fund, offsetting the net loss of $1.36M experienced in 2022 and the extraordinary claims incurred in 2023. The claims paid expense in 2023 was $2.7M, which represents a 96% increase from 2022. Administration expenses increased by 26% from 2022; a large portion of this rise is attributed to the cost of the actuarial report undertaken in 2023, which was required to assess the program's overall financial health.



The outlook for 2024 remains cautious. With Online and Mobile Banking losses showing no signs of slowing down in the credit union system, and with a tougher economic environment, fraud risks remain high.

2024 Assessment

Stabilization Central experienced a significant increase in claims in 2023, resulting in higher than usual assessments for 2024. Stabilization Central administers a MBP fund of $5M, which equates to the aggregate insurance deductible for the program. The MBP fund pays for losses under the $5M aggregate self-retention limit throughout the year, while losses over the $5M self-retention limit are paid by excess insurers. The annual assessment is meant to cover claims and administrative costs from the previous year and to top up the fund to $5M.

While assessments will likely continue to rise with the annual increase in claims paid, a recovery assessment is not intended to be a regular process but rather to be used in extreme circumstances, such as were present in 2023. However, it is all dependent on the claims reported to and paid by the program.

The assessment was broken down into two parts: a 2023 recovery assessment and the 2024 assessment. The 2023 recovery portion is a make-up assessment that was used to recover the 2022 loss and all losses above the budgeted amount for 2023. Put simply, this assessment was made to ensure the program did not sustain a loss in 2023, due to the significant increase in claims through the year. The 2024 assessment portion is the regular assessment conducted annually to fund the program for the upcoming year.

2024 Outlook

The outlook for 2024 remains cautious. With Online and Mobile Banking losses showing no signs of slowing down in the credit union system, and with a tougher economic environment, fraud risks remain high. Increases in employee dishonesty, cheque fraud, fraudulent instructions, and other types of fraud were observed in 2023 and may continue into 2024. Credit unions must ensure that they are continually assessing their control environment, enhancing existing controls and adding new controls to minimize their exposures to losses. This will reduce costs to the program overall, as well as reduce their share of the allocation of costs across the program.

Online and Mobile Banking claims continue to rise in the B.C. system. Multi-Factor Authentication (MFA) is being adopted by more credit unions, while some are still waiting for implementation. Stabilization Central continues to be a strong advocate for MFA and is considering making it an underwriting condition for Online and Mobile Banking coverage in the future. Those credit unions with MFA, specifically MFA at a transactional level, are seeing significant reductions in losses. However, threat actors are moving to different means of capturing credentials and One-Time Passwords (OTP) from MFA. More credit unions are reporting spoof websites or social engineering schemes that cause credentials and accounts to be compromised. Member education is key to limiting losses and ensuring that members understand what their responsibilities are under account and/or online banking agreements.

The MBP continues to evolve. Stabilization Central is exploring options for restructuring the program to ensure the MBP's long-term viability. Some of the areas being explored include additional underwriting criteria for certain coverages to ensure all participants are adequately protected or fairly assessed to reflect any increases in risk. Furthermore, Stabilization Central is looking at structuring core fidelity coverages and additional coverages, such as Online and Mobile Banking, separately to ensure the program is positioned to respond to large losses within the core coverages while also providing insurance for frequent smaller claims. This will also assist Stabilization Central in underwriting additional coverages more appropriately.

Stabilization Central welcomes and continues to pursue collaboration with credit unions and system partners. Through such cooperation, the credit union system can become stronger and more alert to the risks and fraud schemes as they evolve. Stabilization Central's goal is to be proactive in identifying and assisting in the mitigation of fraud risk in B.C.

Excess Insurance

The 2024 excess insurance renewal was successfully completed in Q4 2023. Stabilization Central's insurance broker, WTW (Willis Canada Inc), placed all six insurance layers, with a premium decrease of 2.6% across all layers. STAMP Bond has been renewed at a flat rate of $10,000. There were no changes in the excess insurers, all of whom renewed their placements for 2024 and continue to maintain an AM Best Financial Strength Rating of "A Stable" or better, as shown in the table below.

Table 1. Excess Insurance

Carrier	Insured Limits ($)	2024-2025 Premium ($)	AM Best Financial Strength Rating
National Liability & Fire Insurance Company	$ 10M	$ 170,000	"A++" Stable
AIG Insurance Company of Canada	$ 10M xs 10M	$ 65,678	"A" Stable
Axis Reinsurance Company	$ 10M xs 20M	$ 56,500	"A" Stable
Mosaic Insurance Services Canada	$ 10M xs 30M	$ 46,000	"A" Positive
Zurich Insurance Company Ltd.	$ 10M xs 40M	$ 40,908	"A+" Stable
Liberty Mutual Insurance Company	$ 10M xs 50M	$ 31,350	"A" Stable
CUMIS	STAMP Bond	$ 10,000	N/A
Total	**$ 60M**	**$ 420,436**	

Corporate Governance

The Board of Directors of Stabilization Central is comprised of six elected representatives from each region which include credit unions grouped by asset size and region and up to three independent, appointed directors. At fiscal year-end 2023, five directors were credit union chief executive officers, one director was a credit union director, and two were independent directors with governance experience in the credit union system. All have a professional or business backgrounds including financial, accounting, legal, governance, and insurance, contributing 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, Credit Union Executives Society (CUES), CCUA, World Council of Credit Unions (WOCCU), Kootenay Insurance Services Ltd., CUSO Wealth Strategies, BC Credit Union Insurance and Risk Management Committee (CUMIS), Vancity Community Investment Bank and the Governance Group.

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 CUES.

In addition, all directors are members of the Institute of Corporate Directors and CUES. Stabilization Central has a robust director orientation program for onboarding new directors, and ongoing education is prioritized. Opportunities to attend conferences, and workshops and to take courses that enhance knowledge and expertise in areas of governance are provided, as per the organizations's Director Education Policy of the organization. These affiliations and programs ensure that all directors maintain a high level of expertise to perform their roles. In addition, at all quarterly Board meetings, education sessions are provided by external resources to directors on relevant industry topics. In 2023, sessions were held on cyber security, economics and the impact of Basel III on credit unions were held.

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 practices, including following a regular cadence for assessments. Early in the year, the Board completed peer-to-peer assessments which were conducted by an independent third party. Additionally, enhanced foundational documents were developed, including a revised Board Mandate and director position descriptions, to reflect the expectations of directors and to align with increased oversight responsibilities. The Board also undertook a comprehensive review of Stabilization Central's Rules.

Board of Directors and Terms of Office

Darlene Hyde

Chairperson, 2023-2026

Interim Chief Executive Officer,
Alberta Insurance Council
(Appointed Director)

Anita Braha

Director, 2021-2024

Chairperson
Vancity Community
Investment Bank
(Appointed Director)

Bill Chan

Director, 2023-2026

Director
Vancouver City Savings
Credit Union

Mike Schilling

Director, 2022-2024*

President & Chief
Executive Officer
Community Savings
Credit Union

Linda Bowyer

Vice Chairperson, 2023-2026

President & Chief
Executive Officer
First Credit Union

Jody Burk

Director, 2022-2025

Chief Executive Officer
StellerVista Credit Union

Kelly Marshall

Director, 2021-2024

Chief Executive Officer
Summerland Credit Union

Jim Zimmerman

Director, 2022-2025

Chief Executive Officer
Williams Lake & District
Credit Union

**Mike Schilling was elected to serve for two years remaining on a three-year term.*

Committees

Committee	Members	Functions
Audit & Risk 4 meetings	Bill Chan, Chairperson Anita Braha Jim Zimmerman	The Audit & Risk Committee's responsibilities include overseeing the activities of the external auditor, assessing accounting policies, and confirming the adequacy of internal controls. It also oversees Enterprise Risk Management, which includes ensuring the organization has effective risk management processes in place..
Governance & Conduct Review 4 meetings	Anita Braha, Chairperson Kelly Marshall Mike Schilling	The Governance & Conduct Review Committee assists the Board in fulfilling its corporate governance responsibilities and is responsible for establishing policies and procedures to address conflicts of interest, uphold standards of conduct, and maintain the confidentiality of sensitive information.
Human Resources 5 meetings	Linda Bowyer, Chairperson Darlene Hyde Kelly Marshall	The Human Resources (HR) Commitee oversees the HR policies and practices of Stabilization Central, including the CEO's terms of employment. It also oversees the culture of the organization, ensuring employee wellness and a positive work environment are prioritized.
Investment & Loan 4 meetings	Kelly Marshall, Chairperson Bill Chan Mike Schilling 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	Jim Zimmerman, Chairperson Jody Burk Darlene Hyde	The Master Bond Program Committee is responsible for ensuring effective and consistent oversight of the Master Bond Program.
Nominations & Elections 3 meetings	Jody Burk, Chairperson Mike Schilling Linda Bowyer Jim Zimmerman	The Nominations & Elections Committee oversees the director election and appointment processes, including ensuring that qualified candidates are nominated for director positions.
Stabilization Advisory Committee 4 meetings	Jody Burk, Chairperson Linda Bowyer Anita Braha Darlene Hyde Bill Chan Kelly Marshall Mike Schilling Jim Zimmerman	The Stabilization Advisory Committee (SAC) oversees the organization's credit union stabilization activities and the Elective Services business line.

**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, accommodation, parking, meals for meetings, training, and 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 2023, a total of 9 Board meetings and 28 committee meetings were held.
- A two-day strategic planning session, including an Enterprise Risk Management workshop, was held in the fall.
- New directors attended additional orientation sessions.

By ordinary resolution, the members in attendance at the Annual General Meeting held on April 29, 2021 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 2023, the total remuneration for Stabilization Central directors was $130,295.

The compensation received by each director is summarized below:

Name	Region	Attendance Board & Committees	Meeting Fees	Expense Reimbursement	Education & Conferences
Darlene Hyde Chairperson	Appointee	23/23	$9,200 Board Chair Honorarium $5,500 Annual Retainer $10,500 Per Diems* **Total Comp: $25,200**	$4,281	$7,627
Linda Bowyer Vice Chairperson	Island	18/19	$5,520 Vice Chair Honorarium $1,725 Human Resources Committee Chair $5,500 Annual Retainer $6,750 Per Diems **Total Comp: $19,495**	$3,227	$0
Anita Braha	Appointee	21/21	$1,725 Governance & CRC Committee Chair $5,500 Annual Retainer $7,250 Per Diems **Total Comp: $14,475**	$3,029	$0
Jody Burk	Kootenay	19/19	$1,725 SAC Chair Honorarium $1,127 Nominations & Elections Chairperson Honorarium (May to Dec) $5,500 Annual Retainer $6,750 Per Diems **Total Comp: $15,102**	$1,666	$9,712
Bill Chan	Large Lower Mainland	14/16	$1,127 Audit & Risk Committee Chair Honorarium $3,593 Annual Retainer $8,000 Per Diems **Total Comp: $12,720**	$1,271	$5,515
Kelly Marshall	Okanagan	25/27	$1,725 Investment & Loan Committee Chair Honorarium $5,500 Annual Retainer $7,000 Per Diems **Total Comp: $14,225**	$1,618	$3,814

Name	Region	Attendance Board & Committees	Meeting Fees	Expense Reimbursement	Education & Conferences
Mike Schilling	Lower Mainland	13/16	$598 Nominations & Elections Chair Honorarium (Jan to May) $5,500 Annual Retainer $3,750 Per Diems **Total Comp: $9,848**	$529	$0
Jim Zimmerman	Northline	23/23	$1,725 Master Bond Program Committee Chair Honorarium $5,500 Annual Retainer $7,750 Per Diems **Total Comp: $14,975**	$1,413	$0
Colin MacKinnon	Large Lower Mainland	6/6	$598 Audit & Risk Committee Chair Honorarium (Jan to May) $1,907 Annual Retainer (Jan to May) $1,750 Per Diems **Total Comp: $4,255**	$5	$0

**Note: non-meeting per diems are paid to directors for time invested in professional development.*

Senior Management Compensation Disclosure

The compensation philosophy of 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 late 2023, the Human Resources Committee of the Board conducted a compensation review for the CEO role 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 2023 was $773,719 (December 31, 2022 - $887,400).

Independent Auditor’s Report

To the Board of Directors 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, 2023
- the statement of income (loss) and 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 material accounting policy information. (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 Credit Union of British Columbia as at December 31, 2023 and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards.

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 “**Auditor’s Responsibilities for the Audit of the Financial Statements**” section of our auditor’s report.

We are independent of Stabilization Central Credit Union of British Columbia 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.

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 IFRS Accounting 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.

In preparing the financial statements, management is responsible for assessing the 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 the 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.

Auditor’s 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 auditor’s 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 auditor’s 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 auditor’s report. However, future events or conditions may cause Stabilization Central’s 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
April 8, 2024

Statement of Financial Position

Year ended December 31, 2023, with comparative information for 2022	Notes	2023	2022 Restated
Assets			
Cash		**$ 710,010**	$ 540,778
Investment securities	5	**39,855,278**	41,559,681
Insurance contracts assets	6, 10	**1,852,816**	–
Reinsurance contract assets	7	**18,542**	18,334
Accounts receivable		**19,629**	23,246
Property and equipment	9	**512,942**	619,606
Prepaid expenses		**62,148**	44,256
Other assets		**127**	126
		$ 43,031,492	$ 42,806,027
Liabilities			
Insurance contract liabilities			
Deferred revenue	4, 10	**$ 264,134**	$ 26,311
Provision for master bond claims	10	**223,388**	1,171,489
		487,522	1,197,800
Accounts payable and accrued liabilities		**578,995**	659,952
Lease obligation	11	**445,968**	528,053
		1,512,485	2,385,805
Equity			
Share capital	12	**33,566**	33,566
Contributed surplus		**1,383,659**	1,383,659
Retained earnings		**40,101,782**	39,002,997
		41,519,007	40,420,222
		$ 43,031,492	$ 42,806,027
Commitments	13		

Approved by the Directors:

Darlene Hyde, Chairperson

Bill Chan, Chairperson — Audit & Risk Committee

See accompanying notes to the financial statements.

Statement of Income (Loss) and Comprehensive Income (Loss)

Year ended December 31, 2023, with comparative information for 2022	Notes	2023	2022 Restated
Financial income			
Interest income		$ –	$ 2,165
Pooled fund distributions		**1,512,771**	2,280,082
Gains (Losses) on disposal of financial instruments		**108,244**	(2,981,935)
Change in fair value of financial instruments		**859,821**	(2,639,771)
Total financial income (loss)		**2,480,836**	(3,339,459)
Financial expenses			
Interest paid on lease obligation	11	**18,967**	21,556
Net financial income (loss)		**2,461,869**	(3,361,015)
Insurance revenue			
Assessments		**3,875,739**	(1,669.510)
Insurance service expenses			
Claims paid		**2,684,112**	1,367,385
Change in provision for master bond fund		**(948,101)**	446,952
Master bond fund claims administration		**368,815**	290,577
Total insurance service expenses		**2,104,826**	2,104,914
Net expenses from reinsurance contracts			
Insurance and brokerage			
Insurance premiums		**421,450**	421,450
Insurance brokerage fees		**51,042**	50,000
Net expenses from reinsurance contracts		**472,492**	471,450
Net insurance service results		**1,298,421**	(906,854)
Other income		**196,037**	91,080
Total financial, insurance and other income (loss)		**3,956,327**	(4,176,789)
Operating expenses			
Salaries and benefits	14, 15	**1,174,475**	1,225,755
Professional services		**384,622**	215,313
Subcontract fees		**312,186**	482,415
Corporate projects		**237,557**	83,567
Office and occupancy		**224,191**	211,292
Directors remuneration	15	**129,837**	132,545
Investment advisory fee		**110,511**	97,443
Travel and meetings		**107,953**	114,024
Other		**98,295**	68,126
Data processing and systems development		**77,915**	64,036
Total operating expenses		**2,857,542**	2,694,516
Comprehensive income (loss)		**$ 1,098,785**	$ (6,871,305)

See accompanying notes to the financial statements.

Statement of Changes in Equity

Year ended December 31, 2023, with comparative information for 2022		Share Capital		Contributed Surplus		Retained Earnings		Total Equity
Balance at January 1, 2023	$	33,566	$	1,383,659	$	39,002,997	$	40,420,222
Comprehensive income		–		–		1,098,785		1,098,785
Balance at December 31, 2023	**$**	**33,566**	**$**	**1,383,659**	**$**	**40,101,782**	**$**	**41,519,007**
Balance at January 1, 2022	$	35,138	$	1,383,659	**$**	45,874,302	$	47,293,099
Comprehensive Loss		–		–		(6,871,305)		(6,871,305)
Transactions with owners, recorded directly in equity								
Redemption of shares		(1,572)		–		–		(1,572)
Balance at December 31, 2022	**$**	**33,566**	**$**	**1,383,659**	**$**	**39,002,997**	**$**	**40,420,222**

See accompanying notes to the financial statements.

Statement of Cash Flows

Year ended December 31, 2023, with comparative information from 2022	2023	2022
Cash flows from operating activities		
Comprehensive income (loss)	$ **1,098,785**	$ (6,871,305)
Adjustments for:		
Depreciation	**106,664**	108,906
(Gain) loss on disposal of financial instruments	**(108,244)**	2,981,934
Change in fair value of financial instruments	**(859,821)**	2,639,771
Increase (decrease) in provision for master bond claims	**(948,101)**	446,953
Interest income	**–**	(2,165)
	(710,717)	(695,906)
Net change in insurance and reinsurance contracts	**(1,853,024)**	(10,000)
Net change in prepaid expenses	**(17,892)**	(7,112)
Net change in accounts receivable	**3,617**	1,239,326
Change in other assets	**(1)**	33,663
Net change in unearned revenue	**237,823**	(27,206)
Net change in accounts payable and accrued liabilities	**(80,957)**	295,539
Interest received	**677**	(86,408)
Net cash provided by (used in) operating activities	**(2,420,474)**	741,896
Cash flows from investing activities		
Net change in deposits with regulated financial institutions	**–**	(28,351,600)
Net change in securities	**2,671,791**	28,058,593
Net change in property and equipment	**–**	(25,572)
Net cash from investing activities	**2,671,791**	(318,579)
Cash flows from financing activities		
Net change in lease obligation	**(82,085)**	(78,815)
Redemption of share capital	**–**	(1,572)
Net cash used in financing activities	**(82,085)**	(80,387)
Increase in cash	**169,232**	342,930
Cash - beginning of year	**540,778**	197,848
Cash - end of year	$ **710,010**	$ 540,778

See accompanying notes to the financial statements.

Notes to the Financial Statements

Year ended December 31, 2023

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 B.C. 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 limits. 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.

2. Basis of Presentation

(a) Statement of compliance

These financial statements have been prepared in accordance with IFRS Accounting Standards.

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 April 8, 2024.

(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 Accounting Standards, management must exercise judgment 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. 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).

Information about assumptions made in measuring insurance and reinsurance contracts is included in Note 3(h).

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. Material Accounting Policies

The material 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 where Stabilization Central neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset but 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 it 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 segregated government bonds and 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 income (loss).

(e) Other assets

Stabilization Central also holds Class B shares and Class C shares of Central 1 and Class A shares of Blueshore Financial. These investments are included under other assets. Stabilization Central holds these investments for the purpose of accessing 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 income (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 income (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 income (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 and reinsurance contracts

Contracts under which Stabilization accepts significant insurance risk are classified as insurance contracts. Contracts held by Stabilization, for which it transfers significant insurance risk related to underlying insurance contracts are classified as reinsurance contracts.

All references in these accounting policies to “insurance contracts” and “reinsurance contracts” include contracts issued or initiated by Stabilization, unless otherwise stated. All insurance contracts and all reinsurance contracts are classified as contracts without direct participation features.

These contracts are measured under the simplified premium allocation approach (PAA). Under the PAA, the insurance revenue for each period is the amount of expected assessment receipts for providing services in the period. When measuring liabilities for incurred claims and remaining coverage, the PAA is similar to the previous accounting treatment.

Separating components from insurance and reinsurance contracts

IFRS 17 requires the separation of the following components from an insurance or reinsurance contract and accounts, at inception, as if they were stand-alone financial instruments.

- derivatives embedded in the contract whose economic characteristics and risks are not closely related to those of the host contract, and whose terms would not meet the definition of an insurance or reinsurance contract as a stand-alone instrument; and

- distinct investment components, i.e., investment components that are not highly inter-related with the insurance components and for which contracts with equivalent terms are sold, or could be sold, separately in the same market or under the same jurisdiction.

As none of the insurance contracts issued by Stabilization Central has integrated the derivatives, investment, other goods or service components, therefore, the separation of components does not apply.

Aggregation and recognition of insurance and reinsurance contracts

i) Insurance contracts

Under IFRS 17, Insurance contracts are required to be aggregated into groups for measurement purposes. Groups of insurance contracts are to be determined by identifying portfolios of insurance contracts subject to similar risks and managed together, and dividing each portfolio into cohorts and each cohort into three groups based on the profitability of contracts:

- any contracts that are onerous on initial recognition;
- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- any remaining contracts in the annual cohort.

Stabilization Central currently only issues bonding insurance contracts for its members, this single product with consistent term for all certificates has similar risks and is managed together, which eliminates the need for such grouping and are placed in a single portfolio.

An insurance contract issued by Stabilization Central is recognized from the earliest of:

- the beginning of its coverage period (i.e. the period during which Stabilization Central provides services in respect of any premiums within the boundary of the contract);
- when the first payment from the policyholder becomes due or, if there is no contractual due date, when it is received from the policyholder; and
- when facts and circumstances indicate that the contract is onerous.

ii) Reinsurance contracts

Stabilization Central has established reinsurance contracts to cover 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 limits. 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. The reinsurance contract is recognized evenly throughout the term of the contract.

Measurement

i) Insurance contracts

Stabilization uses the PAA to simplify the measurement of contracts as the coverage period all contracts is one year or less and Stabilization Central reasonably expects that the resulting measurement of the asset for remaining coverage would not differ materially from the result of applying the accounting policies.

On initial recognition of each insurance contract, the carrying amount of the liability for remaining coverage is measured at the premiums received on initial recognition, minus any insurance acquisition cash flows allocated at that date and adjusted for any amount arising from the derecognition of any assets or liabilities previously recognized for cash flows.

On initial recognition of each contract, Stabilization Central expects that the time between providing each part of the services and the related premium due date is no more than a year. Accordingly, Stabilization Central has chosen not to adjust the liability for remaining coverage to reflect the time value of money and the effect of financial risk.

Subsequently, the carrying amount of the liability for remaining coverage is increased by any premiums received and decreased by the amount recognized as insurance revenue for services provided.

If at any time during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then Stabilization Central recognizes a loss in profit or loss and increases the liability for remaining coverage to the extent that the current estimates of the fulfilment cash flows that relate to remaining coverage exceed the carrying amount of the liability for remaining coverage.

Stabilization Central recognizes the liability for incurred claims of insurance contracts at the amount of the fulfilment cash flows relating to incurred claims. The claims are expected to be paid in one year or less from the date the claims are incurred, therefore future cash flows are not discounted. 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.

ii) Reinsurance contracts

Stabilization applies the same accounting policies to measure its reinsurance contracts, adapted where necessary to reflect features that differ from those of insurance contracts.

Presentation

Portfolios of insurance contracts that are assets and those that are liabilities, and portfolios of reinsurance contracts that are assets and those that are liabilities, are presented separately in the statement of financial position. Assessments received in advance arising before the recognition of the related group of contracts are included in deferred revenue. Stabilization Central disaggregates amounts recognized in the statement of income (loss) into an insurance service result, comprising insurance revenue and insurance service expenses. Income and expenses from reinsurance contracts are presented separately from income and expenses from insurance contracts. Stabilization Central does not disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment for non-financial risk are included in the insurance service result.

Insurance revenue and insurance service expenses exclude any investment components and are measured as follows.

Insurance revenues

Stabilization Central measures the assessment revenue received. Under the PAA, the insurance revenue for each period is the amount of expected assessment receipts for providing services in the period. Stabilization Central allocates the expected assessment receipts to each period on a straight-line basis over the term of the assessment period.

Insurance service expenses

Insurance service expenses arising from insurance contracts include incurred claims, claim administration expenses, and adjustments to the liabilities for incurred claims. These are recognized in the statement of income (loss) generally as they are incurred.

Net expenses from reinsurance contracts

Net expenses from reinsurance contracts comprise an allocation of reinsurance premiums and brokerage fees paid, less amounts recovered from reinsurers. Stabilization Central recognizes reinsurance premiums paid in the statement of income (loss) on a straight-line basis as the services are received.

Derecognition and contract modification

Stabilization derecognizes a contract when it is extinguished – i.e., when the specified obligations in the contract expire or are discharged or cancelled. If a contract is derecognized because its terms are modified, then the Contractual Service Margin (CSM) is also adjusted for the premium that would have been charged had it been entered into a contract with the new contract’s terms at the date of modification, less any additional premium charged for the modification.

Presentation

Insurance contracts that are assets and those that are liabilities, and reinsurance contracts that are assets and those that are liabilities, are presented separately in the statement of financial position.

Stabilization disaggregates amounts recognized in the statement of income (loss) and comprehensive income(loss) into an insurance service result, comprising insurance revenue and insurance service expenses and income and expenses from reinsurance contracts. All changes in the risk adjustment for non-financial risk are included in the insurance service result.

(i) 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.

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 recognizing 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 a straight-line basis over the lease term as part of Other Income.

(j) Financial income revenue recognition

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 income (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 income (loss) include gains from disposal of securities.

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

(k) Post-employment benefits

Stabilization Central is a participating member of the B.C. Credit Union Employees' Pension Plan (the Plan), a multi-employer defined benefit plan in which plan assets and liabilities are pooled and 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.

(l) 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 they relate 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. Changes in Accounting Policies

(a) IFRS 17 Insurance Contracts

Recognition, measurement and presentation of insurance contracts

Changes in accounting policies resulting from the adoption of IFRS 17 have been applied using a full retrospective approach to the extent practicable. Under the full retrospective approach, at 1, January 2022 Stabilization Central:

- identified, recognized, and measured each insurance and reinsurance contract as if IFRS 17 had always been applied;
- identified, recognized, and measured any assets for insurance acquisition cash flows as if IFRS 17 had always been applied;
- derecognized previously reported balances that would not have existed if IFRS 17 had always been applied; and

Stabilization Central has determined that the impact of applying IFRS 17 on opening equity of the year ended December 31, 2023 is not material. However, the presentation of the prior year's financial statements has been updated to comply with IFRS 17. These classification and disclosures changes are summarized below;

- Insurance and reinsurance contract assets are separately disclosed on the face of statement of financial position, with prior year reclassification summarized in the following table:

Dec 31, 2023	Original	Dec 31, 2022 Reclassification	Revised Presentation
Statement of financial position			
Assets			
Reinsurance contract assets	$ –	$ 18,334	$ 18,334
Prepaid expenses	62,590	(18,334)	44,256
Liabilities			
Insurance contract liabilities			
Deferred revenue	–	26,311	26,311
Provision for master bond claims	–	1,171,489	1,171,489
Unearned assessment	26,311	(26,311)	–
Provision for master bond claims	1,171,489	(1,171,489)	–
	$ 1,260,390	$ –	$ 1,260,390

- Similarly, on statement of income (loss) insurance revenues, insurance service expenses and net expenses from reinsurance contracts are separately disclosed on the face. These reclassifications of prior year amounts summarized in the following table;

Dec 31, 2023	Original	Reclassification	Revised Presentation
Statement of income (loss)			
Insurance revenue			
Assessments	$ –	$ 1,669,510	$ 1,669,510
Insurance service expenses			
Claims paid	–	1,367,385	1,367,385
Change in provision for master bond fund	–	446,952	446,952
Master bond fund claims administration	–	290,577	290,577
Net expenses for reinsurance contracts			
Insurance premiums	–	421,450	421,450
Insurance and brokerage	–	50,000	50,000
Members' assessments for master bond claim	1,669,510	(1,669,510)	–
Direct costs			
Claims paid	1,367,385	(1,367,385)	–
Insurance and brokerage	471,450	(471,450)	–
Increase in provision of master bond claims	446,952	(446,952)	–
Master bond claims administration	249,362	(249,362)	–
Operating expenses			
Professional fee	227,754	(12,441)	215,313
Other	96,900	(28,774)	68,126
	$ 4,529,313	$ –	$ 4,529,313

(b) Adoption of IAS 1:

Effective January 1, 2023, Stabilization Central adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2). The amendments require the disclosure of "material," rather than "significant," accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in note 3, in certain instances.

5. Investment Securities

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

		Dec 31, 2023		Dec 31, 2022
Fair value				
Pooled bond funds	$	**4,345,618**	$	4,193,867
Pooled equity funds		**4,592,572**		4,319,376
Pooled balanced funds		**7,501,961**		9,462,442
Government bonds		**23,415,127**		23,583,996
Total	$	**39,855, 278**	$	41,559,681
Average cost				
Pooled bond funds	$	**4,262,794**	$	4,271,950
Pooled equity funds		**5,517,281**		5,163,084
Pooled balanced funds		**7, 405, 191**		9,563,440
Government bonds		**23,057,330**		23,808,346
Total	$	**40,242,596**	$	42,806,820

6. Insurance Contracts Assets

Insurance contracts assets represent assessment amounts receivable from members at the end of the year. The amounts were received subsequent to the year-end.

7. Reinsurance Contract Assets

Reinsurance contract assets include the advance insurance premium paid for the following fiscal year.

8. 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 $1,924,826 (2022 - $1,659,097) 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, $ Nil (2022 - $ Nil) of deferred tax assets were recognized representing the benefit of non-capital losses recognized to the extent of deferred tax liabilities recognized. The $1,924,826 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
2037		103,011
2038		118,730
2039		92,854
2040		184,279
2041		94,490
2042		261,746
2043		239,231
	$	**1,924,826**

(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% (2022 - 11.00%).

	Dec 31, 2023	Dec 31, 2022
Income taxes otherwise (refundable)/ payable based on reported profit or loss using the statutory rate of 11.00% (2022 - 11.00%)	$ **120,866**	$ (755,844)
Adjustments for effect of:		
Assessments to members excluded from income for tax purposes	**(426,331)**	(183,646)
Assistance to members expense	**190,961**	199,577
Non-taxable trading gain and dividend income	**(50,869)**	328,013
Non-taxable unrealized trading gain	**(67,104)**	126,368
Deferred income tax for fixed assets	**11,733**	12,965
Allowance against unused tax losses	**239,232**	283,410
Other	**(18,488)**	(10,843)
Income tax expense	$ **–**	$ –

9. Property and Equipment

	Furniture & Fixtures	Equipment	Leasehold Improvements	Right-of-use Asset	Total
Cost					
Balance at Jan 1 2023	$ **89,038**	$ **90,340**	$ **171,397**	$ **809,771**	$ **1,160,546**
Acquisition	**–**	**–**	**–**	**–**	**–**
Balance at Dec 31 2023	$ **89,038**	$ **90,340**	$ **171,397**	$ **809,771**	$ **1,160,546**
Balance at Jan 1 2022	$ 76,980	$ 76,826	$ 171,397	$ 809,771	$ 1,134,974
Acquisition	12,058	13,514	–	–	25,572
Balance as at Dec 31 2022	$ 89,038	$ 90,340	$ 171,397	$ 809,771	$ 1,160,546
Depreciation					
Balance at Jan 1 2023	$ **52,725**	$ **75,584**	$ **149,455**	$ **263,176**	$ **540,940**
Depreciation	**5,105**	**7,647**	**12,936**	**80,976**	**106,664**
Balance as at Dec 31 2023	$ **57,830**	$ **83,231**	$ **162,391**	$ **344,152**	$ **647,604**
Balance at Jan 1 2022	$ 46,846	$ 66,471	$ 136,519	$ 182,198	$ 432,034
Depreciation	5,879	9,113	12,936	80,978	108,906
Balance as at Dec 31 2022	$ 52,725	$ 75,584	$ 149,455	$ 263,176	$ 540,940
Carrying Value					
Balance as at Dec 31 2023	$ **31,208**	$ **7,109**	$ **9,006**	$ **465,619**	$ **512,942**
Balance as at Dec 31 2022	$ 36,313	$ 14,756	$ 21,942	$ 546,595	$ 619,606

10. Insurance Contract Assets and Liabilities

Changes in master bond claim asset and liabilities for the years ended December 31, 2023 and 2022 are analyzed as follows:

	Dec 31, 2023			Dec 31, 2022		
	Liabilities for incurred claims	Risk adjustment	Total	Liabilities for incurred claims	Risk adjustment	Total
Opening insurance contract liabilities						
Deferred revenue	$ 26,311	$ –	$ 26,311	$ 53,517	$ –	$ 53,517
Provision for master bond claims	1,171,489	–	1,171,489	724,537	–	724,537
Net opening balance	**1,197,800**	–	**1,197,800**	**778,054**	–	**778,054**
Changes in the statement of income (loss)						
Insurance revenue	(3,875,739)		(3,875,739)	(1,669,510)	–	(1,669,510)
Incurred claims and other insurance service expenses	2,110,317	(5,491)	2,104,826	2,104,914	–	2,104,914
Insurance service result and total change in the statement of income (loss)	**(1,765,422)**	**(5,491)**	**(1,770,913)**	**435,404**	–	**435,404**
Cash flows						
Assessments recieved	2,260,746	–	2,260,746	1,642,304	–	1,642,304
Claims paid	(2,684,112)	–	(2,684,112)	(1,367,385)	–	(1,367,385)
Master bond fund claims administration	(368,815)	–	(368,815)	(290,577)	–	(290,577)
Total cash flows	**(792,181)**	–	**(792,181)**	**(15,658)**	–	**(15,658)**
Net closing balance	**$ (1,359,803)**	**$ (5,491)**	**$ (1,365,294)**	**$ 1,197,800**	**$ –**	**$ 1,197,800**
Closing insurance contract liabilities (assets)						
Assessment recievable	$ (1,852,816)	$ –	$ (1,852,816)	$ –	$ –	$ –
Deferred revenue	264,134	–	264,134	26,311	–	26,311
Provision for master bond claims	228,879	(5,491)	223,388	1,171,489	–	1,171,489
	$ (1,359,803)	**$ (5,491)**	**$ (1,365,294)**	**$ 1,197,800**	**$ –**	**1,197,800**

As at December 31, 2023, the terms for all related insurance contracts are also ended; therefore, there is no liability of remaining coverage (LRC) at year-end and as Stabilization Central opted to apply PAA for their accounting, there is no need for discounting. The above risk adjustment represents the reserve risk, representing the estimated capital required to support the uncertainty around the liability for incurred claims (LIC).

11. 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 9). For the year ended December 31, 2023 Stabilization Central has recognized interest on the lease liability of $18,967 (2022 - $21,556) in the statement of income (loss).

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

	Dec 31, 2023	Dec 31, 2022
Less than 1 year	**$ 98,351**	$ 97,782
1 to 5 years	**482,088**	401,361
More than 5 years	**–**	179,078
	580,439	678,221
Less: Interest expense to be recognized over the lease term	**(52,387)**	(71,353)
Lease liabilities included on the statement of financial position	**528,052**	606,868
Less: Current portion included in accounts payable and accrued liabilities	**(82,084)**	(78,815)
	$ 445,968	$ 528,053

12. Share Capital

(a) Authorized

Stabilization Central may issue an unlimited number of Class A voting shares at par value of $1 per share. Class A shares are held by member credit unions only, with each member's shareholding based on its consolidated assets. Class A voting rights are based on the number of members of individual credit 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, 2023	Dec 31, 2022
25,100 Class A shares	**$ 25,100**	$ 25,100
8,466 Class B shares	**8,466**	8,466
	$ 33,566	$ 33,566

13. 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.

14. Post-Employment Benefits

Every three years, an actuarial valuation is performed to assess the financial position of the multi-employer plan and 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, 2021, indicated a going concern unfunded liability in the 1.75% Division of $112.5 million (December 31, 2018 - $31.5 million) and a solvency deficiency of $10.4 million (December 31, 2018 - $99.5 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.

During the year ended December 31, 2023, Stabilization Central made contributions to the Plan in respect of its employees totaling $ 96,651 (December 31, 2022 - $112,516). Such contributions are included in salaries and benefits expense in the statement of income (loss).

15. 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 2023 was $773,719 (December 31, 2022 - $887,400).

The fees paid to the Board of Directors totaled $129,837 for the year ended December 31, 2023 (December 31, 2022 - $132,545).

16. 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 the 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 the Master Bond Fund.

17. 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 the use of appropriate benchmarks and spreads.

For all financial assets and liabilities, 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, which reflects the significance of the inputs used in making the measurements:

Level 1:

Inputs that are quoted at 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 Levels 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, 2023 and December 31, 2022, Stabilization Central had no transfers into or out of Levels 1, 2, and 3.

The fair value measurements of government bonds have been categorized as Level 2 fair values based on observable market sales data. The fair value of all other 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, 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.

18. 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 reviews of actual claim experience and assessment analysis.

Stabilization Central accepts insurance risk through its insurance contracts with its members, where it assumes the risk of losses under fidelity bonding protection. These risks impact the amount, timing and certainty of cash flows arising from the insurance contracts.

(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 government bonds 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 is discussed in note 5. As at December 31, 2023, Stabilization Central was invested in debt securities with the following credit quality:

Ratings		Dec 31, 2023
AA (high)	$	2,460,642
AA		2,965,065
AA (low)		16,114,173
A (high)		1,875,247
Total	**$**	**23,415,127**

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 if 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 the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The table below summarizes Stabilization Central's exposure to interest rate risk by remaining term to maturity as at December 31, 2023:

	Dec 31, 2023
Term to maturity	% of total debt securities
Less than 1 year	8.01%
1 to 5 years	38.62%
5 to 10 years	53.37%
Total	**100.00%**

Stabilization Central has determined that a fluctuation in interest rates of 1% is reasonably possible, considering the economic environment in which Stabilization Central operates. As at December 31, 2023, had interest rates increased or decreased by 1%, with all other factors remaining constant, net assets attributable to redeemable units would have increased or decreased by approximately $1,046,153 and $1,139,249 respectively. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

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, 2023 and 2022, 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, 2023, 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 $3,985,528 (December 31, 2022 – 4,155,968). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Summarized Statements of Financial Position and Income (Loss) (Unaudited)

(Expressed in thousands of dollars)

			2023	2022
As at December 31, 2023 and 2022	**Stabilization Fund**	**Master Bond Fund**	**Total**	**Total**
Assets				
Investment securities	$ 37,286	$ 3,279	$ 40,565	$ 41,559
Others	595	1,871	2,466	1,247
	$ 37,881	**$ 5,150**	**$ 43,031**	$ 42,806
Liabilities and equity				
Liabilities	$ 933	$ 580	$ 1,512	$ 2,386
Equity	36,948	4,570	41,519	40,420
	$ 37,881	**$ 5,150**	**$ 43,031**	$ **42,806**
Net finanical income (loss)	$ 2,057	$ 405	$ 2,462	$ (3,361)
Net insurance service results	–	1,298	1,298	(907)
Other income	196	–	196	91
	2,253	1,703	3,956	(4,177)
Operating expenses				
Salaries and benefits	1,174	–	1,174	1,226
Professional services	363	22	385	215
Subcontract fees	312	–	312	482
Corporate projects	155	82	237	84
Office and occupancy	210	14	224	212
Director remuneration	130	–	130	132
Investment advisory fee	78	33	111	97
Travel and meetings	108	–	108	114
Other	93	5	98	68
Data processing and systems development	78	–	78	64
	2,701	156	2,857	2,694
Comprehensive income (loss)	**$ (448)**	**$ 1,547**	**$ 1,099**	$ **(6,871)**