

First Quarter 2004

Report to Members

Credit Union Central 

SYSTEM'S RECORD EARNINGS TREND CONTINUES

First quarter highlights compared to the same period last year:

- System operating income of \$59.0 million, up 3.3% from \$57.1 million
- Central's net income of \$5.45 million, up 19.3% from \$4.57 million
- System assets of \$29.1 billion, up 8.6% from \$26.8 billion
- System capital ratio of 11.9%, up from 11.4%

British Columbia credit unions, collectively referred to as the system, earned \$59.0 million before taxes and dividends in the first quarter of 2004, an increase of 3.3% from \$57.1 million over the same period last year. Combined assets for the system rose 8.6% to reach \$29.1 billion at quarter-end.

Credit Union Central of British Columbia (Central), the central financial facility and trade association for B.C. credit unions, also had a strong quarter. Net income was \$5.45 million and assets remained at \$3.8 billion at quarter-end.

B.C. credit unions have performed very strongly over the past several years, in a climate of low interest rates and surging demand for mortgage loans. Home mortgage loans jumped 12.4% to \$17.0 billion as at quarter-end and loan delinquency over 90 days dropped to 0.51% from 0.60% a year ago.

Small business continues to be a growing segment of the market for B.C. credit unions as commercial loans reached \$5 billion at quarter-end, or 20% of the system's total loan portfolio.

British Columbians had \$26.0 billion on deposit with credit unions at quarter-end, a 6.8% increase from the same period in 2003.

Management's Discussion and Analysis as at May 28, 2004

This portion of the Report to Members updates Central's annual Management's Discussion and Analysis for the year ended December 31, 2003, and provides a discussion and analysis of Central's financial condition and results of operations for the three-month period ended March 31, 2004 compared to the corresponding period in the preceding fiscal year. Additional information on Central, including its Annual Information Form, may be found on SEDAR at www.sedar.com.

Forward Looking Statements

There are numerous factors, many beyond Central's control, which could cause results to differ from expectations. These factors, which include industry factors, Central and system specific factors, economic factors and financial market conditions are substantially unchanged from those described in Central's annual Management's Discussion and Analysis for the year ended December 31, 2003. Central's performance is also subject to a number of risks, including credit, liquidity, market and operational risk. There has been no substantial change in Central's risk profile or in its management of risk as described in Central's Management's Discussion and Analysis for the year ended December 31, 2003.

In addition, this discussion may include forward-looking statements with regard to 2004 and beyond, which by their nature, involve some risk with regard to accuracy. Where forward-looking comments appear, they should be interpreted in the context of this uncertainty. The results reported in this management discussion and analysis and in the financial statements that follow are reported in Canadian dollars and are based on the significant accounting policies reported in *Note 2* of the 2003 annual financial statements which may be found at www.sedar.com.

Overall Performance and Interim Financial Condition

Central had a solid first quarter in 2004. Net income was \$5.45 million, up 19% from \$4.57 million last year. Earnings per share were 5.2 cents compared to 4.3 cents a year ago and return on average assets and average equity also increased. The improvement was the result of higher financial and other income as operating expenses increased to \$12.95 million compared to \$12.39 million in the first quarter of 2003. Total assets at \$3.78 billion were virtually unchanged from \$3.77 billion last year. Loans, primarily those to credit unions, were up sharply reaching \$916.8 million compared to \$598.2 million last year and reflect the continuing buoyant real estate market in the province and Central's improved pricing on loans to its member credit unions.

The credit union system (system) continues its strong performance. System net operating income for the quarter was \$58.99 million, an increase of 3.3% from \$57.13 million for the first quarter of 2003. Total system assets were \$29.12 billion, an increase of 8.6% from \$26.82 billion as at March 31, 2003.

Central's and the system's financial condition remain solid and are comparable to that of March 31, 2003. Capital ratios remain strong. Central's risk-weighted capital ratio was 15.5% and its borrowing multiple was 16.7:1. System risk weighted capital improved to 11.91% from 11.35% as of March 31, 2003. Credit quality remains high in the system's loan portfolios and system provisions for credit losses as a percentage of average loans were consistent with prior periods.

Overall liquidity within the system, including that held by Central, decreased to 12.25% of assets from 13.48% as at March 31, 2003. It is anticipated that liquidity will improve later in the year, as securitization activities resume and the B.C. housing market cools from its recent overly strong pace of activity.

	FOR THE THREE MONTHS ENDED		
	March 31, 2004	March 31, 2003	Increase/Decrease
Central			
Earnings			
Net Interest Income (\$ millions)	9.10	7.98	1.12
Net Interest and Other Income (\$ millions)	19.85	18.11	1.74
Net Income (\$ millions)	5.45	4.57	0.88
Earnings Per Share (cents)			
Basic	5.20	4.30	0.90
Diluted	5.20	4.30	0.90
Return On:			
Average Assets (%)	0.58	0.50	0.08
Average Equity (%)	10.07	8.86	1.21
Balance Sheet Data (\$ billions)			
Total Assets	3.78	3.77	0.01
Average Assets	3.75	3.69	0.06
Long-term Financial Liabilities	1.34	1.23	0.11
Share Information			
Outstanding \$1 Par Value Shares (\$1,000's)			
Class A - Credit Unions	105,478	105,478	0
Class B - Cooperatives	3	4	(1)
Class C - Other	4	3	1
Dividends Per Share (all classes) (cents)	1.1	0.7	0.4
System (unaudited)			
Net Operating Income (\$ millions)	58.99	57.13	1.86
Total Assets (\$ billions)	29.12	26.82	2.30
Number of Credit Unions	61	63	(2)

Total Revenues

Net Interest Income

Net interest income was \$9.10 million for the quarter compared to \$7.98 million for the same period last year. Interest margin, at \$5.20 million, was slightly lower than last year's \$6.03 million and reflects a number of items. Lower interest rates, tighter spreads between Government of Canada securities and other debt instruments as well as the implementation of improved pricing of deposits and loans to member credit unions all contributed to a lower margin. Trading gains of \$3.78 million were up sharply from \$1.95 million in the first quarter last year as a result of the realization of the difference between fair market value and the book value from the sale of various securities as a result of repositioning of the securities portfolio in the current interest rate environment. Additionally, as anticipated, Credit Union Central of Canada (CUCC) did not pay a dividend nor did it pass through income from its subsidiary operations to Central in the first quarter of 2004. These amounted to \$1.0 million in the first quarter of 2003.

Central anticipates pressure on its net interest income during the remainder of the year as the factors that have narrowed financial margin are anticipated to remain in place and the opportunities for trading gains are expected to diminish should an expected rise in interest rates materialize.

Other Income

Central's other income increased to \$10.75 million over last year's \$10.13 million. The increase was primarily due to increased volumes of payments processing, together with income from a provider of e-commerce services that was acquired early in 2004.

Operating Expenses

Operating expenses increased to \$12.95 million compared to \$12.39 million last year. The increase was primarily due to direct expenses in the payments processing area, higher salary costs and some timing differences over the same period last year.

Balance Sheet

Cash and Securities and Liquidity Management

Cash and securities decreased \$305 million from one year ago. This is a direct reflection of increased borrowing by credit unions from Central. At \$2,843 million, cash and securities continue to represent over 75% of Central's assets. System liquidity decreased to 12.25% from 13.48%, as at March 31, 2003. Central has not drawn down any of its

operating lines with other financial institutions and has ample unused capacity remaining in its commercial paper and medium-term note programs to meet further loan advances to credit unions.

Loans and Off-Balance Sheet Arrangements

Loans, which are almost entirely secured loans to member credit unions, increased to \$916.8 million from \$598.2 million last year. A strong real estate market continues to drive consumer loan demand, which in turn has driven borrowing by credit unions. In January, Central lowered its lending fees on loans to member credit unions. This has placed Central as the lender of choice for most credit unions. Another factor in credit union loan volume is the extent to which credit unions securitize assets. As at March 31, assets securitized by the system through Central were as follows:

\$ millions	MARCH 31, 2004	MARCH 31, 2003
Residential Mortgages	\$804.6	\$950.0
Commercial Mortgages	222.8	158.4
Total Securitized	\$1,027.4	\$1,108.4

It is anticipated that last year's strong pace of securitization will resume in the second quarter as credit unions manage their liquidity and capital positions in relation to their first quarter activity.

Summary of Quarterly Results

Central's financial results for each of the last eight, most recently completed quarters, are summarized in the accompanying table. In general, Central's net interest income is quite stable from quarter to quarter, with no discernable seasonal trend, and reflects the condition of prevailing financial markets. However, interest income dividends from CUCC and its subsidiaries, if any, are received in the first quarter of each year. Non-interest income and non-interest expenses are also consistent from quarter to quarter. Trading gains and losses, however, have a significant impact on quarterly net income and their timing and magnitude are not predictable.

CREDIT UNION CENTRAL OF BRITISH COLUMBIA - QUARTERLY EARNINGS

(Thousands of dollars)	2004/2003				2003/2002			
	PERIOD ENDED				PERIOD ENDED			
	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30
Total Interest Income	\$ 31,103	\$ 31,652	\$ 32,600	\$ 35,478	\$ 34,257	\$ 32,706	\$ 32,114	\$ 30,291
Total Interest Expense	25,902	27,237	27,973	30,935	28,226	28,110	27,858	26,157
Net Interest Income	5,201	4,415	4,627	4,543	6,031	4,596	4,256	4,134
Trading Gains	3,895	1,084	3,415	3,525	1,959	1,283	1,914	829
Non-interest Income	10,752	10,983	10,284	10,069	10,117	10,023	10,064	9,973
Non-interest Expenses	(12,948)	(12,529)	(11,913)	(13,027)	(12,393)	(14,455)	(12,192)	(11,725)
Income Taxes	(1,448)	(1,038)	(1,286)	(696)	(1,146)	(449)	(717)	(774)
Net Income	\$ 5,452	\$ 2,915	\$ 5,127	\$ 4,414	\$ 4,568	\$ 998	\$ 3,325	\$ 2,437
Earnings per share* (cents)	5.2	2.8	4.9	4.2	4.3	0.9	3.2	2.3
Earnings per share - fully diluted	5.2	2.8	4.9	4.2	4.3	0.9	3.2	2.3

* Earnings per share calculated for a central credit union must be taken in the context that member shares may not be traded or transferred.

Capital Resources

Capital resources, consisting of member equity and retained earnings, reached \$222.1 million, compared to \$209.6 million as at March 31, 2003, with the entire increase being a result of an increase in retained earnings. Central anticipates implementing a share-call of approximately \$7.7 million in the second quarter of 2004 in order to maintain total capital at its target levels and at its target mix of share capital and retained earnings.

Central's federal capital adequacy ratio was well within its targeted operating range and on par with that at March 31, 2003. Central's provincial risk-weighted ratio at 15.5% was higher than Central's target, and reflects the recent change in risk-weighting for loans to member credit unions.

	MARCH 31, 2004	MARCH 31, 2003	TARGET
Borrowing Multiple	16.7:1	17.7:1	16:1 – 18:1
Risk-weighted Ratios ⁽¹⁾	15.5%	10.8%	11 – 14%

⁽¹⁾ In December 2003, the regulatory requirement for Central to risk-weighted loans to member credit unions was reduced to 20 percent from 100 percent, in line with the federal regulator's risk rating of similar loans on similar security.

Financial Instruments and Other Instruments

There have been no substantial changes to the nature and extent of Central's use of financial instruments or the business purpose that they serve, nor to the risks of such instruments, nor to Central's management of such risks.

Financial income and expense are classified on Central's financial statements as to source. Trading gains or losses are shown separately, as are changes in fair value of

certain financial instruments which are classified as trading positions or which are financial derivatives for which Central has not established a hedging relationship.

Changes in Accounting Policies

Central adopted the Canadian Institute of Chartered Accountants new accounting guideline for hedging relationships effective January 1, 2004. The financial impact of adopting this accounting guideline did not have a material impact on Central's results of operations for this quarter.