

## **Six Months Ended June 30, 2000**

### **Financial Highlights**

Second quarter net income was \$3.71 million compared to last year's second quarter net income of \$2.25 million. Financial margin, before recoveries of provisions for loan losses, was \$5.26 million compared to last year's margin of \$4.91 million. Other income increased by \$1.33 million to \$9.48 million from \$8.15 million, although timing differences make up most of the increase, and operating expenses of \$10.03 million were \$0.14 million lower than for the comparable period last year.

Net income for the six months year to date was \$8.51 million compared to \$7.11 million last year. Higher financial margin and other income were only partially offset by a small increase in administrative expenses. Central's interest margin, annualized and expressed as a percentage of assets employed, was 72.2 basis points for the six months compared to an interest margin of 79.2 basis points for the same period last year. However, assets on average were \$3,044.9 million, up significantly from \$2,736.3 million last year. Consequently, financial margin for the six months ending June 30 2000 was \$12.09 million compared to \$11.19 million for the same period last year.

### **Outlook**

The pressure on interest rates continued in early May with the only question being whether the Federal Reserve would increase by 25 or by 50 basis points at its May meeting. In fact the Federal Reserve and the Bank of Canada increased interest rates by 50 basis points on May 16 and 17 respectively. However, economic data in early June caught the market off guard and pointed towards an economic slowdown in the US. Speculation of a Federal Reserve action at the end of June quickly turned from expecting a 25 basis point increase to expecting no increase and indeed on June 28<sup>th</sup> the Federal Reserve kept interest rates constant. Looking forward, we expect the US economy will slow and that the cycle of interest rate tightening is almost over. However, there still remains the risk that the recent economic data is reflective of only a momentary pause, before the economy once again roars ahead.

With the yield curve being very flat from 90 days out to five years, there is little incentive to extend term, especially as the risk is to higher interest rates rather than to lower rates. We continue to closely match the term of assets and liabilities, deviating only in those circumstances where there is a significant reward to risk ratio. Maintaining financial margin in this environment may be difficult.