

## **Interim Management Discussion and Analysis**

### **Financial Overview**

Second quarter net income at \$2.44 million was 33.0% lower than last year's second quarter net income of \$3.65 million. Lower financial margin and higher operating expenses were only partially offset by improvements in other income. For the six months ending June 30<sup>th</sup>, net income was \$9.45 million, compared to \$10.72 million for the same period last year.

Contribution to net income from financial margin for the second quarter decreased by 24.8% to \$4.13 million from \$5.49 million last year. For the six months ending June 30<sup>th</sup>, the contribution to net income from financial margin decreased by 21.6% to \$9.74 million from \$12.43 million. Expressed as a percentage of average assets, financial margin for the six months was 55.5 basis points, compared to 75.1 basis points for the same period last year. Substantially lower interest rates, tight spreads on highly rated corporate securities compared to government securities and a more matched portfolio were the major factors contributing to the lower margin.

Second quarter other income increased by 3.7% to \$10.80 million from \$10.41 million for the comparable period last year. Operating expenses were higher than those of last year, increasing to \$11.73 million from \$11.21 million. For the six months ending June 30<sup>th</sup>, other income was \$24.11 million, compared to \$21.42 million last year, with the majority of the increase due to higher gains from securities trading, \$5.57 million versus \$3.60 million last year.

Total assets as at June 30<sup>th</sup> 2002 were \$3,621.5 million, an increase of 10.9 % from \$3,264.1 million as at June 30, 2001. Average assets employed for the year-to-date were \$3,509.9 million, compared to \$3,310.9 million for the same period last year.

### **Other**

During the quarter, Central continued discussions with Credit Union Central of Ontario Limited regarding the possible merger of our respective wholesale financial services operations. In April 2002, at their Annual General Meetings, the membership of both centrals approved proceeding with the merger process. The membership will vote on a final purchase and sale agreement at a subsequent general membership meeting. Central continues the process of seeking regulatory and legislative changes necessary to effect this arrangement with an ultimate merger of the two centrals taking place, likely in 2003.

### **Outlook**

The rosy picture for the United States economy that was unfolding in the first quarter was quickly replaced by one that might have been painted by Hieronymus Bosch. Financial markets in June were rocked by the arrival of a whirling dervish wearing the green shades of an accountant. Investors fled equity markets seeking refuge in government fixed income securities, while spreads on corporate bonds widened sharply.

Canadian markets were caught up in the maelstrom south of the border but the underlying economic fundamentals of the Canadian economy were much more robust than those of the United States. Consequently, the Bank of Canada has embarked on a series of interest rate increases designed to keep an

expanding economy in check and to bring short-term interest rates to levels consistent with a moderately growing economy.

Going forward, financial markets will be volatile and, at times, unpredictable. However, slowly and inextricably economies will recover, the accounting fiascos will be put to bed and investor confidence restored. Hence, interest rates have likely reached their lows and will start an upward trend. Indeed, the Bank of Canada has already started along this path, one that the Federal Reserve is expected to join, later this year or early in 2003.

**Credit Union Central of British Columbia**  
**Consolidated Balance Sheet**  
**Unaudited**

		June 30	(000's)	
	<u>2002</u>	<u>2001</u>		<u>December 31</u> <u>2001</u>
<b>Assets</b>				
Cash	\$28,436	\$27,331		\$9,614
Securities	2,736,690	2,675,845		3,269,569
Loans	837,572	532,818		458,296
Land, Buildings & Equipment	11,453	12,244		12,003
Other	7,335	15,826		8,187
	<u>\$3,621,486</u>	<u>\$3,264,064</u>		<u>\$3,757,669</u>
<b>Liabilities</b>				
Deposits & Notes	\$3,363,182	\$3,027,227		\$3,521,360
Other	52,123	36,659		28,310
Dividends	1,209	2,436		8,112
	<u>3,416,514</u>	<u>3,066,322</u>		<u>3,557,782</u>
<b>Equity</b>				
Shares	105,486	105,486		105,486
Retained Earnings	99,486	92,256		94,401
	<u>204,972</u>	<u>197,742</u>		<u>199,887</u>
	<u>\$3,621,486</u>	<u>\$3,264,064</u>		<u>\$3,757,669</u>

Approved by the Directors:

"J. Whittaker"  
 J. Whittaker, Chairperson

"L. Myhra"  
 L. Myhra, Chairperson - Audit Committee

See accompanying notes to the financial statements

**Credit Union Central of British Columbia**  
**Consolidated Income Statement**  
**Unaudited**

	(000's)		(000's)	
	For the three months ended June 30 2002	June 30 2001	For the six months ended June 30 2002	June 30 2001
Financial Income				
Loans	\$5,879	\$5,896	\$10,635	\$11,551
Securities	24,412	36,286	50,131	77,059
	<u>30,291</u>	<u>42,182</u>	<u>60,766</u>	<u>88,610</u>
Financial Expense				
Deposits	24,974	35,083	48,928	72,265
Borrowed funds	1,183	1,611	2,100	3,914
	<u>26,157</u>	<u>36,694</u>	<u>51,028</u>	<u>76,179</u>
Net interest income	4,134	5,488	9,738	12,431
Provision for (recovery of) losses	0	(150)	0	(300)
	<u>4,134</u>	<u>5,638</u>	<u>9,738</u>	<u>12,731</u>
Other income	10,802	10,406	24,109	21,418
Net interest and other income	<u>14,936</u>	<u>16,044</u>	<u>33,847</u>	<u>34,149</u>
Operating Expenses				
Salaries	4,934	4,382	9,475	8,562
Premises and equipment, including depreciation	1,457	1,102	2,842	2,276
Other	5,334	5,723	10,226	9,814
	<u>11,725</u>	<u>11,207</u>	<u>22,543</u>	<u>20,652</u>
Income before the following Income taxes	<u>3,211</u>	<u>4,837</u>	<u>11,304</u>	<u>13,497</u>
	<u>774</u>	<u>1,190</u>	<u>1,854</u>	<u>2,780</u>
Net Income	2,437	3,647	9,450	10,717
Retained Earnings, beginning of period	<u>100,946</u>	<u>89,451</u>	<u>94,401</u>	<u>83,439</u>
	103,383	93,098	103,851	94,156
Dividends	(4,889)	(1,146)	(5,428)	(2,436)
Related income tax savings	992	304	1,063	536
Retained Earnings, end of period	<u><u>\$99,486</u></u>	<u><u>\$92,256</u></u>	<u><u>\$99,486</u></u>	<u><u>\$92,256</u></u>

See accompanying notes to the financial statements

**Credit Union Central of British Columbia**  
**Consolidated Statement of Cash Flows**  
**Unaudited**

	(000's)		(000's)	
	For the three months ended		For the six months ended	
	June 30	June 30	June 30	June 30
	2002	2001	2002	2001
Cash flows from operating activities				
Net Income	\$2,437	\$3,647	\$9,450	\$10,717
Adjustments for:				
Depreciation	353	224	855	467
Other items, net	32,360	17,187	24,665	(927)
Net change in accrued interest	4,031	3,920	4,274	(6,829)
Provision for credit losses	0	(150)	0	(300)
	39,181	24,828	39,244	3,128
Cash flows from financing activities				
Proceeds from issue of shares	0	0	0	0
Dividends - net of income taxes	(10,800)	(842)	(11,268)	(1,900)
Net change in deposits and notes	(3,685)	16,258	(155,323)	(175,873)
	(14,485)	15,416	(166,591)	(177,773)
Cash flows from investing activities				
Purchase of securities	(1,744,163)	(3,243,880)	(4,262,695)	(7,125,188)
Sale of securities	1,755,131	3,398,646	4,786,845	7,560,563
Net change in loans	(74,351)	(213,204)	(377,676)	(273,877)
Net change in premises and equipment	(305)	(272)	(305)	(546)
	(63,688)	(58,710)	146,169	160,952
Increase (decrease) in cash resources	(38,992)	(18,466)	18,822	(13,693)
Cash resources - beginning of period	67,428	45,797	9,614	41,024
Cash resources - end of period	\$28,436	\$27,331	\$28,436	\$27,331
Supplemental Information				
Interest received	\$38,559	\$51,493	\$67,896	\$89,459
Interest paid	\$30,394	\$45,983	\$53,884	\$83,182
Income taxes paid	\$0	\$152	\$0	\$620

See accompanying notes to the financial statements

## **Credit Union Central of British Columbia**

### **Notes to the June 30, 2002 Interim Consolidated Financial Statements**

Credit Union Central of British Columbia is incorporated under the Credit Union Incorporation Act (British Columbia) and is subject to the provisions of the Financial Institutions Act (British Columbia) and the Cooperative Credit Associations Act (Canada).

These interim consolidated financial statements do not contain the complete disclosure of the annual financial statements. Accordingly these financial statements should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2001.

#### **1. Significant accounting policies**

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using the same accounting policies as set out in Note 2 to the Consolidated Financial Statements for the year ended December 31, 2001.

The consolidated financial statements include the accounts of Credit Union Central of British Columbia and its subsidiaries, Central Financial Corporation (1989) Ltd., C.U. Financial Services Ltd. and Central Data Systems Ltd., all of which are wholly owned.