

Credit Union Central 

**Second Quarter Report**

*June 30, 2003*



## **Interim Management Discussion and Analysis**

This Management Discussion and Analysis may include forward-looking statements with regard to 2003 and beyond. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in forward-looking statements including, without limitation, industry and worldwide economic and political conditions; interest rate and currency fluctuations; regulatory developments; the effect of competition; technological change and management decisions. In making decisions with respect to Central, investors and others should carefully consider these factors, as well as other uncertainties, and the inherent uncertainty of forward-looking statements. Forward-looking statements are made as of the date of this report and Central assumes no obligation to update or revise them to reflect new events or circumstances.

### **Financial Overview**

Second quarter net income was \$4.10 million compared to \$2.44 million last year. Improvements in Net interest income and Other Income more than offset higher Operating Expenses. Central's Net interest income, before trading gains, was \$4.54 million compared to \$4.13 million for the 2nd quarter last year. Net interest income for the six months ended June 30<sup>th</sup> was \$10.57 million, an increase of 8.6% from that of last year. Net interest income, annualized and expressed as a percentage of average assets employed, was 56.8 basis points for the six months, compared to 55.5 basis points for the same period last year. Higher interest rates, and a greater proportion of non-government securities in the investment portfolio were the major factors contributing to the higher margin.

Other Income increased by 25.80% to \$13.59 million from \$10.80 million for the comparable period last year due mostly to higher gains from securities trading, \$3.52 million this year compared to \$0.83 million last year. Operating Expenses were \$13.03 million, compared to \$11.73 million for the comparable period last year. The majority of the increase reflects expenditures in the technology area to provide increased operations and services to member credit unions.

Total assets as at June 30, 2003 were \$3,706.8 million, an increase of 2.9% from \$3,602.4 million as at December 31 2002, and 2.4% higher than as at June 30, 2002. Average assets employed for the year-to-date were \$3,725.4 million, compared to \$3,509.9 million for the same period last year.

The housing market in the Lower Mainland, which drives demand for residential mortgages, the major asset class of member credit unions, remains strong. However, as most of this demand was financed internally by credit unions or by accessing the securitization market, loans, principally to member credit unions, were lower, decreasing to \$424.6 million as at the end of the quarter, compared to \$837.6 million as at June 30, 2002.

The system, consisting of all sixty-one credit unions in British Columbia, collectively continues to perform well. Individual credit union unaudited financial data indicates that system assets at June 30 exceeded \$27.3 billion up almost 6% from a year ago and that year-to-date system net income is ahead of last year's record pace. The trend toward consolidation within the system continued in the second quarter, reducing the number of credit unions from 63 at the end of 2002.

## **Other**

During the quarter, Central continued discussions that commenced in 2000 with Credit Union Central of Ontario Limited regarding the possible merger of our respective wholesale financial services operations. In April 2002, at their respective Annual General Meetings, the membership of both centrals approved proceeding with the merger process. The membership will vote on a final asset purchase agreement at a subsequent general membership meeting. Central is now in the process of seeking regulatory and legislative changes necessary to effect this merger. At this time, it is uncertain when these regulatory and legislative changes will be enacted.

## **Outlook**

The second quarter of 2003 saw a swift and successful conclusion to the Iraq conflict and financial markets refocused their attention on the economy. The quarter saw a dramatic reversal of Canadian economic performance and in Bank of Canada policy. The Canadian economy, in response to the slowdown in the United States, finally began to stall. The SARs and BSE outbreaks also dampened the economy, as did the first ill effects of the soaring Canadian dollar. Very short-term economic prospects appear dim and it is likely that the Bank of Canada will reduce interest rates as economic fundamentals in Canada have slowed. Although bank rate increases are not likely until next year, interest rates other than very short-term rates have most likely hit a bottom and once financial markets start to see firm signs of a United States recovery, interest rates may move up sharply. Economic growth in the Province of British Columbia is expected to remain weak, although there are pockets of strength, including the residential housing market, which is the main driver of system growth and earnings.

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

		(000's)	
	June 30		December 31
	2003	2002	2002
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Assets</b>			
Cash	\$80,984	\$28,436	\$39,500
Securities	3,180,058	2,736,690	3,175,503
Loans	424,591	837,572	360,951
Land, Buildings & Equipment	11,627	11,453	11,610
Other	9,584	7,335	14,823
	<u>\$3,706,844</u>	<u>\$3,621,486</u>	<u>\$3,602,387</u>
<b>Liabilities</b>			
Deposits & Notes	\$3,436,729	\$3,363,182	\$3,345,617
Other	55,529	52,123	45,773
Dividends	1,591	1,209	5,393
	<u>3,493,849</u>	<u>3,416,514</u>	<u>3,396,783</u>
<b>Equity</b>			
Shares	105,486	105,486	105,485
Retained Earnings	107,509	99,486	100,119
	<u>212,995</u>	<u>204,972</u>	<u>205,604</u>
	<u>\$3,706,844</u>	<u>\$3,621,486</u>	<u>\$3,602,387</u>

Approved by the Directors:

"J. Whittaker"  
 J. Whittaker, Chairperson

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

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

	(000's)		(000's)	
	For the three months ended June 30 2003	June 30 2002	For the six months ended June 30 2003	June 30 2002
Financial Income				
Loans	\$10,011	\$5,879	\$10,011	\$10,635
Securities	59,724	24,412	59,724	50,131
	<u>69,735</u>	<u>30,291</u>	<u>69,735</u>	<u>60,766</u>
Financial Expense				
Deposits	55,661	24,974	55,661	48,928
Borrowed funds	3,500	1,183	3,500	2,100
	<u>59,161</u>	<u>26,157</u>	<u>59,161</u>	<u>51,028</u>
Net interest income	10,574	4,134	10,574	9,738
Provision for (recovery of) losses	0	0	0	0
	<u>10,574</u>	<u>4,134</u>	<u>10,574</u>	<u>9,738</u>
Other income	25,669	10,802	25,669	24,109
Net interest and other income	<u>36,243</u>	<u>14,936</u>	<u>36,243</u>	<u>33,847</u>
Operating Expenses				
Salaries	11,704	4,934	11,704	9,475
Premises and equipment, including depreciation	2,551	1,457	2,551	2,842
Other	11,165	5,334	11,165	10,226
	<u>25,420</u>	<u>11,725</u>	<u>25,420</u>	<u>22,543</u>
Income before the following	10,823	3,211	10,823	11,304
Income taxes	2,153	774	2,153	1,854
Net Income	8,670	2,437	8,670	9,450
Retained Earnings, beginning of period	104,067	100,946	100,119	94,401
	112,737	103,383	108,789	103,851
Dividends	(1,591)	(4,889)	(1,591)	(5,428)
Related income tax savings	311	992	311	1,063
Retained Earnings, end of period	<u>\$111,457</u>	<u>\$99,486</u>	<u>\$107,509</u>	<u>\$99,486</u>

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

	(000's)		(000's)	
	For the three months ended June 30 2003	June 30 2002	For the six months ended June 30 2003	June 30 2002
Cash flows from operating activities				
Net Income	\$4,102	\$2,437	\$8,670	\$9,450
Adjustments for:				
Depreciation	475	353	938	855
Other items, net	(6,659)	9,801	(4,733)	147
Net change in accrued interest	6,952	4,031	3,731	4,274
Provision for credit losses	0	0	0	0
	4,870	16,622	8,606	14,726
Cash flows from financing activities				
Proceeds from issue of shares	0	0	0	0
Dividends - net of income taxes	178	(10,800)	(5,082)	(11,268)
Net change - Settlements in transit	21,379	22,559	19,236	24,518
Net change in deposits and notes	(80,199)	(3,685)	91,013	(155,323)
	(58,642)	8,074	105,167	(142,073)
Cash flows from investing activities				
Net change in securities	(66,393)	10,968	(8,693)	524,150
Net change in loans	173,121	(74,351)	(63,133)	(377,676)
Net change in premises and equipment	(129)	(305)	(463)	(305)
	106,599	(63,688)	(72,289)	146,169
Increase (decrease) in cash resources	52,827	(38,992)	41,484	18,822
Cash resources - beginning of period	28,157	67,428	39,500	9,614
Cash resources - end of period	\$80,984	\$28,436	\$80,984	\$28,436
Supplemental Information				
Interest received	\$34,575	\$38,559	\$66,104	\$67,896
Interest paid	\$30,342	\$30,394	\$59,061	\$53,884
Income taxes paid	\$1,615	\$0	\$1,615	\$0

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

### **Notes to the June 30, 2003 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, 2002.

#### **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, 2002.

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., Central Data Systems Ltd., and Inovera Solutions Inc., all of which are wholly owned.