

Second Quarter 2004

Report to Members

Credit Union *Central* 

SYSTEM'S RECORD EARNINGS TREND CONTINUES

Second quarter highlights compared to the same period last year:

- System operating income of \$64.2 million, up 7.2% from \$59.9 million
- Central's net income of \$3.40 million versus \$4.10 million
- System assets of \$29.9 billion, up 9.1% from \$27.4 billion
- System capital ratio remains strong at 11.6%
- Central initiates first Share Capital Call in almost a decade

British Columbia credit unions, collectively referred to as the system, earned \$64.2 million before taxes and dividends in the second quarter of 2004, an increase of 7.2% from \$59.9 million over the same period last year. Combined assets for the system rose 9.1% from one year ago to reach \$29.9 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 \$3.40 million and assets increased by over 4.0% to \$3.86 billion from \$3.71 billion at quarter-end last year.

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, compared to June 30, 2003, jumped 10.8% to \$17.3 billion as at quarter-end and loan delinquency over 90 days improved to 0.41% from 0.54% a year ago.

Small business continues to be a growing segment of the market for B.C. credit unions as commercial loans reached \$5.2 billion at quarter-end, or approximately 20% of the system's total loan portfolio.

British Columbians had \$26.8 billion on deposit with credit unions at quarter-end, a 7.1% increase from the same period in 2003.

Management's Discussion and Analysis as at August 23, 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 June 30, 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 continues to perform well. Net income for second quarter was \$3.40 million, compared to \$4.10 million for the same period, last year. Earnings per share were 3.2 cents compared to 3.9 cents a year ago and return on average assets and average equity also were correspondingly lower. The decrease was the result of lower financial income in the form of lower trading gains on the sale of securities during the quarter and improved pricing on credit union deposits with Central. The timing of trading gains and their magnitude are not predictable and depend on market conditions during the period. For the year-to-date, trading gains are comparable to those of last year. Total assets at \$3.86 billion were up over 4.0% from \$3.71 billion last year. Loans, primarily those to credit unions, were up sharply, reaching \$870.9 million compared to \$424.6 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 system continues its strong performance. System net operating income for the quarter was \$64.23 million, an increase of 7.2% from \$59.90 million for the second quarter of 2003. Total system assets were \$29.9 billion, an increase of 9.1% from \$27.4 billion as at June 30, 2003.

Central's and the system's financial condition remain solid and are comparable to that of June 30, 2003. Capital ratios remain strong. Central's risk-weighted capital ratio was 17.0% and its borrowing multiple was 16.0:1. Central's capital position was bolstered by a share call on its Class A members, the first in almost a decade, of approximately \$7.9 million in the second quarter. Going forward, such share calls will be a key source of Central's capital as it keeps pace with system growth. System risk-weighted capital declined slightly to 11.63% from 11.91% as of June 30, 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 12.26% of assets from 13.46% as at June 30, 2003. It is anticipated that liquidity will improve later in the year, once the B.C. housing market cools from its continued strong pace of activity.

FOR THE THREE MONTHS ENDED

	June 30, 2004	June 30, 2003	Increase/Decrease
Central			
Earnings			
Net Interest Income (<i>\$ millions</i>)	6.10	7.83	
Net Interest and Other Income (<i>\$ millions</i>)	16.57	18.14	
Net Income (<i>\$ millions</i>)	3.40	4.10	
Earnings Per Share (<i>cents</i>)			
Basic	3.20	3.90	
Diluted	3.20	3.90	
Amortized Return On:			
Average Assets (%)	0.35	0.44	
Average Equity (%)	6.14	7.86	
Balance Sheet Data (\$ billions)			
Total Assets	3.86	3.71	
Average Assets	3.81	3.80	
Long-term Financial Liabilities	1.57	1.22	
Share Information			
Outstanding \$1 Par Value Shares (\$1,000's)			
Class A - Credit Unions	113,344	105,478	
Class B - Cooperatives	3	3	
Class C - Other	4	4	
Dividends Per Share (all classes) (<i>cents</i>)	1.0	0.8	
System (unaudited)			
Net Operating Income (<i>\$ millions</i>)	64.2	59.9	
Total Assets (<i>\$ billions</i>)	29.9	27.4	
Number of Credit Unions	58	61	

Total Revenues

Net Interest Income

Central's net interest income was \$6.10 million for the quarter, compared to \$7.83 million for the same period last year. Interest margin, at \$4.67 million, was slightly lower than last year's \$4.77 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 \$1.47 million were down from \$3.29 million in the second 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.

Central anticipates flat net interest income during the remainder of the year as the factors that have narrowed financial margin are anticipated to remain in place. Lower trading gains are expected as the opportunities for those trading gains have diminished with the recent rise in interest rates.

Other Income

Central's other income increased to \$10.47 million over last year's \$10.31 million. This 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 decreased to \$12.47 million compared to \$13.03 million last year. This decrease was primarily due to some timing differences over the same period last year. Year-to-date operating expenses are virtually unchanged from those for the same period last year.

Balance Sheet

Cash and Securities and Liquidity Management

Cash and securities decreased \$290.7 million from one year ago. This is a direct reflection of increased borrowing by credit unions from Central. At \$2.97 billion, cash and securities continue to represent over 75% of Central's assets. System liquidity decreased to 12.26% from 13.46%, as at June 30, 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 \$870.9 million from \$424.6 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 June 30, assets securitized by the system through Central were as follows:

millions	JUNE 30, 2004	JUNE 30, 2003
Residential Mortgages	\$1,194.7	\$931.7
Commercial Mortgages	215.7	295.2
Total Securitized	\$1,410.4	\$1,226.9

Last year's strong pace of securitization resumed in the second quarter as credit unions managed their liquidity and capital positions in relation to their first half activity.

Summary of Quarterly Results

Central's financial results for each of the last eight 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			
	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun 30	Mar. 31	Dec. 31	Sep. 30
Total Interest Income	\$ 28,775	\$ 31,103	\$ 31,428	\$ 32,600	\$ 35,702	\$ 34,257	\$ 32,706	\$ 32,114
Total Interest Expense	24,104	25,902	27,237	27,973	30,935	28,226	28,110	27,858
Net Interest Income	4,671	5,201	4,191	4,627	4,767	6,031	4,596	4,256
Trading Gains	1,433	3,895	1,553	3,415	3,064	1,951	1,283	1,914
Non-interest Income	10,467	10,752	10,739	10,284	10,305	10,125	10,023	10,064
Non-interest Expenses	(12,468)	(12,948)	(12,529)	(11,913)	(13,027)	(12,393)	(14,455)	(12,192)
Income Taxes	(708)	(1,448)	(727)	(1,286)	(1,007)	(1,146)	(449)	(717)
Net Income	\$ 3,395	\$ 5,452	\$ 3,227	\$ 5,127	\$ 4,102	\$ 4,568	\$ 998	\$ 3,325
Earnings per share* (cents)	3.2	5.2	3.1	4.9	3.9	4.3	0.9	3.2
Earnings per share - fully diluted	3.2	5.2	3.1	4.9	3.9	4.3	0.9	3.2

* 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 \$232.5 million, compared to \$213.0 million as at June 30, 2003. Central implemented a share-call of approximately \$7.9 million in the second quarter of 2004 in order to maintain total capital at its target levels and share capital at its target level of 37.5 basis points of system assets.

Central's federal capital adequacy ratio was well within its targeted operating range and on par with that at June 30, 2003. Central's provincial risk-weighted ratio at 17.0% was higher than Central's target, and reflects the recent change in risk-weighting for loans to member credit unions, as well as the share call made in the quarter.

	JUNE 30, 2004	JUNE 30, 2003	TARGET
Borrowing Multiple	16.0:1	17.7:1	16:1 – 18:1
Risk-weighted Ratios ⁽¹⁾	17.0%	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.

Credit Union Central of British Columbia
Consolidated Balance Sheet
Unaudited

		(000's)	
	2004	June 30 2003	December 31 2003
Assets			
Cash	\$ 128,412	\$ 80,984	\$13,355
Securities	2,841,940	3,180,058	3,454,445
Loans	870,853	424,591	436,807
Land, Buildings & Equipment	10,582	11,627	11,029
Other	10,945	9,584	10,730
	<u>\$3,862,732</u>	<u>\$3,706,844</u>	<u>\$3,926,366</u>
Liabilities			
Deposits & Notes	\$3,556,010	\$3,436,729	\$3,662,624
Other	71,997	55,529	40,100
Dividends	2,206	1,591	6,063
	<u>3,630,213</u>	<u>3,493,849</u>	<u>3,708,787</u>
Equity			
Shares	113,352	105,486	105,485
Retained Earnings	119,167	107,509	112,094
	<u>232,519</u>	<u>212,995</u>	<u>217,579</u>
	<u>\$3,862,732</u>	<u>\$3,706,844</u>	<u>\$3,926,366</u>

Approved by the Directors:

"J. Whittaker"
 J. Whittaker, Chairperson

"V. Gauvin"
 V. Gauvin, 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		For the six months ended	
	June 30 2004	June 30 2003	June 30 2004	June 30 2003
Financial Income				
Loans	\$5,512	\$4,704	\$11,134	\$10,011
Securities	23,263	30,998	48,744	59,948
	28,775	35,702	59,878	69,959
Financial Expense				
Deposits	22,586	28,900	46,516	55,661
Borrowed funds	1,518	2,035	3,490	3,500
	24,104	30,935	50,006	59,161
Interest Margin	4,671	4,767	9,872	10,798
Securities - trading	1,465	3,288	5,246	5,239
Change in fair value	(32)	(224)	82	(224)
Net financial income	6,104	7,831	15,200	15,813
Other income	10,467	10,305	21,219	20,430
Net interest and other income	16,571	18,136	36,419	36,243
Operating Expenses				
Salaries	5,878	6,065	11,615	11,704
Premises and equipment, including depreciation	1,342	1,311	2,531	2,551
Other	5,248	5,651	11,270	11,165
	12,468	13,027	25,416	25,420
Income before the following	4,103	5,109	11,003	10,823
Income taxes	708	1,007	2,156	2,153
Net Income	3,395	4,102	8,847	8,670
Retained Earnings, beginning of period	116,617	104,067	112,094	100,119
	120,012	108,169	120,941	108,789
Dividends	(1,050)	(839)	(2,206)	(1,591)
Related income tax savings	205	179	432	311
Retained Earnings, end of period	\$119,167	\$107,509	\$119,167	\$107,509
Supplemental Information				
Employee Future Benefits expense	\$299	\$246	\$494	\$492

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 2004	June 30 2003	June 30 2004	June 30 2003
Cash flows from operating activities				
Net Income	\$3,395	\$4,102	\$8,847	\$8,670
Adjustments for:				
Depreciation	499	475	1,015	938
Other items, net	(806)	(6,659)	(2,749)	(4,733)
Net change in accrued interest	(6,701)	6,952	(7,998)	3,731
	<u>(3,613)</u>	<u>4,870</u>	<u>(885)</u>	<u>8,606</u>
Cash flows from financing activities				
Issue of shares	7,867	-	7,867	-
Dividends - net of income taxes	205	178	(5,631)	(5,082)
Net change - Settlements in transit	28,655	21,379	33,952	19,236
Net change in deposits and notes	49,081	(80,199)	(98,638)	91,013
	<u>85,808</u>	<u>(58,642)</u>	<u>(62,450)</u>	<u>105,167</u>
Cash flows from investing activities				
Net change in securities	(20,970)	(66,393)	609,970	(8,693)
Net change in loans	46,795	173,121	(431,489)	(63,133)
Net change in premises and equipment	(87)	(129)	(89)	(463)
	<u>25,738</u>	<u>106,599</u>	<u>178,392</u>	<u>(72,289)</u>
Increase (decrease) in cash resources	107,933	52,827	115,057	41,484
Cash resources - beginning of period	20,479	28,157	13,355	39,500
Cash resources - end of period	<u>\$128,412</u>	<u>\$80,984</u>	<u>\$128,412</u>	<u>\$80,984</u>
Supplemental Information				
Interest received	<u>\$31,613</u>	<u>\$34,575</u>	<u>\$62,413</u>	<u>\$66,104</u>
Interest paid	<u>\$31,352</u>	<u>\$30,342</u>	<u>\$57,982</u>	<u>\$59,061</u>
Income taxes paid	<u>\$1,200</u>	<u>\$1,615</u>	<u>\$1,843</u>	<u>\$1,615</u>

See accompanying notes to the financial statements

Credit Union Central of British Columbia

Note to the June 30, 2004 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, 2003.

1. Significant accounting policies

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.

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, 2003.

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