

## **Nine Months Ended September 30, 2000**

### **Financial Highlights**

Third quarter net income was \$3.53 million compared to last year's third quarter net income of \$2.63 million. Financial margin, before recoveries of provisions for loan losses, was \$13.63 million compared to last year's margin of \$12.98 million. Other income increased by \$0.39 million to \$8.54 million from \$8.15 million, and operating expenses of \$9.25 million were \$0.32 million lower than for the comparable period last year.

Net income for the nine months year to date was \$12.04 million compared to \$9.74 million last year. Both financial margin and other income were significantly higher than last year whereas administrative expenses were slightly lower than those of last year. Timing differences, which are anticipated to reverse themselves by the end of the year, make up much of the positive variances to last year in other income and administrative expenses. Central's interest margin, annualized and expressed as a percentage of assets employed, was 70.0 basis points for the nine months compared to an interest margin of 74.8 basis points for the same period last year. However, assets on average were \$3,074.9 million, up significantly from \$2,755.5 million last year. Consequently, financial margin for the nine months ending September 30, 2000 was \$17.17 million compared to \$16.01 million for the same period last year.

### **Outlook**

After moving sideways though much of the summer, financial markets are now catching a strong tailwind. Growing evidence that the Federal Reserve has engineered a successful soft landing and that inflation is still moderate despite rising oil prices, have provided the catalyst for stronger bond and equity markets. The Canadian yield curve flattened during the quarter as short-term rates declined significantly. Risks, however, remain as a resurgent consumer could put the Federal Reserve back on the defensive by year-end or early 2001. The Canadian economy shows signs of maintaining a healthy pace. The Bank of Canada continues to make hawkish noises about the risk of inflation and is likely to keep pace with any Federal Reserve interest rate increases.

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. Consequently, the average term of the investment portfolio continues to be closely matched to the average term of liabilities, deviating only in those circumstances where there is a significant reward to risk ratio.