

Credit Union Central 

Third Quarter Report

September 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

Third quarter net income was \$5.13 million compared to \$3.33 million last year, on the back of improvements in Net interest income, Other Income and Operating Expenses. Central's Net interest income, before trading gains, was \$4.63 million compared to \$4.26 million for the 3rd quarter last year. Net interest income for the nine months ended September 30th was \$15.20 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 55.0 basis points for the nine months, compared to 53.0 basis points for the same period last year. Higher average 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 14.4% to \$13.70 million from \$11.98 million for the comparable period last year due mostly to higher gains from securities trading this year compared to last year. Operating Expenses were \$11.91 million, compared to \$12.19 million for the comparable period last year.

Total assets as at September 30, 2003 were \$3,633.3 million, an increase of 0.9% from \$3,602.4 million as at December 31 2002, and 1.9% higher than as at September 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. Although much of this demand was financed internally by credit unions or by accessing the securitization market, loans, principally to member credit unions, stood at \$652.5 million as at the end of the quarter, compared to \$704.1 million as at September 30, 2002, and \$361.0 million as at December 31, 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 September 30 exceeded \$28.0 billion, up almost 8.1% from a year ago and that year-to-date system net income is ahead of last year's record pace.

Other

Credit Union Central of British Columbia has decided not to proceed with further discussions with Credit Union Central of Ontario Ltd. respecting the merger of their wholesale financial services businesses.

The two organizations announced their intention to explore the merger of their financial services functions in October 2000, and their member credit unions endorsed the business case for the deal in April 2002.

The critical element of the merger is a compatible legislative framework in the two provinces, as well as amendments to federal legislation. While excellent progress has been made on many of these legislative changes, the centrals have determined that, short of obtaining enabling legislation, solutions beneficial to the credit union systems of both provinces cannot be found.

Outlook

The growing dichotomy between the economies of the US and Canada became more evident during the third quarter of 2003. The US economy, pumped by stimulative monetary and fiscal policy, may be poised for a period of robust growth. In contrast, economic statistics clearly confirm that the Canadian economy has cooled off considerably. Bank of Canada policy remains accommodative. Following a surprise 25 basis point cut in the Bank Rate at the Bank's July meeting, the Bank further lowered the Bank Rate by another 25 basis points at its September meeting. Meanwhile, the Federal Reserve remains on hold. Early on in the quarter, bond yields continued to rise from their historical lows in June. Later in the quarter, with Canadian growth prospects clearly stalling and with doubts forming about the length and strength of a US recovery, fixed income markets began to rally. Early in the quarter, the Canadian dollar gave back some of its strength but rallied to close the quarter at \$1.3525, compared to \$1.3467 as at March 31, 2003.

With consumer spending still buoyant, a recovery in business spending, and a housing market that is still showing remarkable resilience, third quarter USD GDP is expected to be the strongest since 2000. Third Quarter Canadian GDP is also expected to show an increase in activity as the economy recovers from the shocks caused by BSE, the BC forest fires, and SARS. Going forward, it is unclear whether the Bank of Canada will decrease the Bank rate before year-end in order to provide support for an economy that has been subject to a stronger currency and a weak job market. In the longer run, once the North American market sees an improvement in employment statistics, the yield curve will steepen and interest rates will increase. Accordingly, at this time, Central continues to adopt a neutral stance in its portfolio to interest rates.

Credit Union Central of British Columbia
Consolidated Balance Sheet
Unaudited

	(000's)		
	September 30	2002	December 31
	2003	2002	2002
Assets			
Cash	\$ -	\$ -	\$39,500
Securities	2,959,673	2,840,417	3,175,503
Loans	652,451	704,104	360,951
Land, Buildings & Equipment	11,509	12,002	11,610
Other	9,694	7,335	14,823
	\$3,633,327	\$3,563,858	\$3,602,387
Liabilities			
Deposits & Notes	\$3,391,255	\$3,314,808	\$3,345,617
Other	22,213	39,408	45,773
Dividends	2,327	1,965	5,393
	3,415,795	3,356,181	3,396,783
Equity			
Shares	105,486	105,486	105,485
Retained Earnings	112,046	102,191	100,119
	217,532	207,677	205,604
	\$3,633,327	\$3,563,858	\$3,602,387

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		For the nine months ended	
	September 30	September 30	September 30	September 30
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Financial Income				
Loans	\$5,306	\$6,249	\$15,317	\$16,884
Securities	27,294	25,865	87,018	75,996
	<u>32,600</u>	<u>32,114</u>	<u>102,335</u>	<u>92,880</u>
Financial Expense				
Deposits	26,146	26,186	81,807	75,114
Borrowed funds	1,827	1,672	5,327	3,772
	<u>27,973</u>	<u>27,858</u>	<u>87,134</u>	<u>78,886</u>
Net interest income	4,627	4,256	15,201	13,994
Provision for (recovery of) losses	0	0	0	0
	<u>4,627</u>	<u>4,256</u>	<u>15,201</u>	<u>13,994</u>
Other income	13,699	11,978	39,368	36,087
Net interest and other income	<u>18,326</u>	<u>16,234</u>	<u>54,569</u>	<u>50,081</u>
Operating Expenses				
Salaries	5,740	5,298	17,444	14,773
Premises and equipment, including depreciation	1,190	1,320	3,741	4,162
Other	4,983	5,574	16,148	15,800
	<u>11,913</u>	<u>12,192</u>	<u>37,333</u>	<u>34,735</u>
Income before the following	6,413	4,042	17,236	15,346
Income taxes	1,286	717	3,439	2,571
Net Income	5,127	3,325	13,797	12,775
Retained Earnings, beginning of period	<u>107,509</u>	<u>99,486</u>	<u>100,119</u>	<u>94,401</u>
	112,636	102,811	113,916	107,176
Dividends	(735)	(757)	(2,326)	(6,185)
Related income tax savings	145	137	456	1,200
Retained Earnings, end of period	<u><u>\$112,046</u></u>	<u><u>\$102,191</u></u>	<u><u>\$112,046</u></u>	<u><u>\$102,191</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 nine months ended	
	September 30 2003	September 30 2002	September 30 2003	September 30 2002
Cash flows from operating activities				
Net Income	\$5,127	\$3,325	\$13,797	\$12,775
Adjustments for:				
Depreciation	495	63	1,433	918
Other items, net	4,807	1,342	74	1,491
Net change in accrued interest	915	(7,596)	4,646	(3,322)
Provision for credit losses	0	0	0	0
	<u>11,344</u>	<u>(2,866)</u>	<u>19,950</u>	<u>11,862</u>
Cash flows from financing activities				
Proceeds from issue of shares	0	0	0	0
Dividends - net of income taxes	146	136	(4,936)	(11,132)
Net change - Settlements in transit	(38,527)	(14,057)	(19,291)	10,459
Net change in deposits and notes	(46,336)	(47,644)	44,677	(202,967)
	<u>(84,717)</u>	<u>(61,565)</u>	<u>20,450</u>	<u>(203,640)</u>
Cash flows from investing activities				
Net change in securities	219,302	(98,846)	210,609	425,304
Net change in loans	(226,831)	135,453	(289,964)	(242,223)
Net change in premises and equipment	(82)	(612)	(545)	(917)
	<u>(7,611)</u>	<u>35,995</u>	<u>(79,900)</u>	<u>182,164</u>
Increase (decrease) in cash resources	(80,984)	(28,436)	(39,500)	(9,614)
Cash resources - beginning of period	80,984	28,436	39,500	9,614
Cash resources - end of period	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Supplemental Information				
Interest received	<u>\$39,916</u>	<u>\$25,247</u>	<u>\$106,020</u>	<u>\$93,143</u>
Interest paid	<u>\$27,112</u>	<u>\$28,587</u>	<u>\$86,173</u>	<u>\$82,471</u>
Income taxes paid	<u>\$1,227</u>	<u>\$504</u>	<u>\$2,842</u>	<u>\$0</u>

See accompanying notes to the financial statements

Credit Union Central of British Columbia
Notes to the September 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.