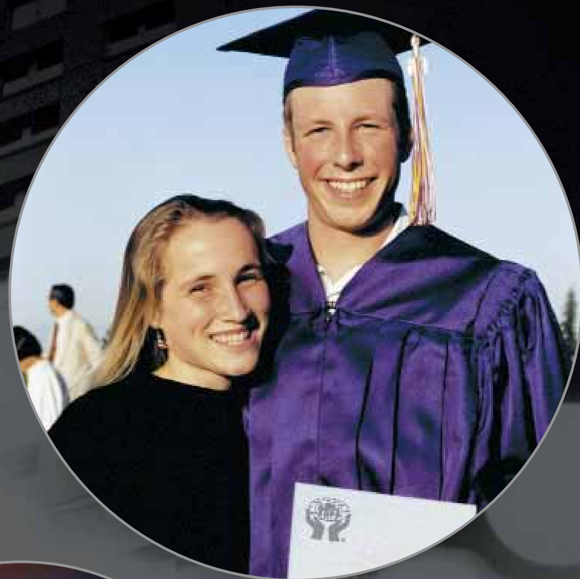

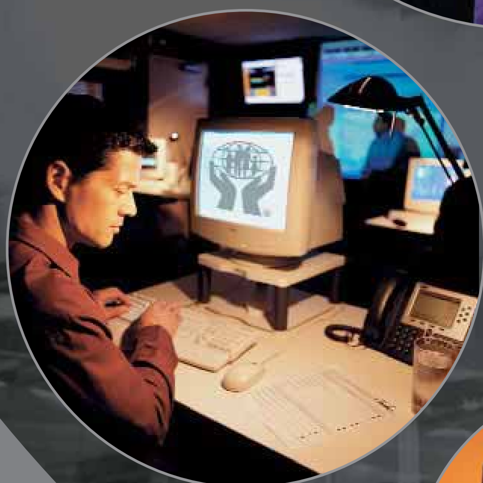

CREDIT UNION CENTRAL OF ONTARIO

BUILDING COMMUNITIES...
ONE MEMBER AT A TIME

ANNUAL REPORT

2002

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Who we are

CREDIT UNION CENTRAL OF ONTARIO

Credit Union Central of Ontario (Central) is the central bank and trade association for the vast majority of the province's credit unions. Almost 90 per cent of Ontario credit unions are members of Central. Our mission: to increase the competitive advantage of credit unions.

As a financial services organization, Central's primary role is to manage a liquidity pool for its members. Its liquidity arrangements mean credit union member deposits are backed by the combined strength of more than 600 affiliated credit unions across Canada, and also through national system participation in the Canadian Payments Association and its corresponding link to the Bank of Canada.

Central also acts as a wholesale bank for its members, offering a full range of banking products and services. Members benefit from its affiliation with national and international organizations and networks, such as INTERAC®.

As a trade association, Central provides core services to members, including government relations, communications, risk management, market research and member relations. Central also acts as the voice of the provincial credit union system.

Through strategic partnerships, Central offers expertise to credit unions in the areas of legal advice, asset and liability management, lending, strategic and operational planning, director programs and training.

ONTARIO CREDIT UNIONS: BUILDING COMMUNITIES… ONE MEMBER AT A TIME

Personal service. Choice. Convenience. Financial services mean different things to different people, at different stages in their life. Whether you're in the market for a student loan, a mortgage, investment advice, assistance for your small business, retirement planning information, or just day-to-day banking services, your credit union has the financial products, services and advice you need – anywhere, any way, any time.

Meeting members' individual needs is one of the ways in which credit unions are serving Ontario communities. If you're not already one of the more than one million Ontarians to experience the credit union advantage, here's what else you can expect when you join a local credit union:

Service and Democracy

Anyone can join a credit union, and membership has its benefits. Credit unions, first and foremost, are in business to serve the individual needs of their members. That's why they consistently score top marks in independent surveys on customer service. And, as a member/shareholder of your co-operative financial institution, you can attend annual meetings, influence direction and vote on credit union initiatives. You can even run for a position on the board of directors.

Community Focus

Credit unions are based in communities and are committed to local economic development. Deposits and profits stay put in the community – even in slow economic times – and are reinvested locally through personal and business loans, bursaries, sponsorship of events, community economic development, and dividends paid on member shares. In 2002, credit unions provided loans to more than 45,000 small and medium-sized Ontario-based businesses, and supported a diverse range of community projects, from hospitals to sports parks for youth.

Financial Peace of Mind

When you put your trust in a credit union, you can rest assured that your money is safe. Credit unions are regulated by the Financial Services Commission of Ontario, and the Deposit Insurance Corporation of Ontario (DICO) insures Canadian currency deposits to a maximum of $100,000 per individual, and insures each separate RRSP/RRIF/OHOSP contract and each unique trust or joint account to a maximum of $100,000 per account. Further, a 2002 survey by Ipsos-Reid found that consumers consider credit unions to be among the most credible organizations in Canada.

Highlights OF 2002

2002 CENTRAL AND CREDIT UNION SYSTEM HIGHLIGHTS

Central responded deftly to an unpredictable and uncertain world economy with an outstanding financial performance. Market conditions required Central to adopt a measured approach, balancing market risk with the reward of generating returns on members' capital. As a result, Central achieved the second best interest margin in its history in 2002.

2002 was likewise a good year for Central's member credit unions. The system experienced continued healthy consolidation through mergers and acquisitions, and both assets and loan volumes increased over 2001. Many Ontarians who belong to credit unions were rewarded for their business through dividends paid on their member shares.

Canadian credit union system history was made in 2002 when member credit unions of Ontario and B.C. centrals gave almost unanimous approval to the centrals to continue towards the sale of their respective wholesale financial services businesses to a yet-to-be-created federal co-operative credit association. At a special meeting in the fall, Ontario credit union delegates voted overwhelmingly in favour of a resolution to establish the new organization, pending government approvals. Special resolutions to approve the transaction will be considered by credit unions in both provinces, once enabling federal and provincial legislative schemes are in place. Ontario credit unions also overwhelmingly approved a resolution to establish an independent trade services organization. The proposed merger of the wholesale financial services of Ontario and B.C. envisions the blending of the best of all worlds, by creating a larger financial organization that credit unions require to stay competitive, while at the same time allowing credit unions to retain their unique identity and community focus.

Central's investment products allow credit unions to offer a range of investment opportunities to their members. Equity-linked term deposits, for instance, continue to attract interest from consumers who appreciate the security of principal protection and the prospect of good returns. Sales totalled over $73 million in 2002, a $25 million increase over the previous year. In 2002, Ontario credit unions joined credit unions in four other provinces to become the first, and only, organizations in North America to offer a product linked to the Dow Jones Sustainability World Index. Global Integrity – The Life Basket Equity-Linked Term Deposit allows investors to invest in companies that meet strict economic, social and environmental standards.

Central's member credit unions also took advantage of several commercial lending programs, thereby encouraging and supporting local businesses. Both the Syndicated Loan Program and the Commercial Loan Acquisition Program attracted new credit unions in 2002. Syndicated lending has passed the $800 million mark, as a growing number of credit unions recognize the significant contribution commercial lending makes to their business and their communities.

Central's member credit unions also focused on improving their own backroom functions and automating routine transactions. More credit unions signed on to offer electronic bill payment services, allowing members to pay their bills online to more than 630 businesses across Canada.

Central's Government Relations specialists are the voice of the Ontario credit union system, lobbying both federal and provincial regulators on key issues relative to the co-operative system. In 2002, staff oversaw and relayed credit union responses to major initiatives, such as support for the merger and the Deposit Insurance Corporation of Ontario's proposal to establish a Deposit Insurance Reserve Fund.

E-Central, the Web site for Central's members, was successfully launched in 2001 and by year-end, more than three-quarters of member credit unions were accessing services online. In 2002, the Web site was expanded to encompass more services and information, including Treasury Web Services. At the same time, more credit unions introduced or expanded their own online banking and Web-based services, providing their members with additional options for receiving financial information and completing transactions.

Credit union philosophy hinges on the idea of people helping people. This philosophy was apparent in 2002, as the Ontario Credit Union Charitable Foundation experienced another banner year. Over $90,000 was disbursed to Ontario communities, and to overseas projects through the Co-operative Development Foundation.

Generosity is also apparent in the everyday spirit of giving that typifies individual credit unions. In 2002, a consortium of Canadian credit unions provided the Daily Bread Food Bank with a $500,000 interest-free mortgage for a new food distribution warehouse. Overall credit union philanthropy was revealed in the results of a national survey. The survey, conducted in 2002 with credit unions across Canada, showed that Ontario credit unions donated over $2.6 million to local community charities and initiatives in 2001. Volunteerism is also alive and well at the local credit union; more than half of credit union employees volunteer in their communities.

Message
FROM THE CHAIR AND THE CEO

BUILDING COMMUNITIES... ONE MEMBER AT A TIME

There has never been a better time to be part of the credit union system! Our personal service, commitment to community, and democratic nature paid huge dividends in 2002 for Central, our member credit unions and Ontario consumers.

CREDIT UNION CENTRAL

From outstanding financial returns to innovative products and services, Central delivered tremendous benefits to our 200-plus member credit unions in 2002.

One of our most significant achievements this year was delivering a record return on member capital, despite unprecedented turmoil in the financial markets. We exceeded our financial target from ongoing operations by $1 million, thanks to sophisticated investment management, a strong performance from our Payments group, and effective cost controls.

Our special general meeting in the fall marked another achievement, as members gave Central's board and management an overwhelming endorsement to move forward with reinvention plans that would effectively divide our trade and financial services operations into two new organizations. Members voted 98 per cent in favour of merging our financial operations with those of B.C. Central and establishing an independent provincial trade services organization ("Tradeco"). The new, larger financial services organization, referred to as "Opco," will be better able to help member credit unions in both provinces offer competitive products, services and prices, while still allowing them to retain their unique local identity and community focus. Both Opco and Tradeco are scheduled to begin operations by the end of 2003 pending government approvals.

Although future reinvention plans were in the spotlight again in 2002, Central staff and management continued to work hard behind the scenes to help members improve their day-to-day competitive advantage in today's crowded financial services marketplace.

Our investment in technology, for instance, has proven to be the great equalizer, allowing Central to provide timely, cost-effective services to member credit unions, regardless of their size, location or bond of association. Ongoing development of our member Web site, e-Central, provided credit unions with additional online payments and banking services, and quick and easy access to hundreds of pages of online resources and information. The launch of Treasury Web Services (TWS), which offers live deal capture, confirmation and reports, is saving time and money for members, who now have more convenience, flexibility and access to market rates and reports.

Although we have made advancements in the virtual world we have not lost our personal touch. In fact, we are more committed than ever before to our greatest resource – our people. Central's emphasis on staff training, development and performance monitoring ensured members received high quality, personal service to meet their individual needs – from communications counselling to tracing services.

Members showed their appreciation for Central's efforts in 2002 by returning their highest-ever satisfaction rating – 92 per cent – on our annual member survey.

OUR MEMBER CREDIT UNIONS

The credit union system experienced similar success in 2002. By working with members and anticipating their individual needs, credit unions were able to assist more small businesses, provide tailored investment products, deliver expanded e-service capabilities, and open new branch locations where they were needed most – in cities, towns and rural communities across the province.

Of course, commitment to community – always a foundation of the credit union way – extends beyond financial services. Last year, for the first time, we were able to measure our charitable giving activities. We discovered Central's member credit unions contributed over $2.6 million to local community charities and charitable initiatives in 2001, plus thousands of hours of volunteer time. The Ontario Credit Union Charitable Foundation

Jonathan J. Guss

Message
(continued)

BUILDING COMMUNITIES... ONE MEMBER AT A TIME

Scott Kennedy

partnered with credit unions, providing an additional $56,000 in support of local charities and projects. Credit unions also reinvested member deposits back into their communities, in the form of bursaries, sponsorships and local economic development. Wherever there is a vibrant credit union, you will find a vibrant community!

You will also find a satisfied membership. Last year, as in previous years, credit unions took top honours in a number of independent surveys on customer service and integrity. In a groundbreaking study on financial sector customer relations conducted by Acumen Research Group, credit unions scored higher than big banks when it came to making customers feel valued, solving their problems, and offering competitive service fees and interest rates. Another survey, conducted by Ipsos-Reid in the wake of corporate accounting scandals, found credit unions to be among the most trusted organizations in Canada.

Clearly, credit unions have what consumers want, and the results speak for themselves. Credit union assets in 2002 grew to their highest-ever level, and the number of off-balance sheet items – such as administered loans and wealth management products – also continued their steady climb.

While we are happy to celebrate our successes as a system, looking ahead, we know there is more that can be done to make consumers aware of the credit union alternative.

Central recently commissioned a survey to assess Ontario consumers' attitudes towards different kinds of financial institutions. The results showed us that consumers have many positive things to say about credit unions. But they also highlighted opportunities for credit unions to capitalize on their competitive advantage – their service, their product offerings, their commitment to communities, and their democratic nature. Through reinvention and a clear focus on core services, it will be Central's mission in 2003 to help turn those opportunities into reality.

Scott Kennedy
Chair, Board of Directors

Jonathan J. Guss
President and CEO

BOARD OF Directors

Jack Morneau
Past Chair
Windsor-Essex County
Catholic Parishes Credit Union

Sheena Lucas
Second Vice Chair
Independent

Tim Bossence
Unigasco Community Credit Union

Jerry Andrijiw
Sunnybrook Credit Union

Bruce Corbett
Ottawa Carleton Credit Union

Alan Marentette
First Vice Chair
HEPCOE Credit Union

Howard Bogach
Director-at-large
Metro Credit Union

Wayne Lee
ASCU Community Credit Union

Scott Kennedy
Chair
Superior Credit Union

Jack Smit
St. Willibrord Community Credit Union

Ron Koppmann
Quinte Community Credit Union

Nadia Martin
Guelph & Wellington Credit Union

Ian Russell
The Police Credit Union

Dave Sitaram
Auto Workers Community Credit Union

RISK MANAGEMENT AND CONTROL PRACTICES

OVERVIEW

Central strategically manages credit and market risks to prudently earn competitive returns at acceptable risk levels from our various business activities. Risk management and control practices are designed to monitor and control the inherent risks in Central's business of providing financial support services to member credit unions. These risk exposures include credit risk, liquidity risk, market risk, foreign currency risk and operating risk.

Risk management strategies are undertaken within approved policy limits set by Central's Board of Directors. These policies are reviewed regularly, at least annually, to ensure that with changes in Central's business, all significant risks are identified and adequate risk management processes are in place. The Board and management have invested considerable time and resources in building a risk management and control structure that allows Central to dis-aggregate and mitigate its risk exposures. Within strictly defined risk tolerance levels and carefully supervised operational parameters, the Board delegates to management the authority to select which exposures Central will transfer, those it will hedge, and which it will actively manage for profitable performance. The gradual expansion of this strategic initiative has diversified Central's earnings capability through a broader array of market opportunities and created additional value for members.

During 2002, Central developed an Enterprise-Wide Risk Management (EWRM) framework and established a Risk Committee for the purpose of aligning business objectives, risks, and control to further support Central in achieving its mission and strategies. The framework serves to:

- Identify Central's risk philosophy and risk tolerance;
- Outline the organizational model including roles and responsibilities;
- Document Central's common business risk language;
- Identify, prioritize and assess principal business risks; and
- Guide strategies to implement action plans.

The oversight role and responsibilities of the Risk Committee have been assigned to Central's Senior Management Team to complement other well established management committees, whose focus is specific to key risks such as the Credit Committee, Investment Advisory Committee, Asset and Liability Management Committee and Delinquency Committee.

CREDIT RISK

Credit risk is the risk of financial loss resulting from the failure of a debtor, for any reason, to fully honour financial or contractual obligations. Credit risk arises from traditional lending and investment activity and from settling payments between Central and its counterparties associated with both on- and off-balance sheet instruments.

Central's policies establish limits for acceptable levels and areas of credit risk, establish clearly defined accountabilities for decision making and determining credit worthiness, and provide for diversification to avoid excessive risk concentrations.

Consistent with its core mandate as the system's liquidity manager, Central's investment portfolio is composed of liquid assets of a high credit quality, the selection of which is overseen by the Investment Advisory Committee. A general allowance against investment losses is established based on historical industry experience.

Involvement in commercial lending has been restricted to syndications with member credit unions under the Loan Syndication Program to respond to local member needs. Commercial loans are evaluated by a skilled commercial lender and are subject to review by an objective Credit Committee. A credit scoring system is used to quantify and evaluate the risks inherent in proposed credits. Annually, the status of each credit is reviewed in the same manner as a new credit proposal.

The Delinquency Committee is responsible for monitoring problem loans and ensuring that appropriate action is taken and that allowances are adequate to cover potential losses. Specific allowances are established for exposures based on analysis of individual accounts and also for groups of accounts based on general asset quality and experience. General allowances for loss are also established in relation to expected losses on the aggregate exposures in each of Central's business lines where specific provisions cannot yet be determined.

LIQUIDITY RISK

Liquidity risk arises from fluctuations in cash flows. Liquidity management policies ensure that Central is able to meet its financial obligations as they come due.

In addition, Central's core financial function is to maintain a liquidity pool for its member credit unions and to be the manager of liquidity for the system. The mandate for system liquidity is managed in three tiers - the local credit union level, the provincial level and the national level. On the local level, credit unions maintain cash resources and liquid investments to meet cash flow requirements. On the provincial level, Central maintains a pool of cash resources and high quality liquid investments in proportion to member assets, and maintains a line of credit with Credit Union Central of Canada (CUCC) to support the provincial liquidity pool. On a national basis, through CUCC, Central participates in the national liquidity program, which provides for the movement of liquidity between the provincial Centrals. Central's Liquidity Plan, reviewed no less than annually, contains a crisis plan structured to react to escalating levels of systemic liquidity demands.

MARKET RISK

Market risk is the potential impact of fluctuations in market rates, including changes in interest rates, equities, and foreign exchange rates. Interest rate risk arises from mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or reprice at various points in time. Central's exposure to interest rates changes continually as a result of member term preferences, daily business activities and risk management initiatives. Central's exposure to equity market fluctuations is not significant.

The Asset Liability Management Committee regularly monitors market rate risk and establishes strategies to achieve a balance between maximizing net interest income and reducing the risk to earnings from adverse movements in market rates. This is accomplished by managing Central's risk profile within predetermined limits, taking into consideration expected changes in the level of interest rates and shape of the yield curve.

Central's primary analytical techniques to measure and monitor interest rate risk are income sensitivity, Dollars-at-Risk (changes in market value) and Value-at-Risk (VaR) analysis.

Interest rate sensitivity analysis measures the difference between the amount of assets and liabilities and off-balance sheet instruments that mature or reprice at a specific point in time. Based on Central's interest rate sensitivity position at December 31, 2002, and assuming no management action, an immediate one per cent decline in interest rates across all repricing dates would lower net interest income by approximately $697,000 over the next 12 months.

Dollars-at-risk analysis measures the sum of the changes in market value of each exposure along the yield curve to a one basis point movement in interest rates, all other points held constant. At December 31, 2002, this measurement was approximately $27,000.

VaR analysis allows Central to estimate the maximum potential loss in market value from adverse changes in interest rates based on statistical confidence levels. Central measures the changes in portfolio values on a daily basis and monitors the VaR on a daily basis against policy limits and monthly loss limits. As at December 31, 2002, based on a 95 per cent confidence level, the one-day VaR was approximately $354,000.

Simulation modelling and VaR allow Central to analyse interest rate risk dynamically. Simulation modelling incorporates pricing strategies, volume and mix of new business, and future changes in interest rates. The models are continually monitored and updated to assist in assessing potential investment strategies. Central also stress tests its portfolio by estimating the resulting changes in market value that might occur during periods of extreme price movements. These scenarios are drawn both from actual historic and hypothetical time series.

FOREIGN EXCHANGE RATE RISK

Central has assets denominated in foreign currencies and buys and sells these currencies to meet member credit unions' needs. Central could be exposed to fluctuations in foreign exchange rates when assets in a foreign currency are either greater than or less than the liabilities in that currency.

Central manages its foreign exchange risk within clearly established policies and procedures to minimize foreign exchange rate risk.

OPERATING RISK MANAGEMENT

Operating risk is the potential for loss caused by internal or external events as a result of systems or procedural failures, errors, fraud or natural disaster.

While operating risk is inherent to each of Central's business activities, the exposure to Central is minimized by ensuring that the appropriate infrastructure, controls, systems and people are in place. Key policies and procedures used in managing operating risk involve segregation of duties, delegation of authority, risk monitoring, and financial and managerial reporting. Central's organizational structure clearly segregates trading, monitoring and processing functions. As a result, traders have no access to the transaction processing, confirmation or payment functions. Similarly, commercial loan origination is segregated from credit adjudication and administration. Central also maintains extensive back-up capabilities and business recovery plans to ensure ongoing service delivery under adverse conditions.

Central's operations are subject to ongoing review by external and internal audit and periodic examination by both federal and provincial regulators. From time to time, Central also engages expert third parties to analyze its operations and controls and make recommendations based on industry standards of best practices.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The consolidated financial statements and all information contained in this annual report were prepared by the management of Credit Union Central of Ontario Limited ("Central"), which is responsible for the integrity and fairness of the information presented. The information provided herein, in the opinion of management, has been prepared using appropriate accounting policies that are in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada and is based on informed judgements and estimates of the expected effects of current events and transactions.

Management maintains the necessary system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and proper records maintained. These controls include quality standards in hiring and training employees, written policies and procedures manuals, a written corporate code of conduct, and accountability for performance within appropriate and well-defined areas of responsibility. These controls are monitored by Central's internal audit staff who regularly review all aspects of Central's operations.

The Board of Directors oversees management's responsibilities for the financial statements through the Audit Committee. The Audit Committee conducts a detailed review of the financial statements with management and the internal and external auditors before recommending their approval to the Board of Directors. The Conduct Review Committee reviews all related party transactions and ensures any such transaction that might materially affect the stability or solvency of Central is identified and reported to the Board. The Board of Directors, the Audit Committee and the Conduct Review Committee are composed entirely of directors who are neither management nor employees of Central.

Central is regulated federally, under the *Cooperative Credit Associations Act* (Canada), by the Office of the Superintendent of Financial Institutions Canada, and provincially under the *Credit Unions and Caisses Populaires Act, 1994* (Ontario) by the Financial Services Commission of Ontario. On an annual basis, the Office of the Superintendent of Financial Institutions Canada or the Financial Services Commission of Ontario conducts an examination to assess the operations of Central and its compliance with statutory requirements and sound business practices.

KPMG LLP, external auditors appointed by Central's member credit unions, has examined the consolidated financial statements of Central in accordance with Canadian generally accepted auditing standards. The auditors have full and free access to, and meet periodically with, the Audit Committee, with or without management present, to discuss their audit and matters relating to financial statement presentation, internal controls and audit procedures.

Jonathan J. Guss
President and CEO

James M. MacDonald, CA
Vice President, Financial
Performance & Control

February 1, 2003

REPORT OF THE AUDIT COMMITTEE

Central's Audit Committee was formed as a committee of the Board of Directors pursuant to Section 125 of the *Credit Unions and Caisses Populaires Act, 1994* (Ontario) and Section 199 of the *Cooperative Credit Associations Act* (Canada). The committee, which consists of five directors, has oversight responsibility for Central's financial reporting processes and the quality of its financial reporting. The committee operates within a written mandate that prescribes the committee's objectives and responsibilities and how it functions.

In discharging its responsibility for financial reporting in 2002, the committee continued to focus on three areas: reviewing key financial disclosure reports, ensuring the adequacy of internal control and overseeing the work of Central's external auditors.

In a year of several significant corporate financial failures, the committee paid special attention to the issues highlighted by those failures and took action to review Central's practices where applicable. The committee continues to monitor, and adopt as appropriate, new regulatory requirements and emerging best practices. Central's president and chief executive officer and the vice president, financial performance and control are responsible for the integrity and fairness of the information presented in the consolidated financial statements.

In the course of its work the committee met regularly with the external auditors, the internal auditor and management including, the vice president, financial performance and control – who is also assigned responsibility for legislative compliance – and the president and chief executive officer.

Financial Reports

- Reviewed with management and the external auditors the appropriateness of Central's accounting and financial reporting, the impact of the adoption of new accounting pronouncements, the accounting treatment of significant risks and uncertainties, the key estimates and judgments of management that were material to Central's financial reporting, and the disclosure of significant accounting policies.
- Reviewed and recommended to the Board for its approval, where appropriate, the Audited Consolidated Financial Statements, all interim financial results to the system, as well as the annual Financial Statements of certain affiliates of Central, to ensure they were complete, fairly presented and, in accordance with established principles, consistently applied.

Internal Control

- Assessed the processes relating to the evaluation of Central's internal control environment, including approving the annual audit plan and reviewing the quarterly reports of the internal auditor in respect of internal control. This included evaluating internal audit processes and conducting regular reviews of the adequacy of resources and independence of Central's internal audit function.
- Reviewed and approved appropriate internal control and financial governance policies as well as Central's Audit Mandate.
- Reviewed key regulatory requirements to understand their implications for Central.
- Reviewed reports relating to adherence to the Standards of Sound Business and Financial Practices prescribed by the Deposit Insurance Corporation of Ontario to ensure Central met or exceeded acceptable standards.
- Reviewed reports of the compliance officer in respect of legislative compliance matters to assess their implications for Central.
- Reviewed observations and recommendations of the external auditors and external regulators as well as management's response, to assess their impact on Central.
- Met regularly with the internal auditor without management present.

External Auditors

- Undertook, on behalf of Central's members, the selection and evaluation of the external auditors, including a comprehensive review of their performance, qualifications, independence, annual audit plan and fees (including fees for non-audit services), in order to ensure their performance against acceptable standards.
- Reviewed the results of the work of the external auditors, including the communications to the committee required under Canadian generally accepted auditing standards.
- Reviewed and updated Central's policy in respect of the external auditors to reflect emerging practices. The committee continues to be satisfied that appropriate processes are in place to ensure the independence of the external auditors.
- Met regularly with the external auditors without management present.

Based on its findings, the Audit Committee issues reports and makes recommendations to the Board of Directors or senior management, as appropriate with respect to matters outlined above, and follows up to ensure the recommendations are considered and implemented. The committee receives full co-operation and support from management to enable it to play an effective role in improving the quality of financial reporting to the members and enhancing the overall control structure at Central.

The committee met eleven times in 2002 and is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2002.

Respectfully submitted by the Audit Committee.

Jack Smit

Jack Smit
Chair Audit Committee

February 1, 2003

AUDITORS' REPORT

TO THE MEMBERS OF CREDIT UNION CENTRAL OF ONTARIO LIMITED

We have audited the consolidated balance sheet of Credit Union Central of Ontario Limited (Central) as at December 31, 2002 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Central's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Central as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

KPMG LLP

Chartered Accountants
Toronto, Ontario

February 1, 2003

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31 (IN THOUSANDS)	2002	2001
Assets		
Cash resources	**$ 124,228**	$ 61,648
Securities (note 6)	**1,177,709**	1,233,420
Loans (note 7)	**147,620**	139,139
Other assets (note 8)	**24,274**	26,853
	$ 1,473,831	$ 1,461,060
Liabilities and retained earnings		
Members' deposits (note 9)	**$ 1,279,161**	$ 1,268,132
Other liabilities (note 10)	**22,954**	38,200
Obligations related to securities sold under repurchase agreements	**-**	30,079
Obligations related to securities sold short	**62,933**	25,900
Dividend payable	**4,685**	4,743
Membership shares (note 12)	**84,874**	82,787
	1,454,607	1,449,841
Retained earnings	**19,224**	11,219
	$ 1,473,831	$ 1,461,060

The accompanying notes are integral to the financial statements.

Approved by the Board:

Scott Kennedy
Director

Jack Smit
Director

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31 (IN THOUSANDS)	2002	2001
Interest income		
Securities	**$ 45,735**	$ 67,492
Loans (note 7d)	**8,752**	9,685
Cash resources	**1,927**	1,471
	56,414	78,648
Interest expense (note 9b)	**38,134**	62,273
Net interest income	**18,280**	16,375
Provision for credit losses (notes 6 & 7c)	**12**	962
	18,268	15,413
Net gain (loss) on sale of securities	**(1,094)**	6,343
Financial margin	**17,174**	21,756
Operating revenue		
Membership dues	**3,354**	3,335
Financial services and other income	**16,331**	16,607
	19,685	19,942
Operating expenses		
Salaries and benefits	**12,257**	12,847
Administrative and other	**11,862**	10,737
Occupancy and amortization	**4,510**	4,572
	28,629	28,156
Income from ongoing operations	**8,230**	13,542
Gain on sale of co-operative investment (note 4)	**7,104**	-
Restructuring costs (note 5)	**(1,500)**	(2,000)
Dividend (note 11)	**(4,682)**	(4,742)
Income before income taxes and discontinued operations	**9,152**	6,800
Provision for income taxes (note 14)	**1,147**	887
Income before discontinued operations, net of taxes	**8,005**	5,913
Loss from discontinued operations, net of taxes (note 5)	**-**	2,791
Net income	**8,005**	3,122
Retained earnings, beginning of year	**11,219**	8,097
Retained earnings, end of year	**$ 19,224**	$ 11,219

The accompanying notes are integral to the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31 (IN THOUSANDS)		2002		2001
Cash flows from operating activities:				
Net income	**$**	**8,005**	$	3,122
Adjustments for:				
Net loss (gain) on sale of securities		**(6,009)**		(6,343)
Provision for credit losses		**12**		962
Depreciation and amortization		**1,057**		1,173
Loss on disposal of fixed assets		**8**		13
Net changes in accrued interest receivable and payable		**(2,029)**		(4,540)
Dividends paid		**(4,741)**		(1,602)
Other items, net		**(6,420)**		19,720
Cash flows from operating activities		**(10,117)**		12,505
Cash flows from financing activities:				
Net change in members' deposits		**11,030**		24,825
Membership shares issued		**3,883**		2,944
Membership shares redeemed		**(1,796)**		(402)
Net change in obligations related to securities sold under repurchase agreements		**(30,079)**		30,079
Net change in obligations related to securities sold short		**37,033**		(113,753)
Cash flows from financing activities		**20,071**		(56,307)
Cash flows used in investing activities:				
Sale and maturity of securities		**22,343,697**		16,235,718
Purchase of securities		**(22,217,652)**		(16,344,955)
Net change in loans		**(8,693)**		2,795
Net change in securities purchased under resale agreements		**(64,125)**		131,678
Proceeds on sale of fixed assets		**11**		9
Acquisition of fixed assets		**(598)**		(1,092)
Cash flows used in investing activities		**52,640**		24,153
Effect of exchange rate changes on cash resources		**(14)**		133
Net increase (decrease) in cash resources		**62,580**		(19,516)
Cash resources, beginning of year		**61,648**		81,164
Cash resources, end of year	**$**	**124,228**	$	61,648
Cash resources are comprised of:				
Cash in bank and items in transit (net)	**$**	**9,561**	$	28,905
Deposits maturing or callable within 90 days		**114,667**		32,743
	$	**124,228**	$	61,648
Supplementary cash flow information:				
Interest paid during the year	**$**	**43,339**	$	69,782
Income taxes paid during the year	**$**	**1,754**	$	212

The accompanying notes are integral to the financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Credit Union Central of Ontario Limited (Central) have been prepared in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada. The significant accounting policies followed are summarized below.

(a) Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of Central and its wholly-owned subsidiary, Landmark Credit Limited. All inter-company transactions and balances have been eliminated.

(b) Cash resources

Cash resources include deposits with regulated financial institutions and cheques and other items in transit representing uncleared settlements with other financial institutions. Both items are recorded at cost. Income on interest bearing deposits is recorded on an accrual basis and is included in *Interest income - Cash resources* in the Consolidated Statement of Income and Retained Earnings.

(c) Securities

Investment account securities are securities where the original intention is to hold the securities to maturity or until market conditions render alternative investments more attractive. Fixed-term securities are carried at amortized cost whereby purchase discounts and premiums are amortized to income over the term to maturity. Investments in shares of co-operatives are carried at cost.

Gains and losses on the sale of fixed-term securities are accounted for using the completed transaction method on the settlement date. Securities are written down to fair value when there has been a decline in value that is considered to be other than temporary.

Any writedowns or gains and losses on disposal of securities are recorded in the year they occur and are included in *Net gain (loss) on sale of securities* in the Consolidated Statement of Income and Retained Earnings.

(d) Loans

Loans are stated net of any unearned income and of an allowance for credit losses. Interest income is accounted for on the accrual basis except on loans classified as impaired. A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Loans where interest or principal is contractually past due 90 days are automatically recognized as impaired, unless management determines the loan is fully secured or in the process of collection, and the collection efforts are reasonably expected either to result in repayment of the loan or restoration to a current status within 180 days from the date the payment has become contractually in arrears. All loans are classified as impaired when interest or principal is past due 180 days, except for loans guaranteed or insured by the Canadian government, the provinces, or a Canadian government agency. These loans are classified as impaired when interest or principal is contractually 365 days in arrears.

When a loan is classified as impaired, recognition of interest in accordance with the terms of the original loan agreement ceases. Subsequent payments (interest or principal) received on an impaired loan are recorded as a reduction of the recorded investment in the loan. Loans are generally returned to accrual status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current.

Properties held for resale represent power of sale properties and properties transferred as settlement of unpaid mortgage amounts. The properties are recorded at the lower of the outstanding balance of the related mortgages and estimated net realizable value.

(e) Allowance for credit losses

Central maintains an allowance for credit losses which, in management's opinion, is considered adequate to absorb all credit-related losses in its portfolio of both on- and off-balance sheet items, including loans, investments, derivative instruments and other credit-related contingent liabilities, such as letters of credit and guarantees.

The allowance for credit losses consists of specific provisions and general provisions. The balance in the allowance for the credit losses account is deducted from the related asset category, except for provisions against off-balance sheet items, which are included in *Other liabilities* on the Consolidated Balance Sheet.

Specific provisions are determined on an individual and group basis and reflect the associated estimated credit loss. In the case of loans, the individual specific provision is the amount required to reduce the carrying value of an impaired loan to its estimated realizable amount.

Generally, the estimated realizable amount is determined by discounting the expected future cash flows at the effective interest rate inherent in the loan at the date of impairment. When the amounts and timing of future cash flows cannot be measured with reasonable certainty, either the fair value of any security underlying the loan, net of any expected realization costs and any amounts legally required to be paid to the borrower, or the observable market price for the loan, is used to measure the estimated realizable amount. The change in the present value attributable to the passage of time on expected future cash flows is included in the *Provision for credit losses* in the Consolidated Statement of Income and Retained Earnings.

Specific provisions for loans determined on a group basis reflect exposures to particular asset classes which are related to specific credit ratings, industry or credit quality.

Specific provisions for investments determined on a group basis reflect exposures to particular investment types which are related to specific credit ratings and term-to-maturity.

General provisions are established to absorb expected credit losses on the aggregate exposures in each of Central's business lines, for which specific provisions cannot yet be determined.

The amount of the *Provision for credit losses* that is charged to the Consolidated Statement of Income and Retained Earnings is the actual net credit loss experience for the year. It is the amount that is required to establish a balance in the allowance for credit losses account that management considers adequate to absorb all credit-related losses in its portfolio of on- and off-balance sheet items, after charging amounts written off during the year, net of recoveries, to the allowance for credit losses account.

(f) Fixed assets

Fixed assets are stated at cost, less accumulated amortization. Office furniture, computer equipment and software are amortized over their estimated useful life of one to 10 years using the straight-line method. Leasehold improvements are amortized on a straight-line basis over the lesser of their estimated useful lives or the underlying lease terms.

(g) Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date, with the exception of investments in foreign currency equity investments and capital assets purchased with Canadian dollars, which are carried at historical cost. Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year except for depreciation, which is based on the historical Canadian dollar cost of the related assets.

Realized and unrealized gains and losses on foreign currency assets and liabilities are recorded in *Financial services and other income* in the Consolidated Statement of Income and Retained Earnings.

(h) Derivative instruments

Derivative instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial or commodity indices.

In the ordinary course of business, Central enters into various derivative contracts, including interest rate forwards, futures, swaps, and options. Derivative contracts are either exchange traded contracts (including futures and options) or negotiated over-the-counter contracts (including forwards, swaps and options). Central enters into such contracts to manage its exposure to interest rate fluctuations as part of Central's asset liability management program. Central also manages other yield enhancement positions to profit from pricing anomalies and offsets the position risk by entering into contracts in other related markets.

Swaps and forwards entered into for the purpose of managing Central's interest rate exposures are accounted for on the accrual basis. Premiums on options entered into for this purpose are amortized to income over the life of the related assets or liabilities.

Accrued interest, receivable or payable, is recorded in *Other assets* or *Other liabilities* in the Consolidated Balance Sheet, as applicable. Interest income or expense and amortization of option premiums are included in *Interest income – Securities* in the Consolidated Statement of Income and Retained Earnings.

Trading derivatives entered into for yield enhancement purposes are carried at their fair value. The gains and losses resulting from changes in fair value are included in *Net gain (loss) on sale of securities* in the Consolidated Statement of Income and Retained Earnings. Fair values are determined using pricing models that incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors.

(i) Income taxes

Central follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss and tax carryforwards. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Future tax assets and liabilities are recorded either in *Other assets* or *Other liabilities*, as applicable, in the Consolidated Balance Sheet.

(j) Securities purchased under resale agreements and obligations related to securities sold under repurchase agreements

Central enters into short-term agreements whereby it purchases and simultaneously commits to resell securities, or sells and simultaneously commits to repurchase securities, at a specified price on a specified date. Securities purchased under resale agreements are recorded in Securities in the Consolidated Balance Sheet. These transactions are recorded at cost. Interest income (resale agreements) and interest expense (repurchase agreements) are recorded on an accrual basis.

(k) Obligations related to securities sold short

Securities that Central has sold but not yet purchased represent an obligation to deliver securities at the time of sale. These obligations are recorded at cost. Adjustments to fair value on settlement and gains and losses on sale are recorded as *Net gain (loss) on sale of securities* in the Consolidated Statement of Income and Retained Earnings.

(l) Employee benefit plans

Central accrues its obligations under employee benefit plans (including pension plans and post-retirement plans other than pensions) and the related costs, net of plan assets. Central has adopted the following policies:

- the cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs;
- for the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment; and
- the excess of the net actuarial gain (loss) over 10 per cent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 15 years. The average remaining service period of the active employees covered by the other post-retirement plans is 19 years.

(m) Use of estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2. CHANGES IN ACCOUNTING POLICIES AND RECENTLY ISSUED STANDARDS NOT YET IMPLEMENTED

(a) Foreign currency translation

In November 2001, the CICA issued its final amendments to Handbook Section 1650, Foreign Currency Translation. These amendments eliminate the deferral and amortization of foreign exchange currency translation gains and losses on long-lived monetary items. This amendment will not change Central’s current practice given that the Office of the Superintendent of Financial Institutions Canada (OSFI) generally requires all foreign exchange gains and losses, both realized and unrealized, to be recognized in income.

(b) Hedging relationships

In November 2001, the CICA issued new Accounting Guideline 13, Hedging Relationships. The guideline deals with the identification, documentation, designation and effectiveness of hedges and the discontinuance of hedge accounting, but does not specify hedge accounting methods.

The guideline is applicable for fiscal years beginning on or after July 1, 2003.

Central will adopt the new guideline for the fiscal year beginning on January 1, 2004. For any hedging derivatives that do not qualify for hedge accounting under this guideline, Central expects to record changes in their fair value, subsequent to adoption, in the income statement. The effect of the new guideline on Central cannot be determined at this time.

3. MERGER PROPOSAL

In 2001, Ontario Central and Credit Union Central of British Columbia approved a letter of intent to merge their respective financial services operations, comprised principally of their treasury, lending and payments services operations. On November 23, 2002, Ontario Central's membership passed a resolution approving, in principle, an asset purchase agreement providing for the transfer of Central's financial services operations to a new entity that will become an association under the *Cooperative Credit Associations Act* (Canada). The proposed merger is subject to regulatory and membership approval of the final Asset Purchase Agreements.

4. GAIN ON SALE OF CO-OPERATIVE INVESTMENT

In preparation for the proposed merger and as part of Central's reinvention efforts, Central redeemed its investment in the shares of The CUMIS Group for $14,780,000, resulting in a gain of $7,104,000 (before applicable income taxes of $688,000), over book value of $7,676,000.

5. RESTRUCTURING COSTS AND DISCONTINUED OPERATIONS

In 2002, a provision for restructuring costs of $1,500,000 (2001 - $2,000,000) was established for certain contractually committed costs in connection with the restructuring of Central's operations and the proposed merger with Credit Union Central of British Columbia.

Reinvention plans also resulted in the decision to discontinue certain discretionary services not identified as either financial services or core trade services effective December 31, 2001. These discretionary services include promotional products and supplies, credit union risk management, inspections and financial consulting services, which have been offered to credit unions through one or more independent Credit Union Service Organizations unrelated to Central since the beginning of 2002.

Summarized financial information for the discontinued operations follow:

(IN THOUSANDS)	2002	2001
Discontinued operations:		
Revenues	$ -	$ 2,632
Operating expenses	-	(3,218)
Restructuring costs	-	(2,875)
Income tax benefit	-	670
Loss from discontinued operations, net of taxes	$ -	$ (2,791)

6. SECURITIES

Below is an analysis of the carrying value and unrealized gains and losses on investment securities:

2002 (IN THOUSANDS)	**Carrying Value**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Securities:				
Government	**$ 311,689**	**$ 10,748**	**$ -**	**$ 322,437**
Chartered bank	**548,349**	**6,609**	**(319)**	**554,639**
Other debt	**241,039**	**2,228**	**(268)**	**242,999**
Securities purchased under resale agreements	**64,125**	**-**	**(7)**	**64,118**
General allowance for credit losses	**(600)**	**-**	**-**	**(600)**
	1,164,602	**19,585**	**(594)**	**1,183,593**
Co-operative investments (note 20c)	**13,107**	**-**	**-**	**13,107**
	$1,177,709	**$ 19,585**	**$ (594)**	**$1,196,700**

2001 (IN THOUSANDS)	**Carrying Value**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Securities:				
Government	$ 411,369	$ 11,479	$ -	$ 422,848
Chartered bank	463,625	10,576	(17)	474,184
Other debt	339,297	7,906	-	347,203
General allowance for credit losses	(800)	-	-	(800)
	1,213,491	29,961	(17)	1,243,435
Co-operative investments (note 20c)	19,929	-	-	19,929
	$ 1,233,420	$ 29,961	$ (17)	$ 1,263,364

Central has pledged securities in the amount of $75,000,000 as security for clearing activity, investment transactions and external borrowings. The $600,000 general allowance for credit losses in 2002 decreased $200,000 as a result of a lower credit risk profile of securities held in comparison to 2001.

7. LOANS

(a) Loans

(IN THOUSANDS)	2002	2001
Members' loans	**$ 35,234**	$ 37,717
Residential mortgage loans	**9,827**	11,517
Commercial, syndicated and other loans	**104,233**	91,366
	149,294	140,600
Allowance for credit losses	**(1,674)**	(1,461)
	$ 147,620	$ 139,139

Members' loans are comprised substantially of lines of credit and demand loans that bear interest at floating rates and are secured by general security agreements over the respective credit union's assets. Residential mortgage loans are issued for a maximum term of five years and bear interest primarily at fixed rates. Commercial, syndicated and other loans are issued on both a fixed and floating interest rate basis and are secured primarily by real property, inventory or accounts receivable of the borrowers.

(b) Impaired loans

(IN THOUSANDS)	Gross Impaired	Specific Provisions Individual	Specific Provisions By group	General Provision	2002 Net Amount	2001 Net Amount
Members' loans	$ -	$ -	$ -	$ -	**$ -**	$ -
Residential mortgages	-	-	20	-	**(20)**	8
Commercial, syndicated and other	591	430	1,082	142	**(1,063)**	(632)
	$ 591	$ 430	$ 1,102	$ 142	**$ (1,083)**	$ (624)

The net investment in residential mortgages and commercial, syndicated and other loans for which a group provision for credit losses has been established amounts to $1,972,000 and $97,970,000 respectively.

(c) Allowance for credit losses

The activity in the allowance for credit losses and resulting year-end balances are detailed below.

(IN THOUSANDS)	Specific Provisions	General Provision	2002 Total	2001 Total
Balance, beginning of year	$ 1,319	$ 142	**$ 1,461**	$ 943
Collection of loans previously written-off	1	-	**1**	-
Loans written-off as uncollectible	-	-	**-**	-
Provision for credit losses	212	-	**212**	518
Balance, end of year	$ 1,532	$ 142	**$ 1,674**	$ 1,461

The allowance for credit losses has been established in accordance with the applicable regulatory standards.

(d) Interest income – loans

Interest income from loans is comprised of:

(IN THOUSANDS)		2002		2001
Members' loans	$	1,378	$	2,451
Residential mortgage loans		540		703
Commercial, syndicated and other loans		6,834		6,531
	$	8,752	$	9,685

8. OTHER ASSETS

(IN THOUSANDS)		2002		2001
Accrued interest	$	14,244	$	17,351
Accounts receivable		4,391		1,952
Option premiums		1,229		3,618
Prepaid and deferred costs		2,476		1,520
Fixed assets, net of accumulated amortization of $ 14,415 (2001 - $ 13,640)		1,934		2,412
	$	24,274	$	26,853

9. MEMBERS' DEPOSITS

(a) Deposits

(IN THOUSANDS)		2002		2001
Current accounts	$	96,569	$	85,075
Demand deposits		21,480		13,211
Term deposits		71,937		122,424
Bond deposits and discount deposits		550,054		549,950
Non-callable deposits		200		210
Liquidity reserve deposits		538,921		497,262
	$	1,279,161	$	1,268,132

Liquidity reserve deposits are received from members in accordance with a Central by-law that requires each member to maintain on deposit an amount equal to five per cent of the credit union's own share capital and deposit accounts, adjusted annually through an update procedure. Amounts on deposit are callable within 90 days. Secondary liquidity reserve deposits of two per cent of the credit union's own share capital and deposit accounts must be invested in qualifying liquidity deposit instruments with Central. A reaffirmation of the by-laws establishing these deposits is required on an annual basis.

Governing legislation enacted in 1995 enables Central's members to take advantage of special liquidity pool regulations, provided that Central maintains liquid assets in cash resources and short-term securities at least equal to five per cent of members' share capital and deposits. Central has designated $538,921,000 (2001 - $497,262,000) comprised of liquid assets to meet this requirement.

(b) Interest expense

Interest expense is comprised of:

(IN THOUSANDS)		2002		2001
Current accounts	$	489	$	2,230
Demand deposits		291		462
Term deposits		2,103		4,072
Bond deposits and discount deposits		16,099		26,586
Non-callable deposits		8		12
Liquidity reserve deposits		14,888		24,361
External borrowings		4,256		4,550
	$	38,134	$	62,273

10. OTHER LIABILITIES

(IN THOUSANDS)		2002		2001
Accrued interest	$	10,451	$	15,656
Accounts payable and other liabilities		12,503		22,544
	$	22,954	$	38,200

11. DIVIDEND

On February 1, 2003, the Board of Directors declared a dividend in respect of 2002 operations of $4,682,000 (2001 - $4,742,000), calculated at a rate of 5.5 per cent (2001 – 5.75 per cent), on the average share capital outstanding during 2002.
The dividend is payable on or before February 21, 2003, to members of record on December 31, 2002.

12. MEMBERSHIP SHARES

As a condition of membership, Central's members are required to maintain an investment in share capital, which is adjusted annually. Central's by-laws require that each member maintain share capital of 1.30 per cent (2001 – 1.30 per cent) of its own shares and deposits subject to a maximum of $1,635,000 (2001 - $1,635,000). Subject to approval by the Board of

Directors and compliance with statutory provisions, share capital is redeemable and is classified as a liability on the balance sheet. Notwithstanding the financial statement classification of Central's share capital, membership shares qualify as regulatory capital.

13. CAPITAL REQUIREMENTS

Regulations to the *Credit Unions and Caisses Populaires Act, 1994* (Ontario) prescribe the ratio of regulatory capital to be at least five per cent of total assets. *The Cooperative Credit Associations Act* (Canada) requires the maximum ratio of debt-to-capital to be 20-to-1 after adjustments for investments in subsidiaries and certain affiliates.

Central is in compliance with these capital requirements as at December 31, 2002: the regulatory capital amounted to 7.06 per cent (2001 – 6.43 per cent) of total assets and the ratio of debt-to-capital was 13.7-to-1 (2001 – 16.7-to-1).

14. INCOME TAXES

The *Provision for income taxes* recorded in the Consolidated Statement of Income and Retained Earnings is composed of the following:

The components of total income taxes:

(IN THOUSANDS)	2002	2001
Current income taxes:		
Federal	**$ 846**	$ 1,257
Provincial	**298**	506
	1,144	1,763
Future income taxes:		
Federal	**(6)**	(601)
Provincial	**9**	(275)
	3	(876)
Total	**$ 1,147**	$ 887

The components of future income tax balances are as follows:

(IN THOUSANDS)	2002	2001
Future income tax assets:		
Premises and equipment	**$ 174**	$ 204
Allowance for credit losses	**123**	124
Other	**576**	548
Total	**$ 873**	$ 876

The *Provision for income taxes* that is reported in the Consolidated Statement of Income and Retained Earnings varies from that obtained by applying statutory income tax rates to the income before provision for income taxes for the following reasons:

(IN THOUSANDS)	2002		2001	
Combined federal and provincial income taxes and statutory tax rate	**$ 1,750**	**19.1%**	$ 1,316	19.4%
Increase (decrease) due to:				
Tax exempt income from securities	**(793)**	**(8.6)**	(138)	(2.1)
Non-deductible expenses	**19**	**0.2**	25	0.4
Future tax assets	**3**	**-**	(876)	(12.9)
Other, net	**(26)**	**(0.3)**	366	5.4
Large Corporations Tax	**194**	**2.1**	194	2.9
Provision for income tax and effective tax rate	**$ 1,147**	**12.5%**	$ 887	13.1%

Large Corporations Tax is calculated at the rate of 0.225% of taxable capital (2001 – 0.225%).

15. CREDIT FACILITIES

Central has an operating line of credit with Credit Union Central of Canada (CUCC) of $75,000,000 at wholesale prime rates that is secured by an assignment of Central's book debts, Central's deposits in CUCC and Central's investment in the shares of CUCC.

In addition, Central has operating lines of credit with other financial institutions totalling $8,500,000 at retail prime rates plus one per cent. These lines are established for cash parcel services, money orders, wire transfers, guarantees and letters of credit on behalf of member credit unions.

16. RELATED PARTY TRANSACTIONS

(a) Stabilization Fund Corporation

Central acts as administrator of the Stabilization Fund Corporation (the Corporation). The one outstanding share of the Corporation, issued for nominal consideration, is held in trust by Central on behalf of its members. The Corporation provides limited loss prevention and rehabilitation activities for member credit unions and administers the Credit Union Deductible Fund, funded by member credit union assessments.

In 2002, the Corporation was charged $12,000 (2001 - $92,000) for administrative services provided by Central. In addition, the Corporation has agreed to reimburse Central for costs of $55,000 (2001 - $55,000) to support loss prevention programs and an additional $100,000 (2001 - $100,000) for ongoing support of the Operations Manuals program for the members of Central. These amounts have been reflected at the exchange amount in the consolidated financial statements.

(b) Other

As at December 31, 2002, there were three residential mortgage loans totalling $627,000 owing by officers to Central. There is no allowance for credit losses required in respect of these mortgage loans.

Remuneration to directors and committee members was $133,000 (2001 - $136,000) and other expenses for the board and committees were $402,000 for the year (2001 -$ 409,000).

17. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Loans

As at December 31, 2002, Central had loaned $35,234,000 to members against approved lines of credit and term loans of $407,398,000 and had outstanding letters of credit of $3,549,000 against an authorized limit of $13,518,000. In addition, Central had advanced $104,233,000 against approved commercial loans and credit lines of $114,194,000.

(b) Lease commitments

Minimum annual lease payments required under operating leases for premises and equipment were as follows:

(IN THOUSANDS)		
2003	$	1,651
2004		1,571
2005		37
2006		18
2007		-
Thereafter		-
	$	3,277

Central is currently in negotiations with its landlord to potentially renew the lease for certain parts of its premises on similar terms and conditions for a 10-year period, plus one renewal option.

(c) Mortgage securitizations

Central's mortgage securitization programs expand the lending capacity of participating credit unions, whereby eligible mortgages are financed by external investors through an independent securitization vehicle. The credit union continues to service the sold mortgages and, as an intermediary, Central is responsible for fund collection, reporting and other administration including certifying the credit union's lending practices to permit participation in the program.

Central is committed to act as stand-by servicer and, in certain limited circumstances relating to credit union options to repurchase maturing mortgages, Central could become obligated to repurchase specific maturing mortgages. It is management's opinion that Central's future obligation under the securitization program will not have a material effect, if any, on Central's cash flows. As of December 31, 2002, mortgages with a total outstanding balance of $49,624,000 are being administered in the securitization program and no options had been exercised to repurchase maturing mortgages. Therefore, Central had not recorded any related liability as at December 31, 2002.

18. DERIVATIVE INSTRUMENTS

In the normal course of business, interest rate swap contracts, options and forward rate agreements are outstanding and are not reflected in the consolidated financial statements. Central enters into these off-balance sheet instruments as a service to meet the needs of its members and to manage exposures to interest rate fluctuations. Central also manages yield enhancement positions to profit from pricing anomalies and offsets the position risk by entering into contracts in other related markets.

Interest rate swaps are contracts between two parties in which interest obligations are exchanged on a specified notional principal amount for a predetermined period based on agreed upon fixed and floating rates. *Options* are contractual agreements under which the seller grants the purchaser the right, but not the obligation, to either buy (call option) or sell (put option) at or by a set date, a specific amount of a financial instrument at a predetermined price. In consideration for the assumption of risk, the seller receives a premium from the purchaser. *Forward rate* agreements call for a cash settlement at a future date for the difference between a contractual rate of interest and the current market rate based on a notional principal amount.

The table below provides an analysis of Central's derivative portfolio and related credit exposure:

(IN THOUSANDS)	2002 Notional Amount	2002 Current Replacement Cost	2001 Notional Amount	2001 Current Replacement Cost
Asset Liability Management (ALM)				
Interest rate contracts:				
Forward rate agreements	**$ 600,000**	**$ 434**	$ 350,000	$ 470
Interest rate swaps	**6,309,586**	**40,065**	5,605,209	30,366
Equity contracts:				
Options written	**195,921**	**-**	182,212	-
Options purchased	**197,001**	**12,207**	182,317	31,121
Foreign exchange contracts:				
Spot and forward contracts	**12,991**	**-**	393	-
Total ALM	**$7,315,499**	**$ 52,706**	$ 6,320,131	$ 61,957
Yield enhancement				
Interest rate contracts:				
Swaptions	**$ 600,000**	**$ 10**	$ 550,000	$ 577
Options written	**197,500**	**-**	727,500	-
Options purchased	**242,500**	**1,783**	927,500	2,764
Exchange traded futures	**-**	**-**	200,000	86
Total yield enhancement	**$1,040,000**	**$ 1,793**	$ 2,405,000	$ 3,427
Total ALM and yield enhancement	**$8,355,499**	**$ 54,499**	$ 8,725,131	$ 65,384

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transactions, but do not represent credit or market risk exposure.

Current credit exposure is limited to the amount of loss that Central would suffer if every counterparty to which Central is exposed were to default at once, which is represented by the *current replacement cost* of all outstanding contracts in a gain position. These amounts, detailed above, do not consider the value on any collateral. Credit exposure is managed as part of the overall borrowing limits granted to customers. Negotiated over-the-counter derivatives often present greater credit exposure than exchange-traded contracts. Central attempts to limit its credit exposure by dealing with counterparties believed to be creditworthy and by requiring counterparties to enter into master netting agreements. The credit risk associated with contracts in a favourable position is eliminated by these master netting agreements, only to the extent that contracts in an unfavorable position with the same counterparty will not be settled before the favourable contracts. Central's overall exposure to credit risk on derivative instruments subject to a master netting agreement can change substantially within a short period, since it is affected by each transaction subject to the agreement.

The following table summarizes the fair value of Central's derivative portfolio at December 31, segregating derivative instruments between those that are in a favourable or receivable position from those in an unfavourable or payable position.

(IN THOUSANDS)	2002 Total Favourable Position	2002 Total Unfavourable Position	2001 Total Favourable Position	2001 Total Unfavourable Position
ALM				
Interest rate contracts:				
Forward rate agreements	**$ 434**	**$ (1,147)**	$ 470	$ (8)
Interest rate swaps	**40,065**	**(56,566)**	30,366	(48,017)
Equity contracts:				
Options written	**-**	**(12,207)**	-	(31,089)
Options purchased	**12,207**	**-**	31,121	-
Total ALM	**$ 52,706**	**$ (69,920)**	$ 61,957	$ (79,114)
Yield enhancement				
Interest rate contracts:				
Swaptions	**$ 10**	**$ (10)**	$ 577	$ (1,008)
Options written	**-**	**(1,815)**	-	(2,886)
Options purchased	**1,783**	**-**	2,764	-
Exchange traded futures	**-**	**-**	86	-
Total yield enhancement	**$ 1,793**	**$ (1,825)**	$ 3,427	$ (3,894)
Total ALM and yield enhancement	**$ 54,499**	**$ (71,745)**	$ 65,384	$ (83,008)

Fair values of over-the-counter derivative instruments are determined using pricing models that take into account current market and contractual prices of underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

The following table summarizes the notional amounts, by remaining term to maturity, of Central's derivative portfolio at December 31, 2002, segregating derivative instruments between those used by Central in its yield enhancement activities and those used to manage its exposures to currency and interest rate fluctuations as part of Central's asset liability management program.

(IN THOUSANDS)				2002	2001
	Within 1 year	1 to 5 years	Over 5 years	Total	Total
ALM					
Interest rate contracts:					
Forward rate agreements	**$ 600,000**	**$ -**	**$ -**	**$ 600,000**	$ 350,000
Interest rate swaps	**3,665,432**	**2,572,183**	**71,971**	**6,309,586**	5,605,209
Equity contracts:					
Options written	**50,893**	**145,028**	**-**	**195,921**	182,212
Options purchased	**51,968**	**145,033**	**-**	**197,001**	182,317
Foreign exchange contracts:					
Spot and forward contracts	**12,991**	**-**	**-**	**12,991**	393
Total ALM	**$ 4,381,284**	**$ 2,862,244**	**$ 71,971**	**$ 7,315,499**	$ 6,320,131
Yield enhancement					
Interest rate contracts:					
Swaptions	**$ 600,000**	**$ -**	**$ -**	**$ 600,000**	$ 550,000
Options written	**46,250**	**151,250**	**-**	**197,500**	727,500
Options purchased	**106,250**	**136,250**	**-**	**242,500**	927,500
Exchange traded futures	**-**	**-**	**-**	**-**	200,000
Total yield enhancement	**$ 752,500**	**$ 287,500**	**$ -**	**$ 1,040,000**	$ 2,405,000
Total ALM and yield enhancement	**$ 5,133,784**	**$ 3,149,744**	**$ 71,971**	**$ 8,355,499**	$ 8,725,131

19. INTEREST RATE SENSITIVITY

Central uses interest rate sensitivity and value-at-risk analysis (VaR) to monitor and manage interest rate risk.

Interest rate sensitivity measures the difference between the amount of assets and liabilities that reprice in a particular time period, plus the net off-balance sheet instruments repricing in the same period. The off-balance sheet gap represents the notional amounts of off-balance sheet financial instruments, such as interest rate swaps, options and forward rate agreements, which are used to manage interest rate risk.

Central's interest rate sensitivity position at December 31, 2002, as presented in the following table, is based upon the earlier of contractual repricing or maturity dates of assets and liabilities. The table shows the cumulative gaps at various intervals with the impact of off-balance sheet contracts shown separately.

Simulation modelling and value-at-risk analysis allows Central to review its interest rate exposure more dynamically. VaR measures the change of the present value of future cash flows for a potential change in interest rates at a specified confidence level. Simulation models take explicit account of pricing strategies, the growth, volume and mix of future business, in addition to future changes in interest rates.

(IN THOUSANDS)	Earlier of contractual repricing or maturity periods Within 3 months	3 to 6 Months	6 to 12 Months	1 to 5 years	Over 5 years	Non-rate sensitive	Total	Average Yield %
Assets								
Cash resources	$ 114,667	$ -	$ -	$ -	$ -	$ 9,561	$ 124,228	2.22
Securities	351,632	197,661	107,548	438,703	69,658	12,507	1,177,709	4.25
Loans	79,470	4,532	14,700	48,918	-	-	147,620	5.78
Other assets	-	-	-	-	-	24,274	24,274	-
	$ 545,769	$ 202,193	$ 122,248	$ 487,621	$ 69,658	$ 46,342	$ 1,473,831	4.16
Weighted average yield rate (%)	2.98	4.27	4.70	5.53	4.95			
Liabilities and members' equity								
Members' deposits	$ 713,829	$ 211,836	$ 310,541	$ 42,806	$ -	$ 149	$ 1,279,161	2.65
Obligations related to securities sold short	-	-	25,448	30,578	6,907	-	62,933	5.48
Other liabilities and dividend payable	-	-	-	-	-	27,639	27,639	-
Membership shares	-	-	-	-	-	84,874	84,874	-
Retained earnings	-	-	-	-	-	19,224	19,224	-
	$ 713,829	$ 211,836	$ 335,989	$ 73,384	$ 6,907	$ 131,886	$ 1,473,831	2.53
Weighted average yield rate (%)	2.29	3.06	3.15	4.78	6.00			
On-balance sheet gap	$(168,060)	$ (9,643)	$(213,741)	$414,237	$ 62,751	$ (85,544)	$ -	1.63
Off-balance sheet								
Receiving	3,720,199	465,000	1,426,810	1,834,092	5,986	903,412	8,355,499	3.36
Paying	(3,170,699)	(559,000)	(1,385,810)	(2,225,601)	(65,986)	(948,403)	(8,355,499)	(3.85)
Off-balance sheet gap	549,500	(94,000)	41,000	(391,509)	(60,000)	(44,991)	-	(0.49)
Weighted average yield rates (%)	2.88	3.67	3.63	4.03	5.95			
	(2.89)	(4.36)	(3.67)	(5.17)	(4.94)			
Total interest rate sensitivity gap	$ 381,440	$(103,643)	$(172,741)	$ 22,728	$ 2,751	$(130,535)	$ -	1.14
Cumulative interest rate sensitivity gap	$ 381,440	$ 277,797	$ 105,056	$127,784	$130,535	$ -	$ -	-

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value amounts of Central's financial instruments have been estimated using the valuation methods and assumptions, which are outlined below.

(a) Financial instruments valued at carrying value

The carrying values of certain on-balance sheet financial instruments are assumed to approximate their fair values, due to their short-term nature or repricing frequency. These financial instruments include cash resources, certain other assets, other liabilities, dividend payable and membership shares.

(b) Securities other than co-operative investments

The estimated fair values of securities other than co-operative investments are based on either observable market prices or discounting the expected future cash flows at prevailing market interest rates.

(c) Co-operative investments

Co-operative investments are carried at cost. As there is no available trading market for co-operative shares, fair values cannot be readily determined with sufficient reliability and the estimated fair value of securities presented in these financial statements does not include any unrealized gains or losses for co-operative investments. The following table presents the book values reflected in these financial statements, Central's share of the ownership in the companies, and Central's proportionate equity interest at the last reported fiscal year-end, December 31, 2001 (September 30, 2001 for Ethical Funds Inc. and Credential Securities Inc.), in the underlying book values reported by each of the co-operatives.

In accordance with the by-laws of The Co-operators Group, Central's equity interest in the net assets of The Co-operators Group is realizable only in the event of liquidation, dissolution or windup. Other co-operative investments are, in addition, also transferable.

(IN THOUSANDS)	2002	2001		
	Book value	**Book value**	**Ownership share**	**Equity interest**
Credit Union Central of Canada	**$ 5,329**	$ 5,284	20%	$ 5,684
Credential Securities Inc.:				
Debentures	**657**	657	7%	657
Co-operative Trust Company of Canada:				
Voting share	**3**	3	9%	3
Non voting share	**4,494**	4,494	13%	6,519
Ethical Funds Inc.:				
Subordinated shareholders loan	**300**	300	16%	300
Mutual Fund startup contributions	**809**	-	-	-
The Co-operators Group:				
Co-op Shares	**1**	1	14%	83,347
Class B Series A non-cumulative preference shares redeemable at par	**264**	264	4%	264
Class C Series A non-cumulative preference shares	**1,250**	1,250	14%	1,250
The CUMIS Group (NOTE 4)	**-**	7,676	12%	13,684
	$ 13,107	$ 19,929		$111,708

(d) Loans

For variable rate loans that reprice frequently, estimated fair values are assumed to be equal to the carrying value. The fair value of other loans is determined by discounting the expected future cash flows at prevailing market interest rates.

(e) Members' deposits

For variable rate deposits that reprice frequently, estimated fair values are assumed to be equal to the carrying value. The fair value of other deposits is determined by discounting the contractual cash flows using prevailing market interest rates.

The estimated fair value of Central's financial instruments at December 31, was as follows:

(IN THOUSANDS)	2002 Book Value	2002 Fair Value	2001 Book Value	2001 Fair Value
Assets				
Cash resources	**$ 124,228**	**$ 124,235**	$ 61,648	$ 61,654
Securities	**1,177,709**	**1,196,700**	1,233,420	1,263,363
Loans	**147,620**	**152,464**	139,139	141,921
Other assets	**22,340**	**22,340**	24,441	24,441
	$1,471,897	**$1,495,739**	$1,458,648	$1,491,379
Liabilities				
Members' deposits	**$1,279,161**	**$1,280,320**	$1,268,132	$1,272,562
Other liabilities	**22,954**	**22,954**	38,200	38,200
Obligations related to securities sold under repurchase agreements	**-**	**-**	30,079	30,079
Obligations related to securities sold short	**62,933**	**64,494**	25,900	25,897
Dividend payable	**4,685**	**4,685**	4,743	4,743
Membership shares	**84,874**	**84,874**	82,787	82,787
	$1,454,607	**$1,457,327**	$1,449,841	$1,454,268
Off-balance sheet				
ALM interest rate contracts	**$ -**	**$ (17,214)**	$ -	$ (17,189)
Equity contracts	**-**	**-**	-	32
	$ -	**$ (17,214)**	$ -	$ (17,157)

The fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties; however, some of Central's financial instruments lack an available trading market. Therefore, fair values are based on estimates using present value and other valuation techniques. These techniques are significantly affected by the assumptions concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Also, the estimated fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as fixed assets. As explained in Note 20 (c) the fair value of co-operative investments cannot be readily determined. Due to the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the financial instruments.

Interest rate sensitivity is the main cause of changes in the fair value of Central's financial instruments. The carrying values of Central's financial instruments are not adjusted to reflect unrealized increases or decreases in fair value due to interest rate changes, except for those derivative instruments entered into for yield enhancement purposes which are carried at their fair value.

21. SEGMENT DISCLOSURES

The following is an analysis of Central's income from operations and total assets by operating segment:

(IN THOUSANDS) 2002	Financial Services	Trade Services	Shared Services	Total
Financial margin	**$ 17,174**	**$ -**	**$ -**	**$ 17,174**
Non-interest revenue	**14,415**	**3,859**	**1,411**	**19,685**
Non-interest expense	**15,868**	**2,744**	**10,017**	**28,629**
Net contribution before shared service allocations	**15,721**	**1,115**	**(8,606)**	**8,230**
Shared service allocations	**(6,846)**	**(1,760)**	**8,606**	**-**
Income from ongoing operations	**$ 8,875**	**$ (645)**	**$ -**	**$ 8,230**
Amortization of fixed assets	**$ 396**	**$ 30**	**$ 631**	**$ 1,057**
Segment assets (in millions)	**$ 1,469.6**	**$ 0.1**	**$ 4.2**	**$ 1,473.8**

(IN THOUSANDS) 2001	Financial Services	Trade Services	Shared Services	Total
Financial margin	$ 21,756	$ -	$ -	$ 21,756
Non-interest revenue	14,605	4,048	1,289	19,942
Non-interest expense	14,878	3,267	10,011	28,156
Net contribution before shared service allocations	21,483	781	(8,722)	13,542
Shared service allocations	(6,985)	(1,737)	8,722	-
Income from ongoing operations	$ 14,498	$ (956)	$ -	$ 13,542
Amortization of fixed assets	$ 506	$ 27	$ 640	$ 1,173
Segment assets (in millions)	$ 1,457.3	$ 0.2	$ 3.6	$ 1,461.1

Central's reportable segments are strategic business units that offer different products and services. Central has three reportable segments: financial, trade and shared services. Financial Services provides lending, liquidity, paper clearing, and electronic banking services to member credit unions. Trade Services provides government relations, market development, communications, reference publications and regional development support to member credit unions. Shared Services includes accounting, information and technology services, corporate administration, internal human resources, general counsel and democracy and governance. Shared Services are provided internally to the other two business units at Central and are allocated based on usage.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Central evaluates performances based on the profit or loss from ongoing operations before restructuring costs, dividends and income taxes.

22. EMPLOYEE FUTURE BENEFITS

Central sponsors both a defined benefit and a defined contribution plan providing pension, other retirement and post-employment benefits to eligible employees.

Actuarial valuations of the pension plan are made to Central's benefit plans based on the market-rated discount rate. The following table presents information related to Central's benefit plans, including the amount recorded on the consolidated balance sheet and the components of net periodic benefit cost:

(IN THOUSANDS)	**2002**	2001	**2002**	2001
	Pension Benefits	**Pension Benefits**	**Other Benefits**	**Other Benefits**
Reconciliation of accrued benefit obligation				
Accrued benefit obligation, beginning of year	**$ 5,482**	$ 5,358	**$ 2,662**	$ 2,525
Service cost	**127**	150	**127**	119
Interest cost	**358**	369	**193**	180
Benefits paid – periodic	**(981)**	(482)	**(76)**	(162)
Plan amendments	**103**	87	**-**	-
Actuarial losses (gains)	**511**	-	**(854)**	
Benefit obligation, end of year	**$ 5,600**	$ 5,482	**$ 2,052**	$ 2,662

(IN THOUSANDS)	**2002**	2001	**2002**	2001
	Pension Benefits	**Pension Benefits**	**Other Benefits**	**Other Benefits**
Reconciliation of fair value of plan assets				
Fair value of plan assets, beginning of year	**$ 5,878**	$ 5,368	**$ -**	$ -
Actual return on plan assets	**(399)**	213	**-**	-
Employer contributions	**101**	700	**76**	162
Employee contributions	**66**	79	**-**	-
Benefits paid – periodic	**(981)**	(482)	**(76)**	(162)
Transfer to defined contribution plan	**-**	-	**-**	-
Fair value of plan assets, end of year	**$ 4,666**	$ 5,878	**$ -**	$ -

(IN THOUSANDS)	**2002**	2001	**2002**	2001
	Pension Benefits	**Pension Benefits**	**Other Benefits**	**Other Benefits**
Funded status				
Benefit obligation – end of year	**$ 5,600**	$ 5,482	**$ 2,052**	$ 2,662
Fair value of assets – end of year	**4,666**	5,878	**-**	-
Funded status – plan surplus/(deficit)	**(934)**	396	**(2,052)**	(2,662)
Unamortized transitional obligation	**41**	45	**2,051**	2,165
Unamortized net actuarial loss	**1,637**	289	**(854)**	-
Unamortized past service cost	**184**	87	**-**	-
Accrued benefit asset/(liability)	**$ 928**	$ 817	**$ (855)**	$ (497)
Valuation allowance	**-**	(547)	-	-
Accrued benefit asset/(liability), net of valuation allowance	**$ 928**	$ 270	**$ (855)**	$ (497)

The following table provides the amounts recognized in the consolidated balance sheet at December 31:

(IN THOUSANDS)	2002	2001	2002	2001
	Pension Benefits	**Pension Benefits**	**Other Benefits**	**Other Benefits**
Prepaid benefit costs recorded in Other assets	**$ 928**	$ 270	**$ -**	$ -
Accrued benefit liability recorded in Other liabilities	**-**	-	**(855)**	(497)
Net amount recognized	**$ 928**	$ 270	**$ (855)**	$ (497)

Central's pension plan benefit and other expenses are as follows:

(IN THOUSANDS)	2002	2001	2002	2001	2002	2001
	Defined Contribution		**Defined Benefit**		**Other Benefits**	
Service cost	**$ 352**	$ 341	**$ 60**	$ 72	**$ 127**	$ 119
Interest cost	**-**	-	**358**	369	**193**	179
Expected return on plan assets	**-**	-	**(438)**	(441)	**-**	-
Valuation allowance provided against accrued benefits assets	**-**	-	**(547)**	-	**-**	-
Amortization of net transition obligations	**-**	-	**3**	3	**114**	114
Amortization of past service costs	**-**	-	**6**	-	**-**	-
Net benefit plan expense	**$ 352**	$ 341	**$ (558)**	$ 3	**$ 434**	$ 412

The assumptions used in the measurement of Central's benefit obligation are shown in the following table:

	2002	2001	2002	2001
	Pension Benefits	**Pension Benefits**	**Other Benefits**	**Other Benefits**
Discount rate	**6.75%**	7.0%	**6.75%**	7.0%
Expected long-term rate of return on plan assets	**7.5%**	8.0%	**-**	-
Rate of compensation increase	**3.0%**	3.0%	**-**	-

For measurement purposes, a 9.5 per cent (2001 - 9.0 per cent) annual rate of increase in the per capita cost of covered health care benefits was assumed for 2002. The rate was assumed to decrease gradually to 5.0 per cent (2001 - 4.5 per cent) for 2012 and remain at that level thereafter.

FIVE YEAR FINANCIAL REVIEW

(IN THOUSANDS)	1998	1999	2000	2001	**2002**
COMPONENTS OF TOTAL ASSETS					
Cash resources	$ 71,048	$ 87,924	$ 81,164	$ 61,648	**$ 124,228**
Securities	1,039,566	1,024,020	1,249,961	1,233,420	**1,177,709**
Loans	75,916	108,562	142,452	139,139	**147,620**
Other assets	45,812	37,044	36,459	26,853	**24,274**
Total assets	$ 1,232,342	$ 1,257,550	$ 1,510,036	$1,461,060	**$1,473,831**

(IN THOUSANDS)	1998	1999	2000	2001	**2002**
COMPONENTS OF LIABILITIES & RETAINED EARNINGS					
Members' deposits	$ 1,079,560	$ 1,097,560	$ 1,243,307	$ 1,268,132	**$ 1,279,161**
External borrowings & other obligations	33,495	45,242	139,653	55,979	**62,933**
Other liabilities & dividend payable	37,026	29,568	38,734	42,943	**27,639**
Membership shares	76,119	78,731	80,245	82,787	**84,874**
Retained Earnings	6,142	6,449	8,097	11,219	**19,224**
Total liabilities & retained earnings	$ 1,232,342	$ 1,257,550	$ 1,510,036	$ 1,461,060	**$ 1,473,831**

FIVE YEAR FINANCIAL REVIEW

(IN THOUSANDS)	1998	1999	2000	2001	**2002**
FINANCIAL MARGIN					
Income					
Interest from cash resources & securities	$ 48,516	$ 61,707	$ 74,334	$ 75,306	**$ 46,568**
Interest from loans	6,275	5,353	9,897	9,685	**8,752**
Expense					
Interest expense	(43,594)	(53,775)	(68,667)	(62,273)	**(38,134)**
Provision for credit losses	(147)	(226)	(375)	(962)	**(12)**
Financial margin	$ 11,050	$ 13,059	$ 15,189	$ 21,756	**$ 17,174**

(IN THOUSANDS)	1998	1999	2000	2001	**2002**
INCOME FROM ONGOING OPERATIONS					
Income					
Financial margin	$ 11,050	$ 13,059	$ 15,189	$ 21,756	**$ 17,174**
Membership dues	3,017	3,023	3,335	3,335	**3,354**
Financial services and other income	16,893	14,042	15,263	16,607	**16,331**
Expense					
Salaries & benefits	(10,592)	(11,290)	(12,908)	(12,847)	**(12,257)**
Administrative & other	(11,628)	(11,337)	(11,820)	(10,737)	**(11,862)**
Occupancy & amortization	(5,128)	(4,729)	(4,755)	(4,572)	**(4,510)**
Income from ongoing operations	$ 3,612	$ 2,768	$ 4,304	$ 13,542	**$ 8,230**

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AND SENIOR MANAGEMENT

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Ian Russell
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