



Preparing for the **FUTURE**

Incorporated in 1950 as the
Co-operative Credit Society of Manitoba,
Winnipeg, Manitoba by Statute of the
Province of Manitoba, Canada.

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Winnipeg, Manitoba
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(204) 985-4700
www.creditunion.mb.ca

TRADE NAME

Credit Union Central of Manitoba
Registered 1977

CREDIT SOCIETY/AGENT BANK

Credit Union Central of Canada
Bank of Nova Scotia

EXTERNAL AUDITORS

PricewaterhouseCoopers LLP

SOLICITORS

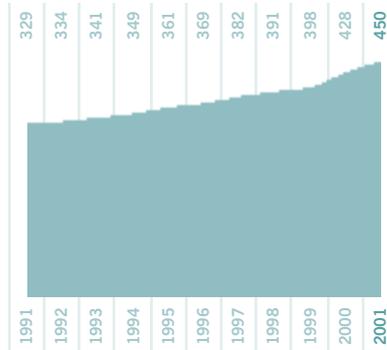
Pitblado Buchwald Asper

CONSULTING ECONOMISTS

Dr Norm Cameron
Dr John Loxley

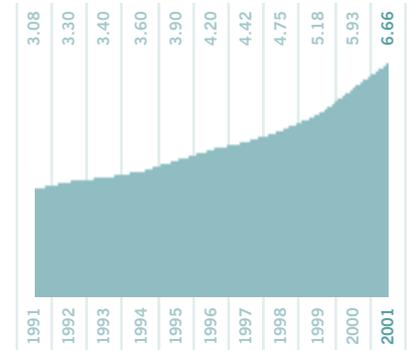


Memberships (thousands)



One Manitoban in three belongs to a credit union. As credit unions increase in size, strength and number, more and more Manitobans are seeing them as THE alternative in financial services. The growth of Manitoba credit unions is a by-product of the success of our members and their satisfaction with the full range of financial products, quality of service, excellent interest rates and the kind of commitment that member-owned organizations can deliver.

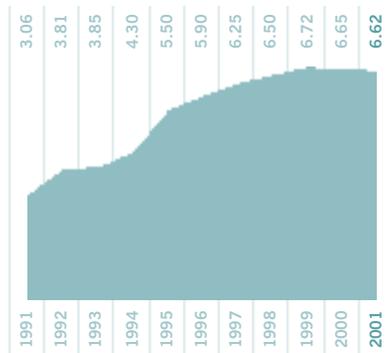
System Assets (billions of dollars)



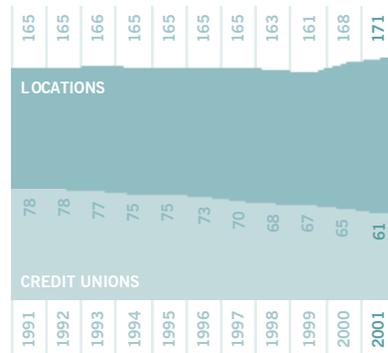
The Manitoba credit union system doubled its assets in nine years, from \$3.3 billion at year-end 1992 to \$6.66 billion at year-end 2001. Credit unions attracting more members by offering the products and services Manitobans want and need and existing members bringing more and more of their business to credit unions are but two of many things that explain credit unions' remarkable growth. The asset and equity figures underscore the continued growth in the size and fundamental strength of the Manitoba credit union system.

All figures: preliminary unaudited results.

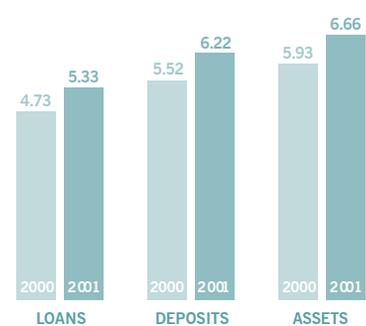
System Equity (as a percentage of assets)



Number of Credit Unions & Locations



Loans, Deposits, Assets (billions of dollars)



Year-end consolidated system equity, which includes credit unions, Central and the Credit Union Deposit Guarantee Corporation of Manitoba, decreased slightly in 2001, to 6.62% from 6.65% in 2000. The levelling off in 2001 of equity as a percentage of assets can be attributed to a number of factors, all of them positive. Among them is the difference between the rates of growth of assets (12.3%, from \$5.93 billion at year-end 2000 to \$6.66 billion at year-end 2001) and equity (11.7%, from \$395 to \$441 million). Another factor is that, as most credit unions have reached or surpassed their legislated equity targets, more and more equity is being returned to members through patronage refunds. In 2001, credit unions returned approximately \$26.2 million to members in the form of surplus shares (including \$3.7 million in cash buy-backs of previously allocated shares), share dividends, cash bonuses and rebates.

While there were 17 fewer credit unions in the province at the end of the year than there were a decade ago, there were six more locations. With announcements by credit unions, at the end of 2001 and into 2002, both trends — fewer credit unions, more locations — will continue. Amalgamation is not a new trend. Forty years ago, there were 256 credit unions in Manitoba. Earlier in the 20th century, the figure was much higher. All credit unions were small when they started and almost all were closed-bond. They came into being when people with similar needs and similar backgrounds, professions or affiliations got together to help each other. (“People Helping People Help Themselves,” a motto still in use, is as old as the 100-year history of Canadian credit unions.) As the needs of members grew, credit unions began to join together to create larger institutions that could better serve their needs. While specific reasons vary for amalgamations in the modern era, the purpose — serving members better — remains unchanged.

The dollar value of overall system loans grew by 12.7% in 2001. Growth was highest on the personal lending side, which increased \$325 million year-over-year. A higher level of awareness of credit unions, increased access to credit unions themselves and the growing number of people for whom a credit union is their primary financial institution are among the factors that explain the increase. These same factors may also explain the 12.7% increase in deposits in 2001. Given that membership grew by less than 5.2% last year, most of the increase in deposits came from within credit unions’ existing memberships. Members returning their investment dollars from equity markets to the security of GICs and other guaranteed investments would also have contributed to overall deposit growth. The growth in assets is tied primarily to deposit growth.



Credit Union Central of Manitoba

2001 ANNUAL REPORT

Learning from the PAST
Excelling in the PRESENT
Preparing for the FUTURE

MESSAGE FROM THE PRESIDENT

The role of Credit Union Central of Manitoba (CUCM) is to provide credit unions with products and services that support their activities as businesses, to provide credit unions with products and services they can offer their members, to promote the Seven Co-operative Principles and to serve as credit unions' trade association. As president, my personal focus is on working together with the CUCM board and the CEO in the best interests of credit unions.

In an organization such as ours, people need to talk about issues to find common ground; more important, perhaps, is the need to talk about issues where common ground is less apparent. In 2001 we faced both situations. By keeping the lines of communication open, however, the system was able to reach consensus on the major issues it faced in 2001.

Perhaps nowhere was consensus more evident than at the board level.

In the spring of 2001, the district structure of the CUCM board was realigned along peer grouping lines. Peer grouping allows credit unions of a similar size to speak as one voice at the provincial level. With the largest credit union working side-by-side with one of the smallest — and every other in between — we engaged in excellent discussions and were able to achieve a high level of understanding and consensus on the issues.

CUCM's management team shares this desire for consensus and understanding. Led by Garth Manness, management was very active in making sure credit unions were provided with complete information on all aspects of the issues. Together, we dealt with a number of very exciting projects over the course of the year, such as Project Sunrise and cheque imaging.

The Manitoba credit union system is working. Proof of that is found in the performance of the organizations toward which all our efforts are directed.

Despite the economic downturn of the North American economy in 2001, the year proved to be a highly successful one for Manitoba's credit unions. Combined year-over-year growth at the end of December was 12.3 per cent. Credit unions employed 130 more people by the end of 2001 than they did a year earlier — increasing total payroll by roughly \$6.5 million — another indicator of the health and vitality of Manitoba's credit unions and their importance to the provincial economy. In addition, Manitobans opened 23,000 new memberships over the course of the year.

Amalgamation activity continued in 2001. At the end of the year there were fewer credit unions but more branches than at the end of 2000. (The trend will continue in 2002 — has already started, in fact, with credit union amalgamations and new branch announcements in January and February.)

Credit unions will continue to look to the future and CUCM will continue to help them prepare for it. We all will be aided in this by the line-up of speakers at this year's annual convention. They will give us some insight into consumer trends, which will help us develop strategies; they will also give us an idea of where our competition is headed, since they are the competition. As well, a number of the resolutions going forward to the annual meeting are designed to provide more flexibility to the system as it continues to change into the future.



Russell Fast

To paraphrase an old saying, one can either embrace change or be beaten by it. From the evidence I've heard at the board level and in my conversations with leaders throughout the system, Manitoba credit unions embrace change and are excited about the future.

I would like to take this opportunity to thank my fellow board members for their dedication and effort. The number of issues that came before the board in 2001 resulted in more work and more meetings than anyone anticipated; yet through it all, the board members gave thorough and thoughtful consideration to each matter that came before them.

In a democratic system such as ours, committees play a crucial role. They are often the forums where crucial discussions take place and strategies and recommendations are developed. The work of some of those committees is described in this year's report; what isn't described, however, is the amount of time demanded of those who sit on committees. I would like to take this opportunity to thank all the directors, managers and CUCM board members who volunteered to sit on CUCM's regular board and special management committees.

On the topic of time and effort, Garth and his management team continue to impress me with the drive and energy they are able to commit to the system, week-in and week-out, in dealing with its common concerns and issues. Even more impressive is their ability to deal with the concerns and issues of the CEOs of 61 distinct credit unions, whose interests may not always be aligned with those of their peers down the road or in different parts of the province. It is an honour to work with such a dedicated team of professionals.



RUSSELL FAST
President, Board of Directors



Peter Voth · Frank Pisa · Sandy Wallace · Russell Fast · Norval Lee · Wayne McLeod · Al Morin · Alex Eggie · Glenn Karr

BOARD of DIRECTORS

DISTRICT 1
Russell Fast

DISTRICT 2
Al Morin ●

DISTRICT 3
Frank Pisa ● ◆

DISTRICT 4
Peter Voth ■ ◆

DISTRICT 5
Glenn Karr ● ◆

DISTRICT 6
Alex Eggie ● ■ ▲

DISTRICT 7
Norval Lee ■

DISTRICT 8
Sandy Wallace ■ ◆

DISTRICT 9
Wayne McLeod

EXECUTIVE COMMITTEE

PRESIDENT
Russell Fast

FIRST VICE-PRESIDENT
Frank Pisa

SECOND VICE-PRESIDENT
Wayne McLeod

● **INVESTMENT COMMITTEE**

■ **AUDIT and CONDUCT REVIEW COMMITTEES**

▲ **RESOLUTIONS and BY-LAWS COMMITTEE**

◆ **SYSTEM CREDIT LEVEL IV COMMITTEE**

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

The theme of our annual report this year is *Preparing for the Future*. Preparing for the future is an important role for a trade association such as ours and we undertook a number of activities in 2001 — on the technology front, in the regulatory environment and in our workplace practices — with that in mind. Most importantly, a great deal of our work on behalf of credit unions was motivated, in large part, by a desire to look forward.

Many of those decisions and discussions are included in this year's annual report.

- Excellent, cost-effective technology is crucial to business success in any sector of the economy, particularly in the financial services industry. The business case for Project Sunrise (page 7) — a plan to amalgamate the I/T functions of Alberta, Saskatchewan and Manitoba Centrals, CUETS and Co-op Trust into a single, separate entity — was completed and shared with all stakeholders' members in 2001. For all five partners, Sunrise is a major step in ensuring that technology continues to be a key enabler of product and service delivery to members and that it remains cost-effective.
- CUCM and credit unions seized an opportunity in 2001 to become a leader in cheque-imaging technology (page 11). In addition to providing credit unions with a more efficient means of cheque handling and processing, this technology opens doors for more shared services, to the benefit of credit union members, down the road.
- Credit unions, attuned to a changing marketplace, are prepared to make changes in order to grow in size and market share as they move forward. The overall growth of the credit union system in Manitoba was driven in large part by the efforts of credit union boards and management to provide quality programs and services to their members. In some cases, credit unions felt they could better serve their members through amalgamation. CUCM worked with several credit unions in 2001, facilitating discussions between partners and providing technical and operational integration support once credit unions' members had decided to pursue amalgamations.

2001 was the first full year of CUCM's three-year corporate planning process. In addition to having input into our plans, credit unions benefit from knowing what they can expect from CUCM in terms of products, services and costs. Based on the results of our customer satisfaction survey, credit unions appreciated the consultative process and the fact that having our plans in advance helped them with their own planning.

Tracking performance, particularly at times when an organization is moving into a new way of doing business, is critical. In 2001, CUCM chose a Balanced Scorecard approach to measuring the effectiveness of our operations. The Balanced Scorecard looks at four areas of performance: financial, customers, employees and the efficiency and effectiveness of internal processes. Credit unions completed Central's first-ever Customer (credit union) Satisfaction Survey in 2001, which told us, on the whole, that CUCM is performing well in the eyes of its member-owners. Having said that, credit unions also identified a number of areas where they are looking for improvement. CUCM's 2002–2004 plan will focus on ensuring those areas receive attention. The effectiveness and importance of the Balanced Scorecard approach to evaluation is that it should lead to improved short- and long-term performance of this organization.



Garth Manness

Being open to opportunities that will benefit our member credit unions, CUCM worked with the provincial government last year to help address the financial needs of post-secondary students. The solution we jointly developed — essentially setting up the financial side of the Manitoba Student Loan Program as a credit union — is unique to Manitoba. It is also garnering interest from other provinces.

CUCM will continue to look at opportunities to provide services to the Province — opportunities that will bring direct or indirect benefits to our member credit unions — with the caveat that we will only get involved in programs that do not require subsidization by our member-owners and through which we are not in competition with them. We will also continue to work with the Province on important issues. In 2001 we continued to promote the system’s position on delivering retail insurance, and met with officials of the Manitoba Agricultural Credit Corporation (MACC), a crown agency that provides lending services to the Manitoba agricultural community.

The strides we took as an organization throughout the year would not have been possible without our talented and dedicated staff. I would like to thank them for their tremendous efforts to provide valued products and services to credit unions and their members in 2001.

Our board underwent major changes as the result of the realignment of our district structure. The board, newcomers and veterans alike, worked together from the beginning to provide effective representation to their districts and thoughtful, deliberate direction to CUCM. I would like to extend my personal thanks to each member of the board — and President Russ Fast, in particular — for the advice and support they provided to me over the past year.

GARTH MANNESSE
Chief Executive Officer



Brian Peto · Richard Nakoneczny · Mike Safiniuk · Garth Manness · Dale Ward

**MANAGEMENT
STRUCTURE**

CHIEF EXECUTIVE OFFICER
Garth Manness

FINANCE/ADMINISTRATION
Mike Safiniuk
DIVISION MANAGER,
TREASURER
BANKING & PAYMENT SERVICES
TREASURY SERVICES
CONTROLLER

**HUMAN RESOURCES &
CONSULTING**
Brian Peto
DIVISION MANAGER
HUMAN RESOURCES
BUSINESS CONSULTING

INFORMATION TECHNOLOGY
Richard Nakoneczny
DIVISION MANAGER,
CHIEF INFORMATION OFFICER
BUSINESS DEVELOPMENT
PLANNING & CONTROL
SOFTWARE SOLUTIONS
TECHNOLOGY INFRASTRUCTURE

**RESEARCH,
COMMUNICATIONS & MARKETING**
Dale Ward
DIVISION MANAGER
RESEARCH, COMMUNICATIONS
& MARKETING
OPERATIONS MANUALS
PRINTING & SUPPLY

LENDING SERVICES
Bernard Carling
DIRECTOR
LENDING SERVICES
SYSTEM CREDIT

RESEARCH & DEVELOPMENT
Audrey Maeren
DIRECTOR
STRATEGIC MARKET
INTELLIGENCE

CORPORATE SECRETARY
Dale Ward

In the late 1990s and 2000, Credit Union Central of Manitoba devoted a great deal of time and energy to redefining how it was organized and funded and the ways in which it delivered products and services to credit unions. 2001 was a year in which there was more focus on the third element of CUCM's guiding principle — learn from the past, excel in the present and *prepare for the future*.

CREDIT UNIONS,
being its **OWNERS**
and **CLIENTS,** play a
CRITICAL role in helping
CUCM set its agenda and
formulate its **PLANS**

Credit unions, being its owners and clients, play a critical role in helping CUCM set its agenda and formulate its plans. While they were consulted directly on several issues in 2001, much of credit unions' input takes place through the nine-member CUCM board and the work of several board and management committees. Committee work always demands a great deal of time and attention from the members; 2001 was no exception.

Resolutions brought forward to the annual meeting and system decisions on major initiatives throughout the year are decided by proportional votes. Maintaining a democratic control structure that achieves an equitable balance between credit unions' contribution to and representation in the affairs of CUCM is the mandate of the **Democratic Control Review Committee (DCRC)**. In 2001, DCRC set forth guiding principles on district structure that are intended to ensure, among other things, that no credit union dominates a multi-credit union district and that there is a balance of voting power among districts. It also recommended changes to CUCM's bylaws that would provide the flexibility required to deal with changes, such as amalgamations, in the future.

After a number of issues were added to the agenda of the mid-October system budget meeting, this single-day meeting turned into one lasting two days. DCRC will examine the idea of permanently adding a semiannual general meeting to CUCM's schedule of system meetings and make a recommendation in 2002. Responding to changes implemented over the past few years to the way CUCM is funded, DCRC also proposed that credit union voting entitlement be linked to the proportion of trade costs paid by each credit union.

The **Human Resource Advisory Committee (HRAC)** works with CUCM's Human Resources & Consulting Division in its efforts to identify and develop new programs. In 2001, HRAC supported an initiative to migrate from provincially focussed training and join with others to create a credit union educational organization with a national focus, the National Learning Organization.

A COMPANY'S TRUE ASSETS ARE NOT ALWAYS APPARENT TO THE OUTSIDE OBSERVER,

and that holds true for CUCM. Dozens of charities continued to benefit from the extracurricular activities and goodwill of CUCM staff in 2001. From lunchtime fundraisers and impromptu raffles to being a major presence in outside events, CUCM staff are generous in giving of their time and money to make their community a better place to live.

The United Way of Winnipeg officially recognized that fact by honouring CUCM staff with its Quantum Leap Award in 2001, given if total workplace donations or the number of donors increase by 25 per cent over the previous year. One hundred and thirty staff participated directly to donate nearly \$23,000 to the United Way / All Charities Campaign.

And for the second year in a row, CUCM was the leader of the pack of corporate challengers in the annual Dragon Boat Races — in the only area that really mattered, in any case, the amount of money raised. Thirty-nine staff and seven friends paddled two boats to respectable times and in the process raised \$12,500 for cancer research. The CUCM teams' goal for 2002 is \$14,500.

Hidden Assets

The **Management Advisory Committee** (MAC) was created in 2001. In addition to its mandate to provide CUCM management with advice on strategic issues, MAC is also a forum for sharing ideas related to corporate planning, operational reviews and new business opportunities affecting CUCM and/or credit unions. It also acts as a sounding board and provides feedback on issues being considered by the board. Among the many issues this committee tackled in 2001 were Manuals funding, system donations and sponsorships, Third-Party Guidelines and the Cheque Imaging Project.

The **Technology Governance Council** (TGC), whose membership is based on credit unions' annual spending with the I/T Division, is also new. Early in the year, CUCM's board transferred to TGC its role as the approver and sponsor of technology-related projects funded through the Credit Union Banking System (CUBS) and system R&D pools. Shortly thereafter, the TGC formed the Business Advisory Council, made up of one member of each peer group, that will set priorities and work as a steering committee on very large I/T projects. The board delegated to TGC its authority to oversee the I/T Division, which included approving the division's budget and service pricing for 2002, as well as its 2003–2004 financial plan.

Among the many projects TGC dealt with, the most prominent was Project Sunrise.

PROJECT SUNRISE

Despite credit unions' relative lack of size compared to their main competitors, providing Manitobans with superior service, products and pricing allows credit unions to compete head-on with banks. Members have high expectations of credit unions and, particularly in delivering products and services that involve technology, the cost of living up to some of those expectations continues to rise.

At a meeting in 2000, senior I/T executives from the Western Canadian co-operative financial services sector discussed this issue and began to consider cost-sharing alternatives. More meetings followed, and they eventually took an idea — which would come to be known as Project Sunrise — back to their organizations.

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By August 2001, the Project Sunrise project team had developed a complete business case and shared it with members of their respective organizations. The business case showed the value of merging the I/T operations of Alberta, Manitoba, and Saskatchewan Centrals, Co-operative Trust Company of Canada (Co-op Trust), and Credit Union Electronic Transaction Services (CUETS) into a single technology services company to be operated as a joint venture owned by the five organizations.

In Manitoba, following an extensive consultation process with credit unions, the TGC and the board considered the business case recommendations. The TGC considered them from the perspective of ensuring the stable, long-term delivery of technology-based services to Manitoba's credit unions, while the board considered the recommendations from the perspective of enhancement to shareholder value. While outstanding issues remain, both bodies concluded that it was in the best interests of Manitoba's credit unions that CUCM be a founding member of the joint venture.

The boards of all five Sunrise organizations accepted the recommendations presented in the business case and agreed to proceed to the next stage — creation of the joint venture agreement and a transition plan. The joint venture company is expected to come into being in mid-2002 and to begin operation as an independent entity in January 2003.

A migration planning team, comprised of the senior I/T executives from the five organizations, was established. Work on the joint venture agreement and migration plan began in January 2002.

CUBS ONLINE BANKING SYSTEM

2001 was the first full year in which I/T took on full responsibility for managing, enhancing and maintaining the online banking system. Three new releases of banking system software were implemented during the year to provide additional functionality and resolve outstanding issues. The new releases delivered more meaningful functional improvement in one year — at half the cost — than had been delivered in the previous four under the software support program provided by the software vendor.

All the computer and data storage systems used to deliver online banking services to Manitoba's credit unions were replaced with advanced systems during 2001. This wholesale replacement of the data centre infrastructure was completed within five per cent of budget and with no disruption to service. The new systems extended online service hours, reduced maintenance costs, doubled the available data storage capacity and enhanced disaster recovery capabilities with no increase in unit processing fees charged to credit unions. Nearly 500,000 transactions are processed each day for CUBS credit unions and their members.

CUCM's ability to deal with a significant service disruption was considerably enhanced with the implementation of a second data centre. Under normal operations, each data centre handles half the processing load. However, either centre can handle the entire processing load.

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A very high-speed data communication network links the two data centres, making it possible to transfer operations between the two centres in the space of a few hours, as opposed to the former transition time of 48 hours.

I/T rolled out a new system that replaces paper reports with electronic ones that can be viewed, searched and sorted online. The new system reduced report preparation and distribution costs by \$75,000 per year. Once the outstanding reports are converted in 2002, savings in paper and printing will exceed \$200,000 per year.

The CU@Home Internet banking service was re-engineered to use new software. The pilot of this new software was implemented on time and on budget in December 2001 and will be

IF THE MOMENTOUS EVENTS OVER THE PAST TWELVE MONTHS ARE ANY INDICATION,

our communities are in the midst of great change. These changes touch residents of North America, Canada and Manitoba. What are the implications for the organizations that provide financial services at the local and provincial levels?

My colleagues in the polling business and I have spent the past twenty years investigating social trends. Our ongoing surveys, including those conducted on behalf of the CUCM, point to two key trends affecting financial services providers. These are the pace of change in public perceptions and the impact of technology. These same surveys point to the need for a balanced approach between providing personal service and the application of technology to financial services.

PUBLIC PERCEPTIONS

We have measured shifts in the mood of the public that coincide with turns in the economy and evolving social structures. Increasingly, however, these shifts are speeding up. With more complexities in their lives and more immediate access to information, people's sentiments are now subject to rapid swings.

This means it is vital for organizations such as credit unions to take the pulse of their constituencies and to be responsive to changing customer needs. For example, we have seen that offering responsive service and valuing relationships with customers are key factors to success in the financial services sector. Increasingly, we also see that providing sound advice and offering choices are important.

TECHNOLOGY

The silicon chip and its derivative products have accelerated some of these trends. For example, computerized banking provides faster, more accurate transactions for credit union members. While some would argue that technology dehumanizes dealings with financial services providers, others have enjoyed more responsive personal service. This is not a contradiction. Since computers now deal with more routine matters, financial professionals have more time to interact with their customers and offer advice.

Indeed, recent polling for CUCM shows greater proportions of Manitoba residents have already adopted new technologies and would be interested in a wider set of access points for their banking services.

In summary, our polling shows that public expectations and technological progress will continue to shape services offered by Manitoba credit unions. The future challenge will be to balance inevitable change with the core values that are critical to credit unions and their members.

The Challenges Ahead for Financial Institutions

by Dr. Angus Reid

rolled out to all CUBS credit unions in the first quarter of 2002. New functionality requested by credit union members will be introduced throughout 2002. More than 50,000 credit union members now use Internet banking for at least some of their banking needs.

During 2001, the list of institutions using CUBS grew to include the Government of Manitoba's Student Aid program. The portfolio of student loans is now being administered using the loans management capabilities of CUBS. Not only will the fees earned by CUCM for providing this service be used to reduce the cost of the banking system for credit unions, the one-time implementation revenue formed part of the 2001 patronage refund to CUBS credit unions.

In a joint effort to resolve the question of Manuals program funding, I/T delivered a prototype of an online version that will increase accessibility and user-friendliness for manuals users. The prototype, demonstrated at the November I/T Users' Conference, will be implemented in 2002-03.

CUCM engages two consultants to advise the system on general and provincial economic conditions.

DR. NORMAN CAMERON is a Professor of Economics at the University of Manitoba (St. John's College) in Winnipeg. He takes the pulse of capital markets trends and, along with Dr. John Loxley, provides advice to assist Central in formulating investment policies and strategies that govern the reinvestment of credit union liquidity deposits. His research interests are mainly in issues surrounding the conduct of stabilization policy by Canadian federal and provincial governments. He has done contract research for the federal and provincial governments, the Canada West Foundation, the Farm Credit Corporation and the Transport Institute of the University of Manitoba. He has served on the Executive Council of the Canadian Economics Association, on the editorial board of the *Western Economic Review* and is currently on the editorial board of *Canadian Public Policy*.

DR. JOHN LOXLEY is also a Professor of Economics at the University of Manitoba. He specializes in International Money and Finance, International Development and Community Economic Development. In addition to international work as an advisor to a number of governments, on macroeconomic reform, and several international institutions, Dr. Loxley has worked closely with the Aboriginal community in Canada, advising the Assembly of Manitoba Chiefs, the Manitoba Métis Economic Development Corporation and the Royal Commission on Aboriginal Peoples. He was also the first chairperson of Choices, A Coalition for Social Justice and chairs the board of SEED Winnipeg, a micro-financing and community economic development agency working mainly in the inner city of Winnipeg.

2002 FORECAST

Loxley and Cameron agree that the Bank of Canada's aggressive lowering of interest rates (by 350 basis points) in 2001 was appropriate. In its actions, Canada's central banker sent a very strong signal to consumers and investors, which should result in improved economic performance, particularly in the latter half of 2002. Manitoba's diverse economy, they say, provides an excellent safeguard against the dramatic economic swings to which other provinces are vulnerable, and we will continue to post better-than-average economic performance in a number of key areas — unemployment, manufacturing shipments and housing starts among them. They expect Manitoba's real growth in 2002 to be around the national average, with the unemployment rate well below the national average.

Economic Outlook

CoNetLINK TRANSACTION SWITCHING SERVICE

Manitoba credit union members used their MemberCard debit cards a record 32 million times in 2001 for ATM and Interac transactions. In 2001, the TGC approved a project to replace the current CoNetLINK software with an enhanced transaction switching package capable of handling an annual volume of more than 125 million transactions. Scheduled to be operational in mid-2003, the new system is expected to be the first joint offering of the Sunrise participants.

I/T also implemented new software, for the CoNetCASH network of 182 Manitoba credit union ATMs, that provides enhanced graphics and greater ease of use. CUCM was selected by NCR to validate the design and be the first user of this software. In the wake of its successful implementation here, NCR is implementing the software for Bank of Boston, Citibank and other major North American financial institutions.

CHEQUE CLEARING PROJECT

At virtually the same time that CUCM learned its cheque processing hardware would no longer be serviced by the manufacturer and would soon need to be replaced, the Canadian Payments Association (CPA) released a paper on the future of cheque clearing. Paper processing of cheques would be truncated within three to five years; the CPA also suggested it would eventually require direct clearers to have the capability to exchange cheque images.

CUCM struck a project group whose mandate was to implement the best solution to allow CUCM to continue to provide high-quality core cheque processing services to credit unions at a reasonable cost. Given the financial impact any solution would have on credit unions, the input and participation of credit unions was essential. The first step in sharing this information with the system occurred with a situational analysis presentation to an ad hoc committee of senior representatives from credit unions. That presentation was also delivered to MAC, TGC and Central's board.

In June, CUCM held information sessions throughout Manitoba that provided credit unions with an opportunity to understand the issues and opportunities. The project team then worked with credit union organizations from across Canada to create and deliver — to bank- and credit union-owned organizations — a group RFP for outsourcing cheque processing. While awaiting the responses, CUCM completed preliminary analyses of the costs to implement an in-house imaging solution and to upgrade existing equipment. None of the responses from third-party suppliers, as it turned out, would meet credit unions' needs. In September, the ad hoc committee assisted CUCM with the development of an assessment tool that allowed each credit union to determine the financial impact of an imaging solution. That tool was distributed to all credit unions for their use in determining their own financial business case for cheque imaging.

At the end of October a business case, based on an analysis of all available options — outsourcing, in-house imaging and conventional processing — was released to credit unions. The business case included CUCM's recommendation and, in December, 80 per cent of credit unions voted in favour of the in-house imaging recommendation.

...the imaging solution is the MOST SIGNIFICANT development in the payment services arena since CUCM became a direct clearer member of the Canadian Payments Association in 1991

According to the project leader, Banking and Payment Services director Wilson Griffiths, proceeding with the imaging solution is the most significant development in the payment services arena since CUCM became a direct clearer member of the Canadian Payments Association in 1991. It will result in significant change for credit unions and their members (accustomed to receiving their processed cheques); it also puts the Manitoba system at the leading edge in cheque processing, ready for changes that are certain to come in the future.

Implementation will take place over two years, in 2002–2003.

WEALTH MANAGEMENT STRATEGY

In 2001, CUCM acted on a board directive to take a leadership role in advocating for the coordination of co-operative system suppliers to provide a single source for a complete range of wealth management services for credit unions. CUCM, along with the Centrals of Alberta and Saskatchewan, provided guidance to three strategic partners — Credential Group, Co-operative Trust Company of Canada and The CUMIS Group — in their preparation of a comprehensive strategy.

The strategy paper, released late in the year, provides details on changes occurring in the financial services industry, how the competition is responding to those changes, and the essential elements of a strategy for credit unions to remain competitive. It also describes initiatives the partners are pursuing to support strategy development by credit unions and the commitment of the strategic partners to integrating their services with each other — and credit unions and Centrals — to the fullest extent possible. The strategy essentially asks the acknowledged experts in the field to develop and provide the tools credit unions need to develop and expand their own wealth management strategies.

SYSTEM CREDIT REVIEW

The System Credit Committee Review Process, undertaken in 2001, will also result in significant, positive changes for credit unions. This review, contracted out to a firm of consultants, was in response to concerns from many credit unions that the system credit process had not kept pace with, or responded to, the tremendous growth enjoyed by credit unions. Of particular concern was the apparent lack of objectivity and transparency in the setting of credit unions' discretionary lending limits. All credit unions in Manitoba have discretionary lending limits within which they can lend to consumer, commercial and agricultural members. Loan applications in excess of these limits require the approval of CUCM's lending professionals and/or system credit committees.

In response to the findings of this review, the CUCM board approved a number of positive changes, including the streamlining of the approval process at CUCM, which should, over time, increase credit unions' lending limits. One significant component is the implementation of a scorecard assessment approach that takes into account a credit union's financial strength, lending performance, risk management and control, lending practices and corporate governance. While this will provide greater autonomy to credit unions, the checks and balances required in the risk management process remain in place, in order to ensure members' deposits are secure.

LAW REVIEW

While CUCM is looking to the future, questions are being raised about the type of environment in which it has traditionally operated. Sixty-five amendments to the Credit Unions and Caisses Populaires Act, and 25 to the Regulations, have been proposed since the current Law Review Process commenced in 1999. While amendments to the Act have been postponed until at least 2003, CUCM began the process of developing a consensus position on changes the Province is considering. Section 165 of the Act, which sets forth the required legal functions of the organization itself, is under consideration. An October system meeting revealed that credit unions lack enough information on the proposed changes to make informed decisions. A working group of nine, representing each district, was established to identify the drivers, benefits, advantages and disadvantages associated with proposed changes; develop the final draft of the amendment; send the proposal back to credit unions for review and discussion; and devise a process to develop a majority position.

MANAGEMENT REPORT

CO-OPERATIVE
CREDIT SOCIETY OF
MANITOBA LIMITED
DECEMBER 31, 2001

The accompanying financial statements were prepared by Management, which is responsible for the integrity and objectivity of the data presented, including amounts that must necessarily be based on judgements and estimates. The financial statements were prepared in conformance with Canadian generally accepted accounting principles, and in situations where acceptable alternative accounting principles exist, Management selected the method that was thought to be most appropriate in the circumstances. Financial information appearing throughout this Annual Report is consistent with the financial statements.

In discharging its responsibilities for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, Management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

Ultimate responsibility for financial reporting to our members rests with the Board of Directors. The Audit Committee, which is appointed by the Board of Directors, meets at least twice a year to review, with Management and the appointed external auditors, the scope of the annual audit and the final audited financial statements.

The financial statements have been examined by PricewaterhouseCoopers LLP, whose report expresses their opinion with respect to the fairness of the presentation of the statements.



GARTH MANNESSE
Chief Executive Officer



MIKE SAFINIUK
Treasurer

AUDITOR'S REPORT

To the Members of Co-operative Credit Society of Manitoba Limited

We have audited the balance sheet of **Co-operative Credit Society of Manitoba Limited** as at December 31, 2001 and the statements of operations and reserves and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit.

CO-OPERATIVE
CREDIT SOCIETY OF
MANITOBA LIMITED
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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 financial statements present fairly, in all material respects, the financial position of the Society as at December 31, 2001 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.



Chartered Accountants

Winnipeg, Manitoba
February 1, 2002

FINANCIAL STATEMENTS

BALANCE SHEET As at December 31, 2001

| in thousands of dollars | 2001 | 2000 |
|------------------------------|------------------|----------------|
| ASSETS | | |
| Liquidity pool (note 2) | 1,049,644 | 937,489 |
| Intermediation pool (note 3) | 40,151 | 50,190 |
| Service related (note 4) | 13,907 | 10,330 |
| | <u>1,103,702</u> | <u>998,009</u> |
| LIABILITIES | | |
| Members' deposits | 1,038,615 | 938,601 |
| Accounts payable | 5,424 | 6,379 |
| | <u>1,044,039</u> | <u>944,980</u> |
| MEMBERS' EQUITY | | |
| Share capital (note 5) | 57,537 | 51,238 |
| Reserves | 2,126 | 1,791 |
| | <u>59,663</u> | <u>53,029</u> |
| | <u>1,103,702</u> | <u>998,009</u> |

CO-OPERATIVE
CREDIT SOCIETY OF
MANITOBA LIMITED
DECEMBER 31, 2001

Approved by the
Board of Directors


Director


Director

STATEMENT OF OPERATIONS AND RESERVES For the year ended December 31, 2001

| in thousands of dollars | 2001 | 2000 |
|---|---------------|---------------|
| Financial revenue | | |
| Liquidity pool | 54,790 | 52,717 |
| Intermediation pool | 1,613 | 2,220 |
| | <u>56,403</u> | <u>54,937</u> |
| Cost of funds | <u>51,233</u> | <u>50,664</u> |
| Financial margin | 5,170 | 4,273 |
| Net recoveries from operations (note 6) | 139 | 1,487 |
| Income before credit union patronage rebates | <u>5,309</u> | <u>5,760</u> |
| Credit union patronage rebates | | |
| Financial margin | 1,406 | 1,234 |
| On-line banking | 490 | 1,351 |
| | <u>1,896</u> | <u>2,585</u> |
| Income before income taxes | 3,413 | 3,175 |
| Provision for income taxes (note 7) | 669 | 678 |
| Net income for the year | <u>2,744</u> | <u>2,497</u> |
| Reserves – Beginning of year | 1,791 | 1,749 |
| | <u>4,535</u> | <u>4,246</u> |
| Dividends – net of related income tax savings of \$570 (2000 – \$619) | (2,409) | (2,455) |
| Reserves – End of year | <u>2,126</u> | <u>1,791</u> |

STATEMENT OF CASH FLOWS For the year ended December 31, 2001

| in thousands of dollars | 2001 | 2000 |
|--|------------------|------------------|
| Cash provided by (used in) | | |
| Operating activities | | |
| Net income for the year | 2,744 | 2,497 |
| Items not affecting cash | | |
| Depreciation and amortization | 991 | 489 |
| Provision for income taxes | 669 | 678 |
| | <u>4,404</u> | <u>3,664</u> |
| Net change in receivables, prepaid expenses, inventories and accounts payable | (1,210) | 3,464 |
| | <u>3,194</u> | <u>7,128</u> |
| Investing activities | | |
| (Increase) decrease in liquidity pool securities maturing after three months | 17,854 | (103,671) |
| (Increase) decrease in intermediation pool | 10,039 | (11,301) |
| Acquisition of capital assets – net of disposals | (4,412) | (442) |
| | <u>23,481</u> | <u>(115,414)</u> |
| Financing activities | | |
| Increase in members' deposits | 100,014 | 200,759 |
| Increased share capital – net (note 5) | 6,299 | — |
| Dividends | (2,979) | (3,074) |
| | <u>103,334</u> | <u>197,685</u> |
| Increase in cash and cash equivalents | 130,009 | 89,399 |
| Cash and cash equivalents – Beginning of year | 414,215 | 324,816 |
| Cash and cash equivalents – End of year | <u>544,224</u> | <u>414,215</u> |
| Cash and cash equivalents consist of | | |
| Cash | 8,307 | (4,708) |
| Liquidity pool securities maturing within three months | 535,917 | 418,923 |
| | <u>544,224</u> | <u>414,215</u> |
| Liquidity pool consists of | | |
| Cash and cash equivalents, as above | 544,224 | 414,215 |
| Liquidity pool securities maturing after three months | 505,420 | 523,274 |
| | <u>1,049,644</u> | <u>937,489</u> |

CO-OPERATIVE
CREDIT SOCIETY OF
MANITOBA LIMITED
DECEMBER 31, 2001

NOTES TO FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the Co-operative Credit Associations Act, which requires them to be in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada. The significant accounting policies are summarized below:

Valuation

Assets are carried at cost or amortized cost. Accrued interest receivable is included with the corresponding principal balance.

Depreciation and amortization

Depreciation and amortization are recorded annually by the Society at rates and on bases determined to charge the cost of capital assets over their estimated useful lives using the straight-line method as follows:

| | |
|-------------------------|--------------|
| Furniture and equipment | 3 to 5 years |
| Leasehold improvements | 5 years |

Income taxes

The Society follows the liability method of accounting for income taxes. Under the liability method, future income taxes result from temporary differences between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. The future income tax asset is computed at the tax rates that are expected to apply when the assets and liabilities are ultimately settled.

CO-OPERATIVE
CREDIT SOCIETY OF
MANITOBA LIMITED
DECEMBER 31, 2001

2 LIQUIDITY POOL

| in thousands of dollars | 2001 | 2000 |
|--|------------------|----------------|
| Cash | 8,307 | (4,708) |
| Securities | | |
| Governments | 59,084 | 18,805 |
| Banks and trust companies | 440,113 | 332,783 |
| Corporate | 543,140 | 591,609 |
| Non-specific provision for doubtful securities | (1,000) | (1,000) |
| | <u>1,049,644</u> | <u>937,489</u> |

The Society serves as a source of liquidity for member credit unions. As such, all of the assets in the liquidity pool are readily convertible into cash.

3 INTERMEDIATION POOL

| in thousands of dollars | 2001 | 2000 |
|---------------------------------------|---------------|---------------|
| Members' loans and investments | | |
| Credit unions | 29,766 | 33,131 |
| Co-operatives | 1,729 | 8,318 |
| Shares | | |
| Credit Union Central of Canada | 3,177 | 3,132 |
| Co-operatives | 4,447 | 4,446 |
| Mortgage and loan investments | 1,032 | 1,163 |
| | <u>40,151</u> | <u>50,190</u> |

4 SERVICE RELATED ASSETS

| in thousands of dollars | 2001 | 2000 |
|---|----------------------------|----------------------------|
| Furniture, equipment and leasehold improvements | 10,458 | 6,337 |
| Accumulated depreciation and amortization | (5,274) | (4,574) |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| | 5,184 | 1,763 |
| Receivables | 6,897 | 7,643 |
| Prepaid expenses and inventories | 1,390 | 389 |
| Future income taxes (note 7) | 436 | 535 |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| | 13,907 | 10,330 |

Receivables include amounts recoverable from credit unions of \$2,398,000 (2000 – \$4,127,000) that have been prepaid on account of certain interest rate swap agreements with counterparties (note 10(c)).

Depreciation and amortization recorded during the year was \$991,000 (2000 – \$489,000).

5 SHARE CAPITAL

Through amendments to its articles of incorporation and by-laws, members approved changes to the Society's share capital at its 2001 annual meeting. The effect of the amendments was:

- a. To create two classes of shares referred to as Class I and Class II.
- b. To require all members to hold Class I shares.
- c. To rename existing common shares as Class I shares.

Authorized

Share capital consists of an unlimited number of Class I and II shares, to be issued at \$5 each.

Membership

Every member of the Society is required to own a minimum of two Class I shares.

Pursuant to the Society's by-laws, Manitoba credit unions maintain investments in both classes of shares proportionate to their statutory (Class I) and excess (Class II) liquidity deposits held by the Society.

Rights and Privileges

At the discretion of the Society's Directors, dividends may be declared and paid to either or both classes of shares. On any return of capital, the holders of Class II shares have a preferential claim on the Society's assets.

Issued and outstanding

| in thousands of dollars | 2001 | 2000 |
|-------------------------|----------------------------|----------------------------|
| Class I | | |
| Manitoba credit unions | 24,000 | 50,000 |
| Co-operatives | 1,237 | 1,238 |
| Class II | | |
| Manitoba credit unions | 32,300 | — |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| | 57,537 | 51,238 |

Subsequent to the Society's annual meeting held in 2001, \$26,000,000 of Class I shares were redeemed and \$32,300,000 of Class II shares were issued for cash consideration.

CO-OPERATIVE
CREDIT SOCIETY OF
MANITOBA LIMITED
DECEMBER 31, 2001

NOTES TO FINANCIAL STATEMENTS

6 NET RECOVERIES FROM OPERATIONS

| in thousands of dollars | 2001 | 2000 |
|---|---------------|---------------|
| Recoveries from members | | |
| Computer services | | |
| On-line banking system | 9,754 | 9,428 |
| Shared cash and direct payment systems | 3,262 | 2,840 |
| Clearing fees and other financial charges | 3,828 | 3,558 |
| Basic assessment | 3,125 | 3,769 |
| Fee for service | 2,395 | 2,104 |
| Human Resources services | 558 | 524 |
| Liquidity management assessment | 550 | 552 |
| Printing and supplies – net of cost of \$1,067 (2000 – \$1,130) | 412 | 460 |
| The Credit Union Deposit Guarantee Corporation fees | 240 | 215 |
| | <u>24,124</u> | <u>23,450</u> |
| Operating expenses | | |
| Personnel | 10,350 | 10,021 |
| National shared costs | 2,695 | 2,375 |
| Hardware and software maintenance | 1,941 | 1,854 |
| Depreciation, amortization and leasing | 1,643 | 873 |
| Telephone and computer telecommunications | 1,386 | 1,186 |
| Professional services | 1,166 | 1,146 |
| Printing and supplies | 860 | 901 |
| Occupancy | 837 | 833 |
| Settlement costs | 718 | 576 |
| Provision for variable pay | 566 | — |
| General | 479 | 476 |
| Co-operative democracy | 394 | 351 |
| Travel | 311 | 328 |
| Disaster avoidance/recovery costs | 207 | 169 |
| Dues, grants and memberships | 123 | 195 |
| Financing costs | 111 | 109 |
| Postage and delivery | 106 | 118 |
| Insurance and bonding | 92 | 72 |
| Advertising | — | 380 |
| | <u>23,985</u> | <u>21,963</u> |
| Net recoveries from operations | <u>139</u> | <u>1,487</u> |

CO-OPERATIVE
CREDIT SOCIETY OF
MANITOBA LIMITED
DECEMBER 31, 2001

7 PROVISION FOR INCOME TAXES

The Society provides for income taxes at a rate of 19.1% (2000 – 20.1%) as determined below:

| shown as % | 2001 | 2000 |
|--|-------------|-------------|
| Federal base rate | 38.0 | 38.0 |
| Federal abatement | (10.0) | (10.0) |
| Additional deduction for credit unions | (16.0) | (16.0) |
| Federal surtax | 1.1 | 1.1 |
| Net federal tax rate | 13.1 | 13.1 |
| Provincial tax rate | 6.0 | 7.0 |
| | <u>19.1</u> | <u>20.1</u> |

The Society provides for income taxes using the above rates as follows:

| in thousands of dollars | 2001 | 2000 |
|------------------------------------|--------------|--------------|
| Income before income taxes | 3,413 | 3,175 |
| Non-taxable items | | |
| Dividends on Co-operative shares | (210) | (221) |
| All other adjustments | 142 | 128 |
| Accounting income for tax purposes | <u>3,345</u> | <u>3,082</u> |

CO-OPERATIVE
CREDIT SOCIETY OF
MANITOBA LIMITED
DECEMBER 31, 2001

| in thousands of dollars | 2001 | 2000 |
|--|------------|------------|
| Expected provision for income taxes at statutory rates | 639 | 619 |
| Effect of reduction in future tax rates upon the provision | 28 | 28 |
| Other adjustments – net | 2 | 31 |
| Provision for income taxes, including future taxes of \$99 (2000 – \$59) | <u>669</u> | <u>678</u> |

The significant components of the future tax asset in the balance sheet are:

| in thousands of dollars | 2001 | 2000 |
|---|------------|------------|
| Temporary differences between the net book value of certain expenditures for accounting purposes and tax purposes | 197 | 239 |
| Non-specific provision for doubtful securities | 181 | 191 |
| Provisions for expenditure not deductible for income tax purposes until paid | 58 | 105 |
| | <u>436</u> | <u>535</u> |

8 DIRECTORS' EXPENSES

Directors received remuneration of \$114,000 (2000 – \$104,000) and expense reimbursement of \$83,000 (2000 – \$86,000).

9 COMMITMENTS

The Society has a ten year lease for the rental of office space. The lease expires in 2004 and provides for an average annual payment of approximately \$545,000.

The Society has entered into leasing arrangements for up to three years for technology assets including switch hardware and other computing equipment at an annual average cost of \$204,000.

NOTES TO FINANCIAL STATEMENTS

10 ASSET/LIABILITY MANAGEMENT

The Society has established policies and related reporting to manage its exposure to fluctuating interest rates (referred to as interest rate risk) and to movements in foreign exchange rates (referred to as foreign exchange risk). In the absence of these policies, the Society's earnings would be impacted, either positively or negatively, as interest and exchange rates change. Additionally, the Society is potentially exposed to financial loss resulting from the failure of a party to fully honour its financial or contractual obligations (referred to as credit risk).

a) Interest rate risk

The Society's major source of income is financial margin, the difference between interest earned on investments and member loans and interest paid on member deposits.

The objective of "interest rate sensitivity" management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to the term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates. The following summarized schedule shows the Society's sensitivity to interest rate changes:

CO-OPERATIVE
CREDIT SOCIETY OF
MANITOBA LIMITED
DECEMBER 31, 2001

| INTEREST REPRICING PERIOD | INTEREST SENSITIVE | NOT INTEREST SENSITIVE | SWAPS | | NET ASSET/LIABILITY MIS-MATCH |
|------------------------------|-----------------------|---------------------------|-----------|-----------|-------------------------------------|
| | | | RECEIVING | PAYING | |
| 0 to 6 months | (413,108) | (1,283) | 672,243 | (249,679) | 8,173 |
| 6 to 12 months | 112,489 | (13,323) | — | (112,851) | (13,685) |
| 1 to 2 years | 150,411 | (11,449) | — | (133,944) | 5,018 |
| 2 to 3 years | 154,228 | (11,607) | — | (148,727) | (6,106) |
| 3 to 4 years | 52,335 | (11,935) | — | (27,042) | 13,358 |
| 4 to 5 years | 3,742 | (10,500) | — | — | (6,758) |
| Over 5 years | 190 | (190) | — | — | — |
| | 60,287 | (60,287) | 672,243 | (672,243) | — |

The average interest rate for interest-bearing assets is 5.33% and for interest-bearing liabilities is 4.98%.

A significant amount of investments and deposits can be sold or redeemed before maturity, but no adjustment has been made for sales or redemptions that may occur. Amounts that are not interest sensitive have been categorized in repricing periods that correspond to the Society's asset/liability deployment policies and investment strategies.

A positive asset/liability mis-match for a given interest repricing period (period gap) indicates that a rise in interest rates would increase the Society's financial margin effective with that period while a fall in interest rates would decrease the financial margin. If the period gap for a given repricing period is negative, then an increase or decrease would have the opposite effect from a positive gap. The Society has established a policy to limit the mis-match in each period to prevent significant financial margin fluctuations.

The Society enters into interest rate swap agreements (swaps) for the purpose of managing interest rate risk. A swap is a contractual agreement between the Society and a counter party involving the exchange of fixed rate and floating rate payments structured in a manner to reduce the extent of the Society's interest rate risk to a level which management believes is reasonable. The Society does not enter into swaps for speculative purposes.

The notional principal amount of swaps, reflected in the above schedule and aggregating \$672,243,000, is not indicative of the underlying credit risk that would be incurred only in the event of failure by the counter party to honour its contractual obligations. The counter party for all swaps is restricted to the major chartered banks and it is management's assessment that an event of failure is remote. The credit risk, which is represented by the cost to replace the swap agreements, is estimated to be negligible at December 31, 2001.

b) Foreign exchange risk

The Society has assets and liabilities denominated in U.S. dollars. To minimize exposure to foreign exchange risk, the Society's policies stipulate that the net U.S. dollar asset/liability position is limited to no more than U.S. \$500,000.

The Society enters into foreign exchange forward rate agreements for the purpose of ensuring that its policy limitation is not exceeded. A foreign exchange forward rate agreement is a contractual arrangement between the Society and a counter party involving the commitment of a purchase or sale of U.S. dollar funds to settle on a future date at a predetermined exchange rate. The Society does not enter into forward rate agreements for speculative purposes.

As at December 31, 2001, the Society met its policy limitation after inclusion of foreign exchange forward rate agreements aggregating U.S. \$845,000. This amount is not indicative of the underlying credit risk. The credit risk is represented by the cost to replace the contracts which is estimated to be negligible at December 31, 2001. This cost would be incurred only in the event of failure by the counter party to honour its contractual obligations. It is management's assessment that an event of failure is remote and that the associated credit risk is insignificant.

c) Financial intermediation

The Society acts as an intermediary for members in the management of interest rate risk and foreign exchange risk. In this role, the Society, on behalf of its members, has entered into interest rate swap agreements whose notional values aggregate \$110,049,360 and foreign exchange forward rate agreements aggregating U.S. \$2,350,000. The credit risk associated with these agreements is the responsibility of the Society's members.

CO-OPERATIVE
CREDIT SOCIETY OF
MANITOBA LIMITED
DECEMBER 31, 2001

11 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The following table presents the fair values of all financial assets and liabilities of the Society. Differences between book value and fair value are caused by differences between the interest rate obtained at the time of the original investment or deposit and the current rate for the same product. Investments and deposits that are priced with variable rates have a fair value equal to book value, as they are priced at current interest rates.

While fair value amounts are designed to represent estimates of the amounts at which assets and liabilities could be exchanged in current transactions between willing parties, the Society normally holds all of its fixed term investments and deposits to their maturity date. Consequently, the fair values presented are estimates derived by taking into account changes in the market interest rates, and may not be indicative of net realizable value.

The excess of the fair value of assets over book values represents an unrealized gain to the Society. The excess of the fair value of liabilities and off balance sheet financial instruments over book values represents an unrealized loss to the Society.

| in thousands of dollars | BOOK VALUE | FAIR VALUE | FAIR VALUE GREATER THAN BOOK VALUE |
|--|------------|------------|---------------------------------------|
| Assets | | | |
| Liquidity pool | 1,049,644 | 1,068,597 | 18,953 |
| Intermediation pool | 40,151 | 40,211 | 60 |
| Liabilities | | | |
| Member deposits | 1,038,615 | 1,047,905 | 9,290 |
| Off balance sheet financial instruments | | | |
| Net swap agreements | — | 9,763 | 9,763 |

12 COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the financial statement presentation adopted in the current year.

Dedicated to serving Manitoba

*The strength of the
Manitoba credit union
system is people.*

*Please join us in
congratulating these
individuals who have
worked and volunteered
to make their credit
unions and the system
what they are today.*

*In 2001, three credit
unions celebrated their
60th anniversaries:
Roblin, Steinbach and
Boissevain (which
amalgamated with
Turtle Mountain Credit
Union in October).*

*Celebrating 50 years
were Safeway and
Transcona credit unions.*

25–29 YEARS

Don Clarke Vice-Chair, Hartney Credit Union
Leona Falk Special Member Services Supervisor, Altona Credit Union
Anne Frykas Member Services Supervisor, Rorketon & District Credit Union
Sandra Hart Member Services Supervisor, Hy-Line Credit Union
Janice Hicks Account Manager, Assiniboine Credit Union
Wayne Hoard Manuals Supervisor, CUCM
Edgar Hudson Director, Rorketon & District Credit Union
Doris Hurley Loans Manager, Transcona Credit Union
Susan Iwanski Marketing Coordinator, Hy-Line Credit Union
Melvin H. Klassen President, Altona Credit Union
Hank Monita Vice-President Lending Services, Westoba Credit Union
Janine Oliver Chief Operating Officer, Buffalo Credit Union
Bill Penner Loans Officer—Agriculture, Altona Credit Union
Garry Perrault Banking Systems Support Specialist II, CUCM
Tina Quiring Loans Officer, Crosstown Credit Union
Lorraine Rivard Accounting Assistant, Hy-Line Credit Union
Denise Schurko Loans Officer, Rorketon & District Credit Union
Sheryl Shaw EFT Analyst, CUCM
Terry Smith Director/President, Rorketon & District Credit Union
Sylvia Swereda Member Services Representative, Vanguard Credit Union
Carol Taylor Member Services Manager, Minnedosa Credit Union
Dale Thompson Director, Technology Infrastructure, CUCM
Judy Wahl Head Teller, Agassiz Credit Union
Dale Ward Corporate Secretary, RCM Division Manager, CUCM

30–34 YEARS

Fran Derksen Manager, Finance & Administration, Altona Credit Union
Arnold Foidart Vice-President Technology, Westoba Credit Union
Maureen Grigat Banking Clerk II—Tracing, CUCM
Craig E. Hughson General Manager, Eriksdale Credit Union
Elizabeth Kehler Data Service Consultant, Niverville Credit Union
Wayne McLeod Chief Executive Officer, Westoba Credit Union
Shirley Watson Loans Officer II, Westoba Credit Union

35–39 YEARS

George Sawatzky Manager, Niverville Credit Union
Alvin Wiebe Assistant Manager, Niverville Credit Union

DISTRICT 1

Steinbach CREDIT UNION

DISTRICT 2

Assiniboine CREDIT UNION

DISTRICT 3

Cambrian CREDIT UNION

DISTRICT 4

Alliance CREDIT UNION • Belgian CREDIT UNION • Buffalo CREDIT UNION • Civic CREDIT UNION
Decibel CREDIT UNION • Holy Spirit CREDIT UNION • Me-Dian CREDIT UNION
North Winnipeg CREDIT UNION • Safeway CREDIT UNION • Transcona CREDIT UNION
Winnipeg Police CREDIT UNION

DISTRICT 5

Astra CREDIT UNION • Carpathia CREDIT UNION • Crosstown CREDIT UNION • Hy-Line CREDIT UNION

DISTRICT 6

Arborg CREDIT UNION • Dauphin Plains CREDIT UNION • Eriksdale CREDIT UNION
Ethelbert CREDIT UNION • Flin Flon CREDIT UNION • Gimli CREDIT UNION • Grandview CREDIT UNION
Riverton CREDIT UNION • Roblin CREDIT UNION • Rorketon & District CREDIT UNION
Swan Valley CREDIT UNION

DISTRICT 7

Amaranth CREDIT UNION • Austin CREDIT UNION • Beautiful Plains CREDIT UNION
Crocus CREDIT UNION • Cypress River CREDIT UNION • Erickson CREDIT UNION • Hartney CREDIT UNION
Minnedosa CREDIT UNION • Portage CREDIT UNION • Sandy Lake CREDIT UNION
Strathelair CREDIT UNION • Tiger Hills CREDIT UNION • Turtle Mountain CREDIT UNION
Virden CREDIT UNION

DISTRICT 8

Agassiz CREDIT UNION • Dufferin CREDIT UNION • Gretna CREDIT UNION • Grunthal CREDIT UNION
Lowe Farm CREDIT UNION • Niverville CREDIT UNION • Oak Bank CREDIT UNION
Plum Coulee CREDIT UNION • Rosenort CREDIT UNION • Sanford CREDIT UNION • Sprague CREDIT UNION
Starbuck CREDIT UNION • Vita CREDIT UNION

DISTRICT 9

Altona CREDIT UNION • South Interlake CREDIT UNION • Vanguard CREDIT UNION • Westoba CREDIT UNION
Winkler CREDIT UNION

Manitoba Credit Unions

Community Credit Union was formed on January 1, 2002 with the amalgamation of Grunthal, Sprague and Vita credit unions.

Gretna, Plum Coulee and Winkler credit unions amalgamated January 1, 2002 to form Heartland Credit Union.

