



# Surrey Metro Savings Credit Union (SMS:TSX)

## THE COMPANY

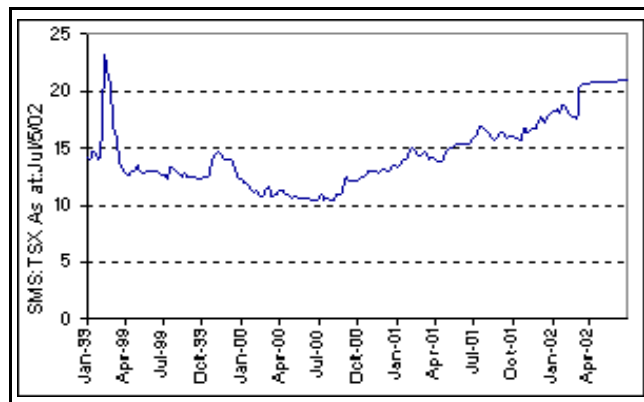
Incorporated in 1947, Surrey Metro Savings Credit Union has grown to become the second largest credit union in Canada with more than \$2.2 billion in assets. Surrey Metro services the Fraser Valley and suburban Vancouver regions of British Columbia by offering a wide range of retail banking services. Its operations include 17 retail branches, 31 ABMs, a centralized call centre and a Commercial Lending Unit. Surrey Metro also owns Metro Insurance Services Ltd., which includes 5 insurance offices and Shoreline Projects Ltd., a provider of mezzanine financing.

## FINANCIAL DATA

	1999	2000	2001e
Earnings per Share (\$)	1.50	2.29*	2.10
Price to Earnings (times)	7.3	4.8	5.2
Dividend (\$)	0.40	0.40	0.40
Dividend Yield (%)	3.64	3.64	3.64
Book Value (\$)	15.43	17.94	19.64
Price to Book Value (times)	0.71	0.61	0.56

\* before extraordinary gain of \$0.29

## HISTORICAL SHARE PRICES



## WHY ABC FUNDS BOUGHT SURREY METRO

The constant hunt for undervalued, out-of-favour value stocks is always a challenging one. We feel that the purchase of Surrey Metro Savings Credit Union concluded another successful value search. Currently trading at \$11, the stock price of Surrey Metro experienced considerable volatility in 1999 with the unsuccessful takeover by Canada Trust. Being an illiquid, small capitalization stock that is under-followed by investment analysts has also hindered Surrey's stock price performance. In spite of its present price weakness, we feel that Surrey Metro is a fundamentally attractive company. Trading at a 30% discount to its \$15.87 book value, paying out a \$0.40 dividend, yielding 3.6% and having just put in place a 5% or 272,732-share buyback, Surrey Metro is overwhelmingly undervalued.

Surrey Metro's management team headed up by President and CEO, Lloyd Craig has proven to be very capable and proactive. In February 1999, Surrey Metro's stock price shot up from \$14.50 to a high of \$24.00 on a proposed takeover by Canada Trust. The subsequent news that the merger would not take place drove the company's share price back down to below pre-takeover levels. Confident that management would find an alternative way to unveil shareholder value, we took the opportunity to purchase Surrey Metro at depressed levels. Our confidence in management was warranted in October when merger discussions with Richmond Savings Credit Union and Gulf Fraser Credit Union began. These discussions entailed Surrey Metro going private to form a mega credit union with assets of over \$4.5 billion. But after extensive due diligence Surrey Metro determined that this deal was not in the best interest of its members or shareholders. Two disappointments in a year have, unfortunately, taken a toll on Surrey's share price.

In the meantime, the company is continuing to explore opportunities to complement its already strong business. Credit unions, including Surrey Metro, have a competitive advantage over banks on price but not on breadth of service. This situation has prompted credit unions to consider merging and improving services in order to compete with the large product range of banks. Surrey Metro is continuing its emphasis on electronic and telephone transactions as it's prime delivery channel, away from face-to-face banking. Surrey Metro already has a 24-hour call centre, which is a strong business driver compared to other smaller credit unions.

Supporting management actions is Surrey Metro's relatively strong balance sheet and excellent geographic base. Surrey has a low-risk portfolio with over 74% of loans invested in residential first mortgages and 80% of assets funded by retail deposits. Surrey Metro's main region of operation is the Fraser Valley which has an estimated population of 750,000 and is one of the fastest growing regions in Canada with growth rate of over 15% over the past 5 years.

All in all, Surrey Metro is a well-run company. Future growth will be generated from superior customer service, new financial products and consolidation. We believe that Surrey Metro has the competitive advantage to be a major consolidator or alternatively a merger/takeover candidate in the dynamic financial service environment.

## UPDATES

Surrey Metro Savings Credit Union reported improved earnings last quarter. Second quarter 2000 earnings were \$0.42 versus \$0.37 before merger proposal costs in the second quarter of 1999. The growth in loans by \$28.3 million and the increase of \$1.4 million in deposits enhanced Surrey Metro's results. Surrey Metro remains an excellent value play trading at 28% below its year-end 2000 estimated book value of \$17. Surrey also carries a 3.2% dividend yield. The company continues to buy back its stock. So far this year Surrey has purchased 145,300 shares.

In spite of its low price Surrey Metro's stock has not generated much interest from investment analysts. To his credit, President and CEO, Lloyd Craig continues to implement new ideas and explore opportunities. Currently the company is involved in a unique joint venture with four large credit unions. The four credit unions are building an Internet portal and hope to sell down their exposure once it is up and running in early 2001.

The consolidation trend in the industry continues. Most recently Richmond Savings Credit Union and Pacific Coast Credit Union announced plans to merge. While in 1999 Surrey Metro was party to two unsuccessful merger proposals we feel that this will not dissuade Surrey from exploring future opportunities. But, after 1999's exhausting merger discussions the company is instead using the present period to improve its business operations through improvements such as greater efficiencies, implementation of cost cutting and tax planning.

With the stock prices of the big six banks on a swing upward, Surrey Metro shares remain an overlooked value opportunity in the financial sector. While waiting for the rest of the market to recognize its extraordinary potential, Surrey Metro remains a well-run financial institution, which could become an active consolidator or merger/takeover candidate in the future.

ABC Funds  
September 22, 2000

---

Recently, much to our pleasure, Surrey Metro reported record earnings for the year, exceeding our expectations. Actual 2000 earnings per share were \$2.29 (excluding extraordinary gains) compared to \$1.77 (before merger costs) in 1999. In addition, Surrey Metro's book value increased 16% from the previous year to \$17.94. While these stellar results are a reflection of the strong and efficient business that CEO Lloyd Craig has built, Surrey Metro's exceptionally low tax rate of 20% was also key to its record results. Surrey was able to decrease its tax rate from 40% to 20% due to a wrinkle in credit union tax law. Surrey Metro's share buyback plan expired on February 27th. After the company evaluates its capital expenditure needs for 2001, we expect Surrey to eventually reinstate its share buyback.

As promised, Surrey Metro stepped away from any potential merger/acquisition talks in 2000 in order to focus on its core business. This policy has produced rewarding results. We believe that Surrey is on track for a solid 2001. While we do not discount the possibility of merger/acquisition discussions developing once again, we are not "banking" on this. We continue to believe that the stock is cheap for fundamental reasons.

ABC Funds  
March 2, 2001

---

Surrey Metro's first quarter 2001 results paired with its remarkable year-end results are a reflection of a continuously stable and strong company. Earnings per share for the first three months of 2001 were \$0.45 compared to \$0.41 for the same period last year.

While Surrey's share price has appreciated to the \$15 level, we feel that its solid fundamentals and low valuations continue to label this stock as a compelling value play. As expected, Surrey recently announced a share buyback plan of 325,000 shares representing 6.42% of its outstanding non-voting shares.

ABC Funds  
May 25, 2001

---

In the Financial Post (page C8) on June 25, 2001 Larry Pollock, President and CEO of Canadian Western Bank divulged that Surrey Metro "would be marvelous for [them]" while discussing potential acquisitions opportunities. As we have previously stated, Surrey Metro's strong balance sheet, excellent geographic base and low valuations earmark the company as an attractive takeover candidate. Pollock's comments have proven to us that such a scenario is certainly viable.

ABC Funds  
June 29, 2001

---

## UPDATES (cont'd)

Over the past year we have watched the volatility of Surrey Metro's stock price with, admittedly, a small amount of angst but a lot of patience. A year ago Surrey Metro was trading in the \$13 range and since then we have watched it climb back up to the mid \$16 range. Interestingly enough, it has not been a major catalyst that pushed the stock back up to these levels. But rather it has been solid company performance, excellent management and investor realization that at \$13, Surrey Metro was extremely undervalued. Moreover, the company is a fundamentally strong company with a credible business plan.

Surrey Metro continues to build its business through various initiatives in order to enhance growth. As a result the company has once again reported improved year over year earnings. Earnings per share in the third quarter of 2001 were \$0.52 compared to \$0.48 in the same period last year. Looking forward, into the fourth quarter, we expect Surrey to decrease its tax rate from 40% through a special income tax reduction based on the level of deposits and pretax earnings. Surrey has been able to take advantage of this tax loophole in previous years, bringing the tax rate down to the 20% range.

Still, Surrey Metro remains significantly undervalued. It continues to trade at a discount to its \$19.25 third quarter 2001 book value and pays a \$0.40 dividend, yielding 2.4%. Surrey also has a share buyback program in place. We continue to believe that Surrey Metro is a well-run financial institution and remains a potential merger/consolidation candidate. In addition, the recent change in the B.C. government may prove to be beneficial as new policies are rolled out. In the meantime, we remain patient investors.

ABC Funds

November 16, 2001

---

March 7, 2002

We believe Surrey Metro Savings Credit Union is very undervalued. It is under-followed by investment analysts. Surrey's capable management team led by Lloyd Craig, President, has done a terrific job of turning Surrey Metro into a top performing financial institution, controlling over \$2.7 billion of assets.

Surrey Metro is the only public credit union in Canada and, quite frankly, it should not be public since there is no value added to the company due to its public listing. In consequence, we strongly support all efforts to privatize Surrey Metro.

We believe, however, that the \$21 takeover price by Coast Capital Savings is too low. Three years ago Canada Trust offered to pay \$24 to privatize Surrey Metro. With a book value at that time of approximately \$14.12, Surrey was being privatized at 1.7 times book value.

Since that time, book value has climbed to \$20.08 as at December 31, 2001 (\$21.00 by June 2002, the proposed closing date) with Coast Capital only offering one times book value. Surrey shareholders, in consequence, are not being compensated for the excellent company progress over the past three years. In fact, at \$21, the Coast Capital bid is \$3 lower than what Canada Trust had offered to pay over three years ago.

The ABC Funds controls 575,000 shares or 11.8% of the 4,872,165 Surrey Metro shares outstanding. ABC Fully-Managed Fund holds 175,000 shares and ABC Fundamental-Value Fund owns 400,000 shares. At this point we are actively supporting and encouraging other interested suitors to come forth.

Irwin A. Michael, CFA

---

After meeting today with Lloyd Craig, the President and CEO of Surrey Metro Savings Credit Union, and deeply reflecting on the future prospects for Surrey Metro, we have decided to tender our stock to the Coast Capital Savings takeover offer. Although we are not completely pleased with the price, no other bidder has materialized. Therefore, we are prepared to liquidate our holding and reinvest the proceeds in new, fresh opportunities.

ABC Funds

May 15, 2002

---

We tendered all of our Surrey Metro Savings Credit Union shares in the Coast Capital merger / takeover at \$21.00 and have received our full sale proceeds. Surrey Metro has now been delisted from the TSX and we will now terminate our commentary.

ABC Funds

July 5, 2002