

Annual Information Meeting

April 29, 2010

Réunion d'information annuelle

Le 29 avril 2010



Ontario

**Deposit Insurance
Corporation of Ontario**

**Société ontarienne
d'assurance-dépôts**



Paul Mullins
Vice Chair of the Board

Agenda

Opening Remarks

Paul Mullins, *Vice Chair*

Strategic Issues

Laura Talbot, *Chair*

Ombudsman's Report

Beryl Roberto

2009 Overview

Andy Poprawa,
President & CEO

Question Period

Ordre du jour

Remarques
préliminaires

Paul Mullins,
vice-président du Conseil

Enjeux stratégiques

Laura Talbot, *présidente du Conseil*

Rapport de l'ombudsman

Beryl Roberto

Vue d'ensemble 2009

Andy Poprawa, *PDG*

Période de questions

Strategic Issues



Laura Talbot
Chair of the Board



Beryl Roberto
Ombudsman

2009 Overview



Andy Poprawa
President & CEO

DICO's Board of Directors

Conseil d'administration de la SOAD



Jane Davis



Raymond Boucher



Robert Hammond

DICO's Board of Directors

Conseil d'administration de la SOAD



Carol Lemelin



Leslie Thompson



Colin Litton

DICO's Vision

We will contribute to the soundness, stability and success of the Ontario Credit Union / Caisse Populaire sector by being an effective solvency regulator and deposit insurer.

2009 Highlights

- ❖ All depositor funds were protected
- ❖ Insurance fund of \$81.8 million
- ❖ A significant loss of \$27.9 million
- ❖ Risk assessments ongoing – risk increasing
- ❖ Average risk-based premium increasing
- ❖ Amended Act and Regulations effective October 1, 2009
- ❖ No premium increase for 2010

Issues

- ❖ DICO's enhanced role
- ❖ Survey Board Chairs
- ❖ Major losses & insurance claims
- ❖ Legal actions
- ❖ Adequacy of Deposit Insurance Reserve Fund & Premium options
- ❖ Proactive response to high risk

Role Transition

- ❖ Amendments to Act and Regulations
October 1, 2009
- ❖ Regional sessions across the province
- ❖ Published guidance on the changes
 - New Audit Committee Handbook and updated Director's Handbook
 - Guidance notes on significant issues
- ❖ Director, Regulatory Affairs

Survey Results

TOPIC	AVERAGE SCORE
Transparency	98.0%
Fairness	96.5%
Responsiveness	96.5%

Survey Comments

- ❖ **Transparency...** sufficient information and guidance on the transition?

“..handbooks are very useful as they reinforce our responsibilities as a board and as individual directors”

- ❖ **Fairness ...** treated fairly in its dealings with DICO?

“...we remained concerned about the potential for inherent conflict between DICO’s roles as regulator and insurer...appointment of Director Regulatory Affairs...good start...”

Survey Comments .../2

- ❖ **Responsiveness...** received responsive service from DICO?

“We believe that DICO is providing its services professionally and in a timely manner.”

- ❖ **Other Comments**

“...DICO should be more aggressive in cleaning up problem units in the system...”

Survey Comments .../3

“With regard to actions against the bonding insurer, the net effect has been a higher cost to the credit union system ...”

“Explain why there are only half the credit unions in existence today compared to 10 years ago. Over regulated to death in my opinion...”

“Nous sommes satisfaits de l’excellent travail de la SOAD. Les stratégies, activités et service nous aident à bien remplir nos tâches.”

Losses and Insurance Claims

- ❖ 2009 New loss provisions of \$27.9 million
- ❖ Insurance claims submitted
- ❖ DICO obligated to seek recovery
- ❖ No settlement to date

Legal Actions

- ❖ Legal actions against directors, officers and auditors in specific instances
- ❖ DICO obligated to seek recoveries
- ❖ Directors must exercise appropriate “duty of care”
- ❖ Recent Sector Release #61

Deposit Insurance Reserve Fund

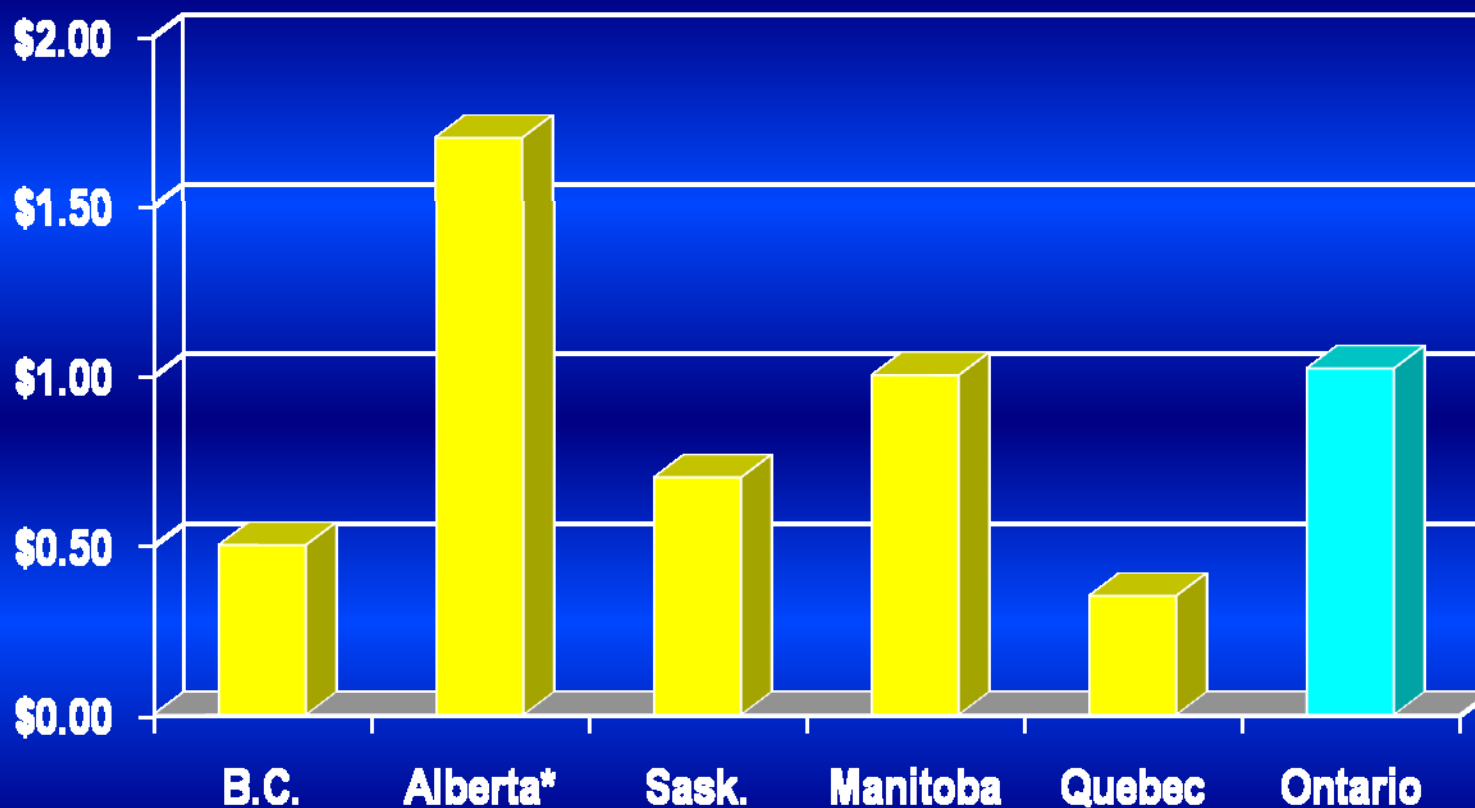
- ❖ Reserve Fund target 56 to 68 bp
- ❖ Current \$81.8 million or 40 basis points (bp)
- ❖ Concern for the adequacy to protect depositors
- ❖ Other jurisdictions raising premiums and increasing their funds

Deposit Insurance Reserve Fund Comparison with Other Provincial Jurisdictions (latest available information)



Deposit Insurance Premium Comparison

(based on estimated insured deposits – latest available data)

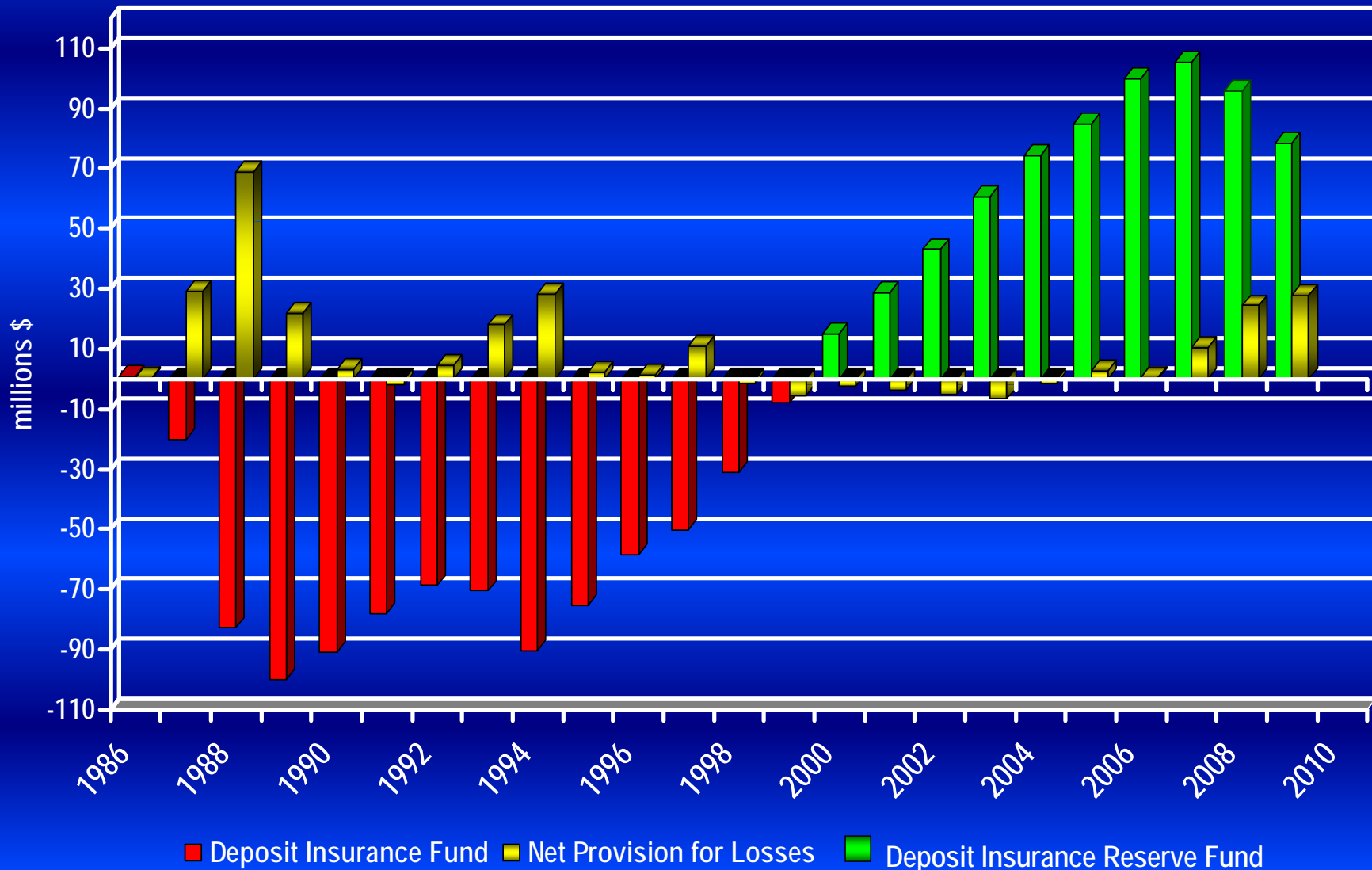


* Including deficit reduction of \$1.10.

Premium Options

- ❖ Dependent on timely recoveries options are:
 - Single large assessment
 - Premium increase
 - Series of progressive premium increases
- ❖ Proposed (two tier) or existing DPS

Trend in the Deposit Insurance Reserve Fund and Net Provision for Losses



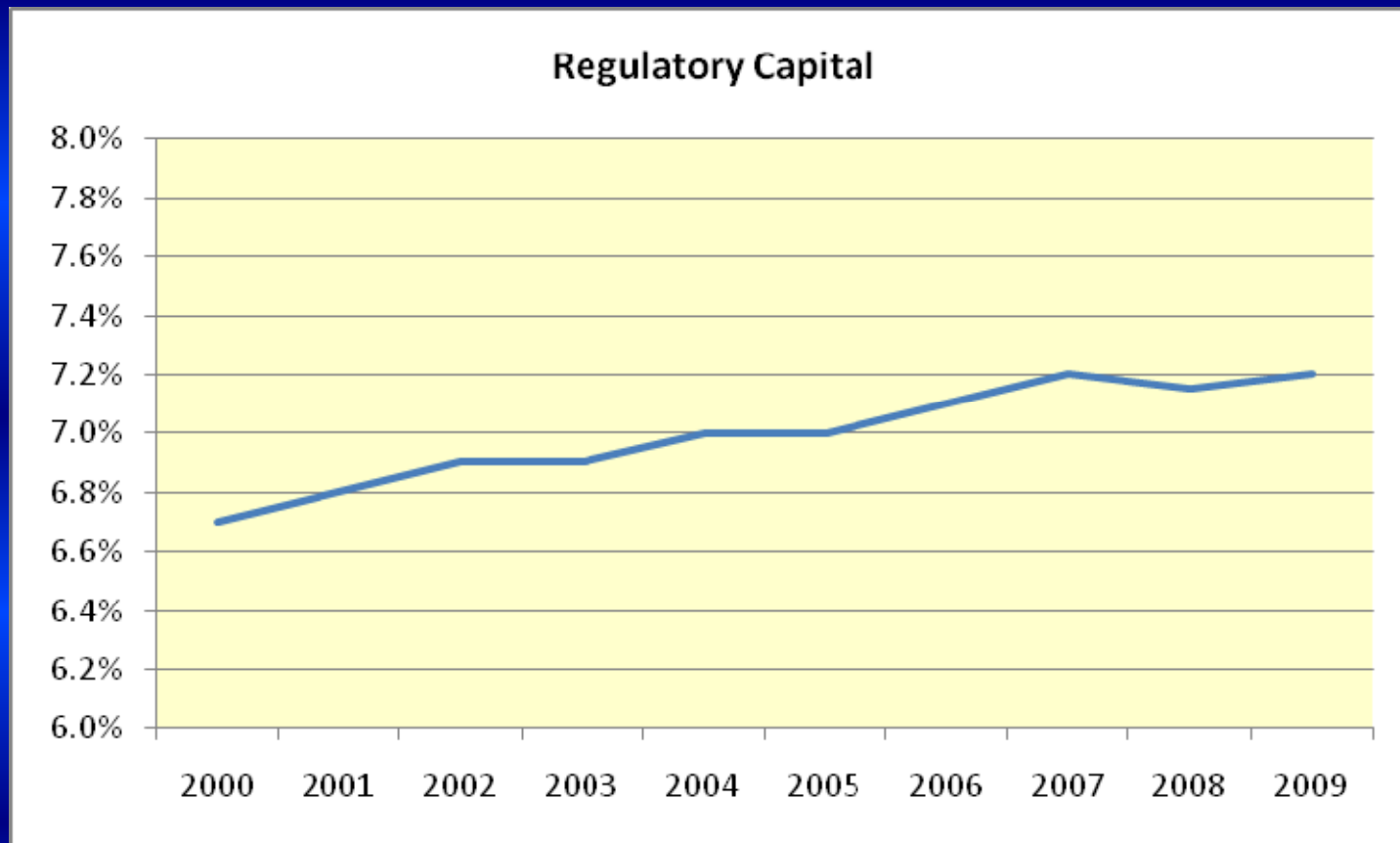
Proactive Risk Management

DICO will be proactive in identifying and dealing with non compliance and high risk situations to minimize losses.



Beryl Roberto
Ombudsman

Regulatory Capital (Leverage Ratio)



Ontario Sector Profile 4Q09

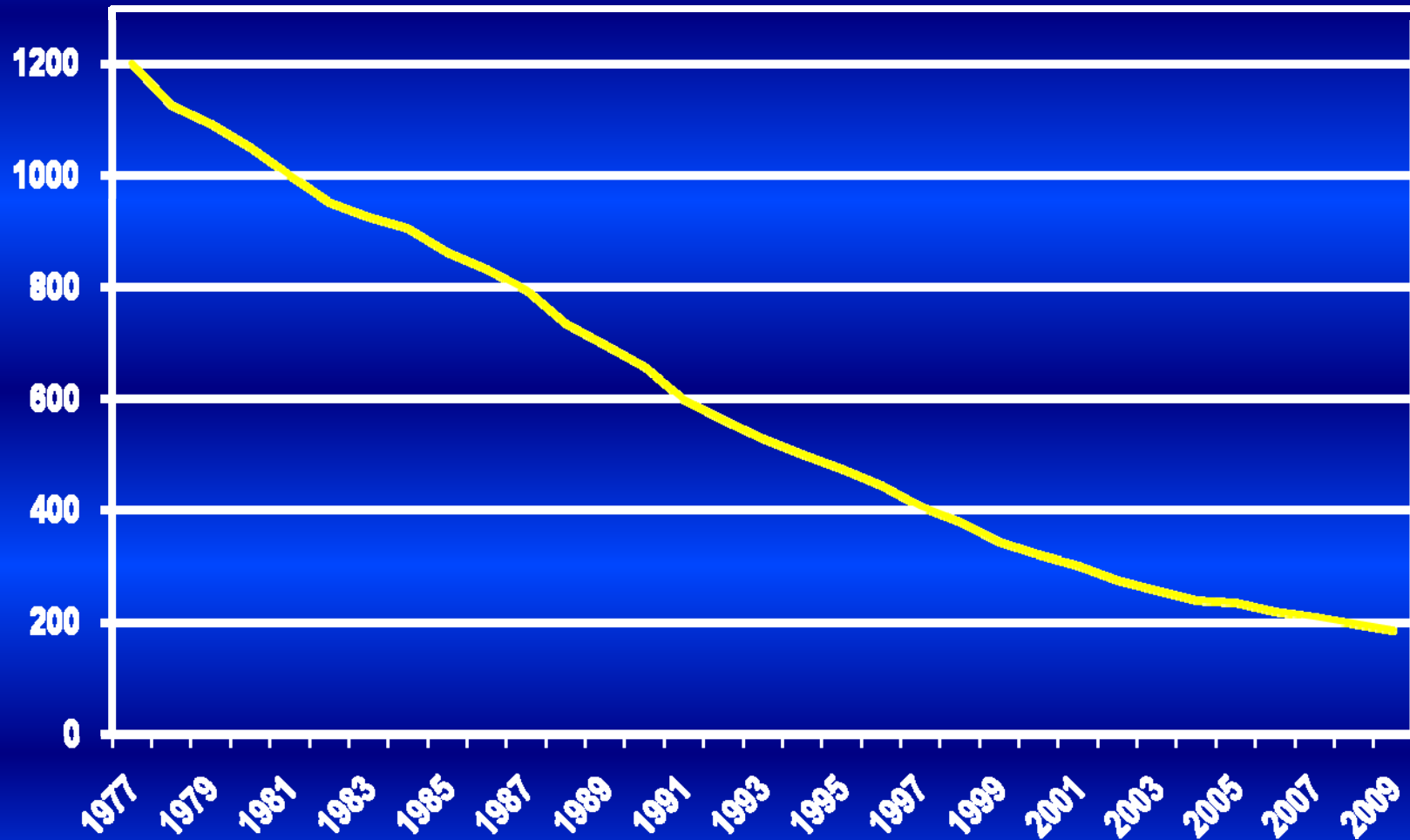
Credit Unions and Caisses Populaires

	Credit Unions	Caisses Populaires	Total
Number	153	33	186
Assets (\$Billions)	\$ 25.2	\$4.4	\$ 29.6
Capital (% assets)	7.03%	8.22%	7.22%
ROA (bp % assets)	20	32	22
ROA before dividends	34	49	37
Efficiency Ratio	91.8%	87.4%	91.0%

Ontario Sector Profile 1999 vs 2009

Peer Group (\$ millions)	1999			2009		
	Assets \$M	% of total assets	# of institutions	Assets \$M	% of total assets	# of institutions
> \$ 500	3,515	25	4	15,535	53	12
\$100 – 500	4,735	33	25	10,073	34	48
\$ 50 – 100	2,734	19	40	2,518	8	35
\$ 10 – 50	2,944	20	114	1,267	4	45
< \$10	435	3	160	182	1	46
Total	14,363	100	343	29,575	100	186

Number of Credit Unions & Caisses Populaires 1977 – 2009



Sector Return on Assets



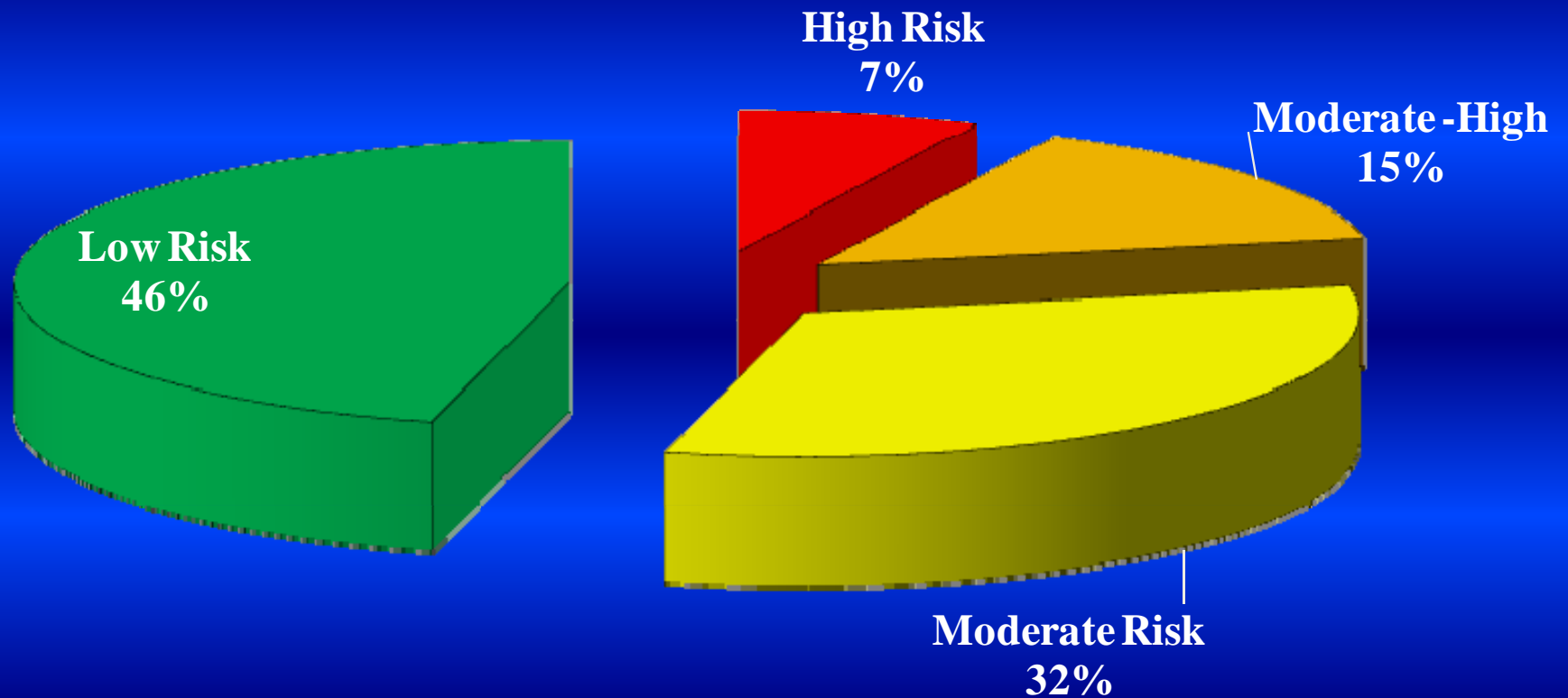
Aggregate Key Statistics

Credit Unions and Caisses Populaires

	2009	2008
Average Assets per institution	\$158.2 Million	\$142.4 Million
Financial Margin (% of av. assets)	2.39 %	2.55 %
Interest Rate Spread	2.86 %	2.93 %
Loan costs (% av. assets)	0.23 %	0.16 %
Delinquency (% of total loans)	1.53 %	1.27 %
Commercial Loans	\$ 6.8 Billion	\$ 6.3 Billion
Off-balance sheet assets	\$ 5.4 Billion	\$ 4.7 Billion

Sector Profile by Risk Level

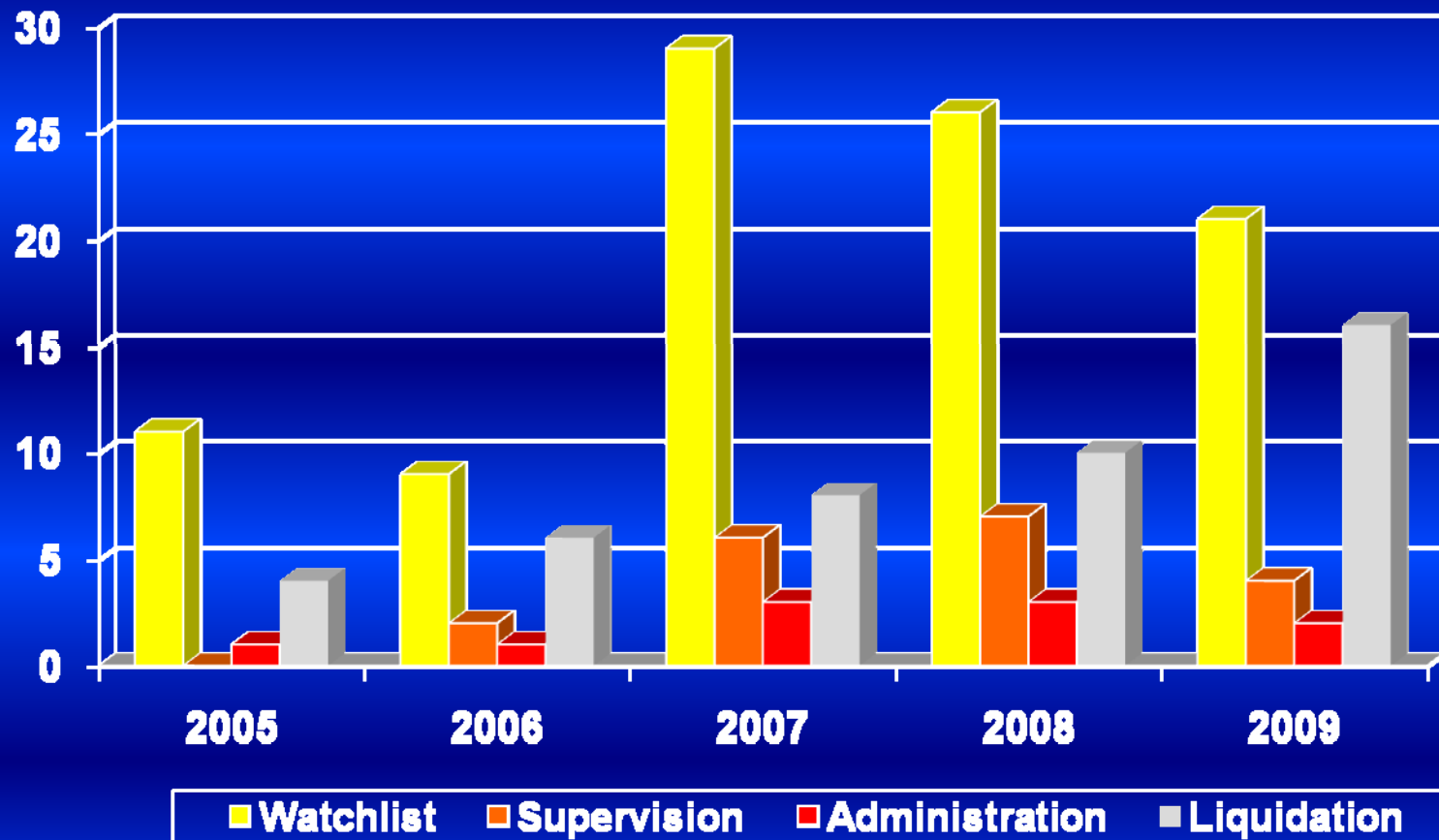
(% of Sector Assets)



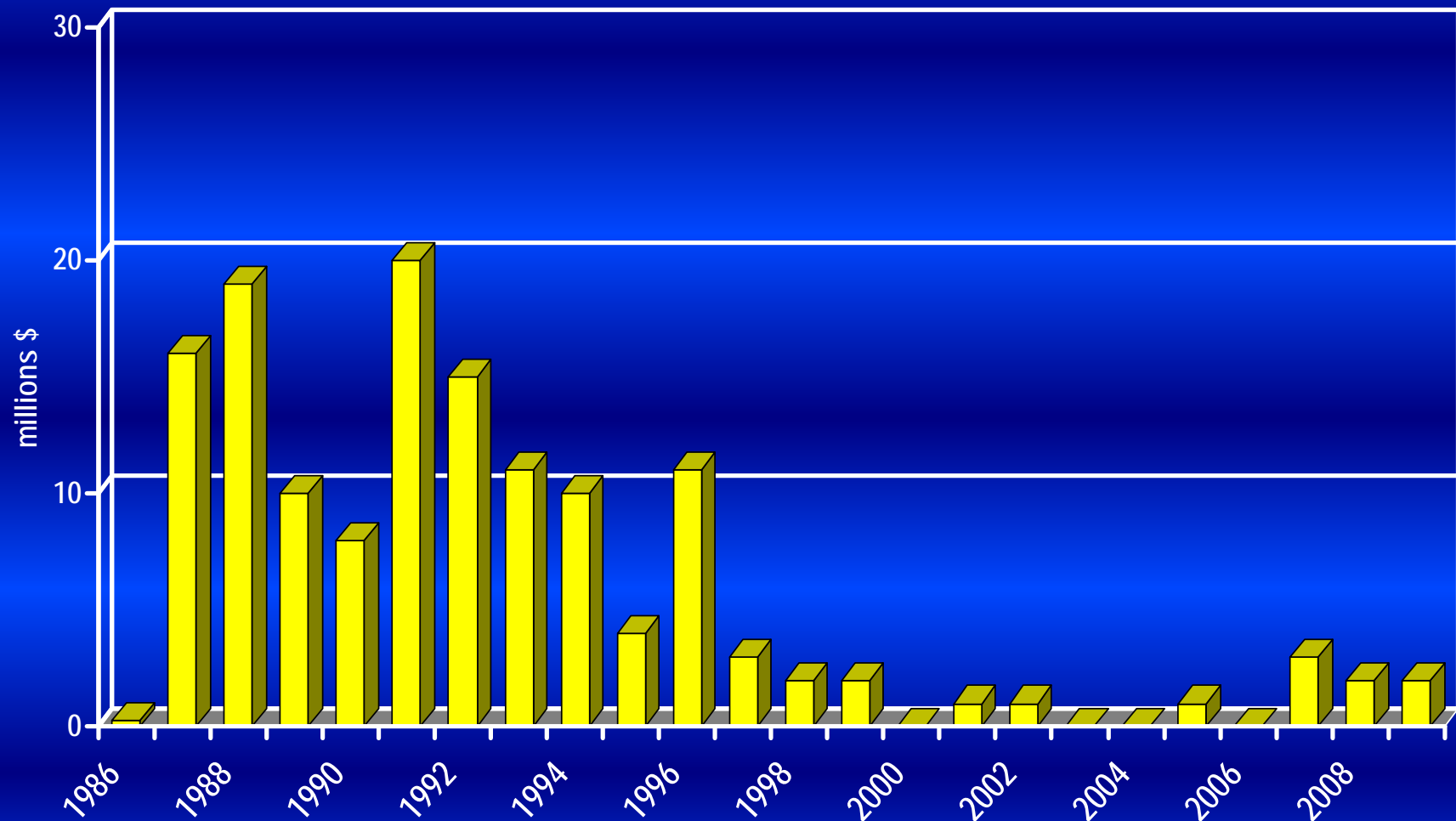
Institutions Reporting Losses

- ❖ 41 institutions reported losses
 - 7 over \$100 million in assets
- ❖ 17 reported losses > 100 basis points
 - 11 reported loan costs > 100 basis points
 - 11 reported delinquency > 5%
- ❖ 41 reported efficiency ratios > 100 bp
- ❖ Removing these 41 institutions
 - System ROA - 41 basis points
 - System efficiency ratio - 85%

Intervention Levels by Program

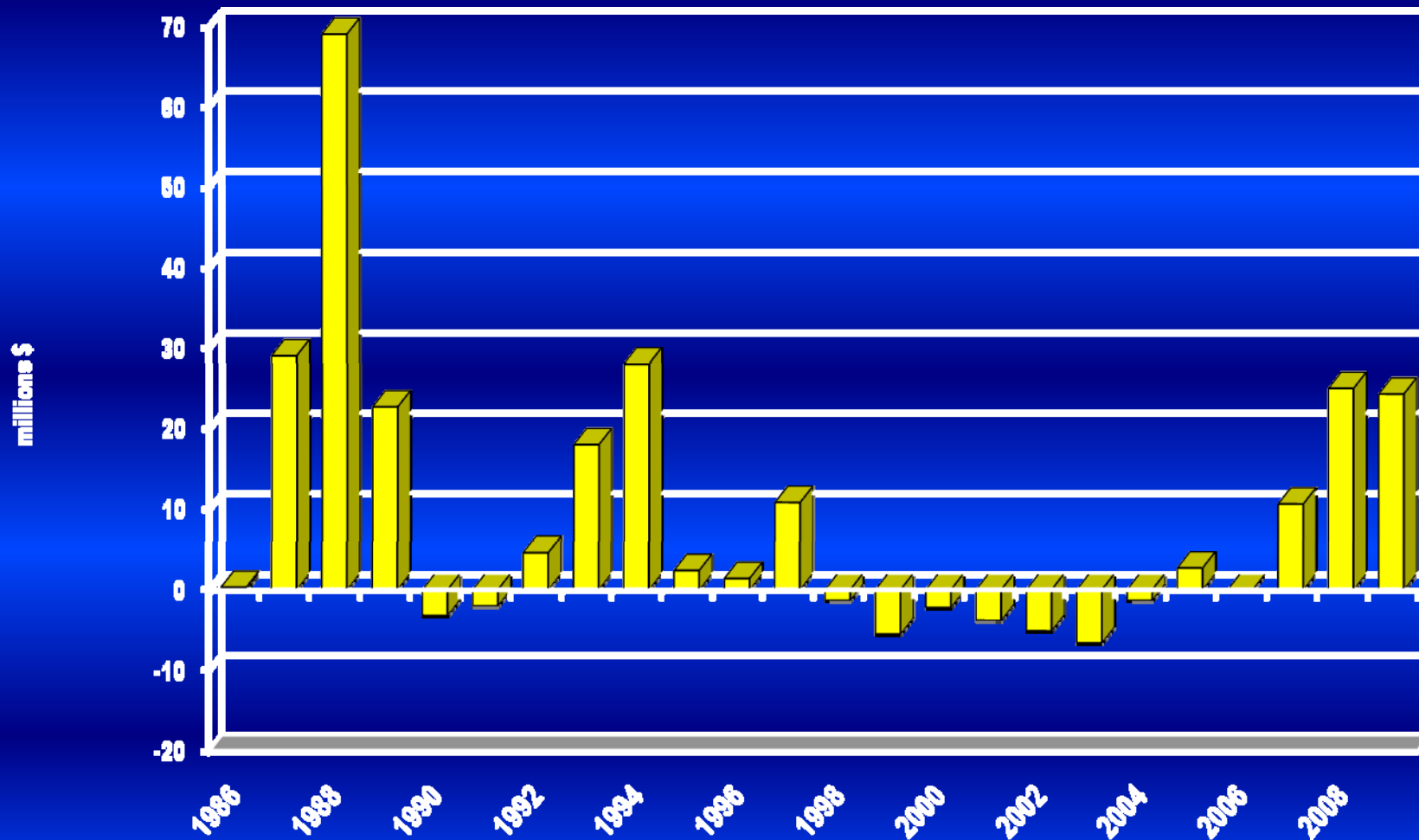


Number of Institutional Failures (Frequency)



Losses to the Fund

(Severity - By Year of Recognition in \$ Millions)



Lessons Learned from Recent Failures

- ❖ Inability to generate sufficient revenues / income from normal deposit-taking activities
- ❖ Poor understanding of risks being taken – high risk / return activities
- ❖ Inadequate oversight – one person or small group in control
- ❖ Illegal and inappropriate activities concealed
- ❖ Lack of consequences of poor decisions (moral hazard)

Actions Being Taken

- ❖ Authority to limit unnecessary risk taking and require compliance
- ❖ Streamlined processes to act quickly
- ❖ Enhanced internal monitoring and examination resources & staff training and development
- ❖ Taking legal actions against former directors and officers for failure of fiduciary obligations where significant losses incurred
- ❖ Working with fidelity insurers

Questions and Discussions

Questions et dialogue

