

Ontario Credit Unions and Caisses Populaires

SECTOR OUTLOOK

1Q2010

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Ontario

Deposit Insurance
Corporation of Ontario

Société ontarienne
d'assurance-dépôts

Electronic Publication:

The *Sector Outlook* is available in PDF format (portable document file format), which can be read using Adobe Acrobat Reader. It can be downloaded from the Insured Institutions section on DICO's Web site at **www.dico.com**.

NOTE : Income Statement results are now based on aggregate year to date annualized information for each institution. Comparative results have been restated to reflect this change. Results are based on latest available information. Comparative results, therefore, may not always agree with previously reported information for the same period, as a result of additional information received after the reporting date.

Results are based on the latest available information as at May 12, 2010.

The information presented in this report has been prepared using a variety of sources, including unaudited reports submitted to DICO by Ontario's credit unions and caisses populaires. While DICO believes that the information contained in this report would be useful to readers, and considers the financial statements to be reliable, their accuracy and completeness cannot be guaranteed.

Ce document est également disponible en français.

SUMMARY RESULTS IQ10

Selected Aggregate Sector Performance Indicators	As at March 31 st	
	2010	2009
Regulatory Capital (Aggregate Leverage Ratio)	7.32 %	7.06 %
Class 1 Institutions (Leverage)	7.90 %	8.71 %
Class 2 Institutions (BIS)	13.52 %	12.92 %
Liquidity	13.89 %	13.18 %
Asset Growth	5.25 %	5.56 %
Delinquency (greater than 30 days)	1.65 %	1.34 %
	Year to Date (annualized)	
Net Interest Income (Financial Margin)	2.47 %	2.36 %
Other Income	0.71 %	0.85 %
Return on Average Assets (ROAA)	0.37 %	0.20 %
Return on Regulatory Capital	5.04 %	2.82 %
Efficiency Ratio	84.66 %	90.41 %

Capital

Aggregate capital increased by \$153.4 million during the latest twelve months. The aggregate leverage ratio increased to 7.32% compared to 7.06% at IQ09 as a result of higher earnings and the issuance of additional investment share capital. The leverage ratio for Class 1 institutions declined to 7.90 % while aggregate risk weighted capital (BIS) for Class 2 institutions rose to 13.52%.

Growth

Sector assets increased by \$1.48 billion or 5.25% in the latest twelve months to \$29.8 billion. Total loans increased by \$964 million or 4.1% while deposits grew by \$1.1 billion or 4.4% in the same period. Off-balance sheet assets increased by \$837 million to \$5.3 billion.

Profitability

Return on average assets increased significantly to 0.37% compared to 0.20% for IQ09. This was due to a number of factors including an increase in the financial margin, lower loan costs and reduced operating expenses.

Much lower interest expense on deposits helped improve the financial margin to 2.47% from 2.36% while loan costs declined to 0.15% from 0.20%. In addition, operating expenses were trimmed by 0.15% to 2.57% primarily due to a reduction in salaries and benefits.

As a result, the efficiency ratio has improved significantly to 84.7% from 90.4%.

Credit Risk

Loan delinquency has grown to 1.65% compared to 1.53% at 4Q09 and 1.34% at IQ09. This latest increase is primarily the result of further weakness in commercial loan portfolios where delinquency has risen to 2.91% compared to 2.44% at 4Q09 and 1.86% at IQ09. While the current economic

SUMMARY RESULTS IQ10

environment is showing signs of improvement, it is expected that both loan costs and delinquencies will continue to increase in the short term.

Loan Mix

The loan mix reflects the continued stronger growth of commercial lending and further decline in personal lending. Commercial loans have increased 9% in the latest twelve months and now account for approximately 30% of total loans. In contrast, personal loans have declined by a further 1% and now account for only 12% of total loans.

Product	% of Loan Portfolio		Change (\$millions)	% Change in Outstanding Loans
	2010	2009		
Personal Loans	12%	13%	(\$71)	(2%)
Mortgage Loans	54%	55%	\$394	3%
Commercial Loans	30%	28%	\$566	9%
Agricultural Loans	4%	4%	\$71	7%

Loan Yields

Overall loan yields continue to decline as a result of the reduction in overall interest rates and further decline in higher yielding personal loans.

Selected Loan Yields (Year to Date annualized)	As at March 31 st	
	2010	2009
Total Loans	4.85%	5.27%
Personal Loans	6.41%	6.95%
Mortgage Loans	4.28%	4.73%
Commercial Loans	5.33%	5.58%
Agricultural Loans	4.46%	5.02%

SECTOR FINANCIAL HIGHLIGHTS IQ 2010

	ONTARIO SECTOR		Selected Bank Information
	Year to date at . . .		
	1Q 2010	1Q 2009	4Q 2009
PROFITABILITY	% average assets *		
Net Interest and Investment Income	2.47%	2.36%	1.65%
Loan Costs	0.15%	0.20%	0.42%
Other (non-interest) Income	0.71%	0.85%	1.59%
Total Income	3.03%	3.01%	2.83%
Total Non-Interest Expenses (Operating Expenses)	2.57%	2.72%	2.13%
Net Income/(Loss) before Taxes and Non-recurring & Extraordinary items	0.47%	0.29%	0.70%
Efficiency Ratio (% Operating Expenses to Total Income)	84.66%	90.41%	83.67%
Efficiency Ratio (% Operating Expenses, before dividends & interest rebates to Total Income)	81.69%	87.27%	75.25%
Return on Average Assets (ROA) before dividends etc.	0.48%	0.31%	0.54%
Return on Average Assets (ROA)	0.37%	0.20%	
Return on Regulatory Capital before dividends etc.	6.56%	4.25%	
Return on Regulatory Capital	5.04%	2.82%	
CREDIT RISK, as at the quarter-end			
Gross Delinquency greater than 30 days (% of total loans)	1.65%	1.34%	
Gross Delinquency greater than 90 days (% of total loans)	0.97%	0.77%	
OFF BALANCE SHEET ACTIVITY			
Off balance Sheet Assets (\$millions) at. (Includes mutual fund sales and administered loans etc.)	5,348	4,511	
Income on Off Balance Sheet Activity (% Other Income)	15.29%	28.10%	
OTHER INDICATORS, as at the quarter-end			
Total Number of Active Insured Institutions	186	196	
Total Assets (\$ millions)	29,761	28,277	2,599,065
Average Assets per insured institution (\$ millions)	160.0	144.3	
Median Assets (\$ millions)	51.9	44.9	
Regulatory Capital (as a percentage of net assets)	7.32%	7.06%	
Number of Insured Institutions below 5% Capital	9	4	
Liquidity	13.89%	13.18%	
* Year to date annualized unless otherwise stated.			
Totals may not agree due to rounding			

SECTOR FINANCIAL STATEMENTS

BALANCE SHEET 1Q 2010

	ONTARIO SECTOR		Percentage of Total Assets	
	1Q 2010 (\$000)	1Q 2009 (\$000)	1Q 2010	1Q 2009
ASSETS				
Cash and Investments	4,823,807	4,214,581	16.2%	14.9%
Personal Loans	3,016,858	3,087,994	10.1%	10.9%
Residential Mortgage Loans	13,232,199	12,838,124	44.5%	45.4%
Commercial Loans	7,051,748	6,486,177	23.7%	22.9%
Institutional Loans	87,549	82,846	0.3%	0.3%
Unincorporated Association Loans	11,894	11,768	0.0%	0.0%
Agricultural Loans	1,021,800	951,144	3.4%	3.4%
Total Loans	24,422,047	23,458,054	82.1%	83.0%
Total Loan Allowances	174,260	144,442	0.6%	0.5%
Capital (Fixed) Assets	356,749	377,992	1.2%	1.3%
Intangible & Other Assets	332,785	370,318	1.1%	1.3%
Total Assets	29,761,127	28,276,503	100.0%	100.0%
LIABILITIES				
Demand Deposits	9,872,254	8,912,623	33.2%	31.5%
Term Deposits	9,536,704	9,835,409	32.0%	34.8%
Registered Deposits	6,966,401	6,542,330	23.4%	23.1%
Other Deposits	165,009	133,918	0.6%	0.5%
Total Deposits	26,540,368	25,424,280	89.2%	89.9%
Borrowings	587,746	355,018	2.0%	1.3%
Other Liabilities	502,859	520,411	1.7%	1.8%
Total Liabilities	27,630,973	26,299,709	92.8%	93.0%
MEMBERS' EQUITY & CAPITAL				
Membership Shares	78,641	78,351	0.3%	0.3%
Retained Earnings	1,173,842	1,100,776	3.9%	3.9%
Other Tier 1 & 2 Capital	877,671	797,667	2.9%	2.8%
Total Members' Equity & Capital	2,130,154	1,976,794	7.2%	7.0%
Total Liabilities, & Members' Equity & Capital	29,761,127	28,276,503	100.0%	100.0%

Totals may not agree due to rounding

SECTOR FINANCIAL STATEMENTS

INCOME STATEMENT IQ 2010

	ONTARIO SECTOR Percentage of Average Assets *		Canadian Chartered Banks **
	1Q 2010	1Q 2009	4Q 2009
Interest and Investment Income			
Loan Interest Income	3.97%	4.38%	2.20%
Investment Income	<u>0.38%</u>	<u>0.46%</u>	<u>0.87%</u>
	4.35%	4.84%	3.07%
Interest Expense			
Interest Expense on Deposits	1.74%	2.33%	1.09%
Interest Rebates & Dividends on Share Capital	0.01%	0.01%	
Dividends on Investment Capital & Other Capital	0.10%	0.10%	
Other Interest Expense	0.03%	0.04%	
Other Interest Expense and Dividends	<u>0.14%</u>	<u>0.15%</u>	<u>0.32%</u>
	1.88%	2.48%	1.41%
Net Interest & Investment Income	2.47%	2.36%	1.65%
Loan Costs	0.15%	0.20%	0.42%
Net Interest & Investment Income after Loan Costs	2.33%	2.16%	1.24%
Other (non-interest) Income	<u>0.71%</u>	<u>0.85%</u>	<u>1.59%</u>
Net Interest, Investment & Other Income	3.03%	3.01%	2.83%
Non-interest Expenses			
Salaries and Benefits	1.35%	1.43%	1.07%
Occupancy	0.24%	0.26%	0.35%
Computer, office & other equipment	0.26%	0.29%	
Advertising & Communications	0.15%	0.16%	
Member Security	0.13%	0.12%	
Administration	0.27%	0.28%	
Other	<u>0.17%</u>	<u>0.18%</u>	<u>0.71%</u>
	2.57%	2.72%	2.13%
Net Income/(Loss) Before Taxes and Non-recurring & Extraordinary items	0.47%	0.29%	0.70%
Non-recurring & Extraordinary gains/(losses)	-0.01%	-0.01%	0.00%
Taxes	0.09%	0.08%	0.14%
Minority Interests	0.00%	0.00%	0.02%
Net Income/(Loss)	0.37%	0.20%	0.54%
Average Assets (\$000)	29,565,136	28,017,128	2,705,831,000

* Year to date annualized

** Source: Canadian Bankers Association, Detailed Financial Statistics.

Totals may not agree due to rounding.

SELECTED FINANCIAL TRENDS

