

Ontario Credit Unions and Caisses Populaires

SECTOR OUTLOOK 1Q11

INSIDE

| | |
|-----------------------------|--------|
| Summary Results | Page 3 |
| Sector Financial Highlights | Page 5 |
| Sector Financial Statements | Page 6 |
| Selected Performance Trends | Page 8 |



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 11, 2011

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 IQ11

| Selected Aggregate Sector Performance Indicators | As at March 31 | |
|--|---------------------------|--------|
| | 2011 | 2010 |
| Number of Insured Institutions | 163 | 186 |
| Regulatory Capital (Aggregate Leverage Ratio) | 7.21% | 7.32% |
| Class 1 Institutions (Leverage) | 8.47% | 7.87% |
| Class 2 Institutions (BIS) | 13.58% | 13.54% |
| Liquidity | 14.25% | 13.84% |
| Asset Growth | 7.18% | 5.28% |
| Delinquency (greater than 30 days) | 1.44% | 1.56 % |
| | Year to Date (annualized) | |
| Net Interest Income (Financial Margin) | 2.50% | 2.48% |
| Other Income | 0.69% | 0.70% |
| Return on Average Assets (ROAA) | 0.39% | 0.37% |
| Return on Regulatory Capital | 5.30% | 5.12% |
| Efficiency Ratio | 83.57% | 84.53% |

Capital

Aggregate capital increased by \$135.6 million during the latest twelve months although the aggregate leverage ratio declined to 7.21% compared to 7.32% at IQ10 and 7.52% at 4Q10. The change in the latest quarter is primarily due to conversion to the new International Financial Reporting Standards (IFRS) which became effective January 1, 2011 and in particular the accounting treatment of mortgage securitizations. Under the new rules, mortgage securitizations must now be reported on the balance sheet, although transactions completed up to March 31, 2010 are excluded in the calculation of regulatory capital. Further impact on aggregate regulatory capital is likely as more institutions with later financial year ends convert to IFRS throughout 2011.

In contrast, the aggregate leverage ratio for Class 1 institutions increased to 8.47% from 7.87% at IQ10 and 8.32% at 4Q10 while aggregate risk weighted capital (BIS) for Class 2 institutions increased marginally to 13.58%.

There was a significant improvement in the number of credit unions reporting insufficient capital from ten in IQ 2010 to two in IQ 2011. Four of these credit unions have been purchased by other credit unions, 2 were placed under administration and the remaining two credit unions improved their capital position.

Growth

Sector assets increased by \$2.14 billion or 7.18% in the latest twelve months to \$31.9 billion. This higher than normal increase is due in part to the conversion to IFRS and the treatment of mortgage securitization transactions which are now reported on the balance sheet. Previously, these assets were considered “off balance sheet” items and did not appear in the financial statements. Total loans increased by \$1.8 billion or 7.5%, while deposits increased by \$1.6 billion or 6.1% in the same period. In contrast off-balance sheet assets decreased by \$390 million to \$5.0 billion.

Profitability

Return on average assets increased marginally to 0.39% from 0.37% at 1Q10 although this represents a decline from 0.48% at 4Q10.

The financial margin increased marginally to 2.50% from 2.48% at 1Q10. Loan costs fell by 2 basis points to 0.12% and operating expenses remained stable at 2.57%. As a result of these changes, the efficiency ratio has improved marginally to 83.57% from 84.53%.

Credit Risk

Total loan delinquency declined to 1.44% compared to 1.56% at 1Q10. In contrast, commercial loan delinquency continues to increase to 2.87% from 2.60% during the last 12 months.

Loan Mix

The loan mix reflects the continued decline in personal lending and stronger growth in residential mortgage lending. Residential mortgage loan growth has surged by \$1.5 billion (11.5%) during the past 12 months. This growth is due in part to changes under IFRS which retains securitization transactions on balance sheet. During the same time, commercial loan growth has slowed considerably with growth of only 4.9%. In contrast, personal loans have declined marginally by a further 0.4% and now account for only 11% of total loans.

| Product | % of Loan Portfolio | | Change (\$ millions) | % Change in Outstanding Loans |
|--------------------|---------------------|------|----------------------|-------------------------------|
| | 2011 | 2010 | | |
| Personal Loans | 11% | 12% | (\$90) | (0.4%) |
| Mortgage Loans | 56% | 54% | \$1,519 | 11.5% |
| Commercial Loans | 28% | 29% | \$348 | 4.9% |
| Agricultural Loans | 5% | 5% | \$53 | 5.1% |

Loan Yields

Overall loan yields continued to decline. While interest rates have increased in each loan category, the loan yields for residential mortgages have declined which may represent home owners electing to move to lower variable rate mortgages. Residential mortgages account for the majority of the loan mix and a greater proportion than previously due to the effect of the mortgage securitizations coming back onto credit union balance sheets. This change in accounting treatment would also have the effect of reducing the yield on the residential mortgage portion of the portfolio as the mortgage brought back on the books would be those with lower interest rates.

| Selected Loan Yields (YTD annualised) | As at March 31 | |
|---------------------------------------|----------------|-------|
| | 2011 | 2010 |
| Total Loans | 4.78% | 4.85% |
| Personal Loans | 6.72% | 6.41% |
| Mortgage Loans | 4.08% | 4.28% |
| Commercial Loans | 5.41% | 5.33% |
| Agricultural Loans | 4.68% | 4.46% |

SECTOR FINANCIAL HIGHLIGHTS | Q2011

| | ONTARIO SECTOR | | Selected Bank Information |
|---|--|--------|---------------------------|
| | % average assets*, Year to date at . . . | | |
| | 1 Q 11 | 1 Q 10 | 4 Q 2010 |
| PROFITABILITY | | | |
| Net Interest and Investment Income | 2.50% | 2.48% | 1.72% |
| Loan Costs | 0.12% | 0.14% | 0.26% |
| Other (non-interest) Income | 0.69% | 0.70% | 1.75% |
| Total Income | 3.07% | 3.04% | 3.21% |
| Total Non-Interest Expenses (Operating Expenses) | 2.57% | 2.57% | 2.15% |
| Net Income/(Loss) before Taxes and Non-recurring & Extraordinary items | 0.50% | 0.47% | 1.06% |
| Efficiency Ratio (% Operating Expenses to Total Income) | 83.57% | 84.53% | 80.39% |
| Efficiency Ratio (% Operating Expenses, before dividends & interest rebates to Total Income) | 80.05% | 81.58% | 67.16% |
| Return on Average Assets (ROA) before dividends etc. | 0.52% | 0.48% | 0.77% |
| Return on Average Assets (ROA) | 0.39% | 0.37% | |
| Return on Regulatory Capital before dividends etc. | 7.14% | 6.49% | 14.01% |
| Return on Regulatory Capital | 5.30% | 5.12% | |
| CREDIT RISK, as at the quarter-end | | | |
| Gross Delinquency greater than 30 days (% of total loans) | 1.44% | 1.56% | |
| Gross Delinquency greater than 90 days (% of total loans) | 0.85% | 0.86% | |
| OFF BALANCE SHEET ACTIVITY | | | |
| Off balance Sheet Assets (\$millions) (Includes mutual fund sales and administered loans etc.) | 4,966 | 5,356 | |
| Income on Off Balance Sheet Activity (% Other Income) | 14.62% | 14.52% | |
| OTHER INDICATORS, as at the quarter-end | | | |
| Total Number of Active Insured Institutions | 163 | 186 | |
| Total Assets (\$ millions) | 31,907 | 29,769 | 2,817,981 |
| Average Assets per insured institution (\$ millions) | 195.8 | 160.0 | |
| Median Assets (\$ millions) | 62.0 | 51.9 | |
| Regulatory Capital (as a percentage of net assets) | 7.21% | 7.32% | |
| Number of Insured Institutions below 5% Capital | 2 | 10 | |
| Liquidity | 14.25% | 13.84% | |
| * Year to date annualized unless otherwise stated. | | | |
| Totals may not agree due to rounding | | | |

SECTOR FINANCIAL STATEMENTS

BALANCE SHEET 1Q2011

| | ONTARIO SECTOR | | | |
|---|-------------------|-------------------|------------------------------|---------------|
| | 1 Q 11 | 1 Q 10 | 1 Q 11 | 1 Q 10 |
| | (\$000) | (\$000) | (Percentage of Total Assets) | |
| ASSETS | | | | |
| Cash and Investments | 5,162,082 | 4,808,781 | 16.2% | 16.2% |
| Personal Loans | 2,930,238 | 3,019,919 | 9.2% | 10.1% |
| Residential Mortgage Loans | 14,770,795 | 13,252,314 | 46.3% | 44.5% |
| Commercial Loans | 7,400,996 | 7,052,547 | 23.2% | 23.7% |
| Institutional Loans | 77,387 | 87,592 | 0.2% | 0.3% |
| Unincorporated Association Loans | 15,453 | 11,894 | 0.0% | 0.0% |
| Agricultural Loans | 1,082,267 | 1,022,538 | 3.4% | 3.4% |
| Total Loans | 26,277,135 | 24,446,805 | 82.4% | 82.1% |
| Total Loan Allowances | 159,678 | 174,271 | 0.5% | 0.6% |
| Capital (Fixed) Assets | 358,321 | 356,759 | 1.1% | 1.2% |
| Intangible & Other Assets | 269,501 | 330,604 | 0.8% | 1.1% |
| Total Assets | 31,907,362 | 29,768,678 | 100.0% | 100.0% |
| LIABILITIES | | | | |
| Demand Deposits | 10,628,742 | 9,860,383 | 33.3% | 33.1% |
| Term Deposits | 9,838,593 | 9,538,198 | 30.8% | 32.0% |
| Registered Deposits | 7,487,700 | 6,975,341 | 23.5% | 23.4% |
| Other Deposits | 212,465 | 164,246 | 0.7% | 0.6% |
| Total Deposits | 28,167,500 | 26,538,168 | 88.3% | 89.1% |
| Borrowings | 956,044 | 591,815 | 3.0% | 2.0% |
| Other Liabilities | 515,150 | 505,669 | 1.6% | 1.7% |
| Total Liabilities | 29,638,695 | 27,635,652 | 92.9% | 92.8% |
| MEMBERS' EQUITY & CAPITAL | | | | |
| Membership Shares | 75,420 | 78,942 | 0.2% | 0.3% |
| Retained Earnings | 1,265,828 | 1,175,309 | 4.0% | 3.9% |
| Other Tier 1 & 2 Capital | 926,585 | 878,775 | 2.9% | 3.0% |
| Total Members' Equity & Capital | 2,268,667 | 2,133,026 | 7.1% | 7.2% |
| Total Liabilities, & Members' Equity & Capital | 31,907,362 | 29,768,678 | 100.0% | 100.0% |
| Totals may not agree due to rounding | | | | |

SECTOR FINANCIAL STATEMENTS

INCOME STATEMENT 1Q2011

| | ONTARIO SECTOR | | Canadian Chartered Banks ** |
|---|--------------------------------|--------------|--------------------------------|
| | Percentage of Average Assets * | | |
| | 1 Q 11 | 1 Q 10 | 4 Q 2010 |
| Interest and Investment Income | | | |
| Loan Interest Income | 3.92% | 3.97% | 2.11% |
| Investment Income | <u>0.35%</u> | <u>0.38%</u> | <u>0.71%</u> |
| | 4.27% | 4.35% | 2.82% |
| Interest Expense | | | |
| Interest Expense on Deposits | 1.61% | 1.73% | 0.83% |
| Interest Rebates & Dividends on Share Capital | 0.01% | 0.01% | |
| Dividends on Investment Capital & Other Capital | 0.13% | 0.10% | |
| Other Interest Expense | 0.03% | 0.03% | |
| Other Interest Expense and Dividends | <u>0.17%</u> | <u>0.14%</u> | <u>0.27%</u> |
| | 1.78% | 1.87% | 1.10% |
| Net Interest & Investment Income | 2.50% | 2.48% | 1.72% |
| Loan Costs | 0.12% | 0.14% | 0.26% |
| Net Interest & Investment Income after Loan Costs | 2.38% | 2.34% | 1.46% |
| Other (non-interest) Income | <u>0.69%</u> | <u>0.70%</u> | <u>1.75%</u> |
| Net Interest, Investment & Other Income | 3.07% | 3.04% | 3.21% |
| Non-interest Expenses | | | |
| Salaries and Benefits | 1.36% | 1.35% | 1.10% |
| Occupancy | 0.25% | 0.24% | 0.36% |
| Computer, office & other equipment | 0.25% | 0.26% | |
| Advertising & Communications | 0.15% | 0.15% | |
| Member Security | 0.13% | 0.13% | |
| Administration | 0.25% | 0.27% | |
| Other | <u>0.18%</u> | <u>0.17%</u> | <u>0.69%</u> |
| | 2.57% | 2.57% | 2.15% |
| Net Income/(Loss) Before Taxes and Non-recurring & Extraordinary items | 0.50% | 0.47% | 1.06% |
| Non-recurring & Extraordinary gains/(losses) | -0.01% | -0.01% | 0.00% |
| Taxes | 0.11% | 0.09% | 0.27% |
| Minority Interests | <u>0.00%</u> | <u>0.00%</u> | <u>0.02%</u> |
| Net Income/(Loss) | 0.39% | 0.37% | 0.77% |
| Average Assets (\$000) | 31,336,331 | 29,594,901 | 2,690,210,000 |

* Year to date annualized

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

Totals may not agree due to rounding.

SELECTED FINANCIAL TRENDS

