

Ontario Credit Unions and Caisses Populaires

# SECTOR OUTLOOK

## 2Q2010

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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](http://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 August 9, 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 2Q10

Selected Aggregate Sector Performance Indicators	As at June 30	
	2010	2009
Regulatory Capital ( Aggregate Leverage Ratio)	7.48%	6.98%
Class 1 Institutions (Leverage)	7.94%	8.12%
Class 2 Institutions (BIS)	13.98%	12.93%
Liquidity	13.97%	14.06%
Asset Growth	5.22%	5.10%
Delinquency (greater than 30 days)	1.32%	1.36%
	Year to Date (annualized)	
Net Interest Income (Financial Margin)	2.54%	2.35%
Other Income	0.71%	0.84%
Return on Average Assets (ROAA)	0.56%	0.22%
Return on Regulatory Capital	7.66%	3.17%
Efficiency Ratio	82.80%	89.70%

## Capital

Aggregate capital increased by \$236.3 million during the latest twelve months and the aggregate leverage ratio increased to 7.48% compared to 6.98% at 2Q09 as a result of higher earnings and the issuance of additional investment share capital. The overall leverage ratio for Class 1 institutions declined to 7.94% while aggregate risk weighted capital (BIS) for Class 2 institutions increased to 13.98%.

## Growth

Sector assets increased by \$1.51 billion or 5.22% in the latest twelve months to \$30.3 billion. Total loans increased by \$1.1 billion or 4.8%, while deposits increased by \$1.3 billion or 5.21% in the same period. Off-balance sheet assets increased by \$227 million to \$5.0 billion.

## Profitability

Return on average assets increased significantly to 0.56% compared to 0.22% for 2Q09. 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 2.54% from 2.35% and loan costs declined to 0.11% from 0.17%. In addition, operating expenses were trimmed by 0.12% to 2.59% primarily due to a reduction in salaries and benefits.

As a result, the efficiency ratio has improved significantly to 82.8% from 89.7%.

## Credit Risk

Total loan delinquency declined to 1.32% compared to 1.36% at 2Q09. In contrast, commercial loan delinquency has increased to 2.19% from 1.94% at 2Q09 although has declined from 2.60% at 1Q10.

## SUMMARY RESULTS 2Q10

### 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%	(\$85)	(3%)
Mortgage Loans	55%	55%	\$579	4%
Commercial Loans	29%	28%	\$565	9%
Agricultural Loans	4%	4%	\$80	8%

### 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 June 30	
	2010	2009
Total Loans	4.84%	5.17%
Personal Loans	6.46%	6.83%
Mortgage Loans	4.24%	4.63%
Commercial Loans	5.36%	5.53%
Agricultural Loans	4.51%	4.90%

# SECTOR FINANCIAL HIGHLIGHTS 2Q2010

	ONTARIO SECTOR		Selected Bank Information
	Year to date at . . .		
	2Q 2010	2Q 2009	2Q 2009
<b>PROFITABILITY</b>	<b>% average assets *</b>		
Net Interest and Investment Income	2.54%	2.35%	1.68%
Loan Costs	0.11%	0.17%	0.29%
Other (non-interest) Income	0.71%	0.84%	1.78%
Total Income	3.13%	3.02%	2.72%
Total Non-Interest Expenses (Operating Expenses)	2.59%	2.71%	2.08%
Net Income/(Loss) before Taxes and Non-recurring & Extraordinary items	0.54%	0.31%	1.08%
Efficiency Ratio (% Operating Expenses to Total Income)	82.80%	89.72%	79.40%
Efficiency Ratio (% Operating Expenses, before dividends & interest rebates to Total Income)	80.76%	87.21%	65.7%
Return on Average Assets (ROA) before dividends etc.	0.64%	0.31%	0.79%
Return on Average Assets (ROA)	0.56%	0.22%	
Return on Regulatory Capital before dividends etc.	8.74%	4.31%	
Return on Regulatory Capital	7.66%	3.17%	
<b>CREDIT RISK, as at the quarter-end</b>			
Gross Delinquency greater than 30 days (% of total loans)	1.32%	1.36%	
Gross Delinquency greater than 90 days (% of total loans)	0.87%	0.75%	
<b>OFF BALANCE SHEET ACTIVITY</b>			
Off balance Sheet Assets (\$millions) at: (Includes mutual fund sales and administered loans etc.)	4,973	4,746	
Income on Off Balance Sheet Activity (% Other Income)	14.50%	23.21%	
<b>OTHER INDICATORS, as at the quarter-end</b>			
Total Number of Active Insured Institutions	181	192	
Total Assets (\$ millions)	30,344	28,839	2,667,131
Average Assets per insured institution (\$ millions)	167.6	150.2	
Median Assets (\$ millions)	54.7	45.3	
Regulatory Capital (as a percentage of net assets)	7.48%	6.98%	
Number of Insured Institutions below 5% Capital	8	7	
Liquidity	13.97%	14.06%	
* Year to date annualized unless otherwise stated.			
Totals may not agree due to rounding			

# SECTOR FINANCIAL STATEMENTS

## BALANCE SHEET 2Q2010

	ONTARIO SECTOR		Percentage of Total Assets	
	2Q 2010 (\$000)	2Q 2009 (\$000)	2Q 2010	2Q 2009
<b>ASSETS</b>				
Cash and Investments	4,902,221	4,473,829	16.2%	15.5%
Personal Loans	3,002,757	3,087,651	9.9%	10.7%
Residential Mortgage Loans	13,680,102	13,101,116	45.1%	45.4%
Commercial Loans	7,094,083	6,528,805	23.4%	22.6%
Institutional Loans	79,230	89,800	0.3%	0.3%
Unincorporated Association Loans	12,706	11,538	0.0%	0.0%
Agricultural Loans	1,047,256	967,074	3.5%	3.4%
Total Loans	24,916,133	23,785,983	82.1%	82.5%
Total Loan Allowances	169,927	149,546	0.6%	0.5%
Capital (Fixed) Assets	356,587	361,714	1.2%	1.3%
Intangible & Other Assets	339,023	366,849	1.1%	1.3%
<b>Total Assets</b>	<b>30,344,037</b>	<b>28,838,828</b>	<b>100.0%</b>	<b>100.0%</b>
<b>LIABILITIES</b>				
Demand Deposits	10,439,460	9,377,816	34.4%	32.5%
Term Deposits	9,490,936	9,631,251	31.3%	33.4%
Registered Deposits	6,999,406	6,603,544	23.1%	22.9%
Other Deposits	172,884	147,293	0.6%	0.5%
Total Deposits	27,102,686	25,759,904	89.3%	89.3%
Borrowings	460,629	451,286	1.5%	1.6%
Other Liabilities	551,210	634,473	1.8%	2.2%
<b>Total Liabilities</b>	<b>28,114,525</b>	<b>26,845,663</b>	<b>92.7%</b>	<b>93.1%</b>
<b>MEMBERS' EQUITY &amp; CAPITAL</b>				
Membership Shares	78,606	78,304	0.3%	0.3%
Retained Earnings	1,235,489	1,120,318	4.1%	3.9%
Other Tier 1 & 2 Capital	915,417	794,542	3.0%	2.8%
<b>Total Members' Equity &amp; Capital</b>	<b>2,229,512</b>	<b>1,993,164</b>	<b>7.3%</b>	<b>6.9%</b>
<b>Total Liabilities, &amp; Members' Equity &amp; Capital</b>	<b>30,344,037</b>	<b>28,838,828</b>	<b>100.0%</b>	<b>100.0%</b>

Totals may not agree due to rounding

# SECTOR FINANCIAL STATEMENTS

## INCOME STATEMENT 2Q2010

	ONTARIO SECTOR Percentage of Average Assets *		Canadian Chartered Banks **
	2Q 2010	2Q 2009	2Q 2009
<b>Interest and Investment Income</b>			
Loan Interest Income	3.96%	4.28%	2.02%
Investment Income	<u>0.37%</u>	<u>0.41%</u>	<u>0.70%</u>
	<b>4.33%</b>	<b>4.69%</b>	<b>2.72%</b>
<b>Interest Expense</b>			
Interest Expense on Deposits	1.69%	2.22%	0.79%
Interest Rebates & Dividends on Share Capital	0.01%	0.01%	
Dividends on Investment Capital & Other Capital	0.07%	0.08%	
Other Interest Expense	0.03%	0.03%	
Other Interest Expense and Dividends	<u>0.10%</u>	<u>0.12%</u>	<u>0.25%</u>
	<b>1.80%</b>	<b>2.34%</b>	<b>1.04%</b>
<b>Net Interest &amp; Investment Income</b>	<b>2.54%</b>	<b>2.35%</b>	<b>1.68%</b>
Loan Costs	0.11%	0.17%	0.29%
<b>Net Interest &amp; Investment Income after Loan Costs</b>	<b>2.42%</b>	<b>2.18%</b>	<b>1.39%</b>
Other (non-interest) Income	<u>0.71%</u>	<u>0.84%</u>	<u>1.78%</u>
<b>Net Interest, Investment &amp; Other Income</b>	<b>3.13%</b>	<b>3.02%</b>	<b>3.17%</b>
<b>Non-interest Expenses</b>			
Salaries and Benefits	1.37%	1.43%	1.11%
Occupancy	0.24%	0.26%	0.33%
Computer, office & other equipment	0.26%	0.28%	
Advertising & Communications	0.16%	0.16%	
Member Security	0.13%	0.12%	
Administration	0.26%	0.28%	
Other	<u>0.18%</u>	<u>0.18%</u>	<u>0.64%</u>
	<b>2.59%</b>	<b>2.71%</b>	<b>2.08%</b>
<b>Net Income/(Loss) Before Taxes and Non-recurring &amp; Extraordinary items</b>	<b>0.54%</b>	<b>0.31%</b>	<b>1.09%</b>
Non-recurring & Extraordinary gains/(losses)	0.12%	-0.01%	0.00%
Taxes	0.10%	0.07%	0.27%
Minority Interests	0.00%	0.00%	0.02%
<b>Net Income/(Loss)</b>	<b>0.56%</b>	<b>0.22%</b>	<b>0.80%</b>
Average Assets (\$000)	<b>29,884,875</b>	<b>28,275,489</b>	<b>2,636,783,000</b>

\* Year to date annualized

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

Totals may not agree due to rounding.

# SELECTED FINANCIAL TRENDS

