

# SYSTEM OUTLOOK

## 4Q2007

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**Ontario**

Deposit Insurance  
Corporation of Ontario

Société ontarienne  
d'assurance-dépôts

### **Electronic Publication:**

The *System Outlook* is available in PDF format (portable document file format), which can be read using Adobe Acrobat Reader. It can be downloaded from the Member Institution 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 for may therefore not always agree with previously reported information for the same period as a result of additional information received after the reporting date.

**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 4Q07

| Selected Aggregate System Performance Indicators | As at December 31, 2007   |        |
|--|---------------------------|--------|
|  | 2007                      | 2006   |
| Regulatory Capital (Total)                       | 7.21%                     | 7.08%  |
| Class 1 Institutions (Leverage)                  | 8.45%                     | 7.50%  |
| Class 2 Institutions (BIS)                       | 14.07%                    | 13.56% |
| Liquidity (Gross)                                | 12.89%                    | 13.32% |
| Asset Growth                                     | 5.9%                      | 5.2%   |
| Delinquency (greater than 30 days)               | 1.07%                     | 1.09%  |
|  | Year to Date (annualized) |        |
| Financial Margin                                 | 2.62%                     | 2.75%  |
| Other Income                                     | 0.77%                     | 0.81%  |
| Return on Average Assets (ROAA)                  | 0.33%                     | 0.40%  |
| Return on Regulatory Capital                     | 4.56%                     | 5.69%  |
| Efficiency Ratio                                 | 86.8%                     | 85.9%  |

**Capital:** Aggregate capital increased by \$105 million during the latest twelve months. Aggregate regulatory capital increased to 7.21% from 7.08% at 4Q06. Aggregate capital (leverage) for Class 1 institutions is 8.45% while aggregate capital (BIS) for Class 2 as reported was 14.07%.

**Growth:** Assets increased by \$1.5 billion or 5.9% in the latest twelve months to \$26.2 billion. Total loans increased \$1.5 billion or 7.5% while deposits increased by \$1.2 billion or 5.7% in the same period. Off-balance sheet assets increased by \$440 million the latest twelve months to \$4.95 billion although declined from \$5.2 billion at 3Q07.

**Profitability:** The annualized return on average assets (ROAA) declined to 0.33% compared to 0.40% for the same period in 2006. This was primarily due to lower net interest income and other income, and higher loan costs resulting in a decline in the efficiency ratio to 86.8% from 84.2% at 3Q07. ROAA before dividends was 0.52% compared to 0.88% for the Canadian Banking sector.

**Credit Risk:** In the latest twelve months, loan costs have increased to 0.15% from 0.12% while gross delinquency has declined marginally to 1.07% from 1.09%.

**Loan Mix:** The loan mix remained fairly stable over the past twelve months although commercial and agricultural loan growth continued to remain strong with growth of 13% each. In contrast, personal loans remained stable while growth in residential mortgage loans declined to 7% compared to historical average growth rates of approximately 9%. This lower mortgage growth is in part due to an increase in the level of loan "securitizations".

| Product            | % of Loan Portfolio |      | Change (\$millions) | % Change in Outstanding Loans |
|--------------------|---------------------|------|---------------------|-------------------------------|
|                    | 2007                | 2006 |                     |                               |
| Personal Loans     | 14%                 | 15%  | \$15                | 0%                            |
| Mortgage Loans     | 57%                 | 57%  | \$772               | 7%                            |
| Commercial Loans   | 25%                 | 24%  | \$614               | 13%                           |
| Agricultural Loans | 4%                  | 4%   | \$100               | 13%                           |

**Loan Yields:** The overall loan yield increased marginally primarily due to slightly higher overall interest rates.

| Selected Loan Yields (Year to Date annualized) | As at December 31, 2007 |       |
|--|-------------------------|-------|
|  | 2007                    | 2006  |
| TOTAL LOANS                                    | 6.23%                   | 5.92% |
| Personal Loans                                 | 8.89%                   | 8.74% |
| Mortgage Loans                                 | 5.29%                   | 5.10% |
| Commercial Loans                               | 6.85%                   | 6.66% |
| Agricultural Loans                             | 6.21%                   | 5.96% |

# FINANCIAL HIGHLIGHTS 4Q07

|  | Ontario System          |        | Selected<br>Bank Information |
|--|-------------------------|--------|------------------------------|
|  | Year to date at         |        |                              |
|  | 4Q07                    | 4Q06   | 4Q07                         |
| <b>PROFITABILITY</b>   | <b>% average assets</b> |        |                              |
| Net Interest and Investment Income   | 2.77%                   | 2.88%  | 1.45%                        |
| Loan Costs   | 0.15%                   | 0.12%  | 0.13%                        |
| Other (non-interest) Income  | 0.77%                   | 0.81%  | 1.89%                        |
| Total Income   | 3.39%                   | 3.57%  | 3.22%                        |
| Total Non-Interest Expenses (Operating Expenses)   | 2.94%                   | 3.06%  | 2.13%                        |
| Net Income/(Loss) before Taxes and<br>Non-recurring & Extraordinary items                              | 0.45%                   | 0.50%  | 1.08%                        |
| Efficiency Ratio (% Operating Expenses to Total Income)  | 86.8%                   | 85.9%  |                              |
| Efficiency Ratio (% Operating Expenses, before dividends & interest rebates to<br>Total Income)        | 82.2%                   | 81.4%  | 66.30%                       |
| Return on Average Assets (ROA) before dividends etc.   | 0.52%                   | 0.60%  | 0.88%                        |
| Return on Average Assets (ROA)   | 0.33%                   | 0.40%  |                              |
| Return on Regulatory Capital before dividends etc.   | 7.25%                   | 6.31%  |                              |
| Return on Regulatory Capital   | 4.56%                   | 5.69%  |                              |
| <b>CREDIT RISK, as at quarter-ended</b>  |                         |        |                              |
| Gross Delinquency greater than 30 days (% of total loans)  | 1.07%                   | 1.09%  |                              |
| Gross Delinquency greater than 90 days (% of total loans)  | 0.46%                   | 0.52%  |                              |
| <b>OFF BALANCE SHEET ACTIVITY</b>  |                         |        |                              |
| Off balance Sheet Assets (\$millions) at..<br>(Includes mutual fund sales and administered loans etc.) | 4,950                   | 4,511  |                              |
| Income on Off Balance Sheet Activity (% Other Income)  | 10.46%                  | 13.11% |                              |
| <b>OTHER INDICATORS, as at quarter-ended</b>   |                         |        |                              |
| Total Number of Active Member Institutions   | 207                     | 219    |                              |
| Total Assets (\$millions)  | 26,192                  | 24,728 | 2,283,079                    |
| Average Assets per member institution (\$millions)   | 126.5                   | 112.9  |                              |
| Median Assets (\$millions)   | 40.3                    | 33.0   |                              |
| Regulatory Capital (as per Ont Reg 76/95)<br>(as a percentage of net assets)                           | 7.21%                   | 7.08%  |                              |
| Number of Member Institutions below 5% Capital   | 2                       | 4      |                              |
| Gross Liquidity as per Sections 16-18 of Ont Reg.76/95   | 12.89%                  | 13.32% |                              |
| * Year to date annualized unless otherwise stated.   |                         |        |                              |
| Totals may not agree due to rounding   |                         |        |                              |

# SYSTEM BALANCE SHEET 4Q07

|  | Percentage of Total Assets |                   |               |               |
|--|----------------------------|-------------------|---------------|---------------|
|  | 4Q07<br>(\$000)            | 4Q06<br>(\$000)   | 4Q07          | 4Q06          |
| <b>ASSETS</b>                                    |                            |                   |               |               |
| Cash and Investments                             | 3,999,447                  | 4,110,103         | 15.3%         | 16.6%         |
| Personal Loans                                   | 3,021,142                  | 3,006,558         | 11.5%         | 12.2%         |
| Residential Mortgage Loans                       | 12,222,643                 | 11,450,670        | 46.7%         | 46.3%         |
| Commercial Loans                                 | 5,363,765                  | 4,749,793         | 20.5%         | 19.2%         |
| Institutional Loans                              | 84,543                     | 72,675            | 0.3%          | 0.3%          |
| Unincorporated Association Loans                 | 7,329                      | 8,082             | 0.0%          | 0.0%          |
| Agricultural Loans                               | 870,899                    | 771,222           | 3.3%          | 3.1%          |
| <b>Total Loans</b>                               | <b>21,570,322</b>          | <b>20,059,000</b> | <b>82.4%</b>  | <b>81.1%</b>  |
| Total Loan Allowances                            | (119,472)                  | (104,937)         | -0.5%         | -0.4%         |
| Capital (Fixed) Assets                           | 367,254                    | 353,890           | 1.4%          | 1.4%          |
| Intangible & Other Assets                        | 374,928                    | 310,070           | 1.4%          | 1.3%          |
| <b>Total Assets</b>                              | <b>26,192,478</b>          | <b>24,728,126</b> | <b>100.0%</b> | <b>100.0%</b> |
| <b>LIABILITIES</b>                               |                            |                   |               |               |
| Demand Deposits                                  | 8,212,065                  | 8,047,507         | 31.4%         | 32.5%         |
| Term Deposits                                    | 8,857,031                  | 7,964,747         | 33.8%         | 32.2%         |
| Registered Deposits                              | 5,824,031                  | 5,694,594         | 22.2%         | 23.0%         |
| Other Deposits                                   | 200,971                    | 148,357           | 0.8%          | 0.6%          |
| <b>Total Deposits</b>                            | <b>23,094,098</b>          | <b>21,855,205</b> | <b>88.2%</b>  | <b>88.4%</b>  |
| Borrowings                                       | 645,602                    | 610,938           | 2.5%          | 2.5%          |
| Other Liabilities                                | 543,907                    | 458,389           | 2.1%          | 1.9%          |
| <b>Total Liabilities</b>                         | <b>24,283,607</b>          | <b>22,924,532</b> | <b>92.7%</b>  | <b>92.7%</b>  |
| <b>MEMBERS EQUITY CAPITAL</b>                    |                            |                   |               |               |
| Membership Shares                                | 79,944                     | 80,588            | 0.3%          | 0.3%          |
| Retained Earnings                                | 1,077,827                  | 1,004,382         | 4.1%          | 4.1%          |
| Other Tier 1 & 2 Capital                         | 751,100                    | 718,624           | 2.9%          | 2.9%          |
| <b>Total Members Equity Capital</b>              | <b>1,908,871</b>           | <b>1,803,594</b>  | <b>7.3%</b>   | <b>7.3%</b>   |
| <b>Total Liabilities, Members Equity Capital</b> | <b>26,192,478</b>          | <b>24,728,126</b> | <b>100.0%</b> | <b>100.0%</b> |

Totals may not agree due to rounding

# SYSTEM INCOME STATEMENT 4Q07 (LATEST FOUR QUARTERS)

|   | ONTARIO SYSTEM                |                   | Canadian Chartered Banks** |
|---|-------------------------------|-------------------|----------------------------|
|   | Percentage of Average Assets* |                   |                            |
|   | 4Q07                          | 4Q06              | 4Q07                       |
| <b>Interest and Investment Income</b>                                       |                               |                   |                            |
| Loan Interest Income  | 5.09%                         | 4.84%             | 3.13%                      |
| Investment Income   | <u>0.58%</u>                  | <u>0.68%</u>      | <u>1.45%</u>               |
|   | <b>5.67%</b>                  | <b>5.52%</b>      | <b>4.58%</b>               |
| <b>Interest Expense</b>   |                               |                   |                            |
| Interest Expense on Deposits  | 2.56%                         | 2.32%             | 2.32%                      |
| Interest Rebates & Dividends on Share Capital                               | 0.09%                         | 0.09%             |                            |
| Dividends on Investment Capital & Other Capital                             | 0.10%                         | 0.11%             |                            |
| Other Interest Expense  | <u>0.15%</u>                  | <u>0.12%</u>      |                            |
| Other Interest Expense and Dividends  | <u>0.35%</u>                  | <u>0.31%</u>      | <u>0.81%</u>               |
|   | <b>2.90%</b>                  | <b>2.63%</b>      | <b>3.13%</b>               |
| <b>Net Interest Investment Income</b>                                       | <b>2.77%</b>                  | <b>2.88%</b>      | <b>1.45%</b>               |
| Loan Costs  | 0.15%                         | 0.12%             | 0.13%                      |
| <b>Net Interest Investment Income after Loan Costs</b>                      | <b>2.62%</b>                  | <b>2.76%</b>      | <b>1.33%</b>               |
| Other (non-interest) Income   | <u>0.77%</u>                  | <u>0.81%</u>      | <u>1.89%</u>               |
| <b>Net Interest, Investment Other Income</b>                                | <b>3.39%</b>                  | <b>3.57%</b>      | <b>3.22%</b>               |
| <b>Non-interest Expenses</b>  |                               |                   |                            |
| Salaries and Benefits   | 1.57%                         | 1.62%             | 1.18%                      |
| Occupancy   | 0.26%                         | 0.26%             | 0.35%                      |
| Computer, office & other equipment  | 0.31%                         | 0.32%             |                            |
| Advertising & Communications  | 0.20%                         | 0.21%             |                            |
| Member Security   | 0.12%                         | 0.12%             |                            |
| Administration  | 0.32%                         | 0.34%             |                            |
| Other   | <u>0.16%</u>                  | <u>0.18%</u>      | <u>0.60%</u>               |
|   | <b>2.94%</b>                  | <b>3.06%</b>      | <b>2.13%</b>               |
| <b>Net Income (Loss) Before Taxes and Non-recurring Extraordinary items</b> | <b>0.45%</b>                  | <b>0.51%</b>      | <b>1.08%</b>               |
| Non-recurring & Extraordinary gains/(losses)                                | -0.03%                        | 0.00%             | 0.00%                      |
| Taxes   | 0.09%                         | 0.10%             | 0.19%                      |
| Minority Interests  |                               |                   | 0.02%                      |
| <b>Net Income (Loss)</b>  | <b>0.33%</b>                  | <b>0.40%</b>      | <b>0.88%</b>               |
| Average Assets (\$000)  | <b>25,609,235</b>             | <b>24,192,512</b> | <b>2,283,078,866</b>       |

\* Year to date annualized

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

Totals may not agree due to rounding.