

# 2008 Annual Report

PROTECTION. SECURITY. STABILITY.



**Ontario**

Deposit Insurance  
Corporation of Ontario

Société ontarienne  
d'assurance-dépôts

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## Publications Available on DICO's Website

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### Corporate

- Annual Report

### Insured Institutions Information

- BIS II FORM and Completion Guidelines
- Commercial Lending Practices
  - Watch List Accounts
  - Credit Risk Ratings
  - Industry Codes and Concentration Risk
- Deposit Insurance Brochure and FAQ
- DICO By-law # 3
- DICO By-law # 5
  - Assessment Workbook for Management
  - Assessment Workbook for Board of Directors
  - Assessment Workbook Module: Commercial Lending
- DICO By-law # 6
  - Application Guide By-law #6, Impaired Loans
- DICO New Accounting Standards and Reporting Requirements
- DICO Info
- Director's Handbook
- Examination Manual
- Guidance Note (Lending) Class 1 Credit Unions
- Guidance Note (Lending) Class 2 Credit Unions
- Guidance Note: Structural (Interest Rate) Risk
- League Return (LR) and Annual League Return (ALR) Completion Guides
- SBFP Reference Manual
- System Outlook
- System Releases
- System Statistics



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**David Yule**  
*Chair of the Board*  
*Président du Conseil d'administration*

March 18, 2009

The Honourable Dwight Duncan  
Minister of Finance  
Frost Building South, 7<sup>th</sup> floor  
7 Queen's Park Crescent  
Toronto, Ontario  
M7A 1Y7

Dear Minister:

I have the honour to submit to you and the Superintendent of the Financial Services Commission of Ontario the Annual Report of the Deposit Insurance Corporation of Ontario for the year ended December 31, 2008.

Yours truly,

## Mission

To protect depositors and contribute to the stability of the Ontario Credit Union/Caisse Populaire sector.

## 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.

## Values

In fulfilling our mandate and pursuing our Vision and Mission we will live by the following values:

### Excellence and Professionalism

- DICO will maintain a highly skilled and diverse workforce that promotes excellence and professionalism in how it conducts its affairs.

### Respect and Fairness

- Employees will treat everyone with mutual respect and fairness.
- DICO will act and support employees in a fair and consistent manner.

### Integrity and Trustworthiness

- Employees will adhere to the highest ethical standards in performing their duties and responsibilities including maintaining the confidentiality of sensitive information.

### Communications and Teamwork

- Employees will maintain open communications and work cooperatively amongst themselves and with partners towards the achievement of DICO's mandate.

### Financial Stewardship

- DICO will act as a responsible agency that continuously strives to be efficient and effective for the benefit of all stakeholders and will manage its operations effectively and in a cost efficient manner.

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## Corporate Governance

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The Deposit Insurance Corporation of Ontario is an agency of the Province of Ontario established in 1977 and operates under the *Credit Unions and Caisses Populaires Act, 1994*. The Act sets out DICO's objects, powers and duties as well as general terms for deposit insurance and other governing parameters. DICO functions within the legal framework established by the Act, Management Board of Cabinet Secretariat Directive on Agency Establishment and Accountability and other applicable laws. The Corporation is ultimately accountable to the Legislature through the Minister of Finance for the conduct of its affairs.

The Act requires that the DICO Board of Directors "shall manage the affairs or supervise the management of the affairs of the Corporation...". The Board of Directors is composed of up to eleven persons all of whom are appointed by the Lieutenant-Governor-in-Council to serve for various terms of usually up to three years. The criteria for appointment to the Board include:

- having work experience in the financial services industry;
- understanding Credit Union/Caisse Populaire principles, sector structure and modus operandi;
- board experience, director training or background in business or academia;
- understanding business concepts, operations and financial reports;
- communicating effectively, strategic thinking and appropriate decision-making and judgement.

DICO follows a unique appointments process to ensure that it recruits the best qualified people to its Board.

The Corporation has established a skills profile in addition to a position description for directors. DICO has also established a gender, experience, skills and geographic representation profile for the Board as a whole, to ensure that it maintains an appropriate balance of these attributes. All potential candidates for the Board are screened and interviewed by a committee of the Board prior to being recommended for appointment to the Minister. In each case, DICO provides the Minister with more than one candidate for each position. Once the Minister has made a selection, that recommendation is forwarded to the Cabinet for approval.

DICO follows best practices in corporate governance including:

- a formal director orientation process;
- continuous director development;
- Board succession planning;
- annual Board assessment and feedback;
- regular in-camera sessions; and
- annual strategic planning session.

The Board also establishes annual objectives for itself and measures its performance against those stated objectives. These include strategies for risk management and communication with stakeholders, executive management and management reporting and control.

DICO is a member and active participant in the Conference Board of Canada's Public Enterprise Governance Centre. This Centre provides the Corporation with an insight into best and next practices for achieving excellence in governance.

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## DICO Staff

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Giovanna Arnold•Adrienne Barber•Patricia Bazinet•Suzanne Boyer•Alla Brachman•Barry Brydges•John Burgman•Richard Dale•Gerry Daoust•Tony D'Errico•Bob Edmison•Brigitte Elie•Bill Foster•Carmen Gheorghe•Sharon Haslett•John Hutton•Entela Josifi•Yasmin Khoja•Steve Kokaliaris•Jim Maxwell•Alana McLeary•Niaill O'Halloran•Danny Pianezza•Naile Piranaj•Andy Poprawa•Andy Rechtshaffen•Mercedes Ruano•Suzanne Tucker•Nelson Verdecia•Grace Wen•Michael White•Richard White•Winnie Yu.

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## DICO's Board of Directors

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### **DAVID YULE, BCOMM, FCA, CHAIR OF THE BOARD**

David Yule, Chair of the Board, retired in 1997 as a partner with Ernst & Young where he was involved in their financial institution audit practice and their forensic accounting practice. He currently serves on several boards of directors and carries on a financial consulting practice. Mr. Yule was appointed to a third term on March 23, 2006 and his term expires on March 22, 2009.



### **ANDRÉ AUGER, BA, M.ED.**

André Auger is a retired elementary school principal. He has twenty years of experience on caisse populaire boards, ten of those as Chair. He also held the position of Chair and Vice-Chair of L'Alliance des caisses populaires de l'Ontario Ltée. Mr. Auger is active in organizations and service clubs at the local level. He was appointed to a first term on January 5, 2006 and his term expired on January 4, 2009.



### **JANE DAVIS, B SC (HON), MM, ICD.D**

Jane Davis is an experienced risk management and change management professional, with an extensive background in wealth management, brokerage, mutual funds, investment counseling and private banking. She also has sales experience in the corporate and commercial banking sectors so she understands the business management challenges. Ms. Davis has worked internationally in both the wealth management and corporate banking risk management roles. Ms. Davis sits as an independent director on three corporate and one not for profit board since obtaining her ICD designation in early 2006. Ms. Davis is also a member of three Investment Review Committees in the fund sector. Ms. Davis was appointed to a first term on August 12, 2008 and her term expires on August 11, 2011.



### **ROBERT HAMMOND, BA, MBA, FCIA**

Robert Hammond, an actuary by profession, spent 29 years with the Federal Department of Insurance and its successor organization, the Office of the Superintendent of Financial Institutions (OSFI). At various times he was responsible for the supervision of federally registered insurance companies, non-bank deposit-taking institutions, credit union centrals and pension plans. As Superintendent of Insurance and, subsequently, Deputy Superintendent at OSFI, he served on the Board of Directors of the Canada Deposit Insurance Corporation for ten years. From 1992 until retirement in 2003, he was CEO of the Canadian Payments Association, the organization responsible for operating Canada's clearing and settlement system and having credit union centrals, federations of caisses populaires and independent credit unions among its members. Mr. Hammond was appointed to a first term on May 30, 2006 and his term expires on May 29, 2009.



### **CAROL LEMELIN, CMA**

Carol Lemelin was Chief Financial Officer for the The St. Lawrence Seaway Management Corporation with overall responsibilities including Finance, Information Technology & Telecommunications, Internal Audit, and Revenue & Forecasting. Mr. Lemelin was Chair of Caisse Populaire de Cornwall Inc., and also served in various capacities on the board of Caisse Populaire de Cornwall for several years. Mr. Lemelin was appointed to a first term on June 20, 2007 and his term expires on June 19, 2010.



**COLIN LITTON, FCA, ICD.D**

Colin Litton is a Fellow of the Institute of Chartered Accountants of Ontario and a Certified Director. He is a retired partner of KPMG and his career with the firm has included service in its South African, Australian and Canadian practices. During his career with KPMG he was primarily engaged in providing audit and advisory services to banks, pension and investment funds and other entities comprising the financial services industry. He was the Chair of the Deposit-taking Institutions Auditors Advisory Committee to the Superintendent of Financial Institutions Canada until his retirement from public practice in Canada. Mr. Litton was appointed to a first term on August 12, 2008 and his term expires on August 11, 2011.



**PAUL MULLINS, BA, LL.B**

Paul Mullins is a lawyer who has had his own practice in Windsor and Essex County since 1971. He was a commissioner for the Federal Human Rights Tribunal. He is a Director and former President of Windsor Homes Coalition which provides low income housing to needy families. For over 25 years he has served as a Director and/or Chair of the Board of United Communities Credit Union (formerly Woodslee Credit Union) which has 35,000 members and assets of over \$575 million. Mr. Mullins was appointed to a second term on March 7, 2007 and his term expires on March 6, 2010.



**LAURA TALBOT, MBA, CMA, FCMA, ICD.D, VICE-CHAIR OF THE BOARD**

Laura Talbot is Chair designate of the Board and President of the TalbotAllan Consulting Group. Previously she held senior executive roles with University of Waterloo, the Federal government, the Canadian Red Cross, several utilities and US Bank One. She has substantial governance experience, currently on the Boards and Committees of the: Canadian Accounting Standards Oversight Council; Canadian Partnership Against Cancer; Canadian Food Inspection Agency; Ontario Health Quality Council; Desjardins Sécurité financière – assurance vie; SMAC Pension committee; Fellows FCMA Council of Québec; and a life member of Financial Executives International (Canada). She was previously Vice-Chair of the CS COOP Board, Chair of the Society of Management Accountants of Canada, amongst others. Ms. Talbot was appointed to a fourth term on February 18, 2009 and her term expires on February 18, 2011. She was appointed Chair of the Board effective March 22, 2009.



**LESLIE THOMPSON, MBA, MFA, FCSI, ICD.D**

Leslie Thompson is President of LESRISK, Debt and Risk Management Inc. She is an enterprise risk management consultant with experience as a senior executive with both financial institutions and government. Formerly, she was Vice President of Union Bank of Switzerland and The Chase Manhattan Bank. She also led the start-up operations of The Province of Ontario's treasury operations (now Ontario Financing Authority). Ms. Thompson also serves as corporate director on several boards in addition to DICO including: Trustee, City of Toronto Sinking Fund Committee; Chair, Investment Advisory Committee, City of Toronto as well as community and arts boards. Her qualifications include a Master of Business Administration, the Institute of Corporate Directors' Designation and she is a Fellow of the Canadian Securities Institute. Ms. Thompson was appointed to a second term on November 19, 2008 and her term expires on November 18, 2011.



**PATRICK DEUTSCHER, OBSERVER, MINISTRY OF FINANCE**

Patrick Deutscher was appointed Assistant Deputy Minister of the Office of Economic Policy and Chief Economist for the Province of Ontario in October 2006. Prior to that appointment he was Director of the Economic and Revenue Forecasting and Analysis Branch of the Office of Economic Policy (OEP). Pat first joined the OPS in 1981. He worked in the Office of Economic Policy until 1987 when he left for the Eastern part of the province to join the federal Department of Finance. He worked in the Fiscal and Economic Policy Branch of federal Finance until the end of 1992 when he returned to the Ontario Government and the OEP. Earlier in his career as an economist he worked with Environment Canada and Imperial Oil. Pat is a westerner with roots in all three prairie provinces. His first degree was a B.A. in psychology from the University of Alberta. Subsequently, he earned an M.A. in economics from York and a Ph.D. from the University of Toronto.

# Sub-Committees of the Board

(as at December 31, 2008)

## AUDIT AND FINANCE COMMITTEE

This committee reviews the investment policies and procedures as well as monthly and annual financial statements of the Corporation. It reviews the results of the external auditors' audit of the annual financial statements. The committee also reviews recommendations made by the internal auditor regarding internal controls and procedures and ensures that appropriate action is taken.

- Laura Talbot, *Chair*
- André Auger
- Carol Lemelin
- Colin Litton
- David Yule, *ex-officio*

## HUMAN RESOURCES COMMITTEE

This committee reviews and makes recommendations to the Board on policies relating to the Corporation's human resources plans, compensation, employee benefits and related matters.

- Paul Mullins, *Chair*
- André Auger
- Laura Talbot
- David Yule, *ex-officio*

## RISK MANAGEMENT COMMITTEE

This committee reviews the principal risks to the Corporation including deposit insurance risk exposure and makes recommendations to the Board relating to its Framework for Enterprise Risk Management including risk assessment and risk management policies, programs and guidelines.

- Leslie Thompson, *Chair*
- Bob Hammond
- Jane Davis
- David Yule, *ex-officio*

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS 2008*				
	DICO Board	Risk Management Committee	Audit & Finance Committee	Human Resources Committee
Number of meetings held	5	4	4	4
Total # of members	7-9	2-3	3-4	3
Total scheduled attendance	40	11	13	12
Total actual attendance	39	11	13	12
% of Attendance	98%	100%	100%	100%
* Does not include D. Yule, ex-officio for Committee meetings and Patrick Deutscher, MOF Observer				



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## Ombudsman's Report

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**Beryl Roberto**  
*Ombudsman*

The Office of the Ombudsman was established in April 2008 by the Board of Directors of the Deposit Insurance Corporation of Ontario (DICO), after a request by the Minister of Finance and following consultation with the Ontario credit union and caisse populaire sector. This initiative is intended to help meet the needs of insured institutions and their members for the purpose of reviewing complaints that have not been resolved at the operational level and to reach conclusions based on an independent review of the facts. Complaints must relate to regulatory issues between insured institutions and DICO or to disputes between depositors or borrowers related to institutions that are being liquidated. In the course of investigating complaints, the Ombudsman may make non-binding recommendations to DICO where deemed appropriate. The Ombudsman reports directly to the Board and is independent from operational programs.

DICO's website includes information regarding the mandate of the Ombudsman, complaint forms, contact information and circumstances under which the Ombudsman has no jurisdiction, such as when an insured institution is involved in an order for administration or liquidation.

Activities during 2008 included:

1. Establishing procedures that have been approved by the Board to ensure proper functioning of the Office;
2. Presenting progress reports on current activities at each Board of Directors meeting;
3. Following up on two enquiries from members of liquidated institutions that were quickly resolved by management of DICO;

4. Dealing with one complaint made to the Minister which related to a credit union that had been under Supervision by DICO. The complaint was thoroughly investigated and a response forwarded to the complainant. A recommendation to enhance the educational process at the onset of the process of Supervision so that directors of member institutions have a better understanding of the Terms of Supervision was embraced by the Board and management of DICO and has been implemented.

Full co-operation and support was received from the board, management and staff at DICO throughout the year.

For 2009, the complaint resolution process will be enhanced by ensuring information needed by member institutions and their members to initiate contact with the appropriate staff at DICO, who can assist with problem resolution, is available on the website. This enhanced process will include steps to escalate unresolved problems to the CEO as the final management contact for resolution. If a complaint is not resolved at this level, the Ombudsman's Office provides a forum where member institutions and their members can receive a fair and impartial hearing. DICO is committed to continuing efforts to increase awareness of the complaint resolution process and the role of the Ombudsman's Office.

Beryl Roberto  
*Ombudsman*

Tel: 416-325-9446

Email: [ombudsman@dico.com](mailto:ombudsman@dico.com)



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## Message from the Chair: *Changing times, challenging times*

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**David Yule**  
*Chair of the Board of Directors*

On behalf of the Board of Directors, I am pleased to present our annual report to the government and our other stakeholders.

2008 has been a challenging year for many reasons. The rapid and unprecedented changes in the economic environment have put major stresses on financial markets and institutions around the world. Confidence in markets and institutions has been tested. These events have sparked, in many countries, a renewed interest by consumers in the safety of their deposits through deposit insurance.

This environment provides DICO with an opportunity to demonstrate its value to its stakeholders. We continue to fulfil our mandate by ensuring that every insured depositor is fully protected from loss of their insured deposits. No depositor has ever lost any deposit funds placed with an Ontario credit union or caisse populaire.

Over the past number of years, DICO has been hard at work, along with our partners in the sector, to build safety and soundness into every credit union and caisse populaire. Overall capital and liquidity levels well exceed regulatory minimums. Despite a significant loss provision in 2008, the deposit insurance reserve fund remains at 50 basis points of insured deposits. We will continue to work with individual institutions to assist them in remaining financially and operationally sound in order to meet their

goal of serving their members and providing service to their communities.

While the outlook for 2009 is uncertain, we remain confident that the sector will be able to successfully respond to the challenges and seize the opportunities that lie ahead.

In anticipation of the proclamation of amendments to the *Credit Unions and Caisses Populaires Act, 1994*, which will expand the mandate of DICO in the area of safety and soundness, the board and management have been engaged in a robust review of our policies and procedures to ensure that these new responsibilities are effectively implemented.

DICO places a considerable degree of importance on its own governance standards. The Board of Directors continues to follow best practices in governance as set out in current literature on the subject including the Conference Board of Canada's publications. Details of our governance practices can be found in this annual report.

I would like to take this opportunity to express my appreciation to all our Board members for their dedication and professionalism in working together in the interests of all stakeholders. Readers will note from their respective biographies, that all of our directors bring a high level of skill, expertise and experience to DICO.

During the past year, Sherry MacDonald of Toronto and André Auger of Sturgeon Falls retired from the Board after having served for six and three years respectively. On behalf of the Board and staff I would like to thank both Sherry and André for their valuable contribution and dedication to DICO.

In 2008, we welcomed Jane Davis of Toronto and Colin Litton of Oakville to the Board. Both Jane and Colin bring a wealth of experience, skill and enthusiasm to our Board.

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**“While the outlook for 2009 is uncertain, we remain confident that the sector will be able to successfully respond to the challenges and seize the opportunities that lie ahead.”**

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For 2009, DICO has identified a number of key priorities:

- Implementing a risk-based regulatory capacity;
- Enhancing our risk assessment and oversight capabilities;
- Promoting the implementation of enterprise risk management systems in insured institutions;
- Publishing guidelines and policy guidance with respect to emerging risks;
- Working with external auditors to develop guidance for effective audits; and
- Updating our strategic alliance agreements with our various stakeholders.

In conclusion, we believe that our long-term strategic direction has supported our mandate to enhance depositor confidence and the sector's goal to be

more competitive and responsive to its members' needs. By exercising continued vigilance through our risk assessment and management programs and by building a strong financial base, DICO believes that we will continue to protect depositors effectively, minimize the cost of depositor protection, and contribute to the stability of and confidence in Ontario's credit unions and caisses populaires. We look forward to working with our various stakeholders to achieve these goals.

As I will be retiring from the Board in March, 2009, I would like to take the opportunity to express my sincere appreciation to all the directors, management and staff as well as other stakeholders that I have worked with over the past six years for their support and guidance. It has been a truly fulfilling experience.

On behalf of the Board of Directors,

David Yule  
*Chair*



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## Message from the CEO:

### 2008 - Year of Challenges

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**Andy Poprawa**  
President & CEO

There is no doubt that 2008 will be recorded as one of the most challenging years in recent memory. For the first time in many decades deposit insurance became a topic of interest to many people including the media, governments and the general public. Financial services regulators and deposit insurers around the world came under intense scrutiny as market events unfolded and the financial system underwent intense pressures.

Ontario's credit unions and caisses populaires were not immune to these pressures. Several negative events impacted their performance and condition. In particular, falling interest rates pushed down profitability as interest rate spreads narrowed and operating costs could not be reduced. Liquidity tightened as the credit markets reacted to the financial crisis. Write downs associated with a decrease in the valuation of asset backed commercial paper investments also impacted earnings. Loan losses increased with the decrease in the value of real estate and other underlying security for loans. Finally, losses associated with higher risk business activities contributed to the decrease in net income and capital.

As a result of this environment and other factors such as non-compliance with the Act, regulations and sound business and financial practices, four insured institutions went out of business and one failed. Despite the failure of this institution, DICO managed to ensure that all depositors were protected from any loss of their deposit funds. Each of these situations was unique and required creative so-

lutions to ensure the safety of deposits. However, the cost to the deposit insurance reserve fund was high.

During 2008, we recorded over \$27 million in insurance losses – the highest in our history. Our progress toward reaching our reserve fund target experienced a serious set-back during the year because of these losses. At the end of 2008, our reserve fund stood at 50 basis points compared to our target of 61 basis points.

As the number, complexity, financial soundness and operational health of insured institutions changes, we have been continuously reviewing our organization to ensure that we are meeting our mandate while delivering value to our stakeholders. During 2008, in anticipation of an increased level of activity, we increased the number of full time staff equivalents by three while maintaining net operating expenditures 9% under budget.

Given the low interest rate environment, our yield on the investments in the insurance fund decreased during 2008. However, our sound investment strategy with its objectives of safety, liquidity and reasonable yield ensured that our portfolio included only liquid, high grade and low risk investments and we suffered no capital losses in our portfolio.

When the amendments to the *Credit Unions and Caisses Populaires Act, 1994* are proclaimed, DICO's mandate will be expanded to include responsibility

for the regulation of capital, liquidity and other solvency related areas. This change in mandate is the result of the work that has been underway since the legislation was last amended. DICO intends to ensure that its new responsibilities are undertaken in a transparent, fair and responsive fashion ensuring that all insured institutions have full access to the criteria to be used for regulatory decision making. During the year we circulated for comment a proposal to change the way we charge premiums to our insured institutions. The feedback we received from stakeholders was positive and we incorporated sev-

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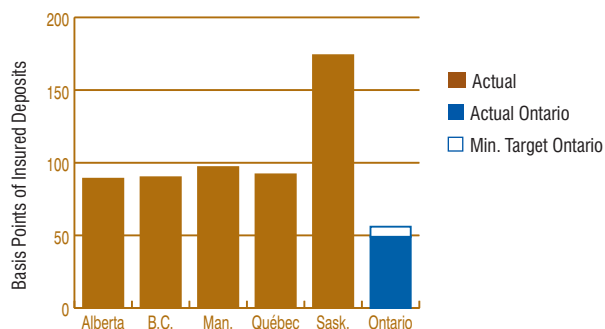
**“The board and staff of DICO are committed to providing protection, security and stability to the Ontario Credit Union and Caisse Populaire sector for the benefit of all its members.”**

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eral suggestions made to improve the proposed system. However, as the year progressed we realized that our original reserve fund target levels would not be met. We decided to defer making a submission to the government proposing changes to the regulations and a reduction in premium levels until we had more certainty that we would meet our reserve fund targets.

In the spirit of the co-operative movement we are also pleased to assist other jurisdictions around the world in developing sound regulatory and depositor protection regimes for co-operative financial institutions. We continue to chair the International Credit Union Regulators Network (ICURN) – a network of global credit union and caisse populaire regulators formed for the purpose of sharing information and experiences.

**DEPOSIT INSURANCE RESERVE FUND**  
*Comparison with other Provincial Jurisdictions*



For further information on our programs and to obtain further information about us, we invite stakeholders and readers to visit our website at [www.dico.com](http://www.dico.com).

We expect the next few years to be challenging for some insured institutions as competitive pressures intensify and the economic environment may be uncertain in a number of industries and geographic areas. Continued consolidation and restructuring is expected to address some of these challenges. The board and staff of DICO are committed to providing protection, security and stability to the Ontario Credit Union and Caisse Populaire sector for the benefit of all its members. We look forward to the opportunity in 2009 of continuing to demonstrate our commitment.

In closing, I would like to express my appreciation to our employees, who are an extremely dedicated group of professionals and the major source of DICO’s corporate strength. I appreciate, as well, the advice and support that I continue to receive from DICO’s Board of Directors. In particular, I am grateful to our outgoing Board Chair, David Yule, for his wise counsel and support over the past three years.

Andy Poprawa, CA, C. Dir.  
*President & CEO*

# Management's Discussion and Analysis

## DICO Overview

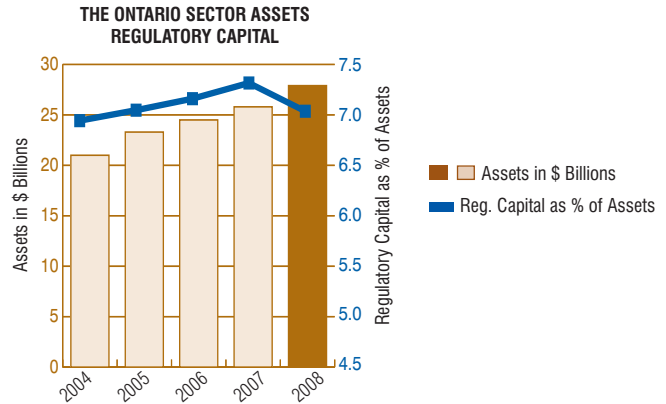
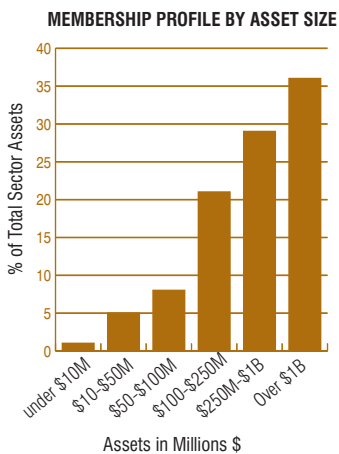
The Deposit Insurance Corporation of Ontario (DICO) provides deposit protection for all eligible deposits held at Ontario credit unions and caisses populaires. Deposit insurance is part of a comprehensive protection program in all Ontario credit unions and caisses populaires which is backed by provincial legislation. DICO insures deposits up to \$100,000 subject to the eligibility criteria and maximum coverage. For more details regarding the basic coverage that is available for all eligible deposits please visit our web site [www.dico.com](http://www.dico.com).

## Economic Overview

DICO fulfils its mandate in a complex and dynamic environment. The economy, the performance of insured institutions and legislative and regulatory developments are continually monitored. Through 2008 the Ontario economy weakened mostly as a result of the economic slowdown in the United States. The manufacturing and forestry sectors in particular have been impacted by this development which, in turn, has had an effect on the credit union/caisse populaire sector. This trend is expected to continue through 2009. The Ontario economy is expected to experience little or no growth until the fourth quarter of 2009 at the earliest.

## Overview of Ontario Credit Unions and Caisses Populaires

Ontario's relatively strong economic environment has contributed to the credit union and caisse populaire sector's performance over the past few years. Overall, despite the current market conditions, the



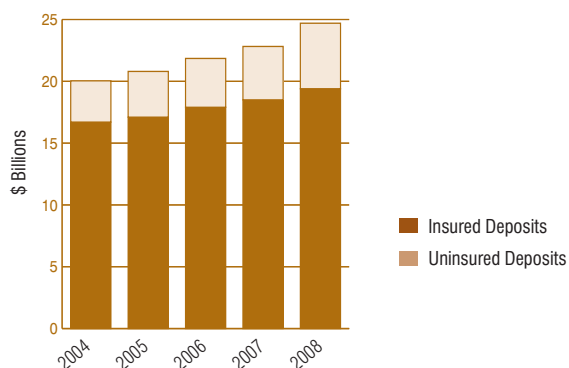
sector is still well capitalized at an average of 7% of assets. It is also relatively stable although a number of competitive, economic and other pressures are impacting some individual insured institutions' performance.

During 2008 the long term trend of consolidation continued. The number of active insured institutions declined by 9 to a total of 198, as a result of mergers or wind-ups. Today, about 50% of the assets of the Ontario movement are held by the largest 11 insured institutions while 5% of assets are held by the smallest 100 institutions. This distribution of assets creates an interesting dynamic within the industry.

Aggregate on-balance sheet assets and deposits exhibited growth year over year of over 6.5% to \$27.9 billion. Growth in commercial loans remained very strong at 13% while aggregate residential mortgage loans showed slower growth at 5%. At the end of 2008 gross liquidity rose slightly to 13.27% reversing a three year downward trend.

DICO'S MEMBERSHIP PROFILE... AT A GLANCE....		
	2008	2007
Number of Insured Institutions	198	207
Total Assets (billions)	\$27.9	\$26.0
Total Deposits (billions)	\$24.9	\$22.8
Insured Deposits (billions)	\$19.3	\$18.5
% of Total Deposits	78%	81%
Regulatory Capital Ratio (leverage basis)	7.00	7.26%
Asset Quality (loan costs % of average assets)	0.12%	0.13%
Profitability (net income % of average assets)	0.15%	0.33%

**AGGREGATE INSURED DEPOSITS AND TOTAL DEPOSITS**



Aggregate capital within the sector declined to 7% of assets of which over 4% was retained earnings. At the end of 2008, all but four insured institutions met the prescribed statutory minimum capital requirements.

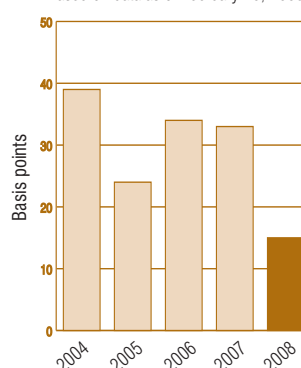
Throughout 2008 the sector's aggregate credit risk, as measured by aggregate loan costs, and delinquency increased as market conditions changed. In addition to increasing loan delinquencies, the coverage ratio has declined to 57 per cent (loan allowances as a percentage of impaired loans). Gross delinquency greater than 30 days increased to 116 basis points of total loans compared to 107 basis points in 2007.

Profitability during 2008 has decreased to 15 basis points from 33 basis points in 2007. A number of institutions experienced operating losses during 2008. These institutions are being closely monitored to ensure that either the underlying reasons for the losses are being rectified or that sufficient capital is being injected by members to support their continued viability.

The well-publicized difficulties with asset backed commercial paper (ABCP) and other complex financial instruments have led to a severe tightening of certain credit markets. Initially, the credit union and caisse populaire sector experienced a decline in liquidity but cash holdings have now stabilized as insured institutions took appropriate measures to deal with this trend. In late 2008, the Crawford Committee completed its work on restructuring the ABCPs. As a result, most credit unions and caisses populaires which held these instruments obtained new

**EARNINGS IN THE ONTARIO SYSTEM**

Based on data as of February 20, 2009



valuations and have taken appropriate write-downs. These adjustments have contributed to lower than expected earnings.

During 2008, adherence to the Standards of Sound Business and Financial Practices remained stable as measured by the results of the On-Site Verification (inspection) program. By the end of the year over 93% of insured institutions, including virtually all larger institutions, had achieved full compliance with all standards – an improvement from the prior year.

DICO's Differential Premium System (DPS) is based on the aggregate risk profiles of institutions using quantitative and qualitative factors for five key components - capital, asset quality, adherence to standards of sound business and financial practices, earnings, and interest rate risk. The following table shows the slippage to higher premium rate tiers over the past year. As a result, for the first time in the past number of years, the average premium rate for deposit insurance has increased.

<b>OVERALL DPS RISK RATINGS: 2004 TO 2008 DISTRIBUTION BASED ON % OF SYSTEM ASSETS RATE PER \$1,000 INSURED DEPOSITS</b>						
Premium Rate \$	Risk Level	2004	2005	2006	2007	2008
0.90	Low	38%	36%	34%	42%	<b>32%</b>
1.00	Low	40%	48%	53%	46%	<b>56%</b>
1.15	Mod.	20%	15%	6%	10%	<b>9%</b>
1.40	High	1%	1%	7%	2%	<b>1%</b>
2.10	High	1%	0%	0%	0%	<b>2%</b>

<b>DICO'S 2008 FINANCIAL SCORECARD (\$MILLIONS)</b>			
	DICO Target	DICO Actual	Consolidated Actual*
Insurance Fund	\$116.6	<b>\$97.0</b>	<b>\$95.6</b>
Gross Insurance Provisions	\$5.0	<b>\$27.8</b>	<b>\$27.8</b>
Recovery of Prior Years' Losses	-	<b>\$2.5</b>	<b>\$3.4</b>
Total Gross Operating Expenses	\$6.8	<b>\$6.4</b>	<b>\$8.5</b>
Total Net Operating Expenses	\$6.7	<b>\$6.1</b>	<b>\$8.4</b>
Return on investments	4.0%	<b>3.37%</b>	<b>3.37%</b>

\*Consolidation of VIEs - institutions in liquidation

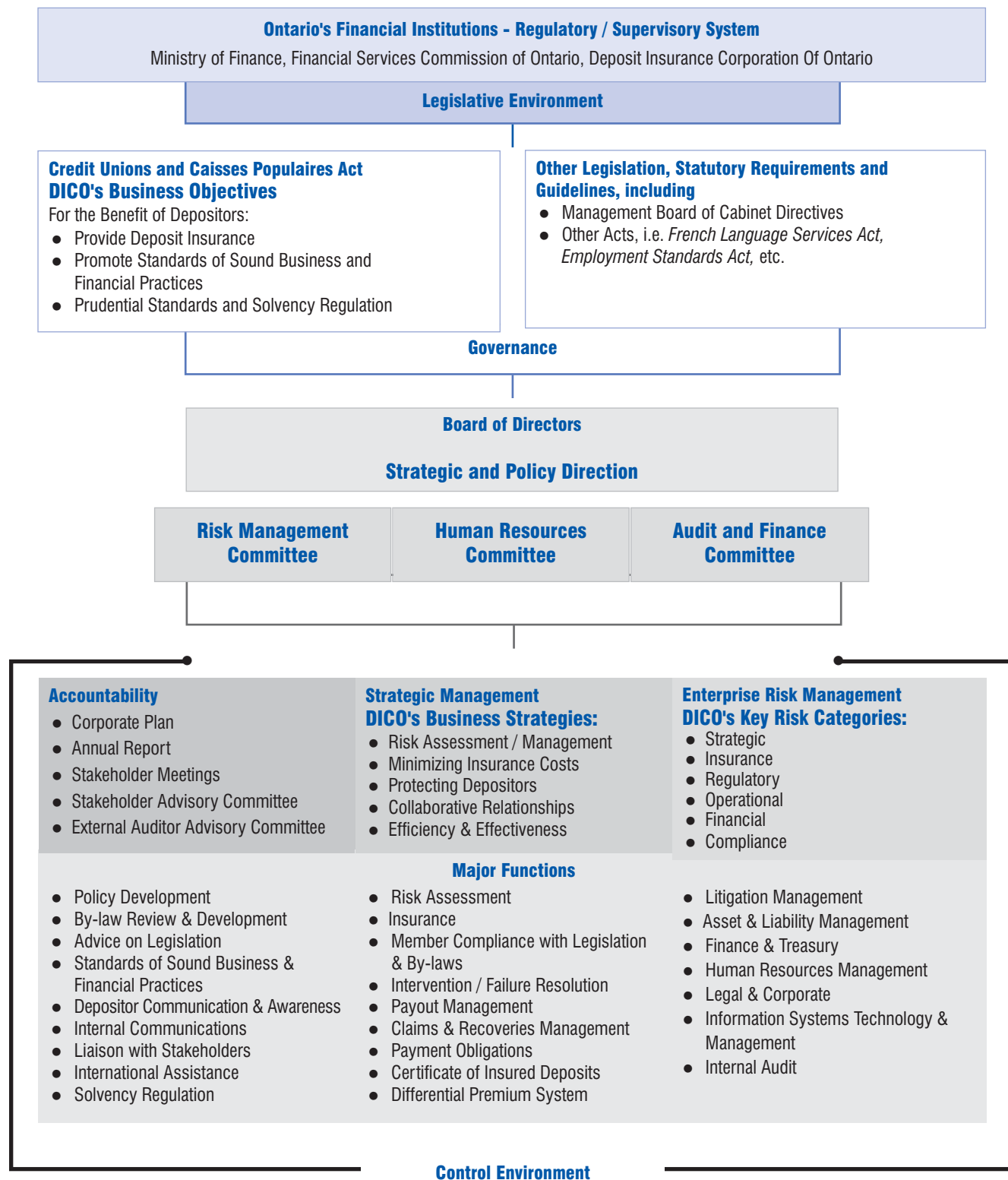
In the context of a continuing low interest rate and competitive market environment, the Ontario credit union and caisse populaire sector has further consolidated and, at the same time, grown to expand services to communities across the province. While profitability in some insured institutions continues to be a concern for their future viability in this competitive financial services marketplace, generally the sector remains relatively stable.

#### **Legislative and Regulatory Developments**

In May 2007 Bill 187, which includes amendments to the *Credit Unions and Caisses Populaires Act*, received Royal Assent. In early 2009, the government released draft regulations which accompany the Act for consultation. Once the Act amendments and revised regulations are proclaimed, likely later in 2009, they will provide credit unions and caisses populaires with broader powers to compete in the financial services marketplace. DICO's role, responsibilities and powers will be expanded to include solvency regulation with broader scope to protect depositors and members and to contribute to the stability of the sector.

# DICO's Business Model 2009

DICO has developed a business model to encapsulate the way in which the Corporation conducts its business in light of its legislation and overall environment. This business model reflects DICO's position as an integral part of Ontario's financial safety net, with its own legislated mandate. DICO's Board of Directors and management activities are considered under the umbrella category of governance. This also reflects the importance of strategic management and enterprise risk management. The importance of accountability is also highlighted in the business model, as are the major functions of the Corporation in fulfilling its mandate.



## 2009 Performance - Balanced Scorecard Overview

<b>STRATEGIC OBJECTIVE: <i>PROACTIVE AND BALANCED RISK-BASED REGULATION AND RISK MANAGEMENT</i></b> <b>MEASURE: Compliance with the regulations (capital, liquidity ,etc.) and Sound Business and Financial Practices</b> <b>TARGET: <i>Improvement in levels of compliance</i></b>	
KEY STRATEGIES	KEY PERFORMANCE INDICATORS
<b>1.1 Effective Risk &amp; Regulatory Compliance Assessment</b>	<ul style="list-style-type: none"> <li>• Identification of non-compliance</li> <li>• Identification of all high-risk institutions within 90 days of reporting / examination</li> <li>• Changes to institutional e-reporting implemented</li> <li>• Enterprise Risk Management (ERM) programs initiated for all large institutions</li> </ul>
<b>1.2 Effective Risk Management (Intervention)</b>	<ul style="list-style-type: none"> <li>• Appropriate program / process for all insured institutions that meet defined risk-based criteria</li> <li>• Improved risk rating of institutions in Watchlist or Supervision (Graduation from programs)</li> </ul>
<b>1.3 Effective Failure Resolution</b>	<ul style="list-style-type: none"> <li>• Specific failure resolution strategies for small, mid-size and large institutions</li> <li>• Maintaining public confidence in insured institutions</li> <li>• Protection of depositors</li> <li>• Lowest net cost to Deposit Insurance Reserve Fund (DIRF)</li> </ul>
<b>1.4 Depositor Payout and Liquidations</b>	<ul style="list-style-type: none"> <li>• Depositors paid according to entitlement within 30 days</li> <li>• Maximize recovery of assets of institutions in liquidation</li> </ul>
<b>1.5 Establish and Publish Prudential Standards for Class II Insured Institutions</b>	<ul style="list-style-type: none"> <li>• Clear and concise standards and guidelines published</li> </ul>
<b>1.6 Utilize Authorities under the Act to Enforce Compliance</b>	<ul style="list-style-type: none"> <li>• Level of compliance</li> <li>• Consistent application and process for issuing orders</li> </ul>
<b>1.7 Implement New Regulatory Role</b>	<ul style="list-style-type: none"> <li>• New policies and procedures implemented</li> <li>• Role and expectations communicated to insured institutions</li> </ul>
<b>1.8 Implement New Differential Premium System (DPS) (if approved)</b>	<ul style="list-style-type: none"> <li>• Assisted in development of revised regulation</li> <li>• Approval of new DPS by government</li> <li>• Implement new risk-based equitable DPS</li> </ul>
<b>1.9 Collection and Publication of Information</b>	<ul style="list-style-type: none"> <li>• All user needs satisfied</li> </ul>
<b>1.10 Reliance on Insured Institution's External Auditors</b>	<ul style="list-style-type: none"> <li>• Awareness by auditors of responsibilities to perform audits</li> <li>• Awareness by auditors of "duty of care" to depositors and DICO</li> </ul>
<b>STRATEGIC OBJECTIVE: <i>SOUND CORPORATE GOVERNANCE</i></b> <b>MEASURE: Fulfilling mandate</b> <b>TARGET: <i>Meeting corporate objectives and complying with relevant Statutes</i></b>	
KEY STRATEGIES	KEY PERFORMANCE INDICATORS
<b>2.1 Sound Governance of DICO</b>	<ul style="list-style-type: none"> <li>• Compliance with DICO's policies and procedures</li> <li>• Compliance with the Act, Management Board Secretariat (MBS) and government directives</li> </ul>
<b>2.2 Update Framework for Enterprise Risk Management</b>	<ul style="list-style-type: none"> <li>• Identification and management of all material risks</li> <li>• Integration into business planning process</li> <li>• Optimum allocation of resources</li> </ul>
<b>2.3 Progress towards Target Deposit Insurance Reserve Fund (DIRF) (56 bp to 68 bp)</b>	<ul style="list-style-type: none"> <li>• Progress towards DIRF target range</li> <li>• Risk level (preservation of capital), liquidity (within requirements), return (above benchmark)</li> </ul>

<b>2.4 Maintain Appropriate Contingency Financing Arrangements (Government Guarantee, Line of Credit)</b>	<ul style="list-style-type: none"> <li>• Government line of credit approved</li> <li>• Appropriate administrative procedures in place for timely access to funds</li> <li>• Adequate liquidity to manage various failure scenarios</li> </ul>
<b>2.5 Implement Information Technology (IT) Strategic Plan</b>	<ul style="list-style-type: none"> <li>• Reliable and effective IT support in place for all major corporate operations (less than 2% downtime)</li> <li>• Plan targets met</li> </ul>
<b>2.6 Planning and Accountability</b>	<ul style="list-style-type: none"> <li>• Effective planning and accountability: Corporate Plan; Balanced Scorecard; Annual Report; Annual Meeting</li> <li>• Stakeholder feedback</li> </ul>
<b>2.7 Maintain Effective Ombudsman Function</b>	<ul style="list-style-type: none"> <li>• Number and type of complaints</li> <li>• All complaints resolved</li> </ul>
<b>2.8 Revised Comprehensive Human Resources (HR) Strategy</b>	<ul style="list-style-type: none"> <li>• Ability to attract, retain, motivate competent staff</li> <li>• Regulatory skills training for all appropriate staff</li> <li>• Succession and staffing plans</li> <li>• Employee satisfaction (above benchmark)</li> </ul>
<b>2.9 Operate DICO Effectively and Efficiently</b>	<ul style="list-style-type: none"> <li>• Completion of business plan</li> <li>• Operate within budget</li> <li>• Effective systems / processes and controls</li> </ul>
<b>2.10 Compliance with Directives, Standards and Acts</b>	<ul style="list-style-type: none"> <li>• Compliance level as measured by audits</li> </ul>
<b>STRATEGIC OBJECTIVE: EFFECTIVE PUBLIC &amp; STAKEHOLDER AWARENESS</b>	
<b>MEASURE: Level of transparency and accessibility of all appropriate information</b>	
<b>TARGET: Increased level of awareness by stakeholders</b>	
<b>KEY STRATEGIES</b>	<b>KEY PERFORMANCE INDICATORS</b>
<b>3.1 Comprehensive Website: Updated Information for Depositors, Public, Insured Institutions &amp; Other Stakeholders Re New Role</b>	<ul style="list-style-type: none"> <li>• Ready access to all relevant information about DICO's mandate and operations</li> <li>• User survey</li> </ul>
<b>3.2 Maintain Toll-free Telephone Information Service</b>	<ul style="list-style-type: none"> <li>• Available access to appropriate information within service standards</li> </ul>
<b>3.3 "Point of Sale" Information</b>	<ul style="list-style-type: none"> <li>• Informative brochures for depositors</li> <li>• Quick Reference Guides for insured institutions' staff</li> <li>• Decals for display at all institutions</li> </ul>
<b>3.4 Communications</b>	<ul style="list-style-type: none"> <li>• Communications Strategy &amp; Plan developed and implemented</li> <li>• Key messaging developed for corporate spokespeople</li> <li>• Effective regional meetings conducted</li> <li>• Survey results</li> </ul>
<b>STRATEGIC OBJECTIVE: STRONG PARTNERSHIPS</b>	
<b>MEASURE: Satisfaction Ratings from Strategic Partners</b>	
<b>TARGET: Improved Satisfaction Ratings from Strategic Partners</b>	
<b>KEY STRATEGIES</b>	<b>KEY PERFORMANCE INDICATORS</b>
<b>4.1 Strategic Alliances with the Ministry, La Fédération, L'Alliance, Central 1, Regulators: FSCO, FINTRAC, OSFI, BC FICOM</b>	<ul style="list-style-type: none"> <li>• Memoranda of Understanding in place</li> <li>• Effective working relationships</li> <li>• Feedback from strategic alliance partners</li> </ul>
<b>4.2 Stakeholder Relations</b>	<ul style="list-style-type: none"> <li>• Awareness of stakeholder issues and support for DICO's initiatives</li> <li>• Consultation process</li> <li>• Regional and Annual meetings</li> <li>• Advisory committees</li> </ul>
<b>4.3 Interprovincial, National and International Networks</b>	<ul style="list-style-type: none"> <li>• Shared expertise and effective working relationships</li> </ul>
<b>4.4 External Experts and Other Professionals</b>	<ul style="list-style-type: none"> <li>• Availability and capability of potentially required external resources</li> </ul>

# DICO's Risk Management

DICO's risks are managed in the context of our Framework for Enterprise Risk Management (FERM) – a well defined set of Board approved risk management policies and practices to ensure that the Board, the Risk Management Committee of the Board and management understand and respond to the risks to which we are exposed. The FERM is reviewed in detail annually and is a primary driver in the development of DICO's operational business plan and budget each year.

OVERVIEW OF DICO'S ASSESSMENT OF SIGNIFICANT RISKS		
DESCRIPTION OF RISK	RISK LEVEL	RISK TREND
<b>DEPOSIT INSURANCE RISKS: DICO's risk of loss resulting from:</b>		
<b>Risk Assessment / Monitoring Risk:</b> The risk that DICO does not promptly or systematically identify insured institutions that pose an unacceptable level of insurance risk resulting in financial loss.	MODERATE	—
<b>Risk Management / Intervention Risk:</b> The risk that DICO does not take appropriate action with respect to an unacceptable level of insurance risk posed by an insured institution resulting in financial loss.	LOW	—
<b>Failure / Loss Management Risk:</b> The risk that DICO does not take appropriate action to manage insured institutions that are under Administration or in Liquidation resulting in increased financial loss.	LOW / MODERATE	—
<b>Risk of Institutional Failure Due to Fraud:</b> The risk of failure of an institution due to significant fraud in small insured institutions which do not have sufficient separation of duties or internal audit functions.	HIGH	—
<b>Economic Environment Risk:</b> The risk to DICO that insured institutions are negatively impacted by regional, provincial and national economic factors.	MODERATE	▲
<b>DICO'S CORPORATE RISKS</b>		
<b>STRATEGIC RISKS:</b> DICO's risk of loss resulting from failure of the Regulatory Framework and DICO's strategies to address significant and / or emerging risks including: <ul style="list-style-type: none"> <li>• Political Risks</li> <li>• Strategic Direction Risk</li> <li>• Regulatory Framework Risk / The Act / Government Policy Risk</li> </ul>	MODERATE	—
<b>REGULATORY RISKS (once Act is proclaimed):</b> The risk that DICO fails to meet its regulatory responsibilities. Includes: <ul style="list-style-type: none"> <li>• Prudential Standards Risk</li> <li>• Non-Compliance Risk</li> <li>• Role Transition Risk</li> </ul>	MODERATE	—
<b>FINANCIAL RISKS:</b> DICO's risk of loss associated with managing its assets and liabilities including: <ul style="list-style-type: none"> <li>• Liquidity Risk</li> <li>• Investment / Market Risk</li> <li>• Internal Controls Risk</li> <li>• Adequacy of the Deposit Insurance Reserve Fund Risk</li> </ul>	MODERATE	—
<b>OPERATIONAL RISKS:</b> DICO's risk of loss resulting from inadequate or ineffective internal processes, people and systems, or from external events including: <ul style="list-style-type: none"> <li>• Liability Risk</li> <li>• Property Risk</li> <li>• Communications Risk</li> <li>• Health &amp; Safety Risks</li> <li>• Business Continuity Risk</li> <li>• Technology Support Risks</li> <li>• Technology Failure Risks</li> <li>• Outsourcing Risks</li> <li>• Human Resources Risk</li> <li>• Reputation Risk</li> </ul>	LOW / MODERATE	—
<b>COMPLIANCE RISKS:</b> DICO's risk of loss resulting from failure to comply with all applicable legislation and directives including: <ul style="list-style-type: none"> <li>• <i>Credit Unions and Caisses Populaires Act Risk</i></li> <li>• Management Board Directives Risk</li> <li>• <i>Income Tax Act Risk</i></li> <li>• Human Resources Legislation Risk</li> <li>• Other legislative Risk</li> </ul>	LOW	—

## 2008 Performance - Balanced Scorecard Results

<b>STRATEGIC OBJECTIVE: <i>PROACTIVE AND BALANCED RISK-BASED REGULATION AND RISK MANAGEMENT</i></b>		
<b>MEASURE/TARGET: Compliance with the Regulations (capital, liquidity, sound business and financial practices)</b>		
<b>KEY STRATEGIES</b>	<b>KEY PERFORMANCE INDICATORS (MEASURE / TARGET)</b>	<b>ACHIEVEMENT</b>
<b>1.1 Effective Risk Assessment (monitoring and examinations)</b>	<ul style="list-style-type: none"> <li>• Identification of all high-risk institutions within 90 days of reporting / examination</li> </ul>	✓
<b>1.2 Utilize the Terms and Conditions of the Policy of Deposit Insurance to Manage Insurance Risks</b>	<ul style="list-style-type: none"> <li>• Change in risk ratings</li> </ul>	✓
<b>1.3 Appropriate Intervention</b>	<ul style="list-style-type: none"> <li>• All insured institutions that meet defined risk-based criteria assigned to appropriate program</li> <li>• Improved risk rating of institutions in Watchlist or Supervision (Graduation from programs)</li> </ul>	✓ ✓
<b>1.4 Effective Failure Resolution</b>	<ul style="list-style-type: none"> <li>• Maintaining public confidence</li> <li>• Protection of depositors</li> <li>• Net cost to DIRF</li> </ul>	✓ ✓ ✓
<b>1.5 Depositor Payout and Liquidations</b>	<ul style="list-style-type: none"> <li>• Depositors paid according to entitlement within 30 days</li> <li>• Maximize recovery of assets of institutions in liquidation</li> </ul>	✓ ✓
<b>1.6 Compliance with Standards of Sound Business and Financial Practices (By-law #5)</b>	<ul style="list-style-type: none"> <li>• 100% compliance or, if non-compliant, under intervention program</li> </ul>	✓
<b>1.7 Develop a New Differential Premium System (DPS)</b>	<ul style="list-style-type: none"> <li>• New risk-based equitable DPS</li> <li>• Approval of new DPS by government</li> <li>• Effective consultation process</li> </ul>	✓ * ✓
<b>1.8 Develop and Publish Regulatory Guidelines and Standards</b>	<ul style="list-style-type: none"> <li>• Compliance with guidelines and standards</li> </ul>	*
<b>1.9 Collection and Publication of Information</b>	<ul style="list-style-type: none"> <li>• All user needs satisfied</li> </ul>	✓
<b>STRATEGIC OBJECTIVE: <i>SOUND CORPORATE GOVERNANCE</i></b>		
<b>MEASURE/TARGET: Successful Completion of Business Plan and Compliance with Relevant Statutes</b>		
<b>KEY STRATEGIES</b>	<b>KEY PERFORMANCE INDICATORS (MEASURE / TARGET)</b>	<b>ACHIEVEMENT</b>
<b>2.1 Sound Governance of DICO</b>	<ul style="list-style-type: none"> <li>• Compliance with DICO's policies and procedures</li> <li>• Compliance with the Act, Management Board Secretariat (MBS) and government directives</li> </ul>	✓ ✓
<b>2.2 Framework for Enterprise Risk Management</b>	<ul style="list-style-type: none"> <li>• Identification and management of all material risks</li> <li>• Appropriate allocation of resources</li> </ul>	✓ ✓
<b>2.3 Adequate Deposit Insurance Reserve Fund (DIRF)</b>	<ul style="list-style-type: none"> <li>• DIRF within approved target</li> <li>• Risk level (preservation of capital), liquidity (within requirements), return (in excess of benchmark)</li> </ul>	X ✓

✓ Achieved    X Not Achieved    \* Deferred

<b>2.4 Maintain Appropriate Contingency Financing Arrangements (Government Guarantee, Line of Credit)</b>	<ul style="list-style-type: none"> <li>Adequate liquidity to manage various failure scenarios</li> </ul>	✓
<b>2.5 Information Technology (IT) Strategy</b>	<ul style="list-style-type: none"> <li>Reliable and effective IT support in place for all major corporate operations</li> <li>Less than 2% downtime</li> </ul>	✓ ✓
<b>2.6 Planning and Accountability</b>	<ul style="list-style-type: none"> <li>Effective: Corporate Plan; Balanced Scorecard; Annual Report; Annual Meeting</li> <li>Stakeholder feedback</li> </ul>	✓ ✓
<b>2.7 Establish Ombudsman Function</b>	<ul style="list-style-type: none"> <li>Number of complaints</li> <li>All complaints resolved</li> </ul>	✓ ✓
<b>2.8 Revised Comprehensive Human Resources (HR) Strategy</b>	<ul style="list-style-type: none"> <li>HR Strategy in place</li> <li>Employee satisfaction (above benchmark)</li> <li>Training and development</li> <li>Succession Plan</li> </ul>	✓ ✓ ✓ ✓
<b>STRATEGIC OBJECTIVE: EFFECTIVE PUBLIC &amp; STAKEHOLDER AWARENESS</b>		
<b>MEASURE/TARGET: Level of Transparency and Accessibility of All Appropriate Information</b>		
<b>KEY STRATEGIES</b>	<b>KEY PERFORMANCE INDICATORS (MEASURE/TARGET)</b>	<b>ACHIEVEMENT</b>
<b>3.1 Comprehensive Website: Information for depositors and public information for insured institutions and other stakeholders</b>	<ul style="list-style-type: none"> <li>Ready access to all appropriate information about DICO's operations</li> <li>User survey</li> </ul>	✓ *
<b>3.2 Maintain Toll-free Telephone Access</b>	<ul style="list-style-type: none"> <li>Ready access to appropriate information (response rate 100% within service standards)</li> </ul>	✓
<b>3.3 "Point of Sale" Information</b>	<ul style="list-style-type: none"> <li>Informative brochures and Quick Reference Guides (measured by further enquiries)</li> </ul>	✓
<b>3.4 Communications</b>	<ul style="list-style-type: none"> <li>Implementation of Communications Plan</li> <li>Survey results</li> </ul>	✓ ✓
<b>STRATEGIC OBJECTIVE: STRONG PARTNERSHIPS</b>		
<b>MEASURE/TARGET: Partners' (Stakeholders and DICO) Satisfaction as Measured by Direct Feedback</b>		
<b>KEY STRATEGIES</b>	<b>KEY PERFORMANCE INDICATORS (MEASURE/TARGET)</b>	<b>ACHIEVEMENT</b>
<b>4.1 Strategic Alliances with the Ministry, La Fédération, L'Alliance, Central 1, Regulators: FSCO, FINTRAC, OSFI</b>	<ul style="list-style-type: none"> <li>Effective working relationships (feedback from strategic alliance partners)</li> </ul>	✓
<b>4.2 Stakeholder Consultations</b>	<ul style="list-style-type: none"> <li>Annual Meeting</li> <li>Awareness of stakeholder issues and support for DICO's initiatives</li> </ul>	✓ ✓
<b>4.3 Interprovincial, National and International Networks</b>	<ul style="list-style-type: none"> <li>Shared expertise and effective working relationships</li> </ul>	✓
<b>4.4 External Experts and Other Professionals</b>	<ul style="list-style-type: none"> <li>Adequacy of potentially required external resources</li> </ul>	✓

✓ Achieved    X Not Achieved    \* Deferred

## Financial Overview

This section provides a review of the Corporation's financial performance for 2008 that focuses on the Consolidated Statement of Operations and Changes in the Deposit Insurance Reserve Fund. Management's Discussion and Analysis (MD&A) should be read in conjunction with the Corporation's Consolidated Financial Statements and related notes for the year ended December 31, 2008.

### 2008 Consolidated Financial Overview

Effective January 2005, DICO adopted the Canadian Institute of Chartered Accountants' (CICA) Accounting Guideline 15 on the consolidation of variable interest entities ("VIEs"). For 2008 the consolidated financial statements combined DICO's results and those of ten institutions in liquidation that met the VIE criteria for consolidation, after the elimination of inter-company transactions and balances. Details of this accounting policy are provided in Note 1a of the Notes to the Consolidated Financial Statements.

The impact of the VIE consolidation on DICO's financial statements as at December 31, 2008 (after elimination of inter-company transactions) is a net increase in total assets of \$2.9 million and an increase in liabilities of \$4.3 million. The statement of operations also reflects an increase in other income of \$1.0 million and an increase in operating expenses of \$2.1 million. The net impact on DICO's Deposit Insurance Reserve Fund (DIRF) is a reduction of \$1.1 million.

Selected consolidated financial and other highlights:

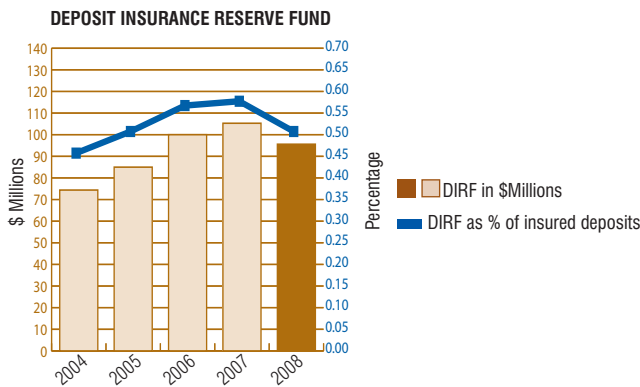
For the year ended December 31 (in thousands \$)	2008 \$	2007 \$	2006 \$	Change from 2007		Compared to Target	2008 Target* \$
				\$	%		
Deposit Insurance Reserve Fund	95,638	105,308	100,020	(9,670)	(9%)	x	115,178
\$ of System Insured Deposits (in Billions)	19.3	18.5	17.8	0.8	4%	✓	19.0
DIRF as % of System Insured Deposits	0.50%	0.57%	0.56%	-	(0.07%)	x	0.61%
Premium income	18,229	17,414	16,845	815	5%	✓	18,000
Other income	4,927	5,448	4,177	(521)	(10%)	x	5,462
Gross operating expenses	8,490	7,025	5,775	1,465	21%	✓	8,903
Provision for insurance losses	27,825	10,800	500	17,025	158%	x	5,000
Recovery of insurance losses	(3,430)	(196)	(212)	(3,234)	(1,650%)	✓	(930)
Net Provision for insurance losses	24,395	10,604	288	13,791	130%	x	4,070
Recovery of operating expenses	(59)	(55)	(57)	4	7%	✓	(55)

\* For comparative purposes, 2008 Target adjusted for VIEs actual results.

✓ Achieved    X Not Achieved

### Deposit Insurance Reserve Fund (DIRF)

The Deposit Insurance Reserve Fund as at December 31, 2008 was \$95.6 million, down \$9.7 million or 9% from \$105.3 million a year ago. It represented 50 basis points of the system's insured deposits as compared with the target of 61 basis points. The decrease in the DIRF was due to the significant increase in the provision for deposit insurance losses in the year. In 2008, total income amounted to \$23.2 million, against net operating expenses of \$8.4 million and a net provision for insurance losses of \$24.4 million, resulting in a net loss for the year of \$9.6 million.



### Premium income

Premium income for the year increased by \$0.8 million, or 5%, to \$18.2 million. The increase was due to the combination of growth in insured deposits (4%) and a slight increase in risk profiles in the system. The average premium rate charged in 2008 was \$0.99 per thousand of insured deposits (\$0.97 in 2007).

Differential premium rates in effect for 2008 remained unchanged from 2007. Premiums are based on the total amount of insured deposits held by insured institutions as of their fiscal year ends, calculated in accordance with the Differential Premium Risk Classification System as defined by the Regulation.

The premium rate structure is as follows:

PREMIUM RATE STRUCTURE					
Premium Class	5	4	3	2	1
Risk Rating	0 to 39.9	40 to 54.9	55 to 69.9	70 to 84.9	85 to 100
Premium Rate	\$2.10	\$1.40	\$1.15	\$1.00	\$0.90

### Other Income

Other income for the year amounted \$4.9 million (including \$1 million due to the consolidation of VIEs), \$0.5 million, or 10% lower than prior year. It was comprised of interest income of \$4.7 million and other miscellaneous income of 0.2 million. The decrease is due primarily to lower average yields earned during the year. The Ontario Financing Authority (OFA) manages the Corporation's investment portfolio under an investment management agreement. The portfolio is invested in 100% money market securities and yielded 3.37% for the twelve months of 2008 (4.55% in 2007).

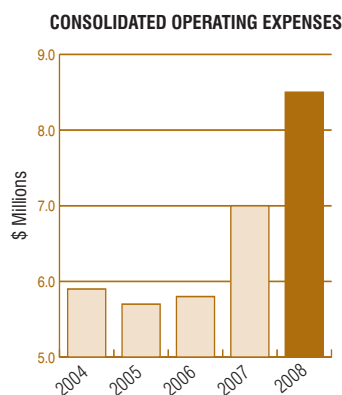
### Provision for Deposit Insurance Losses

DICO recorded a gross provision of \$27.8 million for insurance losses which consisted of \$27.1 million of specific provisions and a \$0.75 million increase in the general accrual for insurance losses. The total increase was offset by \$3.4 million which represents the recovery of specific losses booked last year as well as the reversal of consolidated VIEs' previous net losses.

The specific provisions of \$27.1 million included a provision of \$25 million which was management's best estimate of the cost for resolving the failure of one credit union. This credit union with \$70 million in assets failed because it was unable to meet its obligations to depositors as a result of uncollectable amounts advanced to a "white label ATM" service provider and amounts invested in real estate beyond those permitted under the legislation. This estimate is based on the best information available at this time. There may be recoveries from legal and other mitigating actions taken by DICO which will be recorded when realized.

### Operating expenses

Gross operating expenses, including salaries and benefits, totaled \$8.5 million for the year 2008, an increase of \$1.5 million compared to last year's expenses of \$7.0 million. The increase was due to the increased expenses of VIEs totaling \$2.1 million. DICO's gross operating expenses before the consolidation were \$6.4 million, \$0.4 million or 6% below the target for the year of 2008.



## Summary Review of Consolidated Statement of Financial Position

Total consolidated assets increased by \$3.7 million, or 3% from last year to \$134.7 million at December 31, 2008. Combined cash and investments increased by \$4.7 million; loans receivable (net of allowances) of the VIEs decreased by \$1.5 million; combined premiums and other receivables increased by \$0.3 million; and capital assets (net of accumulated depreciation) increased by \$0.03 million.

Total consolidated liabilities increased by \$13.5 million, or 53%, from last year to \$38.9 million. The most significant increase was the increase of \$25 million of accrual for insurance losses and was offset by the decrease in membership shares and deposits of \$12 million consolidated from the VIEs.

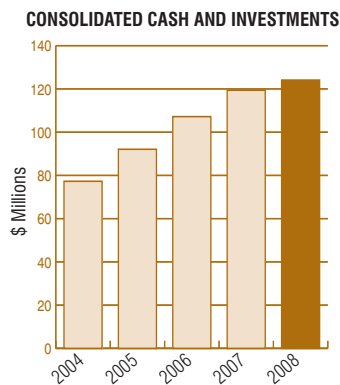
### Cash and Investments

With the adoption of the new accounting standards related to financial instruments effective January 1, 2007, all investments are classified as “available-for-sale”, and are measured at fair market value with unrealized gains and losses recorded in the consolidated statement of comprehensive income until the investment is sold. As at December 31, 2008, cash and investments totaled \$124.1 million compared with \$119.4 million last year, an increase of \$4.7 million. The Corporation’s investment portfolio showed a weighted average effective yield of 2.09% as at December 31, 2008, compared to 4.01% at the end of last year. All investments are highly liquid, fixed rate, contracts and are R1 Mid or better on the DBRS scale. The portfolio does not have any exposure to the Asset-Backed Commercial Paper market.

DICO’s investment policy is to invest in shorter term, low-risk, securities in order to meet its possible liquidity needs in the event of an institutional failure, and to comply with the requirements of both the *Income Tax Act* and Regulation 78/95 of the *Credit Unions and Caisses Populaires Act, 1994*.

### Loans

When institutions are placed in liquidation and DICO is appointed as liquidator, DICO has the obligation to realize on the assets of the estate of each institution. One of the major components of the assets of these institutions is loans. As of December 31, 2008,



consolidated loans (net of allowances \$5.603 million) amounted to \$5.622 million. A total of four new institutions were placed in liquidation during 2008. The general process for determining the loan allowances by institution’s management is through identification and determination of losses related to specific loan portfolios. It inherently requires the use of management’s best judgements and estimates.

### Accrual for deposit insurance losses

The accrual for deposit insurance losses includes both provisions for specific losses and a general accrual for losses. After consolidating the VIEs in liquidation, the accrued deposit insurance losses as of December 31, 2008 were \$30.6 million. This amount includes a specific accrued provision of \$28.1 million and a general accrual for losses of \$2.5 million, which reflects management’s best estimate of losses on insured deposits arising from the inherent risk in insured institutions.

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## Management's Responsibility

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The Deposit Insurance Corporation of Ontario's management is responsible for the integrity and fair presentation of the financial statements included in the annual report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The Corporation maintains systems of internal accounting controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that company assets and liabilities are adequately accounted for and assets safeguarded.

The consolidated financial statements have been reviewed by the Corporation's Audit and Finance Committee and have been approved by its Board of Directors. In addition, the financial statements have been examined by KPMG LLP, the auditors, whose report follows.

Andy Poprawa, CA, C.Dir.  
*President & CEO*

James Maxwell  
*Chief Administrative  
and Financial Officer*

Toronto, Canada  
February 25, 2009

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## Auditors' Report

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KPMG LLP

### **To the Board of Directors of Deposit Insurance Corporation of Ontario**

We have audited the Consolidated Statement of Financial Position of Deposit Insurance Corporation of Ontario as at December 31, 2008 and the Consolidated Statements of Operations and Changes in the Deposit Insurance Reserve Fund, Comprehensive Income and Cash Flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada  
February 25, 2009

## Consolidated Statement of Financial Position

December 31, 2008, with comparative figures for 2007 (in thousands of dollars)

	2008	2007
<b>Assets</b>		
Cash (note 2)	\$ 6,125	\$ 9,376
Investments (note 3)	117,939	110,011
Loans (net of allowance of \$5,603 (2007 - \$5,746)) (note 4)	5,622	7,115
Premiums receivable	3,433	2,965
Interest and other receivables	496	631
Deposit insurance advances recoverable	160	46
Capital assets (net of accumulated amortization of \$3,237 (2007 - \$3,619))	875	851
<b>Total Assets</b>	<b>\$134,650</b>	<b>\$130,995</b>
<b>Liabilities</b>		
Payables and accruals	\$ 3,644	\$ 3,239
Member shares and deposits of institutions in liquidation (note 5)	1,276	13,324
Deferred premium income	3,465	3,079
Accrual for deposit insurance losses (note 6)	30,589	5,826
<b>Total Liabilities</b>	<b>38,974</b>	<b>25,468</b>
<b>Equity</b>		
Deposit Insurance Reserve Fund	95,638	105,308
Accumulated other comprehensive income	38	219
<b>Total Equity</b>	<b>95,676</b>	<b>105,527</b>
<b>Total Liabilities and Equity</b>	<b>\$134,650</b>	<b>\$130,995</b>

Lease Commitments (note 7)

Contingencies (note 12)

See accompanying notes to consolidated financial statements.

**On behalf of the Board:**

\_\_\_\_\_ Director

\_\_\_\_\_ Director

## Consolidated Statement of Operations and Changes in the Deposit Insurance Reserve Fund

Year ended December 31, 2008, with comparative figures for 2007 (in thousands of dollars)

	2008	2007
<b>Income</b>		
Premium income	\$ 18,229	\$ 17,414
Other income	4,927	5,448
	<b>23,156</b>	<b>22,862</b>
<b>Operating expenses - DICO:</b>		
Salaries and benefits	4,028	3,686
Operating expenses	2,331	2,057
Recovery of operating expenses	(59)	(55)
	<b>6,300</b>	<b>5,688</b>
<b>Operating expenses - institutions in liquidation</b>	<b>2,131</b>	<b>1,282</b>
	<b>8,431</b>	<b>6,970</b>
<b>Excess of income over operating expenses</b>	<b>14,725</b>	<b>15,892</b>
Provision for insurance losses (note 6)	24,395	10,604
<b>Excess of income over total expenses</b>	<b>(9,670)</b>	<b>5,288</b>
Deposit Insurance Reserve Fund, beginning of year	105,308	100,020
<b>Deposit Insurance Reserve Fund, end of year</b>	<b>\$ 95,638</b>	<b>\$ 105,308</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

Year ended December 31, 2008, with comparative figures for 2007 (in thousands of dollars)

	2008	2007
<b>Excess of income over total expenses</b>	<b>\$ (9,670)</b>	<b>\$ 5,288</b>
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale investments arising during the year	(181)	(6)
<b>Comprehensive income (loss)</b>	<b>\$ (9,851)</b>	<b>\$ 5,282</b>

### Statement of Accumulated Other Comprehensive Income

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Accumulated other comprehensive income, beginning of year (note 3)	\$ 219	\$ 225
Sale of available-for-sale investment from opening balance of accumulated other comprehensive income	(219)	(225)
Unrealized gains and losses on available-for-sale investments arising during the year	38	219
Net change during the year	(181)	(6)
<b>Accumulated other comprehensive income, end of year</b>	<b>\$ 38</b>	<b>\$ 219</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Cash Flows

Year ended December 31, 2008, with comparative figures for 2007 (in thousands of dollars)

	2008	2007
<b>Cash received from (applied to)</b>		
<b>Operations:</b>		
Excess of income over total expenses	\$ (9,670)	\$ 5,288
Items charged to operations not affecting cash		
Provision for losses	24,395	10,604
Loss on disposal of capital assets	1	3
Unrealized (loss) gain on available-for-sale investments arising during the year	(181)	219
Amortization	195	152
Acquisitions of capital assets of institutions in liquidation	-	(83)
Net adjustment with close out institutions during the year	(17)	-
	<u>14,723</u>	<u>16,183</u>
Changes in:		
Loans	1,493	(6,880)
Premiums receivable	(468)	(375)
Interest and other receivables	135	(316)
Payables and accruals	405	299
Membership shares and deposits of institutions in liquidation	(12,048)	13,208
Deferred premium income	386	258
	<u>(10,097)</u>	<u>6,194</u>
Changes in cash balances of institutions in liquidation	242	(9,547)
Net advances by deposit insurer	9,980	9,580
Net deposit insurance advances	(9,968)	(9,575)
Total net deposit insurance recoveries/(advances) (note 6)	<u>254</u>	<u>(9,542)</u>
	<u>4,880</u>	<u>12,835</u>
<b>Investing activities:</b>		
Purchase of investments held at year end	(117,939)	(110,011)
Proceeds on sale of investments	110,011	82,637
Purchase of capital assets	(203)	(687)
Proceeds on sale of capital assets	-	3
	<u>(8,131)</u>	<u>(28,058)</u>
<b>Increase (decrease) in cash position during the year</b>	<b>(3,251)</b>	<b>(15,223)</b>
Cash position, beginning of year	9,376	24,599
<b>Cash position, end of year</b>	<b>\$ 6,125</b>	<b>\$ 9,376</b>
Supplementary cash flow information:		
Loan guarantee fee paid during the year	\$ 7	\$ 8
Interest received during the year	\$ 4,521	\$ 5,350

Cash position is defined as cash and short-term investments less any borrowings (note 2)

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

Year ended December 31, 2008

### GENERAL

Deposit Insurance Corporation of Ontario ("DICO" or "the Corporation") is an "Operational Enterprise" Agency of the Province of Ontario established without share capital under the provisions of the *Credit Unions and Caisses Populaires Act, 1994* ("the Act").

The statutory objects of the Corporation under the Act are to:

- provide deposit insurance to depositors of insured institutions;
- act as stabilization authority for the credit union and caisse populaire sector;
- promote standards of sound business and financial practices;
- collect and publish statistics;
- provide financial assistance to insured institutions;
- act as administrator of insured institutions;
- minimize deposit insurance risk and size of claims.

The Act empowers the Corporation to assess its insured institutions deposit insurance premiums to meet the Corporation's requirements for insurance funding and administrative costs. The Corporation establishes its premium rates annually. They are approved by the Government of Ontario and incorporated into the regulations through appropriate amendments as necessary.

On May 18, 2007 Bill 187 which included amendments to the Act that will revise the Corporation's mandate and its responsibilities received Royal Assent. The amendments are expected to be proclaimed in 2009.

Any borrowings of the Corporation were guaranteed by a Minister of Finance's guarantee on behalf of the Province of Ontario. The guarantee was for a maximum of \$150 million and continued until December 31, 2008. Under the loan guarantee arrangement which expired on December 31, 2008, the Province charged a guarantee fee of one-half of one per cent of the average end of day balance out-

standing of any debt obligation as well as a fee of 5 basis points on the unused portion of any credit facility guaranteed for the period ending December 31 of each year during which the guarantee was in effect. Subsequent to the year end, the Minister of Finance approved a \$250 million line of credit (no stand-by fee) with the Ontario Financing Authority which expires on December 31, 2013.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). To facilitate a better understanding of our consolidated financial statements, the Corporation has disclosed its significant accounting policies as summarized below.

#### (A) BASIS OF CONSOLIDATION:

These consolidated financial statements include the assets and liabilities and results of operations of all variable interest entities (VIEs) where the Corporation is the primary beneficiary after elimination of inter-company transactions and balances.

#### (B) FINANCIAL INSTRUMENTS:

##### *Changes in accounting policy:*

On January 1, 2007 the Corporation adopted the new financial instruments accounting standards that were issued by the Canadian Institute of Chartered Accountants (CICA). They include Handbook Section 1530, Comprehensive Income and Handbook Section 3855, Financial Instruments - Recognition and Measurement. This change in accounting policy requires that we present a new Consolidated Statement of Comprehensive Income, which is comprised of the excess of income over expenses and changes in unrealized gains or losses related to available-for-sale investments.

#### (C) VARIABLE INTEREST ENTITIES:

In 2005, the Corporation adopted the accounting guideline on the consolidation of VIEs. VIEs include entities in which the equity investors do not have a controlling financial interest or the equity investment at risk is not sufficient to permit the entity

to finance its activities without additional subordinated financial support by other parties. AcG-15 requires the consolidation of a VIE by its primary beneficiary defined as the party that receives the majority of expected residual returns and/or that absorbs the majority of the entity's expected losses. As liquidator of the estates of credit unions in liquidation, it has been determined that these rules require the Corporation to consolidate credit unions in liquidation if claims by DICO against the estate represent more than 50% of the total liabilities of the credit unions during the year. The assets and liabilities of the credit unions which meet the criteria for consolidation were recorded in the Corporation's books at their respective fair values as of December 31, 2008 and 2007.

**(D) PREMIUM INCOME:**

Premiums are based on a Differential Premium Risk Classification System as defined by regulation applied to insured deposits held by insured institutions. Premium income is calculated based on the Annual Member Institution Return submitted by the insured institution, which is due 75 days after its fiscal year end. Premium income is recognized when earned.

**(E) PROVISION FOR LOSSES:**

The provision for losses includes allowances against deposit insurance advances to insured institutions in liquidation and an accrual for losses for which advances have not been made at the date of the Consolidated Statement of Financial Position.

Funds advanced in respect of deposit insurance and loans to insured institutions are initially recorded at cost. Deposit insurance advances recoverable are presented on the Consolidated Statement of Financial Position net of allowances thereon.

The accrual for deposit insurance losses includes both provisions for specific losses and a general accrual for losses. Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions exist, in management's opinion, that will likely result in losses to the Corporation.

The general accrual for losses reflects management's best estimate of losses on insured deposits arising from the inherent risk in insured institutions. The

provision is established by assessing the aggregate risk in insured institutions based on current market and economic conditions, the likelihood of losses and the application of historic loss experience. Future economic conditions are not predictable with certainty and actual losses may vary, perhaps substantially, from management's estimates.

**(F) PENSION BENEFITS:**

Pension benefits include a defined contribution pension plan covering all of DICO's regular, non-contractual employees as well as supplemental arrangements, which provide pension benefits in excess of registered pension plan limits. Earnings are charged with the cost of pension benefits earned by employees as service is rendered. Pension expense is determined by a fixed percentage of the employees' income plus the matching of the employees' contribution to a maximum of 4%. The Corporation assumes no actuarial or investment risk.

**(G) FUTURE NON-PENSION POST-RETIREMENT BENEFITS:**

Future non-pension post-retirement benefits relate to the Corporation's extended health, dental and life benefits for both active employees for whom a full eligibility date was determined and existing qualified retirees. The Corporation accrues obligations under these plans as the employees render the service necessary to earn the future benefits. The accrued benefits obligation is actuarially determined using the projected benefit method prorated on service. Cumulative gains and losses in excess of the accrued benefit obligation at the beginning of the year are amortized over the expected average remaining service of active members.

**(H) INVESTMENTS:**

Investments are classified, based on management's intentions, as available-for-sale. They are measured at fair value with unrealized gains and losses recorded in other comprehensive income until realized or sold. Interest earned is calculated using the effective interest rate.

**(I) CAPITAL DISCLOSURES AND FINANCIAL INSTRUMENTS - DISCLOSURES AND PRESENTATION:**

Effective January 1, 2008, the Corporation adopted three new disclosure standards that were issued by the CICA. They include Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures and Handbook Section 3863, Financial Instruments - Presentation.

#### (J) CAPITAL ASSETS:

Capital assets are recorded at cost less accumulated amortization. Amortization of furniture and equipment is provided by the diminishing-balance method at the rate of 20 per cent per annum. Computer and related equipment and software are amortized over three years on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

#### (K) INCOME TAXES:

The Corporation uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

#### (L) INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS):

The Canadian Accounting Standards Board (AcSB) confirmed January 1, 2011 as the date IFRS will replace current Canadian standards and interpretations as Canadian generally accepted accounting principles (Canadian GAAP) for public accountable enterprises. DICO will be required to prepare our December 31, 2011 financial statements including comparative information in compliance with IFRS. In order to prepare for the conversion to IFRS, the Corporation has developed an implementation strategy and timetable plan. The Corporation has also established a cross-functional IFRS team and is providing training to key employees. We are currently assessing the potential impact of the transition to IFRS on our consolidated financial statements, disclosures, and broader financial reporting systems and controls.

## 2. CASH

	December 31, 2008	December 31, 2007
	Amount (thousands)	Amount (thousands)
Cash	\$1,721	\$3,437
Cash of institutions in liquidation	\$4,404	\$5,939
Total	\$6,125	\$9,376

## 3. INVESTMENTS

On January 1, 2007, the Corporation adopted the CICA's new accounting requirements for financial instruments. The investments are financial instruments and, as such, classified as available-for-sale and are measured at fair value with unrealized gains and losses recorded in the Consolidated Statement of Comprehensive Income until the investment is sold. On January 1, 2007, the investments were measured at fair value, as appropriate. A net unrealized gain of \$225 thousand was recorded in opening accumulated other comprehensive income on available-for-sale investments.

Investments have terms to maturity of 90 days or greater on the date of purchase. They have a weighted-average yield of 2.09% (2007: 4.01%). In compliance with the Corporation's investment policy and relevant statutes, all investments are highly liquid fixed rate contracts and are R1 MID or better on the DBRS scale.

	December 31, 2008			December 31, 2007		
	Amount (thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount (thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity
Treasury bills – Canada	\$ 76,686	0.88%	92	\$ 72,884	3.83%	94
Bankers' acceptances	20,847	1.55%	14	37,127	4.63%	53
Fixed income- Ontario Prov. Floating rate	20,406	3.76%	257	-	-	-
<b>Total</b>	<b>\$ 117,939</b>	<b>2.09%</b>	<b>107</b>	<b>\$ 110,011</b>	<b>4.01%</b>	<b>80</b>

The Corporation has contracted with the Ontario Financing Authority to manage its investment portfolio. The composition of DICO's investments reflects the nature of the Corporation's potential insurance obligations and is structured to comply with the requirements under both the Income Tax Act and Regulation 78/95 of the *Credit Unions and Caisses Populaires Act, 1994*.

#### 4. LOANS (NET OF ALLOWANCE)

Loans (net of allowance) of \$5,622,000 (2007 - \$7,115,000) are comprised of loans of the estates of credit unions in liquidation as a result of the consolidation of these estates being treated as variable interest entities.

The aggregate allowance of \$5,603,000 (2007 - \$5,746,000) for impaired loans was established by the management of credit unions now in liquidation based on their own analysis or based on an independent contracted advisor's recommendation prior to DICO's appointment as liquidator. DICO has accepted the allowances as established. Any subsequent adjustments to the allowance are recorded as adjustments to DICO's provision for losses. A total of 4 new institutions were placed in liquidation during 2008. The general process for determining the loan allowances by institution's management is through identification and determination of losses related to specific loan portfolios. It inherently requires the use of management's best judgements and estimates. The liquidator uses the proceeds of the realized assets of each estate, supplemented as necessary by advances from DICO, to pay all depositors and creditors of the estate. The balance of realization proceeds are used to firstly repay DICO's advances and thereafter are distributed on a pro-rata basis to the members of the estate.

#### 5. MEMBER SHARES AND DEPOSITS OF INSTITUTIONS IN LIQUIDATION

Member shares and deposits of institutions in liquidation of \$1,276,000 (2007 - \$13,324,000) are comprised of \$806,000 (2007 - \$778,000) in member shares and preferred shares and \$470,000 (2007 - \$12,546,000) in deposits. DICO has an obligation to insure the amounts on deposit up to the prescribed amounts. DICO has no obligation to insure member shares but as liquidator has the responsibility to distribute any residual funds to members once the liquidation is complete.

#### 6. ACCRUAL FOR DEPOSIT INSURANCE LOSSES

The provision for losses includes specific provisions for known or likely losses from specific insured institutions not included in their financial statements and a general accrual for losses not identified with specific institutions. That portion of the provision for losses recorded in the year and in previous years

which has not yet required payment by the Corporation is shown in liabilities on the Consolidated Statement of Financial Position as "Accrual for deposit insurance losses".

	2008	2007
	(thousands)	
Accrual for deposit insurance losses, beginning of year	\$ (5,826)	\$ (4,790)
Increase in accrual for current year's deposit insurance losses	(25,075)	(10,800)
Decrease in accrual for prior year's deposit insurance losses	680	196
Total net provision for insurance losses for the year	(24,395)	(10,604)
(Increase)/Decrease in deposit insurance advances recoverable	(114)	26
Less: Accrual for deposit insurance losses, end of year	(30,589)	(5,826)
Net deposit insurance recoveries / (advances)	\$ 254	\$ (9,542)

Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions exist, in management's opinion, that will likely result in losses to the Corporation.

The general accrual for losses included in "Accrual for deposit insurance losses" amounted to \$2,500,000 (2007 - \$1,750,000) and is calculated in accordance with the methodology as described in note 1(E).

#### 7. LEASE COMMITMENTS

The operating lease for the Corporation's premises has been renewed commencing August 6, 2007 and ending August 5, 2017. The terms of the lease waive basic rent for the first twelve months. The aggregate lease obligations under the new lease are allocated over the term of the lease on a straight-line basis. Future minimum rents for the next 9 years are summarized as follows:

Years	Rent per annum
Aug 6, 2008 – Aug 5, 2010	\$187,000
Aug 6, 2010 – Aug 5, 2012	\$206,000
Aug 6, 2012 – Aug 5, 2017	\$218,000

In addition, the Corporation is required to pay property taxes and common area maintenance costs which are currently approximately \$250,000 per annum.

## 8. INCOME TAXES

The Corporation is subject to income taxes on its income as defined under the Income Tax Act. It has accumulated losses for income tax purposes of \$19,114,000. They expire as follows:

<u>Originating Taxation Year</u>	<u>Expiring Taxation Year</u>	<u>Amount (thousands)</u>
2002	2009	5,161
2003	2010	4,124
2004	2014	3,790
2005	2015	2,833
2006	2026	1,102
2007	2027	258
2008	2028	1,846
		<u>\$19,114</u>

The Corporation has determined that realization of the future income tax assets does not meet the more-likely-than-not criterion for recognition and, therefore, a valuation allowance has been recorded against future income tax assets.

## 9. PENSION PLAN

The Corporation operates a defined contribution pension plan for its employees. The pension expense charged to income for 2008 was \$333,000 (2007 - \$331,000).

## 10. FUTURE NON-PENSION POST-RETIREMENT BENEFITS

The Corporation accounts for the current value of future non-pension post-retirement benefits. The accrued benefit liability as at December 31, 2008, as actuarially determined, is \$1,438,000 (2007 - \$1,284,000). The annual benefit cost, including current service cost, interest and amortization of gains and losses was \$194,000 (2007 - \$198,000). Actuarial valuation for the Corporation's plan is required every three years. The most recent actuarial valuation was conducted as of December 31, 2008 and the date of the next required valuation is December 31, 2011.

The assumptions used in the actuarial valuation of the future benefits obligations consisted of: interest rate of 6.75% (2007 - 5.5%), rate of compensation increase of 3.5% (2007 - 3.5%) and initial weighted average trend rate in health and dental costs of 6.1%

(2007 - 5.8%), grading down to 5% per annum by 2029. The Corporation measures its accrued benefit obligations as at December 31<sup>st</sup> (September 30<sup>th</sup> for the fiscal years ending December 31, 2007 and before).

<u>RECONCILIATION OF ACCRUED BENEFIT OBLIGATION TO THE ACCRUED BENEFIT LIABILITY</u>	<u>FISCAL YEAR ENDING DECEMBER 31, 2008 (THOUSANDS)</u>	<u>FISCAL YEAR ENDING DECEMBER 31, 2007 (THOUSANDS)</u>
Accrued benefit obligation	\$ 1,513	\$ 1,901
Employer contributions during year	-	(9)
Unamortized net actuarial loss	(75)	(608)
Accrued benefit liability	\$ 1,438	\$ 1,284

<u>CHANGE IN BENEFIT OBLIGATIONS</u>	<u>FISCAL YEAR ENDING DECEMBER 31, 2008 (THOUSANDS)</u>	<u>FISCAL YEAR ENDING DECEMBER 31, 2007 (THOUSANDS)</u>
Accrued benefit obligation, beginning of the year	\$ 1,901	\$ 1,868
Current service cost	55	56
Interest cost	106	100
Actuarial loss (gain)	(510)	(86)
Benefit payments	(39)	(37)
Accrued benefit obligation, end of year	\$ 1,513	\$ 1,901

## 11. DIRECTORS' EXPENSE

During the year the directors received an aggregate remuneration of \$100,000 (2007 - \$93,000). Total directors' expenses were \$55,000 (2007 - \$46,000). The remuneration for the Chair is a minimum of \$2,000 per month which includes a per diem rate of \$500. The per diem rate for all other board members is \$350 plus an annual retainer of \$3,500.

## 12. CONTINGENCIES

The Corporation is involved in various legal actions in the normal course of business, when acting in the capacity of administrator or liquidator. At the end of 2008 there were no actions brought against the Corporation by third parties. Accordingly, no provisions have been made in these financial statements.

## 13. RISKS ARISING FROM FINANCIAL INSTRUMENTS

### CREDIT RISK

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investment securities. The Corporation minimizes its credit risk by investing in high quality financial instruments and by limiting the amount invested in

any one counterparty. All investments in the Deposit Insurance Reserve Fund (DIRF) are limited to those permitted by legislation, where applicable, and to any limits made by the Corporation's investment policy.

The Corporation establishes an allowance for doubtful accounts that represents its estimate of deposit insurance losses in insured institutions. The main components of this allowance are a specific provision that relates to individually significant exposures, and a general provision established in respect of losses that have been incurred but not yet identified. The general provision is determined based on historical data of payment statistics for similar financial assets.

#### LIQUIDITY RISK

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations to depositors as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

Typically the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations, if any; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Corporation maintains the following lines of credit approved by the Minister of Finance: \$250 million that can be drawn down to provide liquidity to DICO as deposit insurer of insured institutions in the Province of Ontario. The facility is effective from January 01, 2009 to December 31, 2013. Interest would be payable at an annual rate equal to the Province's cost of funds for borrowings for a three month term, plus total of 0.40 percent, as determined by the Ontario Financing Authority at the commencement of each three month period.

#### MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and eq-

uity prices will affect income or the value of the holdings of financial instruments. The Corporation does not have any dealings with foreign currency transactions. DICO's primary investment objective is to preserve capital and provide necessary liquidity to pay claims and ongoing operating expenses.

#### FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INSTRUMENTS

The Corporation accounts for any fixed rate financial assets as available-for-sale. Therefore a change in interest rates at the reporting date would not affect net income with respect to these fixed rate instruments. A change of 100 basis points in interest rates would have increased or decreased equity by \$866,000. (2007: \$933,000).

#### CAPITAL MANAGEMENT

The Board's policy is to enhance the financial soundness of the credit union and caisse populaire sector. As of December 31, 2008, the Corporation has a deposit insurance reserve fund of \$96 million which represents 50 basis points of the sector's insured deposits.

#### 14. FAIR VALUE DISCLOSURE

The fair value of financial assets and liabilities which include cash and short-term investments, investments, loans, premiums receivable, interest and other receivables, payables and accruals, member shares and deposits approximate their carrying amounts. The fair value of accrual for deposit insurance losses has not been determined because it is not practicable to determine fair value with sufficient reliability.

#### 15. COMPARATIVE FIGURES

Certain comparative figures for 2007 have been reclassified to conform with the financial statement presentation adopted for 2008.

# Deposit Insurance Corporation of Ontario's Insured Institutions

at December 31, 2008

## Credit Unions

3M Employees' (London) Credit Union Limited  
Adjala Credit Union Limited  
Air - Toronto Credit Union Limited  
Airline Financial Credit Union Limited  
All Trans Financial Services Credit Union Limited  
Alterna Savings and Credit Union Limited  
Anishinabek Nation Credit Union Inc.  
APPLE Community Credit Union Limited  
Arnstein Community Credit Union Limited  
Auto Workers Community Credit Union Limited  
Bay Credit Union Limited  
Bayshore Credit Union Ltd.  
Brewers Warehousing Employees (Hamilton) Credit Union Limited  
Brewers Warehousing Employees (Kitchener) Credit Union Limited  
Buduchnist Credit Union Limited  
C.N. (London) Credit Union Limited  
C.N.R. Employees (Lakehead Terminal) Credit Union Limited  
Campbell's Employees' (Toronto) Credit Union Limited  
Canada Sand Papers Employees' (Plattsville) Credit Union Limited  
Canadian General Tower Employees (Galt) Credit Union Limited  
Canadian Transportation Employees' Credit Union Ltd.  
Canal City Savings and Credit Union Limited  
Cataract Savings & Credit Union Limited  
CCB Employees' Credit Union Limited  
City Savings & Credit Union Limited  
Communication Technologies Credit Union Limited  
Community First Credit Union Limited  
Community Saving & Credit Union Limited  
Copperfin Credit Union Limited  
Creative Arts Savings & Credit Union Limited  
Croatian (Toronto) Credit Union Limited  
Crown Cork & Seal Employees Credit Union Limited  
Desjardins Credit Union Inc.  
Domtar Newsprint Employees (Trenton) Credit Union Limited  
DUCA Financial Services Credit Union Ltd.  
Dundalk District Credit Union Limited  
Dunnville and District Credit Union Limited  
Durham Educational Employees' Credit Union Limited  
Education Credit Union Limited  
Equity Credit Union Inc.  
Espanola & District Credit Union Limited  
Estonian (Toronto) Credit Union Limited  
ETCU Financial Credit Union Limited  
Etobicoke Aluminum Employees' Credit Union Limited  
Federal Employees (Kingston) Credit Union Limited  
Fiberglas Employees (Guelph) Credit Union Limited  
Finnish Credit Union Limited  
Fire Department Employees Credit Union Limited (The)  
FirstOntario Credit Union Limited  
Food Family Credit Union Limited  
Fort Erie Community Credit Union Limited  
Fort York Community Credit Union Limited  
Frontline Financial Credit Union Limited  
G.S.W. (Fergus) Credit Union Limited  
Ganaraska Credit Union Ltd.  
Goderich Community Credit Union Limited  
Golden Horseshoe Credit Union Limited  
Goodyear Employees (Bowmanville) Credit Union Limited  
Grey Bruce Health Services Credit Union Limited  
Hald - Nor Community Credit Union Limited  
Hamilton Community Credit Union Limited  
Hamilton Municipal Employees' Credit Union Limited  
Hamilton Teachers' Credit Union Limited  
Health Care Credit Union Limited  
Heritage Savings & Credit Union Inc.  
Hir-Walk Employees' (Windsor) Credit Union Limited  
Hobart Employees' (Owen Sound) Credit Union Limited  
Holy Angel's & St. Anne's Parish (St. Thomas) Credit Union Limited  
Italian Canadian Savings & Credit Union Limited  
Kawartha Credit Union Limited  
Kellogg Employees Credit Union Limited  
King-York Newsmen Toronto Credit Union Limited  
Kingston Community Credit Union Limited  
Korean (Toronto) Credit Union Limited  
Korean Catholic Church Credit Union Limited  
Krek Slovenian Credit Union Ltd.  
L.I.U.N.A. Local 183 Credit Union Limited  
Lambton Financial Credit Union Limited  
Lasco Employees' (Whitby) Credit Union Limited  
Latvian Credit Union Limited  
Lear Seating Canada Employees' (Kitchener) Credit Union Limited  
Libro Credit Union Limited  
London Civic Employees' Credit Union Limited  
London Diesel Employees' Credit Union Limited  
London Fire Fighters' Credit Union Limited  
Margosa Credit Union Limited  
McMaster Savings and Credit Union Limited  
Media Group Financial Credit Union Limited  
Member Savings Credit Union Limited  
MemberOne Credit Union Limited  
Mennonite Savings and Credit Union (Ontario) Limited  
Meridian Credit Union Limited  
Miracle Credit Union Ltd.  
Moore Employees' Credit Union Limited  
Motor City Community Credit Union Limited  
Municipal Employees (Chatham) Credit Union Limited  
Nasco Employees' Credit Union Limited  
Northern Credit Union Limited  
Northern Lights Credit Union Limited

[Northridge Savings & Credit Union Limited](#)  
[ONR Employees' \(North Bay\) Credit Union Limited](#)  
[Ontario Civil Service Credit Union Limited](#)  
[Ontario Educational Credit Union Limited](#)  
[Ontario Provincial Police Association Credit Union Limited](#)  
[Oshawa Community Credit Union Limited](#)  
[Ottawa Police Credit Union Limited](#)  
[Ottawa Women's Credit Union Limited](#)  
[Pace Savings & Credit Union Limited](#)  
[Parama Lithuanian Credit Union Limited](#)  
[Pedeco \(Brockville\) Credit Union Limited](#)  
[Peek Frean Employees' \(Toronto\) Credit Union Limited](#)  
[PenFinancial Credit Union Limited](#)  
[Peoples Credit Union Limited](#)  
[Peterborough Community Credit Union Limited](#)  
[Police Credit Union Limited \(The\)](#)  
[Polish Alliance \(Brant\) Credit Union Limited](#)  
[Portuguese Canadian Credit Union Limited](#)  
[Prime Financial Savings & Credit Union Limited](#)  
[Prosperity One Credit Union Limited](#)  
[Provincial Alliance Credit Union Limited](#)  
[QuintEssential Credit Union Limited](#)  
[R.B.W. Employees' \(Owen Sound\) Credit Union Limited](#)  
[Railway Employees' \(Sarnia\) Credit Union Limited](#)  
[Resurrection Credit Union Limited](#)  
[Rochdale Credit Union Limited](#)  
[Saugeen Community Credit Union Limited](#)  
[Scarborough Hospitals Employees' Credit Union Limited](#)  
[Sheridan Park Credit Union Limited](#)  
[Slovenia Parishes \(Toronto\) Credit Union Limited](#)  
[Smiths Falls Community Credit Union Limited](#)  
[So-Use Credit Union Limited](#)  
[Southlake Regional Health Centre Employees' Credit Union Limited](#)  
[Southwest Regional Credit Union Ltd.](#)  
[St. Mary's \(Toronto\) Credit Union Limited](#)  
[St. Stanislaus-St. Casimir's Polish Parishes Credit Union Limited](#)  
[Standard Tube Employees' \(Woodstock\) Credit Union Limited](#)  
[Starnews Credit Union Limited](#)  
[State Farm \(Toronto\) Credit Union Limited](#)  
[Sudbury Credit Union Limited](#)  
[Sunnybrook Credit Union Limited](#)  
[Superior Credit Union Limited](#)  
[Sydenham Community Credit Union Limited](#)  
[Taiwanese - Canadian Toronto Credit Union Limited](#)  
[Talka Lithuanian Credit Union Limited](#)  
[Thamesville Community Credit Union Limited](#)  
[Thorold Community Credit Union Limited](#)  
[Thunder Bay Elevators Employees' Credit Union Limited](#)  
[Toronto Catholic School Board Employees Credit Union Limited](#)  
[Toronto Electrical Utilities Credit Union Limited \(The\)](#)  
[Toronto Municipal Employees' Credit Union Limited](#)  
[Twin Oak Credit Union Ltd.](#)  
[Ukrainian Credit Union Limited](#)  
[Unigasco Community Credit Union Limited](#)

[United Communities Credit Union Limited](#)  
[United Employees Credit Union Limited](#)  
[United Ukrainian Credit Union Limited](#)  
[Unity Savings and Credit Union Limited](#)  
[Utilities Employees' \(Windsor\) Credit Union Limited](#)  
[Victory Community Credit Union Limited](#)  
[Virtual One Credit Union Limited](#)  
[William S. Gibson Employees' Credit Union \(Mt. Dennis\) Limited](#)  
[Windsor Family Credit Union Limited](#)  
[Your Credit Union Limited](#)  
[Your Neighbourhood Credit Union Limited](#)

## **Caisses Populaires**

[Caisse populaire Azilda Inc.](#)  
[Caisse populaire Coniston Inc.](#)  
[Caisse populaire d'Alban Limitée](#)  
[Caisse populaire d'Alfred Limitée](#)  
[Caisse populaire d'Earlton Limitée \(La\)](#)  
[Caisse populaire d'Orléans Inc.](#)  
[Caisse populaire de Bonfield Limitée](#)  
[Caisse populaire de Cochrane Limitée](#)  
[Caisse populaire de Cornwall Inc.](#)  
[Caisse populaire de Field Limitée \(La\)](#)  
[Caisse populaire de Hawkesbury Limitée](#)  
[Caisse populaire de Hearst Limitée](#)  
[Caisse populaire de Kapuskasing Limitée](#)  
[Caisse populaire de la Vallée](#)  
[Caisse populaire de Mattawa Limitée](#)  
[Caisse populaire de Mattice Limitée](#)  
[Caisse populaire de New Liskeard Limitée \(La\)](#)  
[Caisse populaire de Noëlville Limitée](#)  
[Caisse populaire de North Bay Limitée](#)  
[Caisse populaire de Timmins Limitée \(La\)](#)  
[Caisse populaire de Verner Limitée](#)  
[Caisse populaire Lasalle Inc.](#)  
[Caisse populaire Nolin de Sudbury Incorporée](#)  
[Caisse populaire Nouvel-Horizon Inc.](#)  
[Caisse Populaire Pointe-aux-Roches-Técumseh Inc.](#)  
[Caisse populaire Rideau d'Ottawa Inc.](#)  
[Caisse populaire St-Jacques de Hanmer Inc.](#)  
[Caisse Populaire St. Charles Limitée](#)  
[Caisse populaire Sturgeon Falls Limitée](#)  
[Caisse populaire Trillium Inc.](#)  
[Caisse populaire Val Caron Limitée](#)  
[Caisse populaire Vermillon](#)  
[Caisse populaire Vision Inc.](#)  
[Caisse populaire Welland Limitée](#)

## **Leagues**

[L'Alliance des caisses populaires de l'Ontario Inc.](#)  
[Central 1 Credit Union of Ontario](#)  
[Fédération des caisses populaires de l'Ontario Inc. \(La \)](#)