

September 2009

Ontario Credit Unions and Caisses Populaires

SECTOR OUTLOOK

2Q2009

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Ontario

Deposit Insurance
Corporation of Ontario

Société ontarienne
d'assurance-dépôts

Electronic Publication:

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

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

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

Ce document est également disponible en français.

SECTOR FINANCIAL HIGHLIGHTS 2Q09

Selected Aggregate Sector Performance Indicators	As at June 30, 2009	
	2009	2008
Regulatory Capital (Total)	6.98%	7.07%
Class 1 Institutions (Leverage)	8.14%	8.32%
Class 2 Institutions (BIS)	12.94%	13.29%
Liquidity (Gross)	14.04%	14.25%
Asset Growth	5.12%	7.50%
Delinquency (greater than 30 days)	1.35%	1.05%
	Year to Date (annualized)	
Net Interest Income (Financial Margin)	2.35%	2.61%
Other Income	0.83%	0.83%
Return on Average Assets (ROAA)	0.22%	0.35%
Return on Regulatory Capital	3.19%	4.86%
Efficiency Ratio	89.64%	86.46%

Capital

Aggregate capital increased by \$36.1 million during the latest twelve months although the ratio of capital to assets declined to 6.98% compared to 7.07% at 2Q08. Aggregate capital (leverage) for Class 1 institutions is 8.14% while aggregate capital (BIS) for Class 2 is 12.94%.

Growth

Assets increased by \$1.4 billion or 5.12% in the latest twelve months to \$28.8 billion. Total loans increased by \$1.5 billion or 6.75% while deposits increased by \$1.5 billion or 6.0% in the same period. Off-balance sheet assets have decreased by \$304 million to \$4.7 billion.

Profitability

Return on average assets (ROAA) declined to 0.22% compared to 0.35% for the same period in 2008 although increased from 0.20% at 1Q09. Factors influencing the year over year decline include the write down of investments relating to asset backed commercial paper, a continued reduction and compression in interest rates, and a significant increase in loan costs attributable to the current economic conditions.

Net interest income declined from 2.61% to 2.35% as a result of lower interest rates and declining investment income while loan costs increased from 0.11% to 0.17% year over year. In contrast, operating costs declined to 2.71% compared to 2.87% at 2Q08. The efficiency ratio has increased to 89.64% from 86.46% as at 2Q08 as a result of the decline in overall income levels.

Credit Risk

Loan delinquency continues to increase as a result of recently decline in general economic conditions. Overall gross delinquency has increased to 1.35% compared to 1.15% at 1Q09 and 1.05% at 2Q08. Commercial loan delinquency increased to 2.00% from 1.86% at 1Q09 and 1.35% at 2Q08. Under

SECTOR FINANCIAL HIGHLIGHTS 2Q09

the current economic conditions, it is expected that both loan costs and delinquencies will continue to increase.

Loan Mix

The loan mix has continues to change along with the increase in commercial lending and decrease in personal lending. Commercial loans have increased 13.5% year over year and now account for approximately 28% of total loans compared to 13% for personal loans.

Product	% of Loan Portfolio		Change (\$millions)	% Change in Outstanding Loans
	2009	2008		
Personal Loans	13%	14%	(\$13)	0%
Mortgage Loans	55%	56%	\$646	5%
Commercial Loans	28%	26%	\$779	14%
Agricultural Loans	4%	4%	\$96	11%

Loan Yields

Overall loan yields continue to decline as a result of the significant reduction in interest rates over the past 12 months and the gradual shift away from higher yielding personal loans.

Selected Loan Yields (Year to Date annualized)	As at June 30, 2009	
	2009	2008
Total Loans	5.17%	5.99%
Personal Loans	6.83%	8.27%
Mortgage Loans	4.63%	5.23%
Commercial Loans	5.53%	6.47%
Agricultural Loans	4.90%	5.84%

SECTOR FINANCIAL HIGHLIGHTS 2Q09

	Ontario Sector		Selected Bank Information
	Year to date at...		
	2 Q 09	2 Q 08	1 Q 09
PROFITABILITY	% average assets*		
Net Interest and Investment Income	2.35%	2.61%	1.60%
Loan Costs	0.17%	0.11%	0.36%
Other (non-interest) Income	0.83%	0.83%	1.34%
Total Income	3.02%	3.32%	2.58%
Total Non-Interest Expenses (Operating Expenses)	2.71%	2.87%	2.05%
Net Income/(Loss) before Taxes and Non-recurring & Extraordinary items	0.31%	0.45%	0.53%
Efficiency Ratio (% Operating Expenses to Total Income)	89.64%	86.46%	79.4%
Efficiency Ratio (% Operating Expenses, before dividends & interest rebates to Total Income)	87.13%	83.45%	
Return on Average Assets (ROA) before dividends etc.	0.31%	0.47%	0.45%
Return on Average Assets (ROA)	0.22%	0.35%	
Return on Regulatory Capital before dividends etc.	4.43%	5.96%	
Return on Regulatory Capital	3.19%	4.86%	
CREDIT RISK, as at quarter-ended...			
Gross Delinquency greater than 30 days (% of total loans)	1.35%	1.05%	
Gross Delinquency greater than 90 days (% of total loans)	0.75%	0.53%	
OFF BALANCE SHEET ACTIVITY			
Off balance Sheet Assets (\$millions) at.. (Includes mutual fund sales and administered loans etc.)	4,744	5,047	
Income on Off Balance Sheet Activity (% Other Income)	23.24%	20.81%	
OTHER INDICATORS, as at quarter-ended...			
Total Number of Active Member Institutions	192	202	
Total Assets (\$millions)	28,831,264	27,428,271	2,773,102,000
Average Assets per member institution (\$millions)	150.2	135.8	
Median Assets (\$millions)	45.3	41.3	
Regulatory Capital (as per Ont Reg 76/95) (as a percentage of net assets)	6.98%	7.07%	
Number of Member Institutions below 5% Capital	7	3	
Gross Liquidity as per Sections 16-18 of Ont Reg.76/95	14.04%	14.25%	
* Year to date annualized unless otherwise stated.			
Totals may not agree due to rounding			

SECTOR BALANCE SHEET 2Q09

	Percentage of Total Assets			
	2 Q 09 (\$000)	2 Q 08 (\$000)	2 Q 09	2 Q 08
ASSETS				
Cash and Investments	4,469,158	4,492,450	15.5%	16.4%
Personal Loans	3,087,203	3,100,747	10.7%	11.3%
Residential Mortgage Loans	13,099,476	12,453,235	45.4%	45.4%
Commercial Loans	6,527,634	5,748,989	22.6%	21.0%
Institutional Loans	89,800	96,878	0.3%	0.4%
Unincorporated Association Loans	11,533	7,884	0.0%	0.0%
Agricultural Loans	967,180	871,164	3.4%	3.2%
Total Loans	23,782,825	22,278,897	82.5%	81.2%
Total Loan Allowances	149,504	124,697	0.5%	0.5%
Capital (Fixed) Assets	361,170	386,070	1.3%	1.4%
Intangible & Other Assets	367,614	395,551	1.3%	1.4%
Total Assets	28,831,264	27,428,271	100.0%	100.0%
LIABILITIES				
Demand Deposits	9,371,222	8,868,995	32.5%	32.3%
Term Deposits	9,633,784	9,101,646	33.4%	33.2%
Registered Deposits	6,599,878	6,108,865	22.9%	22.3%
Other Deposits	147,327	206,940	0.5%	0.8%
Total Deposits	25,752,211	24,286,445	89.3%	88.5%
Borrowings	452,486	603,074	1.6%	2.2%
Other Liabilities	634,310	582,614	2.2%	2.1%
Total Liabilities	26,839,007	25,472,133	93.1%	92.9%
MEMBERS EQUITY CAPITAL				
Membership Shares	78,300	78,798	0.3%	0.3%
Retained Earnings	1,119,545	1,123,848	3.9%	4.1%
Other Tier 1 & 2 Capital	794,412	753,491	2.8%	2.7%
Total Members Equity Capital	1,992,257	1,956,138	6.9%	7.1%
Total Liabilities, Members Equity Capital	28,831,264	27,428,271	100.0%	100.0%

Totals may not agree due to rounding

SECTOR INCOME STATEMENT 2Q09 (WITH INDUSTRY COMPARISON)

	ONTARIO Sector		Canadian Chartered Banks**
	Percentage of Average Assets*		
	2 Q 09	2 Q 08	1 Q 09
Interest and Investment Income			
Loan Interest Income	4.29%	4.91%	2.40%
Investment Income	<u>0.41%</u>	<u>0.54%</u>	<u>1.07%</u>
	4.70%	5.45%	3.47%
Interest Expense			
Interest Expense on Deposits	2.22%	2.62%	1.47%
Interest Rebates & Dividends on Share Capital	0.01%	0.03%	
Dividends on Investment Capital & Other Capital	0.08%	0.09%	
Other Interest Expense	0.03%	0.10%	
Other Interest Expense and Dividends	<u>0.12%</u>	<u>0.22%</u>	<u>0.40%</u>
	2.34%	2.84%	1.88%
Net Interest & Investment Income	2.35%	2.61%	1.60%
Loan Costs	0.17%	0.11%	0.36%
Net Interest & Investment Income after Loan Costs	2.19%	2.49%	1.24%
Other (non-interest) Income	<u>0.83%</u>	<u>0.83%</u>	<u>1.34%</u>
Net Interest, Investment & Other Income	3.02%	3.32%	2.58%
Non-interest Expenses			
Salaries and Benefits	1.43%	1.52%	1.08%
Occupancy	0.26%	0.25%	0.33%
Computer, office & other equipment	0.28%	0.30%	
Advertising & Communications	0.16%	0.18%	
Member Security	0.12%	0.12%	
Administration	0.28%	0.30%	
Other	<u>0.18%</u>	<u>0.20%</u>	<u>0.64%</u>
	2.71%	2.87%	2.05%
Net Income/(Loss) Before Taxes and Non-recurring & Extraordinary items	0.31%	0.45%	0.53%
Non-recurring & Extraordinary gains/(losses)	-0.01%	0.00%	0.00%
Taxes	0.08%	0.10%	0.07%
Minority Interests	0.00%	0.00%	0.01%
Net Income/(Loss)	0.22%	0.35%	0.45%
Average Assets (\$000)	28,271,706	26,714,473	2,738,045,000

* Year to date annualized

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

Totals may not agree due to rounding.

SELECTED PERFORMANCE TRENDS

