

Ontario Credit Unions and Caisses Populaires

# SECTOR OUTLOOK

## 3Q2009

### INSIDE

Summary Results .....Page 1

Financial Highlights .....Page 3

Sector Financial Statements .....Page 4

Selected Performance Trends .....Page 6



**Ontario**

Deposit Insurance  
Corporation of Ontario

Société ontarienne  
d'assurance-dépôts

### **Electronic Publication:**

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

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

**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 3Q09

Selected Aggregate Sector Performance Indicators	As at September 30, 2009	
	2009	2008
Regulatory Capital ( Total)	7.18%	7.05%
Class 1 Institutions (Leverage)	8.10%	8.50%
Class 2 Institutions (BIS)	13.39%	13.07%
Liquidity (Gross)	14.54%	13.38%
Asset Growth	5.56 %	7.81%
Delinquency (greater than 30 days)	1.46%	1.14%
	Year to Date (annualized)	
Net Interest Income (Financial Margin)	2.43%	2.59%
Other Income	0.87%	0.83%
Return on Average Assets (ROAA)	0.28%	0.29%
Return on Regulatory Capital	3.91%	4.13%
Efficiency Ratio	87.79%	87.98%

### Capital

Aggregate capital increased by \$105.3 million during the latest twelve months and the the ratio of capital to assets increased to 7.18% compared to 7.05% at 3Q08. Aggregate capital (leverage) for Class 1 institutions declined to 8.10% while aggregate risk weighted capital (BIS) for Class 2 increased to 13.39%.

### Growth

Assets increased by \$1.54 billion or 5.56% in the latest twelve months to \$29.3 billion. Total loans increased by \$1.15 billion or 5.02% while deposits increased by \$1.54 billion or 6.27% in the same period. Off-balance sheet assets remained stable from 3Q08 at \$5.1 billion.

### Profitability

Return on average assets declined marginally to 0.28% compared to 0.29% for 3Q08 although increased from 0.22% at 2Q09. Factors still influencing the year over year performance 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 likely attributable to the current economic conditions.

Net interest income declined from 2.59% to 2.43% as a result of lower interest rates and declining investment income while loan costs increased from 0.13% to 0.18% year over year. In contrast, operating costs declined to 2.74% compared to 2.90% at 3Q08. The efficiency ratio has improved marginally to 87.79% from 87.98% as at 3Q08 as a result of the decline in overall non-interest expenses.

## SECTOR FINANCIAL HIGHLIGHTS 3Q09

### Credit Risk

Loan delinquency continues to increase as a result of the recent decline in general economic conditions. Overall gross delinquency has increased to 1.46% compared to 1.35% at 2Q09 and 1.14% at 3Q08. Commercial loan delinquency has increased significantly to 2.26% compared to 2.00% at 2Q09 and 1.78% at 3Q08. Under the current economic conditions, it is expected that both loan costs and delinquencies will continue to increase in the short term.

### Loan Mix

The loan mix continues to trend towards growth in commercial lending and decline in personal lending. Commercial loans have increased 12% year over year and now account for approximately 28%

Product	% of Loan Portfolio		Change (\$millions)	% Change in Outstanding Loans
	2009	2008		
Personal Loans	13%	14%	(\$18)	(1%)
Mortgage Loans	55%	56%	\$361	3%
Commercial Loans	28%	26%	\$702	12%
Agricultural Loans	4%	4%	\$106	12%

of total loans. In contrast, personal loans declined by 1% and now account for 13% of total loans.

### 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 continued shift away from higher yielding personal loans.

Selected Loan Yields (Year to Date annualized)	As at September 30, 2009	
	2009	2008
Total Loans	5.28%	5.93%
Personal Loans	6.94%	8.50%
Mortgage Loans	4.75%	5.11%
Commercial Loans	5.59%	6.38%
Agricultural Loans	5.00%	5.90%

# SECTOR FINANCIAL HIGHLIGHTS 3Q09

	ONTARIO SECTOR		Selected Ban Information
	Year to date at . . .		
	3 Q 09	3Q08	2Q09
<b>PROFITABILITY</b>	<b>% average assets</b>		
Net Interest and Investment Income	2.43%	2.59%	2.46%
Loan Costs	0.18%	0.13%	0.61%
Other (non-interest) Income	0.87%	0.83%	2.25%
Total Income	3.12%	3.30%	4.10%
Total Non-Interest Expenses (Operating Expenses)	2.74%	2.90%	3.16%
Net Income/(Loss) before Taxes and Non-recurring & Extraordinary items	0.38%	0.40%	0.95%
Efficiency Ratio (% Operating Expenses to Total Income)	87.79%	87.98%	76.92%
Efficiency Ratio (% Operating Expenses, before dividends & interest rebates to Total Income)	85.22%	84.68%	
Return on Average Assets (ROA) before dividends etc.	0.37%	0.42%	0.72%
Return on Average Assets (ROA)	0.28%	0.29%	
Return on Regulatory Capital before dividends etc.	5.23%	5.04%	
Return on Regulatory Capital	3.91%	4.13%	
<b>CREDIT RISK, as at the quarter-end</b>			
Gross Delinquency greater than 30 days (% of total loans)	1.46%	1.14%	
Gross Delinquency greater than 90 days (% of total loans)	0.90%	0.64%	
<b>OFF BALANCE SHEET ACTIVITY</b>			
Off balance Sheet Assets (\$millions) at. (Includes mutual fund sales and administered loans etc.)	5,058	5,058	
Income on Off Balance Sheet Activity (% Other Income)	24.91%	25.91%	
<b>OTHER INDICATORS, as at the quarter-end</b>			
Total Number of Active Insured Institutions	191	201	
Total Assets (\$ millions)	29,329	27,785	2,608,882
Average Assets per insured institution (\$ millions)	153.6	138.2	
Median Assets (\$ millions)	46.4	44.2	
Regulatory Capital (as a percentage of net assets)	7.18%	7.05%	
Number of Insured Institutions below 5% Capital	9	3	
Liquidity	14.54%	13.38%	
* Year to date annualized unless otherwise stated.			
Totals may not agree due to rounding			

# SECTOR BALANCE SHEET 3Q09

	ONTARIO SECTOR		Percentage of Total Assets	
	3 Q 09 (\$000)	3Q08 (\$000)	3 Q 09	3Q08
<b>ASSETS</b>				
Cash and Investments	4,788,968	4,328,231	16.3%	15.6%
Personal Loans	3,074,851	3,092,958	10.5%	11.1%
Residential Mortgage Loans	13,128,955	12,767,712	44.8%	46.0%
Commercial Loans	6,684,270	5,982,328	22.8%	21.5%
Institutional Loans	80,311	88,413	0.3%	0.3%
Unincorporated Association Loans	11,374	7,570	0.0%	0.0%
Agricultural Loans	998,860	893,366	3.4%	3.2%
Total Loans	23,978,621	22,832,347	81.8%	82.2%
Total Loan Allowances	158,066	128,051	0.5%	0.5%
Capital (Fixed) Assets	360,457	382,989	1.2%	1.4%
Intangible & Other Assets	359,037	369,290	1.2%	1.3%
<b>Total Assets</b>	<b>29,329,017</b>	<b>27,784,805</b>	<b>100.0%</b>	<b>100.0%</b>
<b>LIABILITIES</b>				
Demand Deposits	9,590,694	8,940,538	32.7%	32.2%
Term Deposits	9,676,226	9,284,129	33.0%	33.4%
Registered Deposits	6,653,631	6,136,115	22.7%	22.1%
Other Deposits	149,170	170,692	0.5%	0.6%
Total Deposits	26,069,721	24,531,474	88.9%	88.3%
Borrowings	553,702	704,851	1.9%	2.5%
Other Liabilities	625,106	573,285	2.1%	2.1%
<b>Total Liabilities</b>	<b>27,248,528</b>	<b>25,809,610</b>	<b>92.9%</b>	<b>92.9%</b>
<b>MEMBERS' EQUITY &amp; CAPITAL</b>				
Membership Shares	77,577	77,951	0.3%	0.3%
Retained Earnings	1,141,526	1,133,963	3.9%	4.1%
Other Tier 1 & 2 Capital	861,386	763,282	2.9%	2.7%
<b>Total Members' Equity &amp; Capital</b>	<b>2,080,489</b>	<b>1,975,195</b>	<b>7.1%</b>	<b>7.1%</b>
<b>Total Liabilities, &amp; Members' Equity &amp; Capital</b>	<b>29,329,017</b>	<b>27,784,805</b>	<b>100.0%</b>	<b>100.0%</b>

Totals may not agree due to rounding

# SECTOR INCOME STATEMENT 3Q09 (WITH INDUSTRY COMPARISON)

	ONTARIO SECTOR Percentage of Average Assets		Canadian Chartered Ban s
	3 Q 09	3Q08	2Q09
<b>Interest and Investment Income</b>			
Loan Interest Income	4.35%	4.89%	3.20%
Investment Income	<u>0.39%</u>	<u>0.51%</u>	<u>1.50%</u>
	<b>4.74%</b>	<b>5.40%</b>	<b>4.70%</b>
<b>Interest E pense</b>			
Interest Expense on Deposits	2.18%	2.59%	1.71%
Interest Rebates & Dividends on Share Capital	0.01%	0.04%	
Dividends on Investment Capital & Other Capital	0.08%	0.09%	
Other Interest Expense	0.03%	0.09%	
Other Interest Expense and Dividends	<u>0.12%</u>	<u>0.22%</u>	<u>0.52%</u>
	<b>2.31%</b>	<b>2.81%</b>	<b>2.23%</b>
<b>Net Interest Investment Income</b>	<b>2.43%</b>	<b>2.59%</b>	<b>2.46%</b>
Loan Costs	0.18%	0.13%	0.61%
<b>Net Interest Investment Income after Loan Costs</b>	<b>2.25%</b>	<b>2.46%</b>	<b>1.85%</b>
Other (non-interest) Income	<u>0.87%</u>	<u>0.83%</u>	<u>2.25%</u>
<b>Net Interest, Investment Other Income</b>	<b>3.12%</b>	<b>3.30%</b>	<b>4.10%</b>
<b>Non-interest E penses</b>			
Salaries and Benefits	1.45%	1.51%	1.60%
Occupancy	0.26%	0.25%	0.51%
Computer, office & other equipment	0.29%	0.30%	
Advertising & Communications	0.16%	0.17%	
Member Security	0.12%	0.12%	
Administration	0.29%	0.29%	
Other	<u>0.17%</u>	<u>0.26%</u>	<u>1.04%</u>
	<b>2.74%</b>	<b>2.90%</b>	<b>3.16%</b>
<b>Net Income (Loss) Before Taxes and Non-recurring Extraordinary items</b>	<b>0.38%</b>	<b>0.40%</b>	<b>0.95%</b>
Non-recurring & Extraordinary gains/(losses)	-0.02%	-0.01%	0.00%
Taxes	0.08%	0.09%	0.20%
Minority Interests	0.00%	0.00%	0.02%
<b>Net Income (Loss)</b>	<b>0.28%</b>	<b>0.29%</b>	<b>0.72%</b>
Average Assets (\$000)	<b>28,550,663</b>	<b>26,934,564</b>	<b>2,729,912,000</b>

\* Year to date annualized

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

Totals may not agree due to rounding.

# SELECTED PERFORMANCE TRENDS

