

Ontario Credit Unions and Caisses Populaires

SECTOR OUTLOOK

4Q2008

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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.

FINANCIAL HIGHLIGHTS 4Q08

Selected Aggregate Sector Performance Indicators	As at December 31 st , 2008	
	2008	2007
Aggregate Regulatory Capital (Leverage)	7.15%	7.21%
Class 1 Institutions (Leverage)	8.49%	8.45%
Class 2 Institutions (BIS)	13.03%	14.27%
Liquidity (Gross)	12.67%	12.89%
Asset Growth	6.6%	5.4%
Delinquency (greater than 30 days)	1.27%	1.07%
	Year to Date (annualized)	
Net Interest Income (Financial Margin)	2.55%	2.77%
Other Income	0.86%	0.77%
Return on Average Assets (ROAA)	0.15%	0.33%
Return on Regulatory Capital	2.09%	4.57%
Efficiency Ratio	92.0%	86.8%

Capital

Aggregate capital increased by \$85 million during the latest twelve months reflecting injections of new capital by shareholders. On a leverage basis aggregate regulatory capital declined to 7.15% compared to 7.21% at 4Q07. Aggregate capital (leverage) for Class 1 institutions increased marginally to 8.49% while aggregate capital (BIS) for Class 2 institutions declined to 13.03% compared to 14.27% in 2007.

Growth

Assets increased by \$1.7 billion or 6.6% in the latest twelve months to \$27.9 billion. Total loans increased by \$1.7 billion or 7.9% while deposits increased by \$1.8 billion or 7.8% in the same period. Off-balance sheet assets declined over the last year by \$202 million year over year to \$4.7 billion.

Profitability

The return on average assets (ROAA) declined to 0.15% as compared to 0.33% for the same period in 2007 due to a number of factors. These included write downs of the value of investments related to asset backed commercial paper, reduced spreads resulting from lower interest rates, and a significant writedown of goodwill by a large credit union. Net interest income declined by 22 basis points as a result of lower interest spreads and investment income. An increase of 9 basis points in other income was largely offset by an increase of 6 basis points in operating expenses. The efficiency ratio has jumped to 92%.

Credit Risk

In the latest twelve months, loan costs were 0.16% as compared to 0.15% at 4Q07 although gross delinquency has increased substantially to 1.27% compared to 1.07% at 4Q07. Under the current economic conditions, it is expected that both loan costs and delinquencies will continue to increase.

FINANCIAL HIGHLIGHTS 4Q08

Loan Mix

Commercial loans increased by more than \$900 million or 17% and now account for more than 27% or \$6.3 billion of total loans compared to 13% for personal loans. Residential mortgage loans represent the largest segment of the loan portfolio at 55% or \$12.9 billion although growth in this area has declined in past few years.

Product	% of Loan Portfolio		Change (\$millions)	% Change in Outstanding Loans
	2008	2007		
Personal Loans	13%	14%	\$ 69	2%
Mortgage Loans	55%	57%	\$675	6%
Commercial Loans	27%	25%	\$917	17%
Agricultural Loans	4%	4%	\$ 42	5%

Loan Yields

The overall loan yield declined to 5.79% compared to 6.35% in 2007 due to declining overall interest rates and a gradual shift away from higher yielding personal loans. In comparison, the aggregate overall loan yield for the banking sector is 5.40%.

Selected Loan Yields (Year to Date annualized)	As at December 31 st , 2008	
	2008	2007
Total Loans	5.79%	6.23%
Personal Loans	7.87%	8.89%
Mortgage Loans	5.11%	5.29%
Commercial Loans	6.22%	6.85%
Agricultural Loans	5.62%	6.19%

FINANCIAL HIGHLIGHTS 4Q08

	4Q08	YEAR TO DATE AT:		Selected
		4Q07	% average assets	Ban Information
			4Q08	
PROFITABILITY				
Net Interest and Investment Income	2.55%	2.77%	1.53%	
Loan Costs	0.16%	0.15%	0.22%	
Other (non-interest) Income	0.86%	0.77%	1.15%	
Total Income	3.26%	3.39%	2.45%	
Total Non-Interest Expenses (Operating Expenses)	3.00%	2.94%	1.93%	
Net Income/(Loss) before Taxes and Non-recurring & Extraordinary items	0.26%	0.45%	0.53%	
Efficiency Ratio (% Operating Expenses to Total Income)	92.00%	86.80%		
Efficiency Ratio (% Operating Expenses, before dividends & interest rebates to Total Income)	88.20%	82.10%	78.52%	
Return on Average Assets (ROA) before dividends etc.	0.29%	0.52%	0.00%	
Return on Average Assets (ROA)	0.15%	0.33%		
Return on Regulatory Capital before dividends etc.	4.09%	5.05%		
Return on Regulatory Capital	2.09%	4.57%		
CREDIT RISK, as at quarter-ended				
Gross Delinquency greater than 30 days (% of total loans)	1.27%	1.07%		
Gross Delinquency greater than 90 days (% of total loans)	0.70%	0.46%		
OFF BALANCE SHEET ACTIVITY				
Off balance Sheet Assets (\$millions) (Includes mutual fund sales and administered loans etc.)	4,748	4,950		
Income on Off Balance Sheet Activity (% Other Income)	18.34%	10.46%		
OTHER INDICATORS, as at quarter-ended				
Total Number of Active Insured Institutions	198	207		
Total Assets (\$millions)	27,926,459	26,193,262	2,724,169,000	
Average Assets per insured institution (\$millions)	141.0	126.5		
Median Assets (\$millions)	44.3	40.3		
Regulatory Capital (as per Ont Reg 76/95) (as a percentage of net assets)	7.15%	7.21%		
Number of Insured Institutions below 5% Capital	5	2		
Gross Liquidity as per Sections 16-18 of Ont Reg.76/95	12.67%	12.90%		
* Year to date annualized unless otherwise stated.				
Totals may not agree due to rounding				

SECTOR BALANCE SHEET 4Q08

	4Q08 (\$000)	4Q07 (\$000)	4Q08 (Percentage of Total Assets)	4Q07
ASSETS				
Cash and Investments	4,061,712	4,000,611	14.5%	15.3%
Personal Loans	3,090,861	3,021,121	11.1%	11.5%
Residential Mortgage Loans	12,898,172	12,222,618	46.2%	46.7%
Commercial Loans	6,281,193	5,363,823	22.5%	20.5%
Institutional Loans	79,317	84,543	0.3%	0.3%
Unincorporated Association Loans	6,135	7,329	0.0%	0.0%
Agricultural Loans	913,293	871,213	3.3%	3.3%
Total Loans	23,268,971	21,570,646	83.3%	82.4%
Total Loan Allowances	135,607	119,511	0.5%	0.5%
Capital (Fixed) Assets	379,174	367,208	1.4%	1.4%
Intangible & Other Assets	352,210	374,308	1.3%	1.4%
Total Assets	27,926,459	26,193,262	100.0%	100.0%
LIABILITIES				
Demand Deposits	8,935,314	8,213,958	32.0%	31.4%
Term Deposits	9,662,987	8,856,722	34.6%	33.8%
Registered Deposits	6,154,797	5,823,709	22.0%	22.2%
Other Deposits	154,736	200,706	0.6%	0.8%
Total Deposits	24,907,834	23,095,095	89.2%	88.2%
Borrowings	534,025	645,602	1.9%	2.5%
Other Liabilities	520,757	543,547	1.9%	2.1%
Total Liabilities	25,962,616	24,284,244	93.0%	92.7%
MEMBERS' EQUITY & CAPITAL				
Membership Shares	78,762	79,943	0.3%	0.3%
Retained Earnings	1,093,106	1,077,963	3.9%	4.1%
Other Tier 1 & 2 Capital	791,976	751,111	2.8%	2.9%
Total Members' Equity & Capital	1,963,844	1,909,017	7.0%	7.3%
Total Liabilities, & Members' Equity & Capital	27,926,459	26,193,262	100.0%	100.0%

Totals may not agree due to rounding

SECTOR INCOME STATEMENT 4Q08 (WITH INDUSTRY COMPARISON)

	4Q08	4Q07	Canadian Chartered Banks** 4Q08
	Percentage of Average Assets		
Interest and Investment Income			
Loan Interest Income	4.80%	5.09%	2.86%
Investment Income	<u>0.53%</u>	<u>0.58%</u>	<u>1.22%</u>
	5.32%	5.67%	4.08%
Interest Expense			
Interest Expense on Deposits	2.54%	2.56%	1.98%
Interest Rebates & Dividends on Share Capital	0.05%	0.09%	
Dividends on Investment Capital & Other Capital	0.09%	0.10%	
Other Interest Expense	0.09%	0.15%	
Other Interest Expense and Dividends	<u>0.23%</u>	<u>0.35%</u>	<u>0.57%</u>
	2.77%	2.90%	2.55%
Net Interest & Investment Income	2.55%	2.77%	1.53%
Loan Costs	0.16%	0.15%	0.22%
Net Interest & Investment Income after Loan Costs	2.40%	2.62%	1.31%
Other (non-interest) Income	<u>0.86%</u>	<u>0.77%</u>	<u>1.15%</u>
Net Interest, Investment & Other Income	3.26%	3.39%	2.45%
Non-interest Expenses			
Salaries and Benefits	1.51%	1.57%	1.06%
Occupancy	0.27%	0.26%	32.00%
Computer, office & other equipment	0.31%	0.31%	
Advertising & Communications	0.18%	0.20%	
Member Security	0.12%	0.12%	
Administration	0.33%	0.32%	
Other	<u>0.29%</u>	<u>0.16%</u>	<u>54.00%</u>
	3.00%	2.94%	1.93%
Net Income/(Loss) Before Taxes and Non-recurring & Extraordinary items	0.26%	0.45%	0.53%
Non-recurring & Extraordinary gains/(losses)	-0.01%	-0.03%	0.00%
Taxes	0.10%	0.09%	0.02%
Minority Interests	0.00%	0.00%	0.00%
Net Income/(Loss)	0.15%	0.33%	0.50%
Average Assets (\$000)	27,226,393	25,611,801	2,499,890,000

* Year to date annualized

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

Totals may not agree due to rounding.

SELECTED PERFORMANCE TRENDS

