

DICO Update

FINANCIAL RESULTS

- Deposit Insurance Reserve Fund rose to \$ 80.7 million for the period ended July 31, 2005 vs. target of \$80.3 million.
- As a result of one member institution coming under administration in June 2005, deposit insurance losses amounted to \$1.5 million.
- Net operating expenses were 12.6% under budget.
- The Ontario Financing Authority has taken over management of DICO's investment portfolio in order to improve long-term investment returns.

DEPOSIT INSURANCE PREMIUMS

- The percentage of system assets in the lower premium tiers has increased in the latest twelve months. This is almost entirely due to continued improvements in OSV findings, particularly in credit management.
- Currently 89% of member institutions are rated effective in credit management compared to 83% in 2004 and 86% of member institutions are rated fully effective in all standards compared to 76% in 2004.

Premium Tier	Premium Rate	Percentage of System Assets	
		2Q05	2Q04
1	\$ 0.90	34%	33%
2	\$ 1.00	49%	43%
3	\$ 1.15	8%	21%
4	\$ 1.40	9%	3%
5	\$ 2.10		
		100%	100%

ON-SITE VERIFICATIONS (OSVs)

- OSV's continue to be targeted on material risk areas.
- Minor modifications are being made to reflect changes to By-law #5 which became effective for institutions with a fiscal year end after July 1, 2005.
- A structural risk module is being developed and has been tested at three member institutions. Another module for technology risk is also under consideration.
- DICO and FINTRAC have signed a Memorandum of Understanding (MOU) with respect to the Proceeds of Crime (Money Laundering) and Terrorist Financing Act. A FINTRAC OSV module that includes the assessment of policies and procedures for money laundering has been developed and will be conducted during all OSVs in the future.

Commercial Loan Review Project

- Since the inception of the program in March 2003, commercial loan reviews have been conducted at 27 Member Institutions.

OSV Results
Member Institutions Rated Effective by Standard*

Risk Management Standard	% of Total MIs as at July 2005	% of Total MIs as at July 2004
Corporate Governance	97	90
Capital Management	99	99
Credit Management	89	83
Investment Management	99	98
A/L Management	100	99
Liquidity Management	99	99
Internal Controls	98	97
Rated effective in Investment And Credit Management	89	82
Rated effective in all modules inspected	86	76

**The scope of an OSV is tailored for each institution and only the Credit Management module is always completed*

Small Credit Unions Initiative

- Under the small credit unions initiative which was introduced in July 2003, DICO staff continue to conduct on-site reviews and risk assessments at selected small, less complex credit unions.
- Based on the success of the program and in conjunction with the new Risk Assessment Framework, this process will be expanded to larger member institutions over the next year.
- 26 on-site reviews have been completed or are planned for the period Jan to Sept 2005.

DICO BY-LAW #5 – STANDARDS OF SOUND BUSINESS AND FINANCIAL PRACTICES

- New commercial lending tools for industry concentration, risk rating and watchlist developed by industry commercial loan task force and published on DICO’s website (May/05)
- Model policies developed by Central and published on DICO’s website (Jun/05)
- Revisions to Reference Manual and Director’s Handbook published on DICO’s website (Aug/05)

ELECTRONIC FILING OF REPORTS

- e-Mir (Electronic Member Institution Return) to file reports electronically is available to all institutions at no cost.
- Currently 215 member institutions have elected to file electronically.
- For more information on electronic filing, please contact your DICO Regional Manager.

INTERVENTION ACTIVITIES

- Intervention levels have increased somewhat mostly related to poor financial performance
- One member institution came under administration as a result of significant losses related to commercial lending activities; the investigation into the reasons for these losses is continuing.

	# of Institutions	
	2005	2004
Watchlist	8	6
Pending Supervision	0	0
Supervision	0	0
Administration	1	0

LIQUIDATIONS

DICO is managing gross assets totaling \$5.3 million of which \$3.6 million are loans, which consist of 303 personal loans from 11 member institutions in liquidation. Asset recoveries for the first half of the year were \$248 thousand.