



Sector Outlook Report 3Q-2020

Ontario Credit Unions and Caisses Populaires

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Notes

The Sector Outlook is published on a quarterly basis and provides analysis and commentary about the economy and most recent financial results reported by credit unions and caisses populaires in the Ontario sector.

Throughout this document, unless specifically indicated otherwise, references to credit unions means both credit unions and caisses populaires.

Disclaimer

The information presented in this report has been prepared using unaudited financial filings submitted by credit unions to FSRA as of October 27, 2020 and as such accuracy and completeness cannot be guaranteed. Income Statement results are based on aggregate year-to-date annualized information for each credit union.

Electronic Publication

The Sector Outlook is available in PDF format (readable using Adobe Acrobat Reader) and can be downloaded from the Publications section on the Credit Unions and Caisses Populaires page on FSRA's website at www.fsrao.ca.

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Financial Highlights

	Ontario Sector		
	3Q-2020*	2Q-2020	3Q-2019
Income Statement (% average assets)			
Net Interest Income	1.63 ¹	1.58	1.82
Loan Costs	0.20 ¹	0.23	0.05
Other Income	0.44 ²	0.44	0.45
Non-Interest Expense	1.59 ¹	1.62	1.80
Taxes	0.05 ³	0.02	0.06
Net Income	0.22 ¹	0.15	0.37
Balance Sheet (\$ billions; as at quarter end)			
Assets	77.8 ¹	76.1	68.3
Loans	63.9 ¹	63.4	58.9
Deposits	61.1 ¹	59.9	55.0
Members' Equity & Capital	5.1 ¹	5.0	4.66
Capital Ratios (%)			
Leverage	6.62 ³	6.67	6.76
Risk Weighted	13.71 ³	13.77	13.29
Key Measures and Ratios (% except as noted)			
Return on Regulatory Capital	3.36 ¹	2.22	5.46
Liquidity Ratio	16.3 ¹	15.3	11.1
Efficiency Ratio (before dividends/rebates)	82.8 ¹	88.0	78.7
Efficiency Ratio	85.5 ¹	90.5	81.3
Mortgage Loan Delinquency>30 days	0.32 ¹	0.33	0.41
Commercial Loan Delinquency>30 days	1.91 ³	1.36	0.99
Total Loan Delinquency>30 days	0.82 ³	0.67	0.62
Total Loan Delinquency>90 days	0.42 ³	0.38	0.31
Asset Growth (from last quarter)	2.13 ³	5.74	2.25
Loan Growth (from last quarter)	0.83 ³	1.63	2.30
Deposit Growth (from last quarter)	1.93 ³	5.56	1.96
Credit Unions (number)	65 ²	65	77
Membership (thousands)	1,750 ²	1,750	1,692
Average Assets (\$ millions, per credit union)	1,196 ¹	1,108	887
* Trends are current quarter to last quarter	Better	Neutral	Worse

Sector Key Financial Trends

Table #1 - Selected Growth Trends

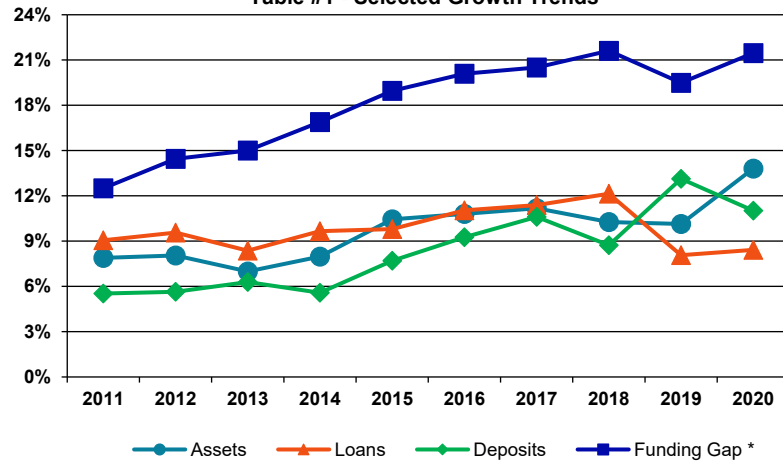


Table #2 - Selected Performance Trends

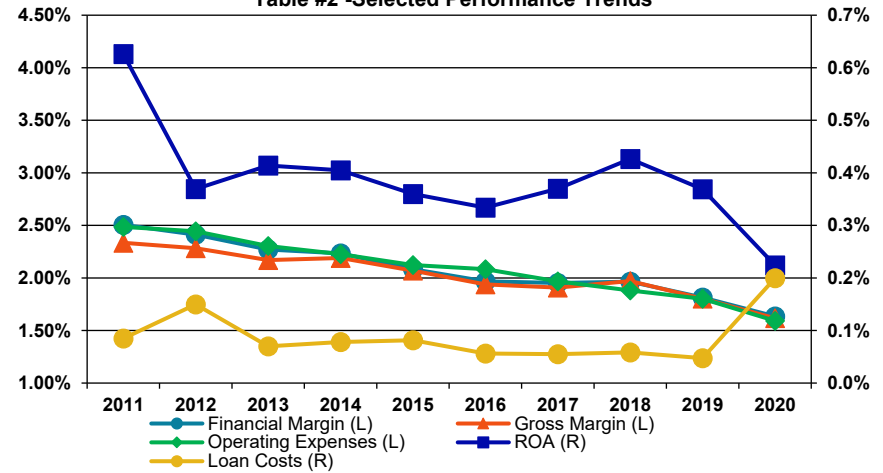


Table #3 - Efficiency Ratio and Return on Assets

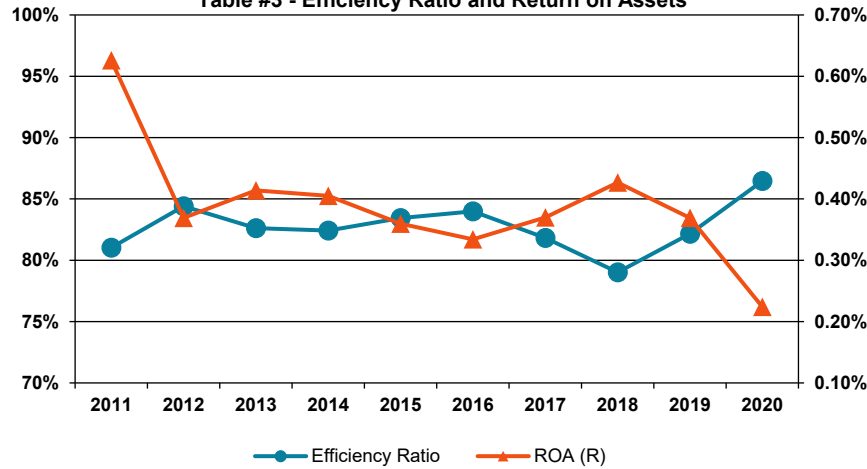
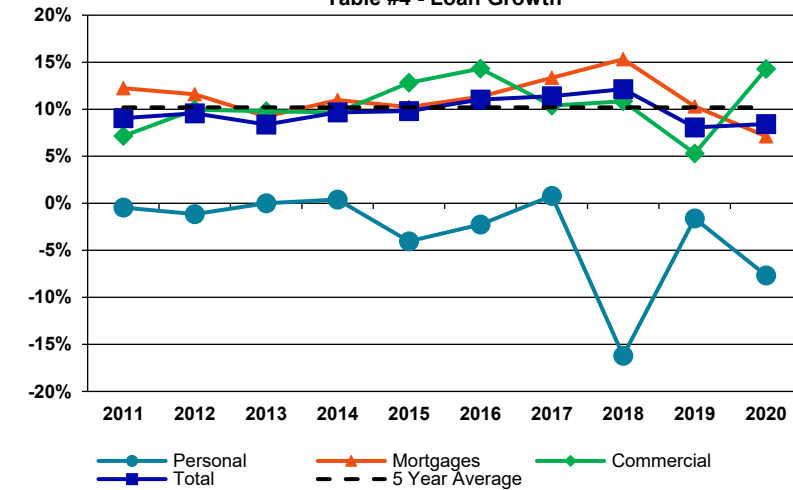


Table #4 - Loan Growth



Sector Key Financial Trends (Continued)

Table #5 - Loan Delinquencies - Greater than 30 days

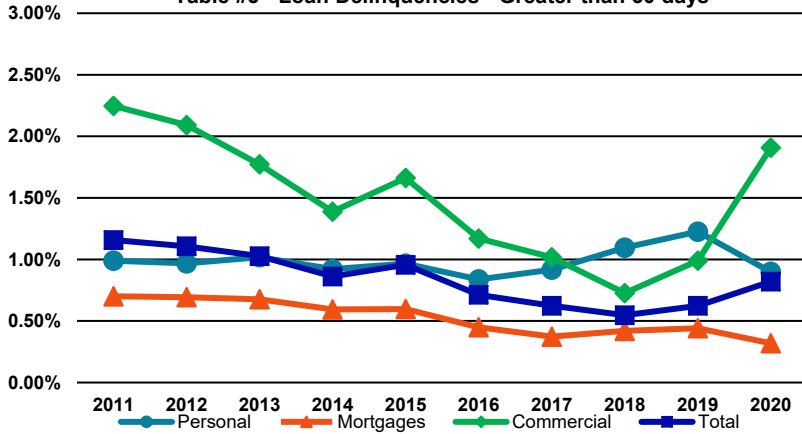


Table #6 - Loan Yields

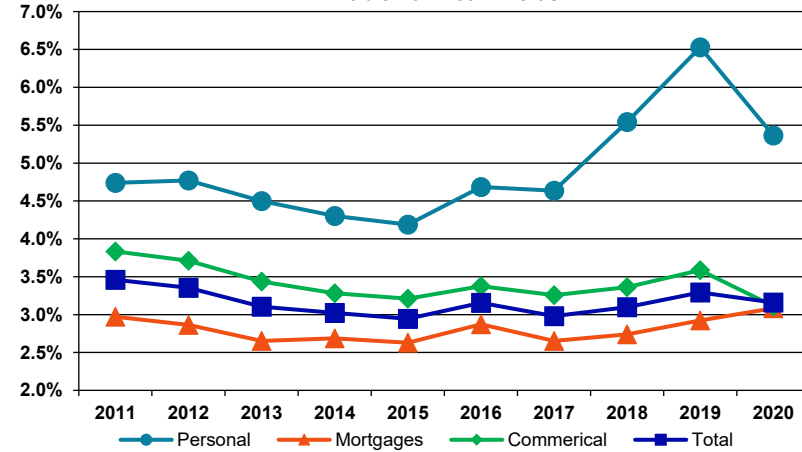


Table #7 - Deposit Growth

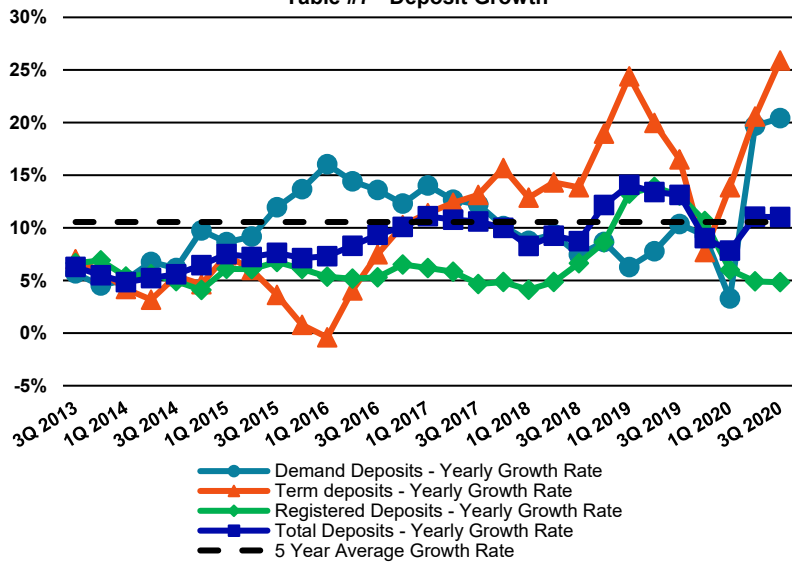
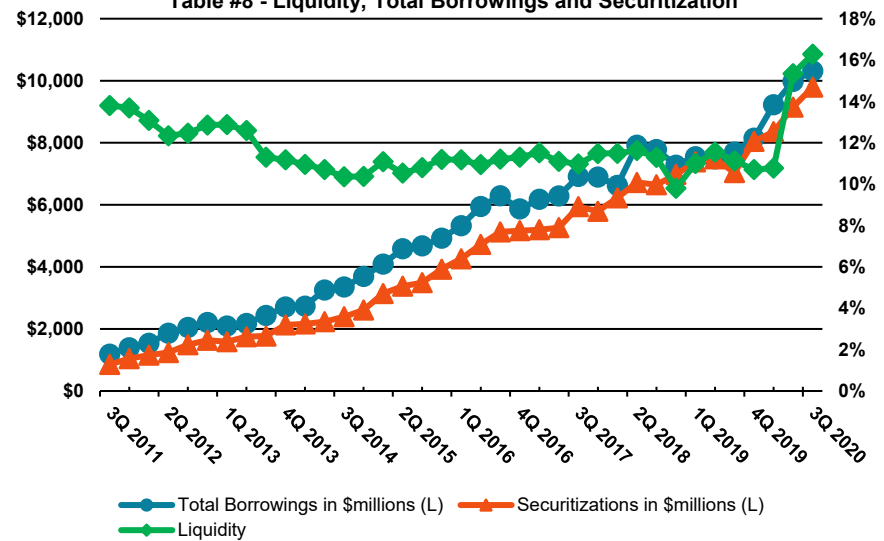


Table #8 - Liquidity, Total Borrowings and Securitization



FSRA Observations 3Q-2020

- Profitability this quarter at 22 bps is down by 15 bps year over year (from 37 bps) but up 7 bps quarter over quarter (from 15 bps). Profitability will be challenged by the currently unquantifiable impacts of COVID-19 while lenders and borrowers adapt to transformed economies, the impacts of government assistance programs and a continuing low interest rate environment. As loan deferral periods end, delinquencies could increase and credit union capital could be negatively impacted.
- Over 30-day delinquency on residential mortgages (which represent 52.2% of sector assets) was 32 bps, a decrease of 9 bps year over year and 1 bp from last quarter. Future increases are considered likely due to the far-reaching effects of COVID-19, loan deferral periods ending and continued high household debt levels.
- Total loan delinquency over 30 days at 82 bps deteriorated by 20 bps year over year (from 62 bps) and 15 bps quarter over quarter (from 67 bps) mainly reflecting the impact of commercial loan performance of 191 bps (worse by 92 bps year over year and 55 bps quarter over quarter).
- Asset growth of \$9.4 billion (13.8% year over year) reflects increased residential mortgage loans of \$2.7 billion (up 7.1%), commercial loans of \$2.4 billion (up 14.3%) and the accumulation of cash/investments of \$4.4 billion (up 52.2%) as business activity stalled.
- Year over year deposit growth (11.0%) and securitization activities (up 38.4%) outpaced total loan growth (8.4%) and contributed to unusually high cash/investment balances; these results reflect the adverse impacts of COVID-19 as this quarter loan growth was a meagre 0.8% whereas deposits and securitization activities grew 1.9% and 7.0% respectively.
- Liquidity increased 520 bps year over year to 16.3% as growth in liquid assets exceeded growth in deposits, borrowings and securitization activities.
- Year over year growth in retained earnings (7.3%) did not keep pace with growth in assets (13.8%), with capital and capital ratios remaining under pressure. To maintain minimum capital requirements and provide for future growth, credit unions have an increasing dependency on the issuance of investment shares (\$288 million, up 16.1% year over year) which remain a significant source of capital (41.0% in 3Q-2020 versus 38.3% in 3Q-2019).

Economic Overview

In its October 28, 2020 release, the Bank of Canada (the “Bank”) maintained its target for the overnight rate at the lower bound of 0.25%, unchanged since March 2020. It announced it is continuing and recalibrating its quantitative easing (“QE”) program to shift purchases towards longer-term bonds, which have more direct influence on the borrowing rates that are most important for households and businesses. As the economy recuperates, the Bank believes it will continue to require extraordinary monetary policy support.

In its comments, the Bank said “The global and Canadian economic outlooks have evolved largely as anticipated in the July Monetary Policy Report, with rapid expansions as economies reopened giving way to slower growth, despite considerable remaining excess capacity. Looking ahead, rising COVID-19 infections are likely to weigh on the economic outlook in many countries, and growth will continue to rely heavily on policy support. In the United States, GDP growth rebounded strongly but appears to be slowing considerably. China’s economic output is back to pre-pandemic levels and its recovery continues to broaden. Emerging-market economies have been hit harder, especially those with severe outbreaks. The recovery in Europe is slowing amid mounting lockdowns. Overall, global GDP is projected to contract by about 4 percent in 2020 before growing by just over 4 ½ percent, on average, in 2021– 22. Oil prices remain about 30 percent below pre-pandemic levels. Meanwhile, non-energy commodity prices, on average, have more than fully recovered.

“Despite continued low oil prices, the Canadian dollar has appreciated since July, largely reflecting a broad-based depreciation of the US dollar. In Canada, the rebound in employment and GDP was stronger than expected as the economy reopened through the summer. The economy is now transitioning to a more moderate recuperation phase. In the fourth quarter, growth is expected to slow markedly, due in part to rising COVID-19 case numbers. The economic effects of the pandemic are highly uneven across sectors and are particularly affecting low-income workers. Recognizing these challenges, governments have extended and modified business and income support programs.

“After a decline of about 5 ½ percent in 2020, the Bank expects Canada’s economy to grow by almost 4 percent on average in 2021 and 2022. Growth will likely be choppy as domestic demand is influenced by the evolution of the virus and its impact on consumer and business confidence. Considering the likely long-lasting effects of the pandemic, the Bank has revised down its estimate of Canada’s potential growth over the projection horizon. CPI inflation was at 0.5 percent in September and is expected to stay below the Bank’s target band of 1 to 3 percent until early 2021, largely due to low energy prices. Measures of core inflation are all below 2 percent, consistent with an economy where demand has fallen by more than supply. Inflation is expected to remain below target throughout the projection horizon.

“As the economy recuperates, it will continue to require extraordinary monetary policy support. The Governing Council will hold the policy interest rate at the effective lower bound until economic slack is absorbed so that the 2 percent inflation target is sustainably achieved. In our current projection, this does not happen until into 2023.”

According to data released September 11th, 2020 by Statistics Canada, household debt to disposable income fell to 158.2 percent in the second quarter ended March 31st, 2020 compared to a revised reading of 175.4 percent in the previous quarter. The agency attributed the decrease to government aid to help offset the economic impact of the COVID-19 pandemic that helped lift disposable income while the amount of debt was relatively unchanged.

Housing Markets

The Toronto Real Estate Board reported October 2020 sales were 10,563, up 25.1% from 8,445 in October 2019. New listings were 17,802 (up 36.4% from 13,053) and average selling price was \$968 thousand (up 13.7% from \$852 thousand), each compared to the year earlier month. The Board noted that year to date sales were above last year's levels but with a divergence in market segments: in detached homes, annual sales growth far outstripped growth in new listings whereas condominium new listings almost doubled, but sales increased only 2.2% over the same period.

The Board commented “the economic recovery in some sectors coupled with low borrowing costs has kept home purchases top of mind for many GTA residents. With this being said, we have not accounted for all of the pent-up demand that resulted from the spring downturn. Expect record or near-record sales for the remainder of 2020.”

Credit Union Sector Consolidation

The number of credit unions was unchanged at 65 at quarter-end. The previous quarter's report indicating 66 institutions was overstated by 1 as the amalgamation of 2 credit unions was not reflected.

Profitability

3Q-2020 vs 3Q-2019

As shown in Tables 2 and 3, return on average assets for the sector decreased to 22 bps (down 15 bps from 37 bps) from the same quarter a year earlier due to the effects of COVID-19: lower loan interest (down 32 bps to 3.07%), lower investment income (down 4 bps to 20 bps) and higher loan costs (up 15 bps to 20 bps) more than offset lower interest expense on deposits (down 21 bps to 1.25%) and improved non-interest expenses (down 21 bps to 1.59%).

Out of 65 credit unions, 8 had a negative return on assets. FSRA closely monitors those that are unprofitable, identifies core challenges and works with the credit unions to develop strategies to restore profitability.

2Q 2020 Ontario Sector vs Canadian Sector*

*Most recent report by Canadian Credit Union Association; including Ontario sector

Ontario sector profitability of 15 bps was 11 bps below the Canadian sector's of 26 bps.

Capital

3Q-2020 vs 3Q-2019

Sector capital increased to \$5.1 billion (up \$439 million or 9.4%) from the year earlier quarter comprised of:

- Retained earnings of \$3.0 billion (up \$206 million or 7.3%);
- Investment and patronage shares of \$2.1 billion (up \$288 million or 16.1%); and
- Membership shares of \$63 million (down \$2 million or 1.6%)

As a percent of risk weighted assets, sector capital was 13.71%, up 42 bps from the year earlier quarter, as growth in capital outpaced growth in risk weighted assets. Leverage was 6.62%, down 14 bps from the year earlier quarter.

3Q-2020 vs 2Q-2020

Sector capital increased by \$60 million (1.2% from \$5.0 billion) from last quarter from issuances of investment shares of \$6 million (0.3% from \$2.1 billion) and increases in retained earnings of \$61 million (2.1% from \$3.0 billion); membership shares decreased by \$1 million (0.9% from \$64 million).

Sector capital as a percent of risk weighted assets decreased 6 bps (from 13.77%) in the previous quarter. Leverage decreased 5 bps (from 6.67%).

Liquidity (including Securitization)

3Q-2020 vs 3Q-2019

As shown in Tables 7 and 8, sector deposits increased by \$6.1 billion (up 11.0% to \$61.1 billion), securitizations increased by \$2.7 billion (up 38.4% to \$9.8 billion) and borrowings decreased by \$100 million (16.0% to \$523 million), a net increase of \$8.7 billion (up 13.8% to \$71.4 billion) from the year earlier. However, liquid assets increased \$5.1 billion (up 77.9% to \$11.6 billion) resulting in an increase in liquidity to 16.3% (up 520 bps from 11.1% in 3Q-2019).

In 3Q-2020, there were 23 institutions (21 credit unions and 2 caisses populaires) with combined total assets of \$70.0 billion (91.9% of sector assets) participating in securitization programs.

3Q-2020 vs 2Q-2020

Sector deposits increased by \$1.2 billion (up 1.9% from \$59.9 billion), securitizations increased by \$643 million (up 7.0% from \$9.2 billion) and borrowings decreased by \$305 million (down 36.8% from \$828 million), a net increase of \$1.5 billion (up 2.1% from \$69.9 billion) from last quarter. However, liquid assets increased by \$0.9 billion (up 8.3% from \$10.7 billion) resulting in an increase of 100 bps in liquidity (from 15.3%).

Efficiency Ratio (before dividends/interest rebates)

3Q-2020 vs 3Q-2019

As shown in Table 3, sector efficiency ratio deteriorated to 82.8% (up 410 bps from 78.7%) from the year earlier quarter.

3Q-2020 vs 2Q-2020

Compared to last quarter, sector efficiency improved by 520 bps (from 88.0%).

2Q-2020 Ontario Sector vs. Canadian Sector

Although non-interest expense as a percent of average assets for the Ontario sector (1.62%) was 17 bps better than the Canadian sector (1.79%), the efficiency ratio (88.0%) was 1260 bps worse than the Canadian sector (75.4%). This is a deterioration from 2Q-2019 when the spread was 700 bps with Ontario at 82.8% and the Canadian Sector at 75.8%.

Credit Quality (delinquency greater than 30 days)

3Q-2020 vs 3Q-2019

As shown in Table 5, total loan delinquency increased to 82 bps (up 20 bps from 62 bps) compared to the year earlier quarter. Residential mortgage loan delinquency decreased to 32 bps (down 9 bps from 41 bps) and commercial loan delinquency increased to 191 bps (up 92 bps from 99 bps).

3Q-2020 vs 2Q-2020

Compared to last quarter, total loan delinquency decreased by 15 bp (from 67 bps) reflecting decrease in residential mortgage loan delinquency of 1 bp (from 33 bps) and increase in commercial loan delinquency of 55 bps (from 136 bps).

Growth

3Q-2020 vs 3Q-2019

Compared to the previous year, total sector assets increased to \$77.8 billion (up \$9.4 billion or 13.8%). This was largely due to growth in residential mortgage loans to \$40.1 billion (up \$2.7 billion or 7.1%), growth in commercial loans to \$19.2 billion (up \$2.4 billion or 14.3%) and increased cash/investments of \$12.7 billion (up \$4.3 billion or 52.2%).

3Q-2020 vs 2Q-2020

Total assets for the sector increased by \$1.6 billion (2.1% from \$76.1 billion) from last quarter reflecting increases in residential mortgage loans of \$379 million (1.0% from \$39.7 billion), increases in commercial loans of \$211 million (1.1% from \$19.0 billion) and increased cash/investment balances of \$1.1 billion (9.5% from \$8.5 billion).

2Q-2020 Ontario Sector vs. Canadian Sector

Ontario sector total assets growth rate of 14.0% exceeded the Canadian sector's (8.5%) reflecting growth in residential mortgage loans of 8.5% (vs 4.5%), commercial loans of 16.5% (vs 6.6%) and agricultural loans of 4.8% (vs 3.4%).

Sector Income Statements

% of Average Assets (except as noted)

	Ontario Sector			Canadian Sector ¹
	3Q-2020	2Q-2020	3Q-2019	2Q-2020
Interest and Investment Income				
Loan Interest	3.07%	3.11%	3.39%	3.09%
Investment Income	0.20%	0.15%	0.24%	0.27%
Total Interest and Investment Income	3.26%	3.26%	3.62%	3.35%
Interest and Dividend Expense				
Interest Expense on Deposits	1.25%	1.30%	1.46%	1.30%
Rebates/Dividends on Share Capital	0.05%	0.04%	0.06%	0.05%
Dividends on Investment/Other Capital	0.01%	0.01%	0.02%	
Other Interest Expense	0.30%	0.30%	0.27%	0.18%
Total	0.37%	0.37%	0.35%	0.23%
Total Interest & Dividend Expense	1.63%	1.67%	1.81%	1.53%
Net Interest & Investment Income	1.63%	1.58%	1.82%	1.82%
Loan Costs	0.20%	0.23%	0.05%	0.20%
Net Interest & Investment Income after Loan Costs	1.44%	1.35%	1.77%	1.62%
Other (non-interest) Income	0.43%	0.44%	0.45%	0.51%
Net Interest, Investment & Other Income	1.86%	1.79%	2.22%	2.13%
Non-Interest Expenses				
Salaries & Benefits	0.89%	0.91%	1.01%	
Occupancy	0.15%	0.16%	0.17%	
Computer, Office & Other Equipment	0.17%	0.17%	0.18%	
Advertising & Communications	0.07%	0.08%	0.10%	
Member Security	0.08%	0.08%	0.08%	
Administration	0.14%	0.15%	0.16%	
Other	0.08%	0.08%	0.10%	
Total Non-Interest Expenses	1.59%	1.62%	1.80%	1.79%
Net Income/(Loss) Before Taxes	0.27%	0.17%	0.41%	0.34%
Taxes	0.05%	0.02%	0.06%	0.07%
Net Income/(Loss)	0.22%	0.15%	0.37%	0.26%
Average Assets (Millions)	\$74,181	\$73,480	\$65,938	\$249,860

¹Summary results as reported by Canadian Credit Union Association; includes Ontario Sector

*Totals may not agree due to rounding

Sector Balance Sheets

As at \$millions

	Sector		
	3Q-2020	2Q-2020	3Q-2019
Assets			
Cash and Investments	12,679	11,578	8,329
Personal Loans	2,133	2,172	2,310
Residential Mortgage Loans	40,083	39,704	37,418
Commercial Loans	19,225	19,014	16,824
Institutional Loans	86	106	109
Unincorporated Association Loans	93	99	86
Agricultural Loans	2,263	2,265	2,172
Total Loans	63,883	63,360	58,919
Total Loan Allowances	251	235	161
Capital (Fixed) Assets	695	706	668
Intangible and Other Assets	746	723	563
Total Assets	77,752	76,133	68,318
Liabilities			
Demand Deposits	24,744	23,592	22,447
Term Deposits	22,795	22,837	19,653
Registered Deposits	13,530	13,481	12,906
Other Deposits	0	0	0
Total Deposits	61,069	59,911	55,006
Borrowings	523	828	623
Securitizations	9,794	9,151	7,079
Other Liabilities	1,263	1,199	945
Total Liabilities	72,648	71,089	63,653
Members' Equity & Capital			
Membership Shares	63	64	65
Retained Earnings	3,018	2,957	2,812
Other Tier 1 & 2 Capital	2,072	2,066	1,784
AOCI	(50)	(43)	4
Total Members' Equity & Capital	5,104	5,044	4,665
Total Liabilities, Members' Equity & Capital	77,752	76,133	68,318

* Totals may not agree due to rounding

Sector Balance Sheets	Sector % Increase/(Decrease) from		
	3Q-2020 \$millions	2Q-2020	3Q-2019
Assets			
Cash and Investments	12,679	9.5%	52.2%
Personal Loans	2,133	-1.8%	-7.7%
Residential Mortgage Loans	40,083	1.0%	7.1%
Commercial Loans	19,225	1.1%	14.3%
Institutional Loans	86	-18.7%	-21.5%
Unincorporated Association Loans	93	-5.7%	8.7%
Agricultural Loans	2,263	-0.1%	4.2%
Total Loans	63,883	0.8%	8.4%
Total Loan Allowances	251	7.1%	55.8%
Capital (Fixed) Assets	695	-1.6%	4.0%
Intangible and Other Assets	746	3.3%	32.5%
Total Assets	77,752	2.1%	13.8%
Liabilities			
Demand Deposits	24,744	4.9%	10.2%
Term Deposits	22,795	-0.2%	16.0%
Registered Deposits	13,530	0.4%	4.8%
Other Deposits	0	0.0%	0.0%
Total Deposits	61,069	1.9%	11.0%
Borrowings	523	-36.9%	-16.0%
Securitized Assets	9,794	7.0%	38.4%
Other Liabilities	1,263	5.3%	33.6%
Total Liabilities	72,648	2.2%	14.1%
Members' Equity & Capital			
Membership Shares	63	-0.9%	-1.6%
Retained Earnings	3,018	2.1%	7.3%
Other Tier 1 & 2 Capital	2,072	0.3%	16.1%
Accumulated Other Comprehensive Income	(50)	15.3%	-1277.4%
Total Members' Equity & Capital	5,104	1.2%	9.4%
Total Liabilities, Members' Equity & Capital	77,752	2.1%	13.8%

* Totals may not agree due to rounding

Sector Balance Sheets

As a percentage of Total Assets

	Sector			Canadian Sector ¹
	3Q-2020	2Q-2020	3Q-2019	2Q-2020
Assets				
Cash and Investments	16.3%	15.2%	12.2%	17.4%
Personal Loans	2.7%	2.9%	3.4%	4.1%
Residential Mortgage Loans	51.6%	52.2%	54.8%	48.1%
Commercial Loans	24.7%	25.0%	24.6%	23.9%
Institutional Loans	0.1%	0.1%	0.2%	1.0%
Unincorporated Association Loans	0.1%	0.1%	0.1%	0.0%
Agricultural Loans	2.9%	3.0%	3.2%	3.6%
Total Loans	82.2%	83.2%	86.2%	80.7%
Total Loan Allowances	0.3%	0.3%	0.2%	-0.3%
Capital (Fixed) Assets	0.9%	0.9%	1.0%	1.0%
Intangible and Other Assets	1.0%	0.9%	0.8%	1.2%
Total Assets	100.0%	100.0%	100.0%	100.0%
Liabilities				
Demand Deposits	31.8%	31.0%	32.9%	37.0%
Term Deposits	29.3%	30.0%	28.8%	31.5%
Registered Deposits	17.4%	17.7%	18.9%	15.4%
Other Deposits	0.0%	0.0%	0.0%	0.2%
Total Deposits	78.5%	78.7%	80.5%	84.1%
Borrowings	0.7%	1.1%	0.9%	6.2%
Securitized Assets	12.6%	12.0%	10.4%	0.0%
Other Liabilities	1.6%	1.6%	1.4%	2.7%
Total Liabilities	93.4%	93.4%	93.2%	93.0%
Members' Equity & Capital				
Membership Shares	0.1%	0.1%	0.1%	0.6%
Retained Earnings	3.9%	3.9%	4.1%	5.3%
Other Tier 1 & 2 Capital	2.7%	2.7%	2.6%	1.1%
AOCI	-0.1%	-0.1%	0.0%	0.0%
Total Members' Equity & Capital	6.6%	6.6%	6.8%	7.0%
Total Liabilities, Members' Equity & Capital	100.0%	100.0%	100.0%	100.0%

¹As reported by Canadian Credit Union Association; includes Ontario Sector. *Totals may not agree due to rounding