



Sector Outlook Report 4Q-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 January 25, 2021 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		
	4Q-2020*	3Q-2020	4Q-2019
Income Statement (% average assets)			
Net Interest Income	1.69 ¹	1.63	1.80
Loan Costs	0.17 ¹	0.20	0.05
Other Income	0.44 ¹	0.43	0.46
Non-Interest Expense	1.62 ³	1.59	1.80
Taxes	0.05 ²	0.05	0.08
Net Income	0.27 ¹	0.22	0.34
Balance Sheet (\$ billions; as at quarter end)			
Assets	78.6 ¹	77.8	70.4
Loans	64.2 ¹	63.9	61.1
Deposits	62.2 ¹	61.1	55.6
Members' Equity & Capital	5.26 ¹	5.10	4.85
Capital Ratios (%)			
Leverage	6.77 ¹	6.62	6.82
Risk Weighted	13.91 ¹	13.71	13.39
Key Measures and Ratios (% except as noted)			
Return on Regulatory Capital	3.96 ¹	3.36	5.06
Liquidity Ratio	16.9 ¹	16.3	10.7
Efficiency Ratio (before dividends/rebates)	80.3 ¹	82.8	78.4
Efficiency Ratio	83.5 ¹	85.5	81.5
Mortgage Loan Delinquency>30 days	0.36 ³	0.32	0.44
Commercial Loan Delinquency>30 days	1.41 ¹	1.91	1.16
Total Loan Delinquency>30 days	0.70 ¹	0.82	0.67
Total Loan Delinquency>90 days	0.33 ¹	0.42	0.29
Asset Growth (from last quarter)	1.12 ³	2.13	3.01
Loan Growth (from last quarter)	0.49 ³	0.83	3.64
Deposit Growth (from last quarter)	1.90 ³	1.93	1.17
Credit Unions (number)	62 ³	65	77
Membership (thousands)	1,750 ²	1,750	1,700
Average Assets (\$ millions, per credit union)	1,248 ¹	1,196	914
* Trends are current quarter to last quarter	Better	Neutral	Worse

Sector Key Financial Trends

Table #1 - Selected Growth Trends

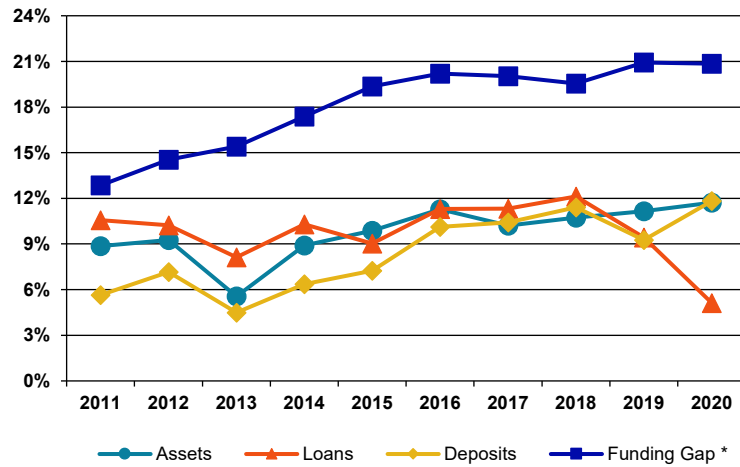


Table #2 - Selected Performance Trends

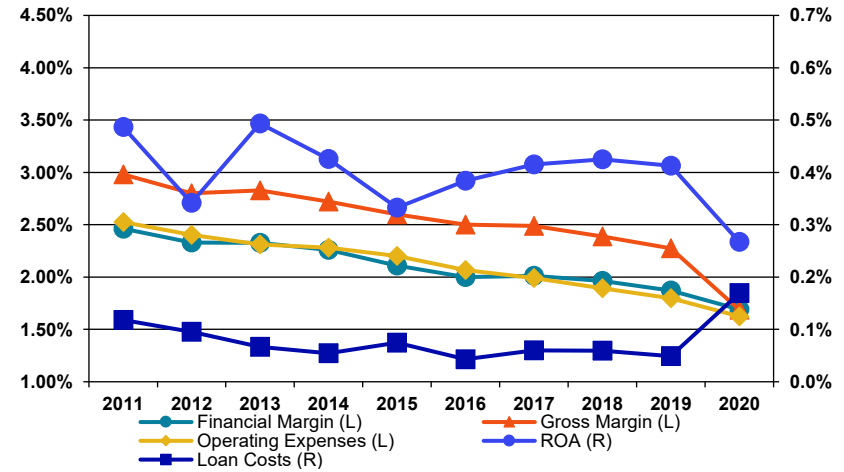


Table #3 - Efficiency Ratio and Return on Assets

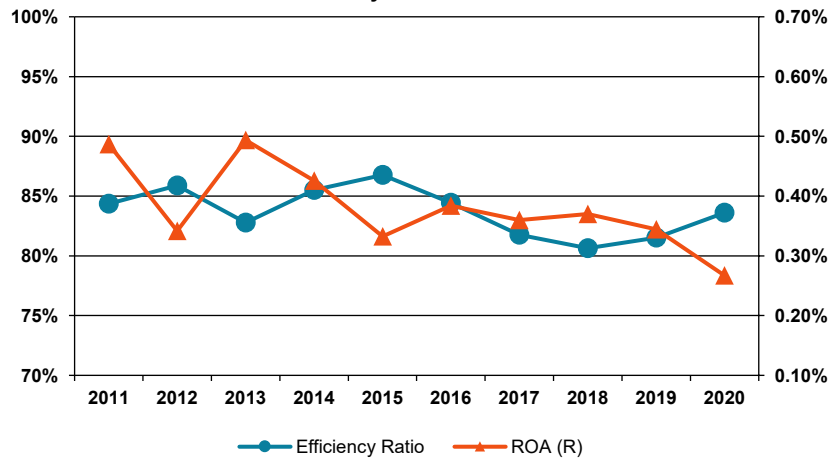
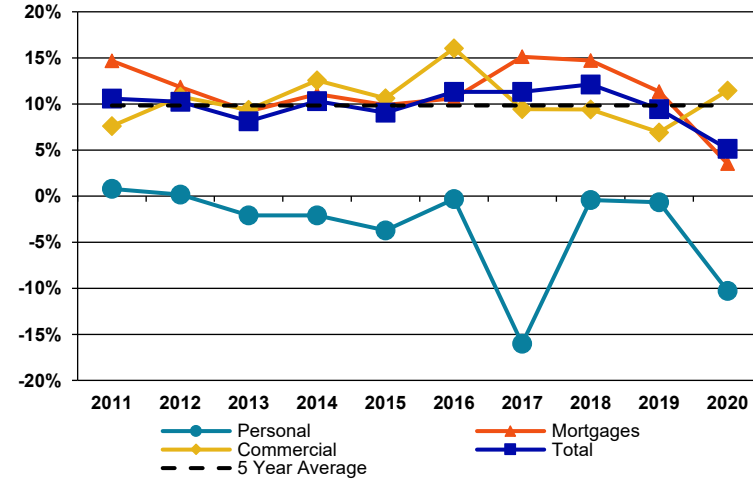


Table #4 - Loan Growth



Sector Key Financial Trends (Continued)

Table #5 - Loan Delinquencies - Greater than 30 days

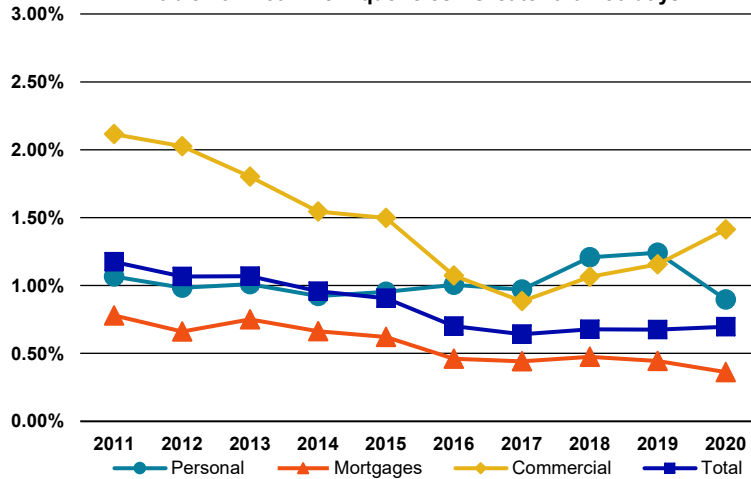


Table #6 - Loan Yields

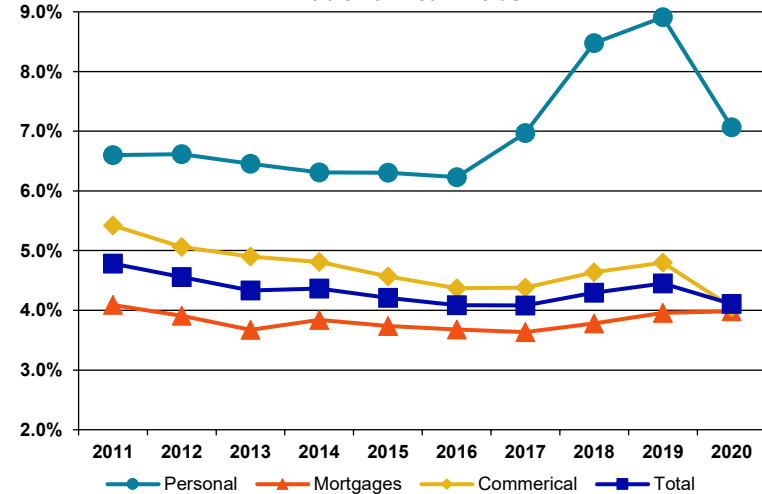


Table #7 - Deposit Growth

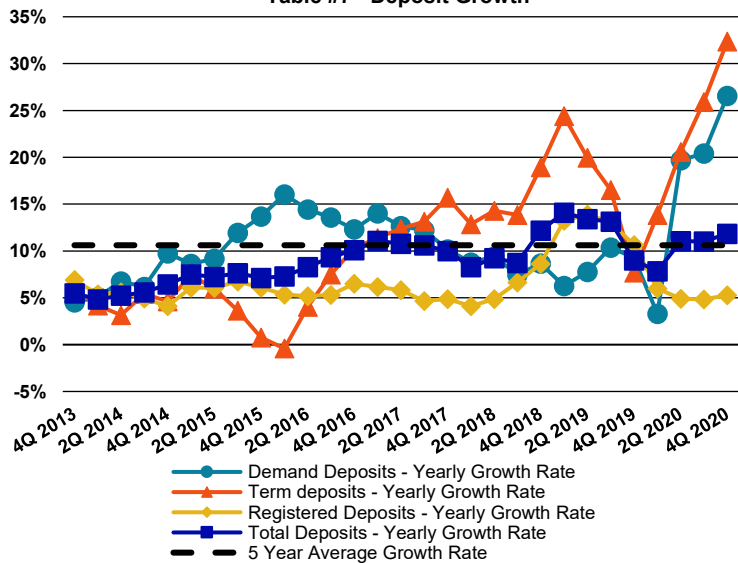
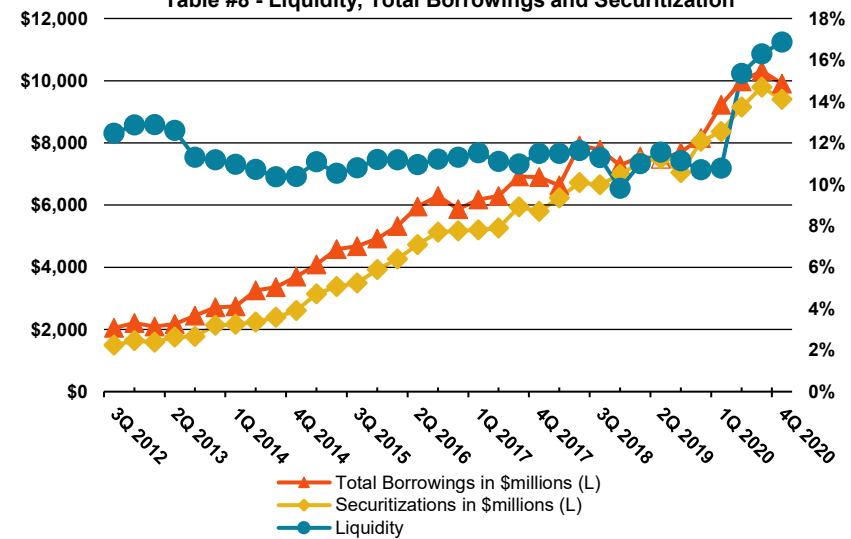


Table #8 - Liquidity, Total Borrowings and Securitization



FSRA Observations 4Q-2020

- Profitability in 4Q-2020 at 27 bps was down by 7 bps year over year (from 34 bps) but up 5 bps quarter over quarter (from 22 bps). Profitability continues to be challenged by the impacts of COVID-19 as economies open, close or are transformed and as interest rates continue at historically low levels.
- The trend of loan deferrals as a percent of total loans is favourable: at December 31st, 2020, the ratio was 0.63%, compared to 2.7% at September 30th, 2020 and 13.8% at June 30th, 2020.
- Over 30-day delinquency on residential mortgages (which represent 51.2% of sector assets) was 36 bps, down 8 bps year over year but up 4 bp from last quarter. Delinquency on commercial loans (which represent 24.7% of sector assets) was 141 bps, up 25 bps year over year but down 50 bps from last quarter. As a result, total loan delinquency at 70 bps deteriorated 3 bps year over year (from 67 bps) but improved 12 bps from 3Q-2020 (from 82 bps).
- Year over year asset growth of \$8.2 billion (up 11.7%) mainly reflects increased cash/investments of \$5.1 billion (up 63.2%) as COVID-19 impacted business activity: loan growth was a modest \$3.1 billion (up 5.1%) comprised of commercial loans of \$2.0 billion (up 11.5%) and residential mortgage loans of \$1.4 billion (up 3.5%).
- Liquidity increased 620 bps year over year to 16.9% as growth in liquid assets exceeded growth in deposits, borrowings and securitization activities.
- Year over year growth in retained earnings (8.7%) did not keep pace with growth in assets (11.7%) 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 (\$230 million, up 12.0% year over year) which remain a significant source of capital (\$2.2 billion or 40.9% in 4Q-2020 versus 39.6% in 4Q-2019).

Economic Overview

The Bank of Canada (the “Bank”) met on January 21st, 2021 and maintained its target for the overnight rate at the lower bound of 0.25%, unchanged since March 2020. The Bank also maintained its quantitative easing (QE) program, which continues at its current pace of at least \$4 billion per week.

In its release, the Bank said “Canada’s economy had strong momentum through to late 2020, but the resurgence of cases and the reintroduction of lockdown measures are a serious setback. Growth in the first quarter of 2021 is now expected to be negative. Assuming restrictions are lifted later in the first quarter, the Bank expects a strong second-quarter rebound. Consumption is forecast to gain strength as parts of the economy reopen and confidence improves, and exports and business investment will be buoyed by rising foreign demand. Beyond the near term, the outlook for Canada is now stronger and more secure than in the October projection, thanks to earlier-than-expected availability of vaccines and significant ongoing policy stimulus. After a decline in real GDP of 5 ½ percent in 2020, the Bank projects the economy will grow by 4 percent in 2021, almost 5 percent in 2022, and around 2 ½ percent in 2023.

CPI inflation has risen to the low end of the Bank’s 1-3 percent target range in recent months, while measures of core inflation are still below 2 percent. CPI inflation is forecast to rise temporarily to around 2 percent in the first half of the year, as the base-year effects of price declines at the pandemic’s outset — mostly gasoline — dissipate. Excess supply is expected to weigh on inflation throughout the projection period. As it is absorbed, inflation is expected to return sustainably to the 2 percent target in 2023.

In view of the weakness of near-term growth and the protracted nature of the recovery, the Canadian economy 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 projection, this does not happen until into 2023. To reinforce this commitment and keep interest rates low across the yield curve, the Bank will continue its QE program until the recovery is well underway. As the Governing Council gains confidence in the strength of the recovery, the pace of net purchases of Government of Canada bonds will be adjusted as required. We remain committed to providing the appropriate degree of monetary policy stimulus to support the recovery and achieve the inflation objective.”

According to data released December 11th, 2020 by Statistics Canada, household debt to disposable income rose to 170.7 percent in the third quarter ended September 30th, 2020. This compared to the previous quarter at 162.8 percent (revised) but was below the 181.0 percent reported in the fourth quarter of 2019.

Housing Markets

In its 2020 review, Toronto Real Estate Board (TREB) reported sales of 95,151 (an increase of 8.4% from 2019) that were the third best year on record despite the impacts of COVID-19. Average selling price was \$930 thousand (an increase of 13.5% from 2019) and was a new record. The Board noted that despite a deep drop-off in the spring, a strong economic rebound in many sectors of the economy thereafter, ultra-low borrowing costs and adoption of “virtual” open houses and showings fuelled a sustained market recovery.

January 2021 sales were 6,928 (up 52.4% from 4,546 in January 2020) according to TREB. New listings of 9,430 were up year over year (by 20.2% from 7,848) but as the rate of listings lagged sales, the market tightened. This resulted in double digit growth in average house prices to \$968 thousand (up 15.5% from \$838 thousand) in 2020. The Board commented strong sales growth occurred across all major segments including condominiums in the City of Toronto and surrounding regions. However, it noted price growth was driven by the low-rise market segments while average condominium prices were down in Toronto.

Sector Consolidation

In 2020, the sector decreased by 15 institutions to 62: there were 60 credit unions (down 5 from 65) and 2 caisses populaires (down 10 from 12) at year end. Average assets per institution increased to \$1.25 billion (up \$334 million or 36.5%) reflecting organic growth and the effects of mergers or amalgamations.

Profitability

4Q-2020 vs 4Q-2019

As shown in Tables 2 and 3, return on average assets for the sector decreased to 27 bps (down 7 bps from 34 bps) from the same quarter a year earlier due to the economic impacts of COVID-19: lower loan interest (down 32 bps to 3.06%), lower investment income (down 3 bps to 23 bps) and higher loan costs (up 12 bps to 17 bps) more than offset lower interest expense on deposits (down 25 bps to 1.20%) and improved non-interest expenses (down 18 bps to 1.62%).

Within the sector, five of 62 institutions had negative returns on assets. FSRA closely monitors those that are unprofitable, identifies core challenges and works with credit unions to develop strategies to restore profitability.

3Q-2020 Ontario Sector vs 3Q-2020 Canadian Sector*

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

Ontario sector profitability of 22 bps was 7 bps below the Canadian sector's of 29 bps.

Capital

4Q-2020 vs 4Q-2019

Sector capital increased to \$5.3 billion (up \$410 million or 8.5%) from the year earlier quarter comprised of:

- Retained earnings of \$3.1 billion (up \$250 million or 8.7%);
- Investment and patronage shares of \$2.2 billion (up \$230 million or 12.0%); and
- Membership shares of \$63 million (down \$0.4 million or 0.6%)

As a percent of risk weighted assets, sector capital was 13.91%, up 52 bps from the year earlier quarter, as growth in capital outpaced growth in risk weighted assets. Leverage was 6.77%, down 5 bps from the year earlier quarter.

4Q-2020 vs 3Q-2020

Sector capital increased by \$159 million (3.1% from \$5.1 billion) from last quarter from issuances of investment shares of \$81 million (3.9% from \$2.1 billion) and increases in retained earnings of \$95 million (3.1% from \$3.0 billion); membership shares were unchanged at \$63 million.

Sector capital as a percent of risk weighted assets increased 20 bps (from 13.71%) in the previous quarter. Leverage increased 15 bps (from 6.62%).

Liquidity (including Securitization)

4Q-2020 vs 4Q-2019

As shown in Tables 7 and 8, sector deposits increased by \$6.6 billion (up 11.8% to \$62.2 billion), securitizations increased by \$2.1 billion (up 28.0% to \$9.4 billion) and borrowings decreased by \$1.0 billion (down 67.0% to \$0.5 billion), a net increase of \$7.6 billion (up 11.8% to \$72.1 billion) from the year earlier. However, liquid assets increased \$5.2 billion (up 75.1% to \$12.2 billion) resulting in an increase in liquidity to 16.9% (up 620 bps from 10.7% in 4Q-2019).

In 4Q-2020, there were 23 institutions (21 credit unions and 2 caisses populaires) with combined total assets of \$71.0 billion (90.3% of sector assets) participating in securitization programs.

4Q-2020 vs 3Q-2020

Sector deposits increased by \$1.2 billion (up 1.9% from \$61.1 billion), securitizations decreased by \$396 million (down 4.0% from \$9.8 billion) and borrowings decreased by \$20 million (down 3.7% from \$523 million), a net increase of \$742 million (up 1.0% from \$71.4 billion) from last quarter. However, liquid assets increased by \$0.5 billion (up 4.6% from \$11.6 billion) resulting in an increase of 60 bps in liquidity (from 16.3%).

Efficiency Ratio (before dividends/interest rebates)

4Q-2020 vs 4Q-2019

As shown in Table 3, the sector efficiency ratio deteriorated to 80.3% (up 190 bps from 78.4%) from the year earlier quarter.

4Q-2020 vs 3Q-2020

Compared to last quarter, sector efficiency improved by 250 bps (from 82.8%).

3Q-2020 Ontario Sector vs. 3Q-2020 Canadian Sector

Although non-interest expense as a percent of average assets for the Ontario sector (1.59%) was 15 bps better than the Canadian sector (1.74%), the efficiency ratio (82.8%) was 810 bps worse than the Canadian sector (74.7%). This is a deterioration from 3Q-2019 when the spread was 350 bps with Ontario at 78.7% and the Canadian Sector at 75.2%.

Credit Quality (delinquency greater than 30 days)

4Q-2020 vs 4Q-2019

As shown in Table 5, total loan delinquency increased to 70 bps (up 3 bps from 67 bps) compared to the year earlier quarter. Residential mortgage loan delinquency decreased to 36 bps (down 8 bps from 44 bps) and commercial loan delinquency increased to 141 bps (up 25 bps from 116 bps).

4Q-2020 vs 3Q-2020

Compared to last quarter, total loan delinquency decreased by 12 bp (from 82 bps) reflecting increase in residential mortgage loan delinquency of 4 bp (from 32 bps) and a decrease in commercial loan delinquency of 50 bps (from 191 bps).

Growth

4Q-2020 vs 4Q-2019

Compared to the previous year, total sector assets increased to \$78.6 billion (up \$8.2 billion or 11.7%). This reflects growth in residential mortgage loans to \$40.3 billion (up \$1.4 billion or 3.5%) and commercial loans to \$19.4 billion (up \$2.0 billion or 11.5%) and increased cash/investments of \$13.3 billion (up \$5.1 billion or 63.2%).

4Q-2020 vs 3Q-2020

Total assets for the sector increased by \$869 million (1.1% from \$77.8 billion) from last quarter reflecting increases in residential mortgage loans of \$183 million (0.5% from \$40.1 billion), increases in commercial loans of \$215 million (1.1% from \$19.2 billion) and increased cash/investment balances of \$576 million (4.5% from \$12.7 billion).

3Q-2020 Ontario Sector vs. Canadian Sector

Ontario sector total assets growth rate of 13.8% exceeded the Canadian sector's (8.9%) reflecting growth in residential mortgage loans of 7.1% (vs 3.9%), commercial loans of 14.3% (vs 4.5%) and agricultural loans of 4.2% (vs 2.9%).

Sector Income Statements

% of Average Assets (except as noted)	Ontario Sector			Canadian Sector ¹
	4Q-2020	3Q-2020	4Q-2019	3Q-2020
Interest and Investment Income				
Loan Interest	3.06%	3.07%	3.38%	3.00%
Investment Income	0.23%	0.20%	0.26%	0.26%
Total Interest and Investment Income	3.29%	3.26%	3.64%	3.26%
Interest and Dividend Expense				
Interest Expense on Deposits	1.20%	1.25%	1.45%	1.23%
Rebates/Dividends on Share Capital	0.06%	0.05%	0.07%	0.05%
Dividends on Investment/Other Capital	0.02%	0.01%	0.02%	-
Other Interest Expense	0.30%	0.30%	0.27%	0.18%
Total	0.39%	0.37%	0.38%	0.23%
Total Interest & Dividend Expense	1.59%	1.63%	1.84%	1.46%
Net Interest & Investment Income	1.69%	1.63%	1.80%	1.80%
Loan Costs	0.17%	0.20%	0.05%	0.17%
Net Interest & Investment Income after Loan Costs	1.52%	1.44%	1.75%	1.63%
Other (non-interest) Income	0.42%	0.43%	0.46%	0.48%
Net Interest, Investment & Other Income	1.95%	1.86%	2.21%	2.11%
Non Interest Expenses				
Salaries & Benefits	0.92%	0.89%	1.01%	
Occupancy	0.15%	0.15%	0.16%	
Computer, Office & Other Equipment	0.17%	0.17%	0.18%	
Advertising & Communications	0.07%	0.07%	0.10%	
Member Security	0.08%	0.08%	0.08%	
Administration	0.14%	0.14%	0.15%	
Other	0.08%	0.08%	0.11%	
Total Non-Interest Expenses	1.62%	1.59%	1.80%	1.74%
Net Income/(Loss) Before Taxes	0.32%	0.27%	0.41%	0.37%
Taxes	0.05%	0.05%	0.08%	0.08%
Net Income/(Loss)	0.27%	0.22%	0.34%	0.29%
Average Assets (Billions)	\$75	\$74	\$67	\$254

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		
	4Q-2020	3Q-2020	4Q-2019
Assets			
Cash and Investments	13,255	12,679	8,123
Personal Loans	2,047	2,133	2,282
Residential Mortgage Loans	40,266	40,083	38,898
Commercial Loans	19,440	19,225	17,441
Institutional Loans	84	86	123
Unincorporated Association Loans	84	93	97
Agricultural Loans	2,272	2,263	2,222
Total Loans	64,193	63,883	61,063
Total Loan Allowances	256	251	160
Capital (Fixed) Assets	685	695	706
Intangible and Other Assets	745	746	643
Total Assets	78,621	77,752	70,376
Liabilities			
Demand Deposits	26,406	24,744	22,738
Term Deposits	22,172	22,795	19,948
Registered Deposits	13,648	13,530	12,963
Other Deposits	0	0	0
Total Deposits	62,226	61,069	55,648
Borrowings	503	523	1,527
Securitizations	9,398	9,794	7,340
Other Liabilities	1,231	1,263	1,008
Total Liabilities	73,358	72,648	65,523
Members' Equity & Capital			
Membership Shares	63	63	64
Retained Earnings	3,113	3,018	2,863
Other Tier 1 & 2 Capital	2,153	2,072	1,923
AOCI	(66)	(50)	3
Total Members' Equity & Capital	5,263	5,104	4,853
Total Liabilities, Members' Equity & Capital	78,621	77,752	70,376

* Totals may not agree due to rounding

Sector Balance Sheets

	Sector		
	4Q-2020 \$millions	% Increase/(Decrease) from 3Q-2020	4Q-2019
Assets			
Cash and Investments	13,255	4.5%	63.2%
Personal Loans	2,047	-4.0%	-10.3%
Residential Mortgage Loans	40,266	0.5%	3.5%
Commercial Loans	19,440	1.1%	11.5%
Institutional Loans	84	-2.4%	-31.8%
Unincorporated Association Loans	84	-9.8%	-13.1%
Agricultural Loans	2,272	0.4%	2.2%
Total Loans	64,193	0.5%	5.1%
Total Loan Allowances	256	1.9%	60.7%
Capital (Fixed) Assets	685	-1.4%	-3.0%
Intangible and Other Assets	745	-0.2%	15.8%
Total Assets	78,621	1.1%	11.7%
Liabilities			
Demand Deposits	26,406	6.7%	16.1%
Term Deposits	22,172	-2.7%	11.2%
Registered Deposits	13,648	0.9%	5.3%
Other Deposits	0	0.0%	0.0%
Total Deposits	62,226	1.9%	11.8%
Borrowings	503	-3.7%	-67.0%
Securitized Assets	9,398	-4.0%	28.0%
Other Liabilities	1,231	-2.6%	22.1%
Total Liabilities	73,358	1.0%	12.0%
Members' Equity & Capital			
Membership Shares	63	-0.2%	-0.6%
Retained Earnings	3,113	3.1%	8.7%
Other Tier 1 & 2 Capital	2,153	3.9%	12.0%
Accumulated Other Comprehensive Income	(66)	33.1%	-2049.2%
Total Members' Equity & Capital	5,263	3.1%	8.5%
Total Liabilities, Members' Equity & Capital	78,621	1.1%	11.7%

* Totals may not agree due to rounding

Sector Balance Sheets

As a percentage of Total Assets

	Sector			Canadian Sector ¹
	4Q-2020	3Q-2020	4Q-2019	3Q-2020
Assets				
Cash and Investments	16.9%	16.3%	11.5%	18.7%
Personal Loans	2.6%	2.7%	3.2%	4.0%
Residential Mortgage Loans	51.2%	51.6%	55.3%	47.5%
Commercial Loans	24.7%	24.7%	24.8%	23.5%
Institutional Loans	0.1%	0.1%	0.2%	0.9%
Unincorporated Association Loans	0.1%	0.1%	0.1%	0.0%
Agricultural Loans	2.9%	2.9%	3.2%	3.6%
Total Loans	81.6%	82.2%	86.8%	79.5%
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	0.9%	1.0%	0.9%	1.2%
Total Assets	100.0%	100.0%	100.0%	100.0%
Liabilities				
Demand Deposits	33.6%	31.8%	32.3%	38.4%
Term Deposits	28.2%	29.3%	28.3%	30.4%
Registered Deposits	17.4%	17.4%	18.4%	15.3%
Other Deposits	0.0%	0.0%	0.0%	0.2%
Total Deposits	79.1%	78.5%	79.1%	84.2%
Borrowings	0.6%	0.7%	2.2%	6.2%
Securitized Assets	12.0%	12.6%	10.4%	0.0%
Other Liabilities	1.6%	1.6%	1.4%	2.7%
Total Liabilities	93.3%	93.4%	93.1%	93.1%
Members' Equity & Capital				
Membership Shares	0.1%	0.1%	0.1%	0.5%
Retained Earnings	4.0%	3.9%	4.1%	5.3%
Other Tier 1 & 2 Capital	2.7%	2.7%	2.7%	1.1%
AOCI	-0.1%	-0.1%	0.0%	0.0%
Total Members' Equity & Capital	6.7%	6.6%	6.9%	6.9%
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