



Sector Outlook Report 2Q-2021

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 July 22nd, 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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Ce document est également disponible en français.

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Financial Highlights

	Ontario Sector		
	2Q-2021*	1Q-2021	2Q-2020
Income Statement (% average assets)			
Net Interest Income	1.90 ³	1.94	1.58
Loan Costs	-0.01 ¹	0.03	0.23
Other Income	0.43 ¹	0.41	0.44
Non-Interest Expense	1.57 ³	1.56	1.62
Taxes	0.13 ³	0.12	0.02
Net Income	0.65 ²	0.65	0.15
Balance Sheet (\$ billions; as at quarter end)			
Assets	80.7 ¹	79.1	76.1
Loans	67.8 ¹	64.9	63.4
Deposits	64.4 ¹	62.9	59.9
Members' Equity & Capital	5.54 ¹	5.39	5.04
Capital Ratios (%)			
Leverage	6.92 ¹	6.89	6.67
Risk Weighted	13.64 ³	13.83	13.77
Key Measures and Ratios (% except as noted)			
Return on Regulatory Capital	9.48 ¹	9.46	2.22
Liquidity Ratio	14.9 ³	16.7	15.3
Efficiency Ratio (before dividends/rebates)	65.5 ¹	65.9	88.0
Efficiency Ratio	66.9 ¹	67.3	90.5
Mortgage Loan Delinquency>30 days	0.24 ¹	0.33	0.33
Commercial Loan Delinquency>30 days	1.07 ¹	1.21	1.36
Total Loan Delinquency>30 days	0.51 ¹	0.61	0.67
Total Loan Delinquency>90 days	0.33 ¹	0.37	0.38
Asset Growth (from last quarter)	2.05 ¹	0.62	5.74
Loan Growth (from last quarter)	4.53 ¹	1.07	1.63
Deposit Growth (from last quarter)	2.33 ¹	1.16	5.56
Credit Unions (number)	61 ¹	62	66
Membership (thousands)	1,732 ¹	1,730	1,750
Average Assets (\$ millions, per credit union)	1,302 ¹	1,276	1,154
* Trends are current quarter to last quarter	Better¹	Neutral²	Worse³

Sector Key Financial Trends

Table #1 - Selected Growth Trends

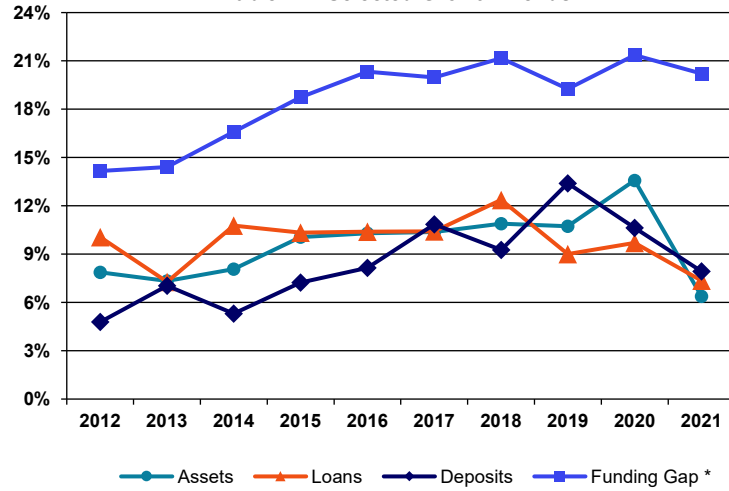


Table #2 - Selected Performance Trends

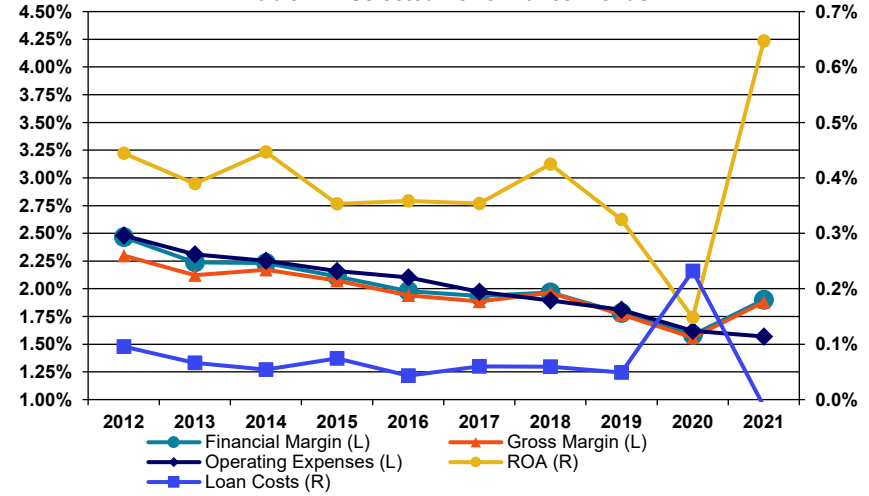


Table #3 - Efficiency Ratio and Return on Assets

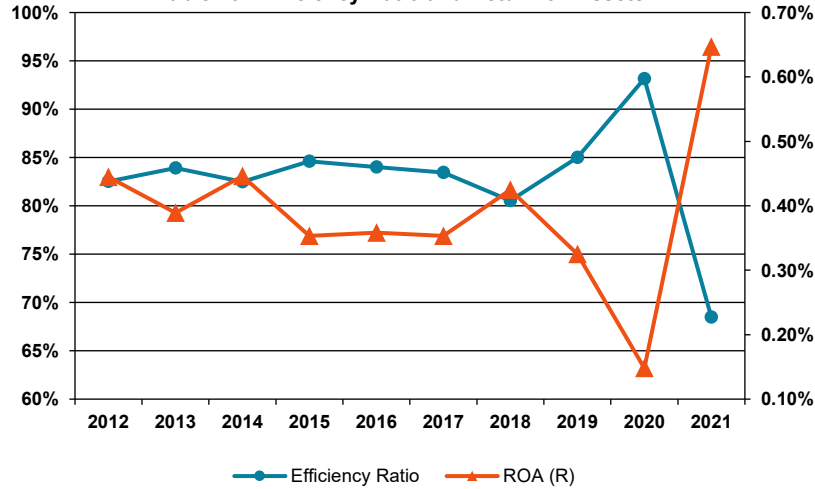
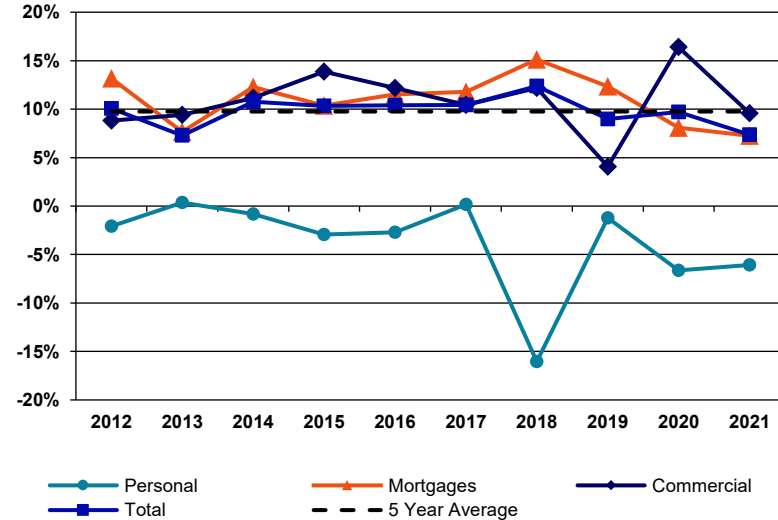


Table #4 - Loan Growth



Sector Key Financial Trends (Continued)

Table #5 - Loan Delinquencies - Greater than 30 days

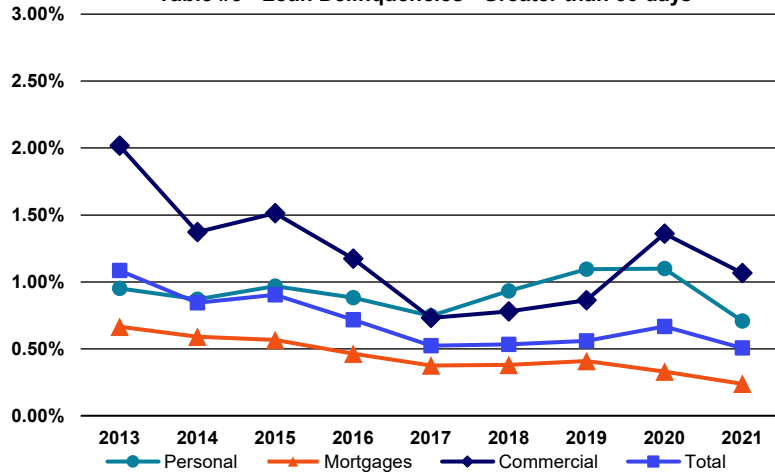


Table #6 - Loan Yields

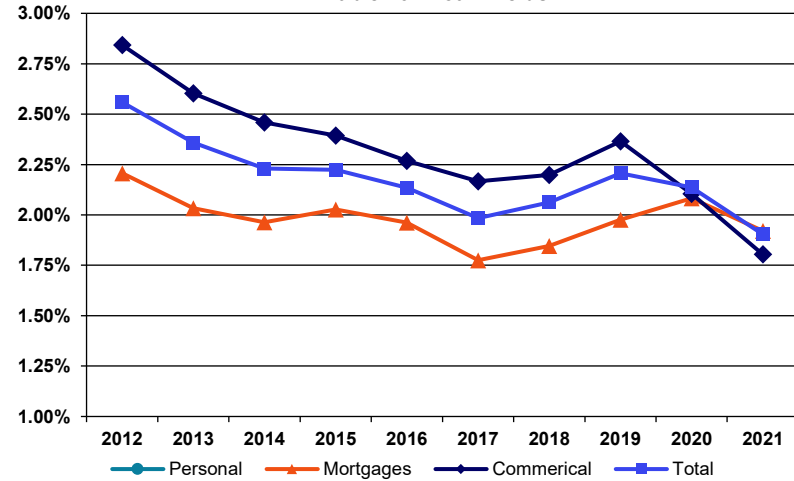


Table #7 - Deposit Growth

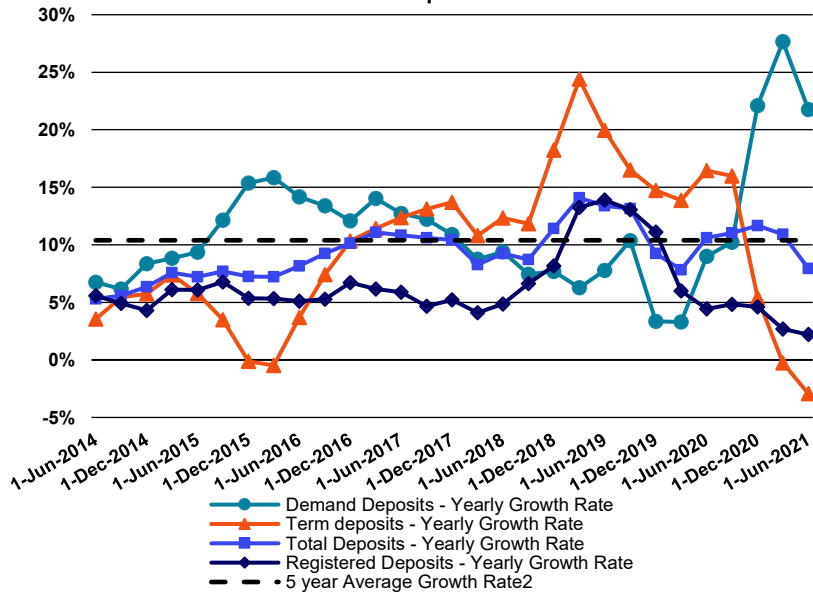
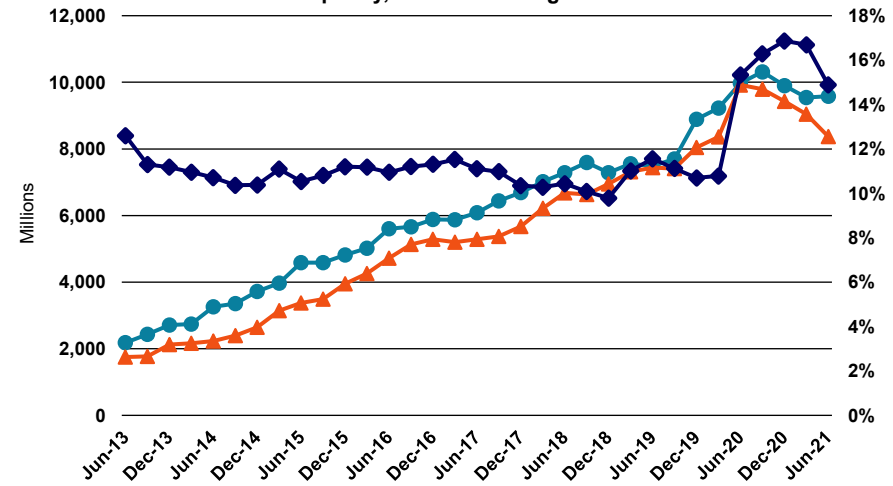


Table #8 - Liquidity, Total Borrowings and Securitization



FSRA Observations 2Q-2021

- On January 1, 2021, Central 1 transitioned the Mandatory Liquidity Pool (MLP) deposits into a segregated investment structure representing a significant change in liquidity management for most Ontario credit unions. This resulted in ongoing changes to some calculation methodologies and one-time gains (not discretely identified) in 1Q-2021 Investment Income.
- Reported profitability in 2Q-2021 at 65 bps is unchanged from last quarter but is an improvement of 50 bps (from 15 bps) year over year. Credit unions have adapted to the effects of COVID-19 and an interest rate environment that continues at low levels. Delinquencies and loan losses have not been as severe as anticipated, reflecting the numerous government support programs and the ability of some sectors to adapt to closed or restricted economies.
- Sector level reporting of loan deferrals has been discontinued because of low levels and favourable trends (0.54% of total loans at March 31st, 2021 compared to 13.8% as at June 30th, 2020).
- Over 30-day delinquency on residential mortgages (which represent 52.6% of sector assets) was 24 bps, down 9 bps from last year and last quarter. Delinquency on commercial loans (which represent 25.8% of sector assets) was 107 bps, down 29 bps year over year and 14 bps from last quarter. As a result, total loan delinquency at 51 bps improved 16 bps year over year (from 67 bps) and 10 bps from 1Q-2021 (from 61 bps).
- Year over year asset growth of \$4.6 billion (up 6.0%) reflects increasing loan growth as some economies adapted to the pandemic and strong real estate sales and prices: residential mortgage loans increased \$2.7 billion (up 6.9%, but still below historic, pre-COVID growth rates) and commercial loans of \$1.8 billion (up 9.5%).
- Liquidity remains strong at 14.9% although 40 bps below last year as deposits and borrowings (but not securitization activities which fell by 8.5%) grew more quickly than liquid assets.
- Year over year growth in retained earnings (12.8%) exceeded growth in assets (6.0%). However, there is a continuing dependency on investment shares (up \$110 million or 5.3% year over year) as a significant source (\$2.2 billion or 39.3% of capital in 2Q-2021, similar to 41.0% in 2Q-2020) to maintain minimum capital requirements and provide for future growth.

Economic Overview

The Bank of Canada (the “Bank”) met on July 14th, 2021 and maintained its target for the overnight rate at the lower bound of 0.25%, unchanged since the start of the pandemic in March 2020. The Bank continued its quantitative easing (QE) program, but announced it is being adjusted to a target pace of \$2 billion per week. The Bank said this adjustment reflects continued progress towards recovery and the Bank’s increased confidence in the strength of the Canadian economic outlook.

In its release, the Bank said “The global economy is recovering strongly from the COVID-19 pandemic, with continued progress on vaccinations, particularly in advanced economies. However, the recovery is still highly uneven and remains dependent on the course of the virus. The recent spread of new COVID-19 variants is a growing concern, especially for regions where vaccination rates remain low.

“Global GDP growth is expected to reach 7 percent this year and then moderate to about 4 ½ percent in 2022 and just over 3 percent in 2023. This is a slightly stronger forecast than the one in the Bank’s April Monetary Policy Report (MPR) and primarily reflects a stronger US outlook. Global financial conditions remain highly accommodative. Rising demand is supporting higher oil prices, while non-energy commodity prices remain elevated. The Canada-US exchange rate is little changed since April.

“In Canada, the third wave of the virus slowed growth in the second quarter. However, falling COVID-19 cases, progress on vaccinations and easing containment restrictions all point to a strong pickup in the second half of this year. The Bank now expects GDP growth of around 6 percent in 2021 – a little slower than was expected in April – but has revised up its 2022 forecast to 4 ½ percent and projects 3 ¼ percent growth in 2023.

“Consumption is expected to lead the recovery as households return to more normal spending patterns, while housing market activity is projected to ease back from historical highs. Stronger international demand should underpin a solid recovery in exports. As domestic and foreign demand increases and confidence improves, business investment will gain strength. Employment has once again begun to rebound, and we expect the hardest-hit segments of the labour market to post strong gains as the economy re-opens. However, the pace of the recovery will vary among industries and workers, and it could take some time to hire workers with the right skills to fill jobs. The aftermath of lockdowns and ongoing structural changes in the economy both mean that estimates of potential output and when the output gap will close are particularly uncertain.

“CPI inflation was 3.6 percent in May, boosted by temporary factors that include base-year effects and stronger gasoline prices, as well as pandemic-related bottlenecks as economies re-open. Core measures of inflation have also risen but by less than the CPI. In some

high-contact services, demand is rebounding faster than supply, pushing up prices from low levels. Transitory supply constraints in shipping and value chain disruptions for semiconductors are also translating into higher prices for cars and some other goods. With higher gasoline prices and on-going supply bottlenecks, inflation is likely to remain above 3 percent through the second half of this year and ease back toward 2 percent in 2022, as short-run imbalances diminish and the considerable overall slack in the economy pulls inflation lower. The factors pushing up inflation are transitory, but their persistence and magnitude are uncertain and will be monitored closely.

“The Governing Council judges that the Canadian economy still has considerable excess capacity, and that the recovery continues to require extraordinary monetary policy support. We remain committed to holding 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 the Bank’s July projection, this happens sometime in the second half of 2022. The Bank’s QE program continues to reinforce this commitment and keep interest rates low across the yield curve. Decisions regarding further adjustments to the pace of net bond purchases will be guided by Governing Council’s ongoing assessment of the strength and durability of the recovery. We will continue to provide the appropriate degree of monetary policy stimulus to support the recovery and achieve the inflation objective.”

On June 11th, 2021 Statistics Canada reported household debt as a proportion of disposable income was 172.3% in the first quarter of 2021. This compared with 174% (restated) for the fourth quarter of 2020. It added that households have managed to add over \$2 trillion in wealth since the start of 2020 helped by a strong rebound in financial markets and a hot housing market. The agency cautioned the spending and saving habits of the pandemic may begin to normalize and government income support payments will begin to fade out so the boost to disposable income will begin to dissipate.

Housing Markets

Toronto Region Real Estate Board (TREB) reports July 2021 home sales were 9,390, down 1,643 (4.9%) compared to July 2020. Average house price rose to \$1.1 million (up 12.6%) from \$944 thousand in the year earlier period. On a seasonally adjusted basis, the average price in July was up 0.9% compared to June 2021. New listings in July were 12,551 representing a drop of 5,568 (30.7%) from those of July 2020.

TREB provided the following assessment: “The annual rate of price growth has moderated since the early spring, but has remained in the double digits. This means that many households are still competing very hard to reach a deal on a home. This strong upward

pressure on home prices will be sustained in the absence of more supply, especially as we see a resurgence in population growth moving into 2022.”

Sector Consolidation

Two credit unions merged in 2Q-2021 reducing the number of institutions to 61 from 66 in 2Q-2020. Average assets per institution increased to \$1.3 billion (up \$148 million or 12.8%) year over year reflecting the effects of organic growth and mergers or amalgamations.

Profitability

2Q-2021 vs 2Q-2020

As shown in Tables 2 and 3, return on average assets for the sector increased to 65 bps (up 50 bps) from 15 bps in the year earlier quarter, the results of which reflected early impacts of the pandemic. In 2Q-2021, lower interest expense on deposits (down 41 bps to 89 bps), increased investment income (up 17 bps to 32 bps which includes the MLP effects discussed within FSRA’s Observations on page 7), improved non-interest expenses (down 5 bps to 1.57%) and reduced loan costs (down 24 bps) more than offset lower loan interest (down 31 bps to 2.80%) and higher taxes (up 11 bps to 13 bps).

Within the sector, three of 61 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.

1Q-2021 Ontario sector vs 1Q-2021 Canadian sector*

Ontario sector profitability of 65 bps was 16 bps above the Canadian sector’s of 49 bps.

Capital

2Q-2021 vs 2Q-2020

Sector capital increased to \$5.5 billion (up \$499 million or 9.9%) from the year earlier quarter comprised of:

- Retained earnings of \$3.3 billion (up \$379 million or 12.8%).
- Investment and patronage shares of \$2.2 billion (up \$110 million or 5.3%).
- Membership shares of \$63 million (down \$1 million or 1.7%).

As a percent of risk weighted assets, sector capital was 13.64%, down 13 bps from the year earlier quarter, as growth in risk weighted assets outpaced growth in capital. Leverage was 6.92%, up 25 bps from the year earlier quarter.

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

2Q-2021 vs 1Q-2021

Sector capital increased by \$154 million (2.9% from \$5.4 billion) from last quarter due to increases in retained earnings of \$144 million (4.5% from \$3.2 billion), issuances of investment shares of \$3 million (0.2% from \$2.2 billion) and decreases in membership shares of \$1 million (0.9% from \$64 million).

Sector capital as a percent of risk weighted assets decreased 19 bps (from 13.83%) in the previous quarter. Leverage increased 3 bps (from 6.89%).

Liquidity (including Securitization)

2Q-2021 vs 2Q-2020

As shown in Tables 7 and 8, sector deposits increased by \$4.5 billion (up 7.5% to \$64.4 billion), securitizations decreased by \$0.8 billion (down 8.5% to \$8.4 billion) and borrowings increased by \$0.4 billion (up 46.5% to \$1.2 billion), a net increase of \$4.1 billion (up 5.9% to \$74.0 billion) from the year earlier. Liquid assets decreased \$1.1 billion (down 10.2% to \$11.0 billion) resulting in a decrease in liquidity to 14.9% (down 40 bps from 15.3% in 2Q-2020).

In 2Q-2021, there were 23 institutions (21 credit unions and 2 caisses populaires) with total assets of \$73.1 billion (90.5% of sector assets) participating in securitization programs.

2Q-2021 vs 1Q-2021

Sector deposits increased by \$1.5 billion (up 2.3% from \$62.9 billion), securitizations decreased by \$675 million (down 7.5% from \$9.0 billion) and borrowings increased by \$716 million (up 144% from \$497 million), a net increase of \$1.5 billion (up 2.1% from \$72.5 billion) from last quarter. However, liquid assets decreased by \$1.1 billion (down 9.0% from \$12.1 billion) resulting in a decrease of 180 bps in liquidity (from 16.7%).

Efficiency Ratio (before dividends/interest rebates)

2Q-2021 vs 2Q-2020

As shown in Table 3, the sector efficiency ratio improved to 65.5% (down 22.5 percentage points from 88.0%) from the year earlier quarter.

2Q-2021 vs 1Q-2021

Compared to last quarter, sector efficiency improved by 40 bps (from 65.9%).

1Q-2021 Ontario sector vs. 1Q-2021 Canadian sector

Non-interest expense as a percent of average assets for the Ontario sector (1.56%) was 19 bps better than the Canadian sector (1.75%). The Ontario sector efficiency ratio (65.9%) was 410 bps better than the Canadian sector (70.5%), a significant improvement from 1Q-2020 when Ontario at 88.5% was worse than the Canadian sector at 74.2 %, a difference of 14.3 percentage points.

Credit Quality (delinquency greater than 30 days)

2Q-2021 vs 2Q-2020

As shown in Table 5, total loan delinquency decreased to 51 bps (down 16 bps from 67 bps) compared to the year earlier quarter. Residential mortgage loan delinquency decreased to 24 bps (down 9 bps from 33 bps) and commercial loan delinquency decreased to 107 bps (down 29 bps from 136 bps).

2Q-2021 vs 1Q-2021

Compared to last quarter, total loan delinquency decreased by 10 bps (from 61 bps) reflecting decreased residential mortgage loan delinquency of 9 bps (from 33 bps) and decreased commercial loan delinquency of 14 bps (from 121 bps).

Growth

2Q-2021 vs 2Q-2020

Compared to the previous year, total sector assets increased to \$80.7 billion (up \$4.6 billion or 6.0%). This reflects growth in residential mortgage loans to \$42.4 billion (up \$2.7 billion or 6.9%), commercial loans to \$20.8 billion (up \$1.8 billion or 9.5%) and cash/investments of \$11.7 billion (up \$142 million or 1.2%).

2Q-2021 vs 1Q-2021

Total assets for the sector increased by \$1.6 billion (2.0% from \$79.1 billion) from last quarter reflecting increases in residential mortgage loans of \$1.9 billion (4.7% from \$40.5 billion) and in commercial loans of \$924 million (4.6% from \$19.9 billion), offset by decreased cash/investments of \$1.3 billion (10.0% from \$13.0 billion).

1Q-2021 Ontario Sector vs 1Q-2021 Canadian Sector

Growth in total assets of the Ontario sector (9.9%) exceeded the Canadian sector's (7.7%) reflecting increases in residential mortgage loans of 4.3% (vs 1.9%), commercial loans of 6.1% (vs 3.5%) and agricultural loans of 1.1% (vs 3.2%).

Sector Income Statements

% of Average Assets (except as noted)	Ontario Sector			Canadian Sector ¹
	2Q-2021	1Q-2021	2Q-2020	1Q-2021
Interest and Investment Income				
Loan Interest	2.80%	2.81%	3.11%	2.79%
Investment Income	0.32%	0.40%	0.15%	0.22%
Total Interest and Investment Income	3.12%	3.21%	3.26%	3.01%
Interest and Dividend Expense				
Interest Expense on Deposits	0.89%	0.94%	1.30%	0.89%
Rebates/Dividends on Share Capital	0.05%	0.04%	0.04%	
Dividends on Investment/Other Capital	0.01%	0.01%	0.01%	
Other Interest Expense	0.26%	0.27%	0.30%	0.15%
Total	0.33%	0.34%	0.37%	0.15%
Total Interest & Dividend Expense	1.22%	1.27%	1.67%	1.04%
Net Interest & Investment Income	1.90%	1.94%	1.58%	1.97%
Loan Costs	-0.01%	0.03%	0.23%	0.03%
Net Interest & Investment Income after Loan Costs	1.91%	1.90%	1.35%	1.94%
Other (non-interest) Income	0.43%	0.41%	0.44%	0.52%
Net Interest, Investment & Other Income	2.34%	2.32%	1.79%	2.46%
Non-Interest Expenses				
Salaries & Benefits	0.90%	0.89%	0.91%	
Occupancy	0.14%	0.14%	0.16%	
Computer, Office & Other Equipment	0.18%	0.18%	0.17%	
Advertising & Communications	0.07%	0.06%	0.08%	
Member Security	0.08%	0.08%	0.08%	
Administration	0.13%	0.13%	0.15%	
Other	0.08%	0.07%	0.08%	
Total Non-Interest Expenses	1.57%	1.56%	1.62%	1.75%
Net Income/(Loss) Before Taxes	0.78%	0.76%	0.17%	0.70%
Taxes	0.13%	0.12%	0.02%	0.13%
Net Income/(Loss)	0.65%	0.65%	0.15%	0.49%
Average Assets (Billions)	\$80	\$79	\$73	\$284

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		
	2Q-2021	1Q-2021	2Q-2020
Assets			
Cash and Investments	11,720	13,018	11,578
Personal Loans	2,025	1,998	2,172
Residential Mortgage Loans	42,424	40,536	39,704
Commercial Loans	20,811	19,887	19,014
Institutional Loans	88	83	106
Unincorporated Association Loans	45	75	99
Agricultural Loans	2,422	2,299	2,265
Total Loans	67,816	64,879	63,360
Total Loan Allowances	255	268	235
Capital (Fixed) Assets	659	665	706
Intangible and Other Assets	784	810	723
Total Assets	80,724	79,105	76,133
Liabilities			
Demand Deposits	28,573	27,173	23,592
Term Deposits	22,120	22,031	22,837
Registered Deposits	13,718	13,742	13,481
Other Deposits	0	0	0
Total Deposits	64,411	62,946	59,911
Borrowings	1,213	497	828
Securitized Assets	8,371	9,046	9,151
Other Liabilities	1,186	1,227	1,199
Total Liabilities	75,181	73,716	71,089
Members' Equity & Capital			
Membership Shares	63	64	64
Retained Earnings	3,336	3,192	2,957
Other Tier 1 & 2 Capital	2,176	2,173	2,066
AOCI	(33)	(39)	(43)
Total Members' Equity & Capital	5,543	5,389	5,044
Total Liabilities, Members' Equity & Capital	80,724	79,105	76,133

* Totals may not agree due to rounding

Sector Balance Sheets

	Sector % Increase/(Decrease) from		
	2Q-2021 \$millions	1Q-2021	2Q-2020
Assets			
Cash and Investments	11,720	-10.0%	1.2%
Personal Loans	2,025	1.4%	-6.8%
Residential Mortgage Loans	42,424	4.7%	6.9%
Commercial Loans	20,811	4.6%	9.5%
Institutional Loans	88	6.1%	-16.1%
Unincorporated Association Loans	45	-40.3%	-54.7%
Agricultural Loans	2,422	5.3%	6.9%
Total Loans	67,816	4.5%	7.0%
Total Loan Allowances	255	-4.7%	8.6%
Capital (Fixed) Assets	659	-0.9%	-6.7%
Intangible and Other Assets	784	-3.2%	8.5%
Total Assets	80,724	2.0%	6.0%
Liabilities			
Demand Deposits	28,573	5.2%	21.1%
Term Deposits	22,120	0.4%	-3.1%
Registered Deposits	13,718	-0.2%	1.8%
Other Deposits	0	0.0%	0.0%
Total Deposits	64,411	2.3%	7.5%
Borrowings	1,213	144.0%	46.5%
Securitizations	8,371	-7.5%	-8.5%
Other Liabilities	1,186	-3.3%	-1.1%
Total Liabilities	75,181	2.0%	5.8%
Members' Equity & Capital			
Membership Shares	63	-0.9%	-1.7%
Retained Earnings	3,336	4.5%	12.8%
Other Tier 1 & 2 Capital	2,176	0.2%	5.3%
Accumulated Other Comprehensive Income	(33)	-16.3%	-23.5%
Total Members' Equity & Capital	5,543	2.9%	9.9%
Total Liabilities, Members' Equity & Capital	80,724	2.0%	6.0%

* Totals may not agree due to rounding

Sector Balance Sheets

As a percentage of total assets

	Sector			Canadian sector ¹
	2Q-2021	1Q-2021	2Q-2020	1Q-2021
Assets				
Cash and investments	14.5%	16.5%	15.2%	19.1%
Personal loans	2.5%	2.5%	2.9%	3.6%
Residential mortgage loans	52.6%	51.2%	52.2%	47.1%
Commercial loans	25.8%	25.1%	25.0%	23.7%
Institutional loans	0.1%	0.1%	0.1%	1.0%
Unincorporated association loans	0.1%	0.1%	0.1%	0.0%
Agricultural loans	3.0%	2.9%	3.0%	3.6%
Total loans	84.0%	82.0%	83.2%	98.1%
Total loan allowances	0.3%	0.3%	0.3%	-0.3%
Capital (fixed) assets	0.8%	0.8%	0.9%	1.0%
Intangible and other assets	1.0%	1.0%	0.9%	1.2%
Total assets	100.0%	100.0%	100.0%	100.0%
Liabilities				
Demand deposits	35.4%	34.4%	31.0%	41.4%
Term deposits	27.4%	27.9%	30.0%	28.6%
Registered deposits	17.0%	17.4%	17.7%	15.0%
Other deposits	0.0%	0.0%	0.0%	0.2%
Total deposits	79.8%	79.6%	78.7%	85.2%
Borrowings	1.5%	0.6%	1.1%	5.5%
Securitized assets	10.4%	11.4%	12.0%	0.0%
Other liabilities	1.5%	1.6%	1.6%	2.4%
Total liabilities	93.1%	93.2%	93.4%	93.0%
Members' equity & capital				
Membership shares	0.1%	0.1%	0.1%	0.5%
Retained earnings	4.1%	4.0%	3.9%	5.4%
Other tier 1 & 2 capital	2.7%	2.7%	2.7%	1.1%
AOCI	0.0%	0.0%	-0.1%	0.0%
Total members' equity & capital	6.9%	6.8%	6.6%	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.