



Sector Outlook Report 4Q-2021

Ontario Credit Unions and Caisses Populaires

25 Sheppard Avenue West,
Suite 100
Toronto, ON
M2N 6S6

Telephone: 416 250 7250
Toll free: 1 800 668 0128

25, avenue Sheppard Ouest
Bureau 100
Toronto (Ontario)
M2N 6S6

Téléphone: 416 250 7250
Sans frais: 1 800 668 0128

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 21st, 2022 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		
	4Q-2021*	3Q-2021	4Q-2020
Income Statement (% average assets)			
Net Interest Income	1.90 ¹	1.89	1.69
Loan Costs	0.00 ²	0.00	0.17
Other Income	0.41 ³	0.43	0.42
Non-Interest Expense	1.61 ³	1.60	1.62
Taxes	0.12 ¹	0.13	0.05
Net Income	0.58 ³	0.60	0.27
Balance Sheet (\$ billions; as at quarter end)			
Assets	83.9 ¹	82.3	78.6
Loans	71.2 ¹	69.7	64.2
Deposits	66.5 ¹	65.7	62.2
Members' Equity & Capital	5.86 ¹	5.68	5.26
Capital Ratios (%)			
Leverage	7.02 ¹	6.94	6.77
Risk Weighted	13.69 ¹	13.65	13.91
Key Measures and Ratios (% except as noted)			
Return on Regulatory Capital	8.42 ³	8.83	3.96
Liquidity Ratio	13.7 ³	13.9	16.9
Efficiency Ratio (before dividends/rebates)	67.6 ³	67.0	80.3
Efficiency Ratio	69.8 ³	68.7	83.5
Mortgage Loan Delinquency>30 days	0.25 ¹	0.28	0.36
Commercial Loan Delinquency>30 days	0.52 ¹	0.87	1.41
Total Loan Delinquency>30 days	0.35 ¹	0.46	0.70
Total Loan Delinquency>90 days	0.17 ¹	0.29	0.33
Asset Growth (from last quarter)	2.01 ¹	1.92	1.12
Loan Growth (from last quarter)	2.06 ³	2.84	0.49
Deposit Growth (from last quarter)	1.24 ³	2.04	1.90
Credit Unions (number)	61 ²	61	62
Membership (thousands)	1,720 ³	1,735	1,750
Average Assets (\$ millions, per credit union)	1,376 ¹	1,349	1,248
	Better ¹	Neutral ²	Worse ³

* Trends are current quarter to last quarter

Sector Key Financial Trends

Table #1 - Selected Growth Trends

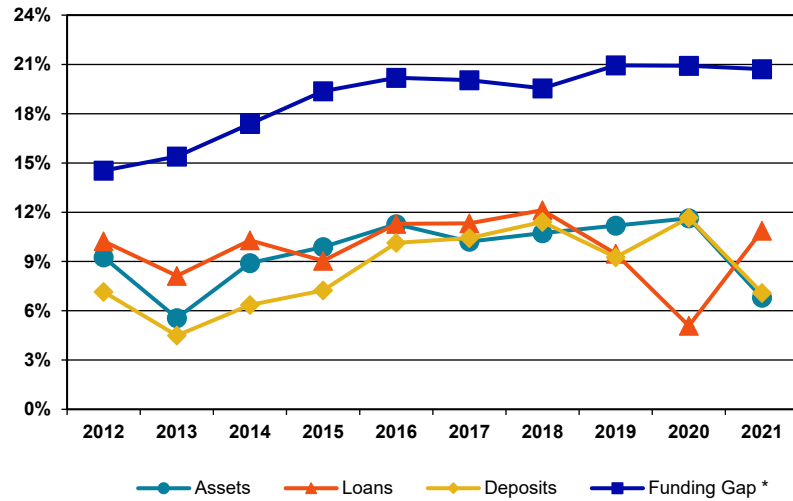


Table #2 - Selected Performance Trends

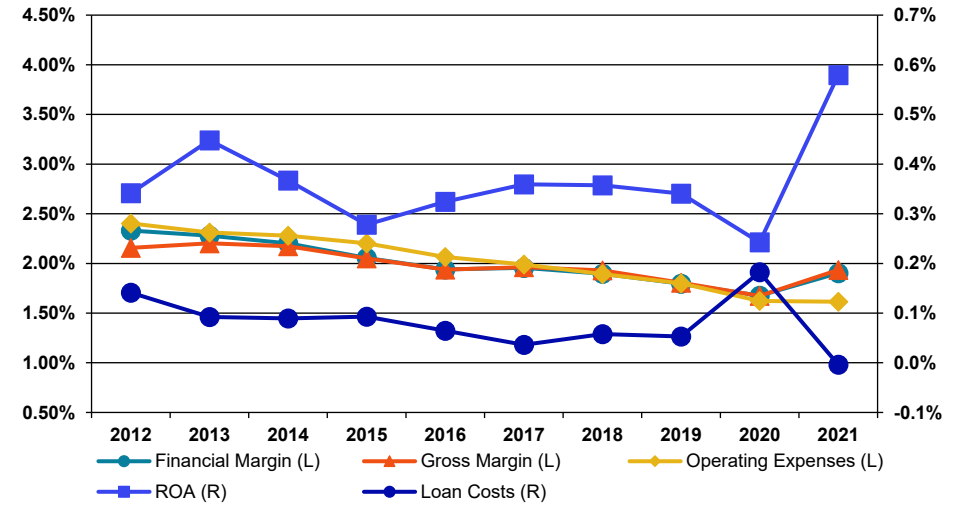


Table #3 - Efficiency Ratio and Return on Assets

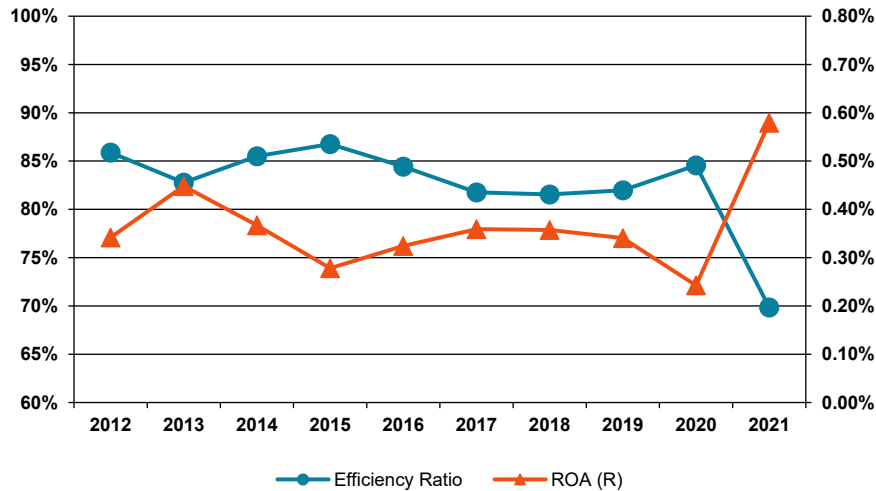
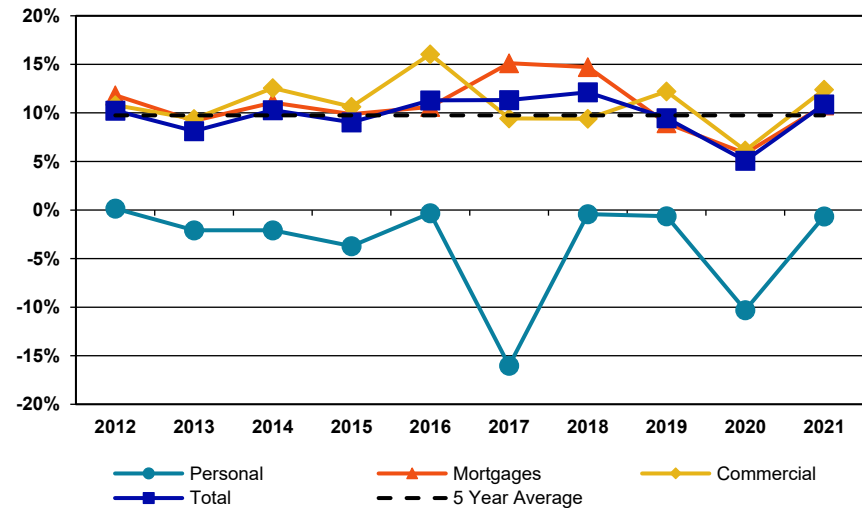


Table #4 - Loan Growth



Sector Key Financial Trends (Continued)

Table #5 - Loan Delinquencies - Greater than 30 days

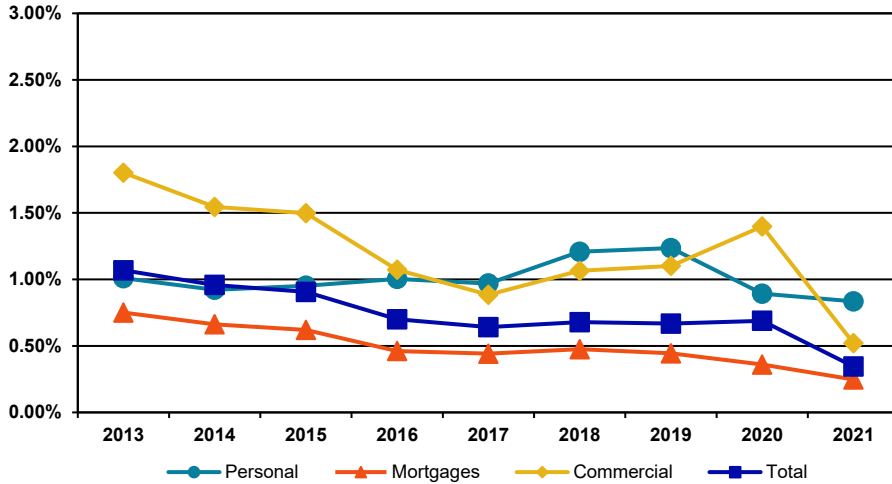


Table #6 - Loan Yields

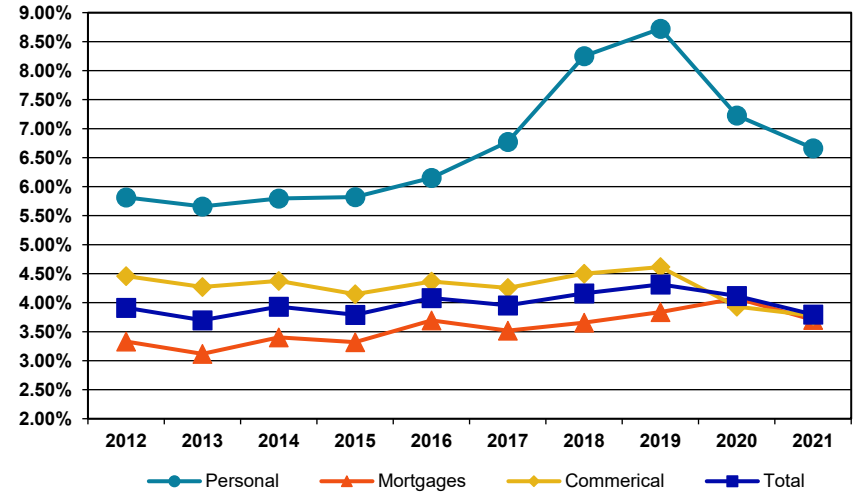


Table #7 - Deposit Growth

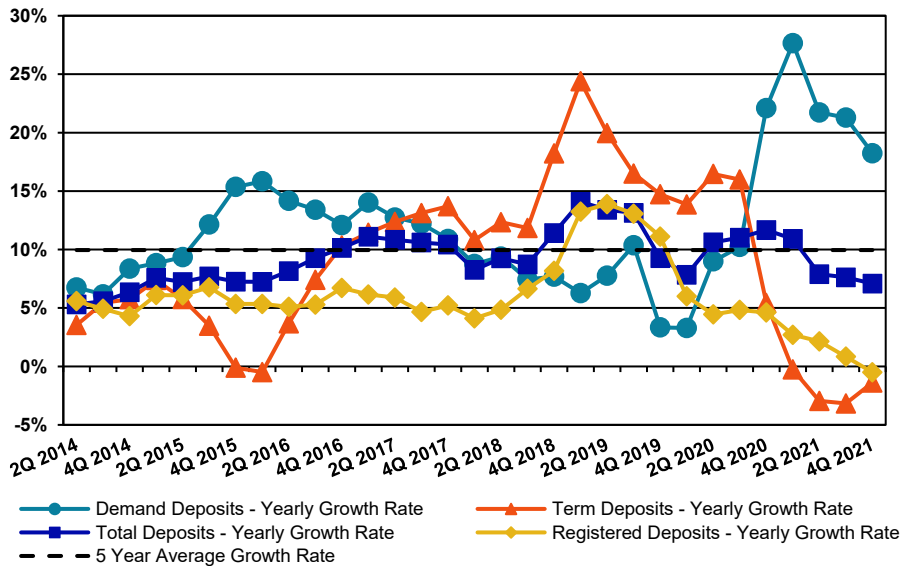
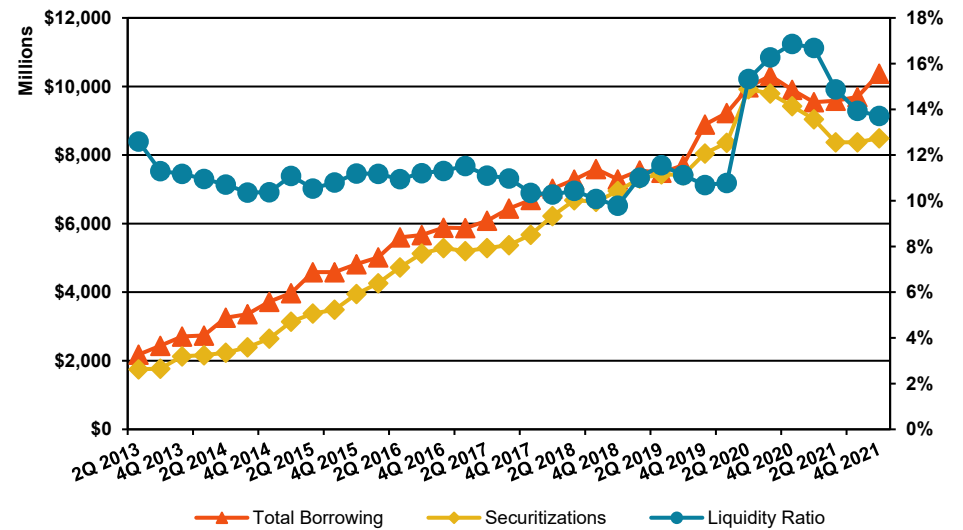


Table #8 - Liquidity, Total Borrowings and Securitization



FSRA Observations 4Q-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) included in 2021 Investment Income.
- Profitability in 4Q-2021 was 58 bps, below last quarter by 2 bps but higher than last year's quarter by 31 bps. Credit quality (delinquencies, impairments and allowances) continues to improve. Results reflect the impacts of numerous government support programs and the abilities of credit unions and many sectors of the economy to adapt to changes due to the pandemic.
- Over 30-day delinquency on residential mortgages (which at \$44.6 billion represent 53.2% of sector assets) was 25 bps, down 11 bps from last year and 3 bps from last quarter. Delinquency on commercial loans (which at \$21.8 billion represent 26.0% of sector assets) was 52 bps, down 89 bps year over year and 35 bps from last quarter. As a result, total loan delinquency at 35 bps improved 35 bps year over year (from 70 bps) and 11 bps from 3Q-2021 (from 51 bps).
- At 4Q-2021 end, sector assets totaled \$83.9 billion, reflecting year over year growth of \$5.3 billion (up 6.7%). Growth was driven by increases in residential mortgage loans of \$4.4 billion (up 10.8%, similar to pre-COVID growth rates) as markets remained strong and sales prices high and in commercial loans of \$2.4 billion (up 12.3%), offset by cash/investments that fell \$1.7 billion (down 13.2%)
- Liquidity in 4Q-2021 remained strong at 13.7% although 320 bps below last year, reflecting funding core lines of business rather than investing in lower yielding liquid assets.
- Year over year growth in retained earnings (15.6%) exceeds recent growth in assets (6.7%). Investment shares (up \$78 million or 3.6% year over year) continue to represent significant funding (\$2.2 billion or 38.1% of capital in 4Q-2021, similar to 40.9% in 4Q-2020) to maintain minimum capital requirements and provide for future growth.

Economic Overview

Bank of Canada (the “Bank”) last met on January 26th, 2022. Contrary to the expectations of many, the Bank held the target for the overnight rate at the lower bound of 0.25%, unchanged since March 2020. However, with overall economic slack now absorbed, the Bank removed its exceptional forward guidance on policy interest rates. The Bank is continuing its reinvestment phase, keeping its overall holdings of Government of Canada bonds roughly constant. The next scheduled date for announcing the overnight rate target is March 2, 2022.

In its detailed release, the Bank said the following. “The global recovery from the COVID-19 pandemic is strong but uneven. The US economy is growing robustly while growth in some other regions appears more moderate, especially in China due to current weakness in its property sector. Strong global demand for goods combined with supply bottlenecks that hinder production and transportation are pushing up inflation in most regions. As well, oil prices have rebounded to well above pre-pandemic levels following a decline at the onset of the Omicron variant of COVID-19. Financial conditions remain broadly accommodative but have tightened with growing expectations that monetary policy will normalize sooner than was anticipated, and with rising geopolitical tensions. Overall, the Bank projects global GDP growth to moderate from 6¾ % in 2021 to about 3½ % in 2022 and 2023.

“In Canada, GDP growth in the second half of 2021 now looks to have been even stronger than expected. The economy entered 2022 with considerable momentum, and a broad set of measures are now indicating that economic slack is absorbed. With strong employment growth, the labour market has tightened significantly. Job vacancies are elevated, hiring intentions are strong, and wage gains are picking up. Elevated housing market activity continues to put upward pressure on house prices.

“The Omicron variant is weighing on activity in the first quarter. While its economic impact will depend on how quickly this wave passes, it is expected to be less severe than previous waves. Economic growth is then expected to bounce back and remain robust over the projection horizon, led by consumer spending on services, and supported by strength in exports and business investment. After GDP growth of 4½ % in 2021, the Bank expects Canada’s economy to grow by 4% in 2022 and about 3½ % in 2023.

“CPI inflation remains well above the target range and core measures of inflation have edged up since October. Persistent supply constraints are feeding through to a broader range of goods prices and, combined with higher food and energy prices, are expected to keep CPI inflation close to 5% in the first half of 2022. As supply shortages diminish, inflation is expected to decline reasonably quickly

to about 3% by the end of this year and then gradually ease towards the target over the projection period. Near-term inflation expectations have moved up, but longer-run expectations remain anchored on the 2% target. The Bank will use its monetary policy tools to ensure that higher near-term inflation expectations do not become embedded in ongoing inflation.

“While COVID-19 continues to affect economic activity unevenly across sectors, the Governing Council judges that overall slack in the economy is absorbed, thus satisfying the condition outlined in the Bank’s forward guidance on its policy interest rate. The Governing Council therefore decided to end its extraordinary commitment to hold its policy rate at the effective lower bound. Looking ahead, the Governing Council expects interest rates will need to increase, with the timing and pace of those increases guided by the Bank’s commitment to achieving the 2% inflation target.

“The Bank will keep its holdings of Government of Canada bonds on its balance sheet roughly constant at least until it begins to raise the policy interest rate. At that time, the Governing Council will consider exiting the reinvestment phase and reducing the size of its balance sheet by allowing roll-off of maturing Government of Canada bonds.”

According to a December 10th, 2021 Statistics Canada release, the ratio of Canadian household debt-to-income rose to 177.3% in the third quarter from a revised 175.6% in the second quarter.

Housing Markets

In its Market Report, Toronto Region Real Estate Board (TRREB) said housing demand in January 2022 remained very strong from an historic perspective. It noted listings remained in short supply, resulting in tight market conditions and very strong year-over-year price growth.

There were 5,636 sales in January, down 1,252 (or 18.2%) compared to 6,888 sales in January 2021 which was a record. However, the January 2022 result was the second best in history for the month. Average house price was \$1.2 million (up 28.6%) from \$966 thousand the year earlier.

The trend in new listings was similar to sales. There were 7,979 new listings compared to 9,438, down 1,459 (or 15.5%) from the year earlier period. Since sales and new listings moved in relative lock step, active listings at the end of January were 4,140, down 3,256 (or 44.0%) to the lowest level in more than two decades.

These results are in line with TRREB's forecast for a strong sales result in 2022, but off the 2021 record.

Sector Consolidation

There were 61 institutions in 4Q-2021, a reduction of one from the year earlier quarter but unchanged from 3Q-2021. Average assets per institution increased to \$1.4 billion (up \$128 million or 10.3%) year over year reflecting the effects of organic growth and mergers or amalgamations.

Profitability

4Q-2021 vs 4Q-2020

As shown in Tables 2 and 3, return on average assets in 4Q-2021 increased to 58 bps (up 31 bps) from 27 bps in the year earlier quarter, the results of which reflected the beginnings of the pandemic. Lower interest expense on deposits (down 36 bps to 84 bps) and on other borrowings (down 5 bps to 25 bps), increased investment income (up 4 bps to 27 bps which includes the MLP effects discussed within FSRA's Observations on page 7) and reduced loan costs (down 17 bps) more than offset lower loan interest (down 23 bps to 2.83%) and higher taxes (up 7 bps to 12 bps).

Five 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.

4Q-2021 vs 3Q-2021

Sector profitability decreased by 2 bps (from 60 bps) from last quarter reflecting slight changes in most income statement components.

3Q-2021 Ontario Sector vs 3Q-2021 Canadian Sector*

Ontario sector profitability of 60 bps was 9 bps above the Canadian sector's of 51 bps.

Capital

4Q-2021 vs 4Q-2020

Sector capital increased to \$5.9 billion (up \$593 million or 11.3%) from the year earlier quarter comprised of:

- Retained earnings of \$3.6 billion (up \$486 million or 15.6%)
- Investment and patronage shares of \$2.2 billion (up \$78 million or 3.6%)
- Membership shares unchanged at \$62 million

As a percent of risk weighted assets, sector capital was 13.69%, down 22 bps from the year earlier quarter, as growth in risk weighted assets outpaced growth in capital. Leverage was 7.02%, up 25 bps from the year earlier quarter.

**As reported by Canadian Credit Union Association; including Ontario sector*

4Q-2021 vs 3Q-2021

Sector capital increased by \$179 million (3.1% from \$5.7 billion) from last quarter due to increases in retained earnings of \$146 million (4.2% from \$3.5 billion) and issuances of investment shares of \$40 million (1.8% from \$2.2 billion), with no change in membership shares.

Sector capital as a percent of risk weighted assets increased 4 bps (from 13.65%) in the previous quarter. Leverage increased 8 bps (from 6.94%).

Liquidity (including Securitization)

4Q-2021 vs 4Q-2020

As shown in Tables 7 and 8, sector deposits increased by \$4.3 billion (up 6.9% to \$66.5 billion), securitizations decreased by \$0.9 billion (down 9.7% to \$8.5 billion) and borrowings increased by \$1.4 billion (up 274.8% to \$1.9 billion), a net increase of \$4.8 billion (up 6.6% to \$76.9 billion) from the year earlier. Liquid assets decreased \$1.6 billion (down 13.2% to \$10.5 billion) resulting in a decrease in liquidity to 13.7% (down 320 bps from 16.9% in 4Q-2020).

In 3Q-2021, there were 23 institutions (21 credit unions and 2 caisses populaires) with total assets of \$76.2 billion (90.8% of sector assets) participating in securitization programs.

4Q-2021 vs 3Q-2021

Sector deposits increased by \$0.8 billion (up 1.2% from \$65.7 billion), securitizations increased by \$102 million (up 1.2% from \$8.4 billion) and borrowings increased by \$579 million (up 44.3% from \$1.3 billion), a net increase of \$1.4 billion (up 2.0% from \$75.4 billion) from last quarter. However, liquid assets increased by \$49 million (up 0.5% from \$10.5 billion) resulting in a decrease of 20 bps in liquidity (from 13.9%).

Efficiency Ratio (before dividends/interest rebates)

4Q-2021 vs 4Q-2020

As shown in Table 3, the sector efficiency ratio improved to 67.6% (down 12.7 percentage points from 80.3%) from the year earlier quarter.

4Q-2021 vs 3Q-2021

Compared to last quarter, sector efficiency deteriorated by 60 bps (from 67.0%).

3Q-2021 Ontario Sector vs. 3Q-2021 Canadian Sector

Non-interest expense as a percent of average assets for the Ontario sector (1.60%) was 13 bps better than the Canadian sector (1.73%). Ontario sector efficiency ratio (67.0%) was 4.2 percentage points better than the Canadian sector (71.2%) and reflects a significant improvement from 3Q-2020 when at 82.8%, it was 8.1 percentage points worse than the Canadian sector at 74.7%.

Credit Quality (delinquency greater than 30 days)

4Q-2021 vs 4Q-2020

As shown in Table 5, total loan delinquency decreased to 35 bps (down 35 bps from 70 bps) compared to the year earlier quarter. Residential mortgage loan delinquency decreased to 25 bps (down 11 bps from 36 bps) and commercial loan delinquency decreased to 52 bps (down 89 bps from 141 bps).

4Q-2021 vs 3Q-2021

Compared to last quarter, total loan delinquency decreased by 11 bps (from 46 bps) reflecting decreased residential mortgage loan delinquency of 3 bps (from 28 bps) and decreased commercial loan delinquency of 35 bps (from 87 bps).

Growth

4Q-2021 vs 4Q-2020

Compared to the previous year, total sector assets increased to \$83.9 billion (up \$5.3 billion or 6.7%). This reflects growth in residential mortgage loans to \$44.6 billion (up \$4.4 billion or 10.8%), commercial loans to \$21.8 billion (up \$2.4 billion or 12.3%) and cash/investments of \$11.5 billion (down \$1.7 billion or 13.2%).

4Q-2021 vs 3Q-2021

Total assets for the sector increased by \$1.6 billion (2.0% from \$82.3 billion) from last quarter reflecting increases in residential mortgage loans of \$658 million (1.5% from \$44.0 billion), in commercial loans of \$652 million (3.1% from \$21.2 billion) and in cash/investments of \$176 million (1.6% from \$11.3 billion).

3Q-2021 Ontario Sector vs 3Q-2021 Canadian Sector

Growth in total assets of the Ontario sector (5.8%) exceeded the Canadian sector's (4.2%) reflecting increases in residential mortgage loans of 9.7% (vs 6.9%), commercial loans of 10.2% (vs 7.5%) and agricultural loans of 8.4% (vs 7.1%).

Sector Income Statements

% of Average Assets (except as noted)

	Ontario Sector			Canadian Sector ¹
	4Q-2021	3Q-2021	4Q-2020	3Q-2021
Interest and Investment Income				
Loan Interest	2.83%	2.81%	3.06%	2.66%
Investment Income	0.27%	0.28%	0.23%	0.19%
Total Interest and Investment Income	3.10%	3.09%	3.29%	2.85%
Interest and Dividend Expense				
Interest Expense on Deposits	0.84%	0.87%	1.20%	0.79%
Rebates/Dividends on Share Capital	0.06%	0.05%	0.06%	
Dividends on Investment/Other Capital	0.01%	0.01%	0.02%	0.06%
Other Interest Expense	0.25%	0.26%	0.30%	0.15%
Total	0.35%	0.33%	0.39%	0.21%
Total Interest & Dividend Expense	1.19%	1.20%	1.59%	1.00%
Net Interest & Investment Income	1.90%	1.89%	1.69%	1.85%
Loan Costs	0.00%	0.00%	0.17%	0.00%
Net Interest & Investment Income after Loan Costs	1.91%	1.90%	1.52%	1.85%
Other (non-interest) Income	0.41%	0.43%	0.42%	0.51%
Net Interest, Investment & Other Income	2.31%	2.33%	1.95%	2.36%
Non-Interest Expenses				
Salaries & Benefits	0.90%	0.89%	0.92%	
Occupancy	0.14%	0.14%	0.15%	
Computer, Office & Other Equipment	0.18%	0.18%	0.17%	
Advertising & Communications	0.07%	0.07%	0.07%	
Member Security	0.08%	0.08%	0.08%	
Administration	0.17%	0.17%	0.14%	
Other	0.08%	0.08%	0.08%	
Total Non-Interest Expenses	1.61%	1.60%	1.62%	1.73%
Net Income/(Loss) Before Taxes	0.70%	0.73%	0.32%	0.63%
Taxes	0.12%	0.13%	0.05%	0.13%
Net Income/(Loss)	0.58%	0.60%	0.27%	0.51%
Average Assets (Billions)	\$81	\$80	\$75	\$270

¹ Summary 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-2021	3Q-2021	4Q-2020
Assets			
Cash and Investments	11,510	11,334	13,255
Personal Loans	2,034	2,000	2,047
Residential Mortgage Loans	44,616	43,958	40,266
Commercial Loans	21,837	21,185	19,440
Institutional Loans	90	89	84
Unincorporated Association Loans	55	54	84
Agricultural Loans	2,541	2,453	2,272
Total Loans	71,173	69,739	64,193
Total Loan Allowances	223	250	256
Capital (Fixed) Assets	656	650	685
Intangible and Other Assets	809	802	745
Total Assets	83,926	82,276	78,621
Liabilities			
Demand Deposits	30,985	30,010	26,406
Term Deposits	22,062	22,074	22,172
Registered Deposits	13,495	13,643	13,648
Total Deposits	66,542	65,726	62,226
Borrowings	1,886	1,307	503
Securitized Assets	8,490	8,388	9,398
Other Liabilities	1,152	1,178	1,231
Total Liabilities	78,070	76,598	73,358
Members' Equity & Capital			
Membership Shares	62	62	63
Retained Earnings	3,599	3,453	3,113
Other Tier 1 & 2 Capital	2,231	2,191	2,153
AOCI	(35)	(29)	(66)
Total Members' Equity & Capital	5,856	5,677	5,263
Total Liabilities, Members' Equity & Capital	83,926	82,276	78,621

* Totals may not agree due to rounding

Sector Balance Sheets	Sector % Increase/(Decrease) from		
	4Q-2021 \$millions	3Q-2021	4Q-2020
Assets			
Cash and Investments	11,510	1.6%	-13.2%
Personal Loans	2,034	1.7%	-0.6%
Residential Mortgage Loans	44,616	1.5%	10.8%
Commercial Loans	21,837	3.1%	12.3%
Institutional Loans	90	1.3%	7.8%
Unincorporated Association Loans	55	2.3%	-34.9%
Agricultural Loans	2,541	3.6%	11.8%
Total Loans	71,173	2.1%	10.9%
Total Loan Allowances	223	-10.8%	-13.1%
Capital (Fixed) Assets	656	1.0%	-4.2%
Intangible and Other Assets	809	0.8%	8.7%
Total Assets	83,926	2.0%	6.7%
Liabilities			
Demand Deposits	30,985	3.2%	17.3%
Term Deposits	22,062	-0.1%	-0.5%
Registered Deposits	13,495	-1.1%	-1.1%
Total Deposits	66,542	1.2%	6.9%
Borrowings	1,886	44.3%	274.8%
Securitized Assets	8,490	1.2%	-9.7%
Other Liabilities	1,152	-2.2%	-6.4%
Total Liabilities	78,070	1.9%	6.4%
Members' Equity & Capital			
Membership Shares	62	-0.6%	-2.0%
Retained Earnings	3,599	4.2%	15.6%
Other Tier 1 & 2 Capital	2,231	1.8%	3.6%
Accumulated Other Comprehensive Income	(35)	21.4%	-46.4%
Total Members' Equity & Capital	5,856	3.1%	11.3%
Total Liabilities, Members' Equity & Capital	83,926	2.0%	6.7%

* Totals may not agree due to rounding

Sector Balance Sheets

As a percentage of Total Assets	Sector			Canadian Sector ¹
	4Q-2021	3Q-2021	4Q-2020	3Q-2021
Assets				
Cash and Investments	13.7%	13.8%	16.9%	17.0%
Personal Loans	2.4%	2.4%	2.6%	3.5%
Residential Mortgage Loans	53.2%	53.4%	51.2%	48.7%
Commercial Loans	26.0%	25.7%	24.7%	24.3%
Institutional Loans	0.1%	0.1%	0.1%	0.9%
Unincorporated Association Loans	0.1%	0.1%	0.1%	0.0%
Agricultural Loans	3.0%	3.0%	2.9%	3.7%
Total Loans	84.8%	84.8%	81.6%	81.1%
Total Loan Allowances	0.3%	0.3%	0.3%	-0.3%
Capital (Fixed) Assets	0.8%	0.8%	0.9%	0.9%
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	36.9%	36.5%	33.6%	43.9%
Term Deposits	26.3%	26.8%	28.2%	27.4%
Registered Deposits	16.1%	16.6%	17.4%	14.6%
Total Deposits	79.3%	79.9%	79.1%	85.7%
Borrowings	2.2%	1.6%	0.6%	4.7%
Securitizations	10.1%	10.2%	12.0%	
Other Liabilities	1.4%	1.4%	1.6%	2.2%
Total Liabilities	93.0%	93.1%	93.3%	92.9%
Members' Equity & Capital				
Membership Shares	0.1%	0.1%	0.1%	0.5%
Retained Earnings	4.3%	4.2%	4.0%	5.5%
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	7.0%	6.9%	6.7%	7.1%
Total Liabilities, Members' Equity & Capital	100.0%	100.0%	100.0%	100.0%

¹ As reported by Canadian Credit Union Association; includes Ontario Sector.

* Totals may not agree due to rounding