FSRA
Financial Services Regulatory Authority of Ontario
Ontario
ARSF
Autorité ontarienne de réglementation des services financiers

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Sector Outlook report 1Q-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 April 22, 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.

Contact us

www.fsrao.ca/contact-us
Ce document est également disponible en français.

Contents

Financial highlights

	Ontario sector		
	1Q-2021*	4Q-2020	1Q-2020
Income statement (% average assets)			
Net interest income	1.94[1]	1.69	1.61
Loan costs	0.03[1]	0.17	0.10
Other income	0.41[3]	0.42	0.44
Non-interest expense	1.56[1]	1.62	1.72
Taxes	0.12[3]	0.05	0.03
Net income	0.65[1]	0.27	0.20
Balance sheet ($ billions; as at quarter end)			
Assets	79.1[1]	78.6	72.0
Loans	64.9[1]	64.2	62.3
Deposits	62.9[1]	62.2	56.8
Members' equity & capital	5.39[1]	5.26	4.98
Capital ratios (%)			
Leverage	6.89[1]	6.77	6.88
Risk weighted	13.83	13.91	13.52
Key measures and ratios (% except as noted)			
Return on regulatory capital	9.46[1]	3.96	2.89
Liquidity ratio	16.7[3]	16.9	10.8
Efficiency ratio (before dividends/rebates)	65.9[1]	80.3	85.9
Efficiency ratio	67.3[1]	83.5	88.5
Mortgage loan delinquency>30 days	0.33[1]	0.36	0.49
Commercial loan delinquency>30 days	1.21[1]	1.41	1.29
Total loan delinquency>30 days	0.61[1]	0.70	0.75
Total loan delinquency>90 days	0.37[3]	0.33	0.38
Asset growth (from last quarter)	0.62[3]	1.12	2.28
Loan growth (from last quarter)	1.07[1]	0.49	2.06
Deposit growth (from last quarter)	1.16[3]	1.90	1.99
Credit unions (number)	62[2]	62	66
Membership (thousands)	1,730[3]	1,750	1,731
Average assets ($ millions, per credit union)	1,276[1]	1,196	1,091

* Trends are current quarter to last quarter — Better | Neutral | Worse

Sector key financial trends

Table #1 - Selected growth trends

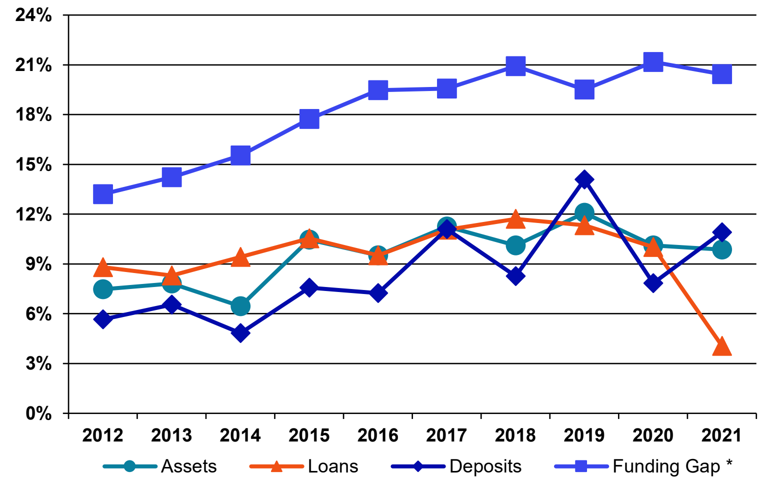


Table #2 - Selected performance trends

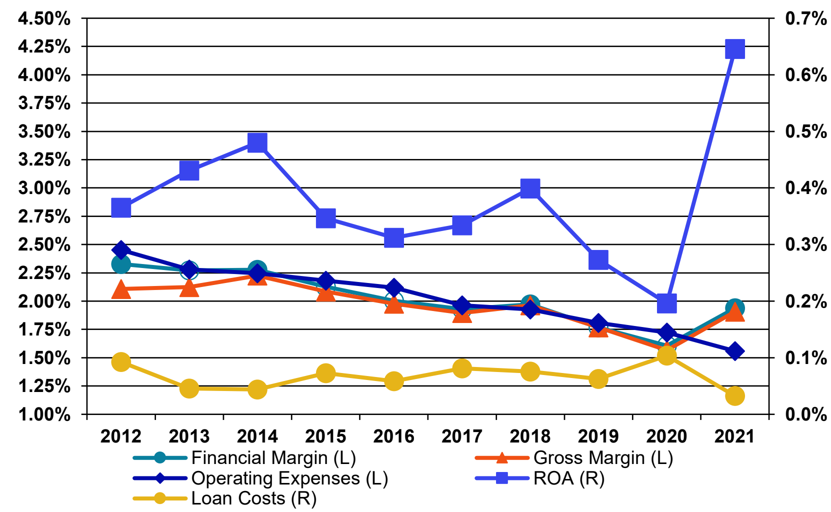


Table #3 - Efficiency ratio and return on assets

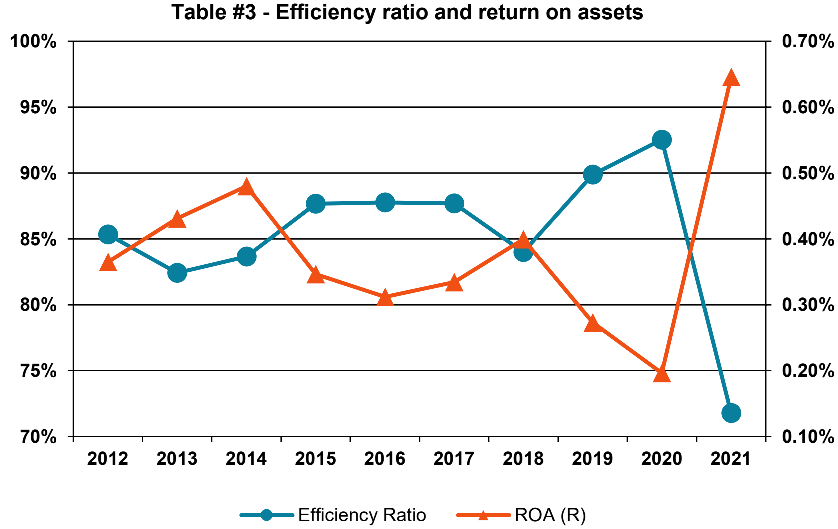
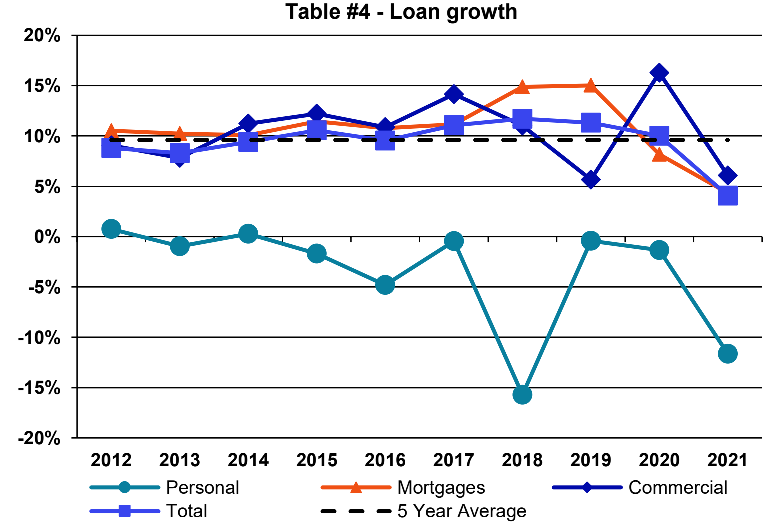
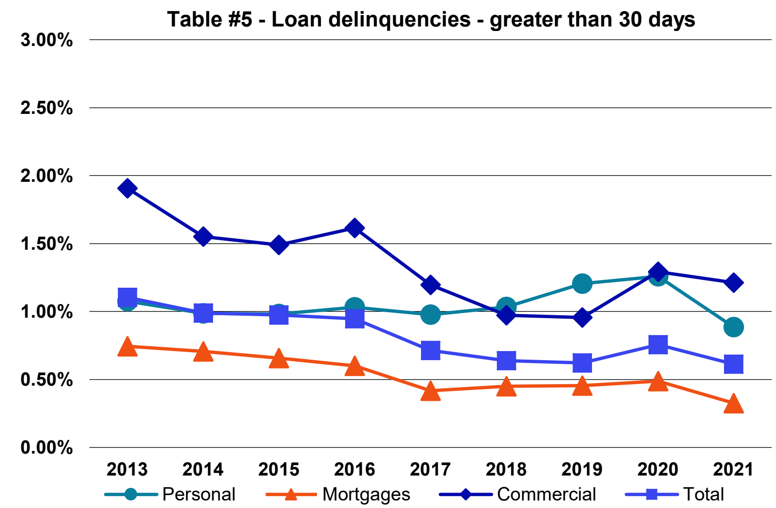
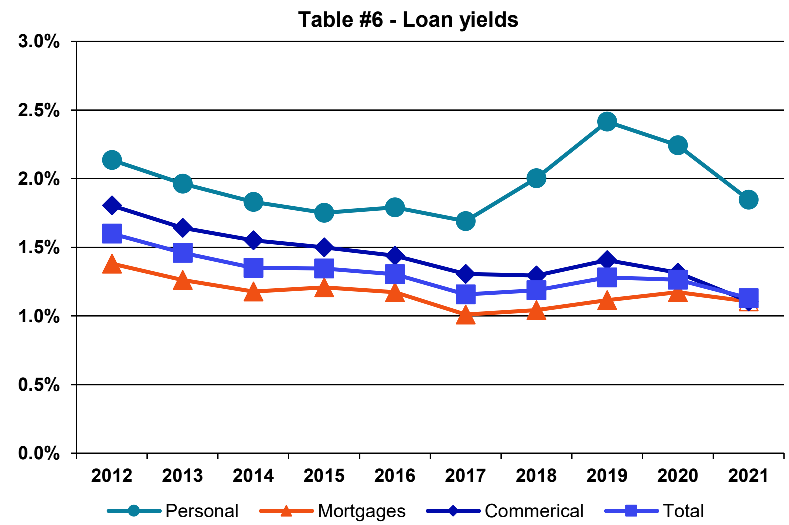


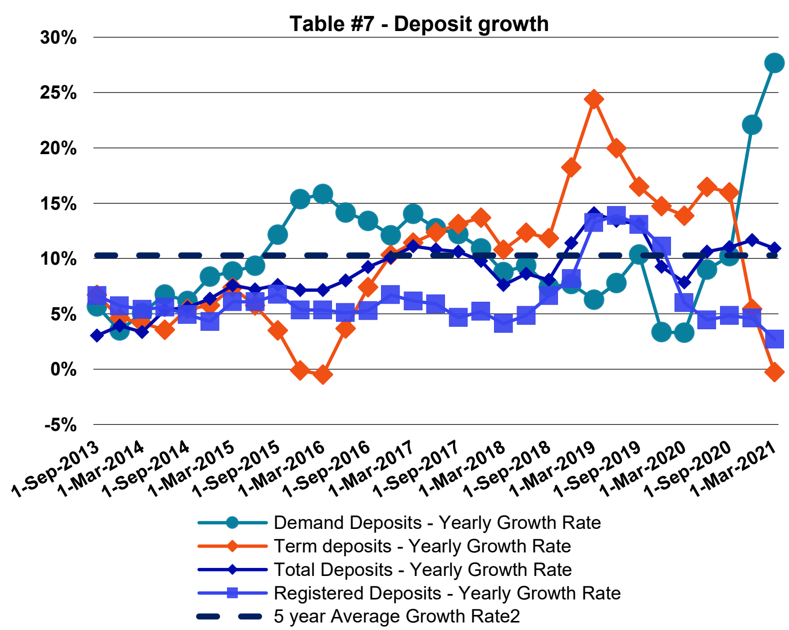
Table #4 - Loan growth

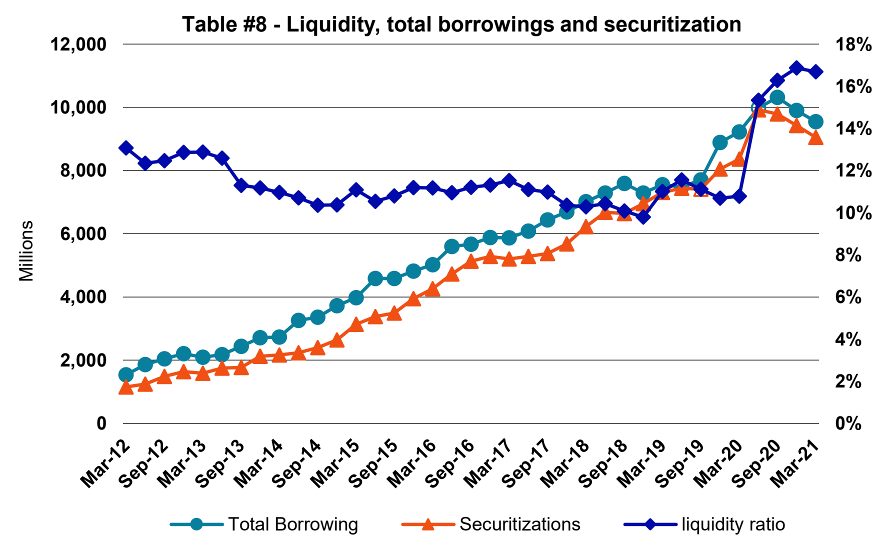


Sector key financial trends (continued)









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FSRA observations 1Q-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. Credit unions recorded one-time gains on investments as a result of the transition. These gains are included in reported Investment Income (but not discretely identified) and inflate the results of 1Q-2021. Because of calculation methodologies, reporting of future quarters of 2021 will also be impacted.
- Reported profitability in 1Q-2021 at 65 bps improved by 45 bps year over year (from 20 bps) and 38 bps quarter over quarter (from 27 bps). Excluding the MLP effects, profitability continues to be impacted by the effects of COVID-19 and interest rates at historically low levels; however, 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.
- The trend of loan deferrals as a percent of total loans is favourable: at March 31st, 2021, the ratio was 0.54%, compared to 0.77% at December 31st, 2020 and 13.8% at June 30th, 2020.
- Over 30-day delinquency on residential mortgages (which represent 51.2% of sector assets) was 33 bps, down 16 bps year over year and 3 bp from last quarter. Delinquency on commercial loans (which represent 25.1% of sector assets) was 121 bps, down 8 bps year over year and 20 bps from last quarter. As a result, total loan delinquency at 61 bps improved 14 bps year over year (from 75 bps) and 9 bps from 4Q-2020 (from 70 bps).
- Year over year asset growth of $7.1 billion (up 9.9%) mainly reflects increased cash/investments of $4.5 billion (up 53.3%) as COVID-19 impacted lending activity: loan growth was modest at $2.5 billion (up 4.1%) comprised of residential mortgage loans of $1.7 billion (up 4.3%) and commercial loans of $1.1 billion (up 6.1%).
- Liquidity remains high, increasing 590 bps year over year to 16.7% as growth in liquid assets exceeded growth in deposits, borrowings and securitization activities.

- Year over year growth in retained earnings (9.2%) did not keep pace with growth in assets (9.9%). To maintain minimum capital requirements and provide for future growth, credit unions continue to be dependent on investment shares (increasing by $160 million or 7.9% year over year) that remain a significant source of capital ($2.2 billion or 40.3% of capital in 1Q-2021, similar to 40.4% in 1Q-2020).

Economic overview

The Bank of Canada (the "Bank") met April 21st, 2021 and maintained its target for the overnight rate at the lower bound of 0.25%, unchanged since March 2020. The Bank continued its quantitative easing (QE) program, but announced that effective the week of April 26th, it would reduce weekly net purchases of Government of Canada bonds by $1 billion to a target of $3 billion. This adjustment to the amount of incremental stimulus being added each week reflects the progress made in the economic recovery.

In its release, the Bank said "Global economic growth is stronger than was forecast in the January Monetary Policy Report (MPR), although the pace varies considerably across countries. After a contraction of 2 ½ percent in 2020, the Bank now projects global GDP to grow by just over 6 ¾ percent in 2021, about 4 percent in 2022, and almost 3 ½ percent in 2023. The recovery in the United States has been particularly strong, owing to fiscal stimulus and rapid vaccine rollouts. The global recovery has lifted commodity prices, including oil, contributing to the strength of the Canadian dollar.

"In Canada, growth in the first quarter appears considerably stronger than the Bank's January forecast, as households and companies adapted to the second wave and associated restrictions. Substantial job gains in February and March boosted employment. However, new lockdowns will pose another setback and the labour market remains difficult for many Canadians, especially low wage workers, young people and women. As vaccines roll out and the economy reopens, consumption is expected to rebound strongly in the second half of this year and remain robust over the projection. Housing construction and resales are at historic highs, driven by the desire for more living space, low mortgage rates, and limited supply. The Bank will continue to monitor the potential risks associated with the rapid rise in house prices. Meanwhile, strong growth in foreign demand and higher commodity prices are expected to drive a robust recovery in exports and business investment. Additional federal and provincial fiscal stimulus will contribute importantly to growth. The Bank now forecasts real GDP growth of 6 ½ percent in 2021, moderating to around 3 ¾ percent in 2022 and 3 ¼ percent in 2023.

"The Bank has revised up its estimate of potential output in light of greater resilience to the pandemic and accelerated digitalization. The virus and lockdowns have had very different impacts across sectors, businesses, and groups of workers, creating an unusual degree of uncertainty about the amount of slack in the economy and how long it will take to be absorbed. To gauge the evolution of slack, the Bank will look at a broad spectrum of indicators, including various measures of labour market conditions.

"Over the next few months, inflation is expected to rise temporarily to around the top of the 1-3 percent inflation-control range. This is largely the result of base-year effects—year-over-year CPI inflation is higher because prices of some goods and services fell sharply at the start of the pandemic. In addition, the increase in oil prices since December has driven gasoline prices above their pre-pandemic levels. The Bank expects CPI inflation to ease back toward 2 percent over the second half of 2021 as these base-year effects diminish, and inflation is expected to ease further because of the ongoing drag from excess capacity. As slack is absorbed, inflation should return to 2 per cent on a sustained basis some time in the second half of 2022.

"Even as economic prospects improve, the Governing Council judges that there is still considerable excess capacity, and 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. Based on the Bank's latest projection, this is now expected to happen some time in the second half of 2022. The Bank is continuing its QE program to reinforce this commitment and keep interest rates low across the yield curve. Decisions regarding further adjustments to the pace of net 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 March 12th, 2021 Statistics Canada reported Canadian households held a record amount of mortgage debt for the second quarter in a row amid low interest rates and high housing prices. Household debt as a proportion of income rose to 175.0 per cent from 170.8 per cent (restated) in the fourth quarter of 2020. The agency said debt grew slightly while household disposable income edged down.

Housing markets

Toronto Region Real Estate Board (TREB) reports April 2021 home sales were 13,663 and set a new record for April sales in any year. This level was more than four times the 2,957 sold in April 2020, the first full month of the pandemic. TREB notes April sales deviated from normal seasonal trends as they declined from March 2021 (by 12.7%) but were 36.6 percent higher than the month's ten-year average of 10,000. New listings in April followed similar trends: down 8.4 percent compared to March 2021 but up 18.3 percent compared to the month's ten-year average. Average selling price was $1.1 million compared to $903 thousand in March 2021 (up 21.8%) and $820 thousand in April 2020 (up 33.0%).

TREB provided the following assessment. "Despite a modest slowing in market activity in April compared to March, selling prices for all major home types remained very high. Low borrowing costs during COVID-19 clearly had an impact on the demand for and price of ownership housing. While the pace of price growth could moderate in the coming months, home prices will likely continue on the upward trend. Renewed population growth over the next year coupled with a persistent lack of new inventory will underpin home price appreciation."

Sector consolidation

In Q1-2021, the number of institutions was unchanged from 4Q-2020 at 62 and compares to 66 institutions in Q1-2020. Average assets per institution increased to $1.3 billion (up $185 million or 17.0%) reflecting the effects of mergers or amalgamations.

Profitability

1Q-2021 vs 1Q-2020

As shown in Tables 2 and 3, return on average assets for the sector increased to 65 bps (up 45 bps) from 20 bps in the year earlier quarter, the results of which reflected early impacts of the pandemic. In 1Q-2021, lower interest expense on deposits (down 46 bps to 94 bps), increased investment income (up 31 bps to 40 bps which includes the MLP effects discussed within FSRA's Observations on page 7), improved non-interest expenses (down 16 bps to 1.56%) and reduced loan costs (down 7 bps to 3 bps) more than offset lower loan interest (down 48 bps to 2.81%) and higher taxes (up 9 bps to 12 bps).

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.

4Q-2020 Ontario sector vs 4Q-2020 Canadian sector*

Ontario sector profitability of 27 bps was 3 bps below the Canadian sector's of 30 bps.

Capital

1Q-2021 vs 1Q-2020

Sector capital increased to $5.4 billion (up $408 million or 8.2%) from the year earlier quarter comprised of:

- Retained earnings of $3.2 billion (up $270 million or 9.2%).
- Investment and patronage shares of $2.2 billion (up $160 million or 7.9%).
- Membership shares unchanged at $64 million.

As a percent of risk weighted assets, sector capital was 13.83%, up 31 bps from the year earlier quarter, as growth in capital outpaced growth in risk weighted assets. Leverage was 6.89%, up 1 bp from the year earlier quarter.

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

1Q-2021 vs 4Q-2020

Sector capital increased by $126 million (2.4% from $5.3 billion) from last quarter from issuances of investment shares of $20 million (0.9% from $2.2 billion), increases in retained earnings of $79 million (2.5% from $3.0 billion) and increases in membership shares of $1 million (0.2% from $63 million).

Sector capital as a percent of risk weighted assets decreased 8 bps (from 13.91%) in the previous quarter. Leverage increased 12 bps (from 6.77%).

Liquidity (including securitization)

1Q-2021 vs 1Q-2020

As shown in Tables 7 and 8, sector deposits increased by $6.2 billion (up 10.9% to $62.9 billion), securitizations increased by $0.7 billion (up 8.2% to $9.0 billion) and borrowings decreased by $0.4 billion (down 42.7% to $0.5 billion), a net increase of $6.5 billion (up 9.9% to $72.5 billion) from the year earlier. Liquid assets increased $4.9 billion (up 69.1% to $12.1 billion) resulting in an increase in liquidity to 16.7% (up 590 bps from 10.8% in 1Q-2020).

In 1Q-2021, there were 23 institutions (21 credit unions and 2 caisses populaires) with combined total assets of $71.6 billion (90.5% of sector assets) participating in securitization programs.

1Q-2021 vs 4Q-2020

Sector deposits increased by $720 million (up 1.2% from $62.2 billion), securitizations decreased by $352 million (down 3.7% from $9.4 billion) and borrowings decreased by $6 million (down 1.2% from $503 million), a net increase of $362 million (up 0.5% from $72.1 billion) from last quarter. However, liquid assets decreased by $63 million (down 0.5% from $12.2 billion) resulting in a decrease of 20 bps in liquidity (from 16.9%).

Efficiency ratio (before dividends/interest rebates)

1Q-2021 vs 1Q-2020

As shown in Table 3, the sector efficiency ratio improved to 65.9% (down 20 percentage points from 85.9%) from the year earlier quarter.

1Q-2021 vs 4Q-2020

Compared to last quarter, sector efficiency improved by 14.4 percentage points (from 80.3%).

4Q-2020 Ontario sector vs. 4Q-2020 Canadian sector

Although non-interest expense as a percent of average assets for the Ontario sector (1.62%) was 14 bps better than the Canadian sector (1.76%), the efficiency ratio (80.3%) was 620 bps worse than the Canadian sector (74.1%). This is a deterioration from 4Q-2019 when the spread was 340 bps with Ontario at 78.4% and the Canadian Sector at 75.0%.

Credit quality (delinquency greater than 30 days)

1Q-2021 vs 1Q-2020

As shown in Table 5, total loan delinquency decreased to 61 bps (down 14 bps from 75 bps) compared to the year earlier quarter. Residential mortgage loan delinquency decreased to 33 bps (down 16 bps from 49 bps) and commercial loan delinquency decreased to 121 bps (down 8 bps from 129 bps).

1Q-2021 vs 4Q-2020

Compared to last quarter, total loan delinquency decreased by 9 bp (from 70 bps) reflecting decreased residential mortgage loan delinquency of 3 bp (from 36 bps) and decreased commercial loan delinquency of 20 bps (from 141 bps).

Growth

1Q-2021 vs 1Q-2020

Compared to the previous year, total sector assets increased to $79.1 billion (up $7.1 billion or 9.9%). This reflects growth in residential mortgage loans to $40.5 billion (up $1.7 billion or 4.3%), commercial loans to $19.9 billion (up $1.1 billion or 6.1%) and cash/investments of $13.0 billion (up $4.5 billion or 53.3%).

1Q-2021 vs 4Q-2020

Total assets for the sector increased by $484 million (0.6% from $78.6 billion) from last quarter reflecting increases in residential mortgage loans of $270 million (0.7% from $40.3 billion) and in commercial loans of $447 million (2.3% from $19.4 billion), offset by decreased cash/investment balances of $237 million (1.8% from $13.3 billion).

Ontario sector vs. Canadian sector: 4Q-2020 vs 4Q-2019

Growth in total assets of the Ontario sector (11.7%) exceeded the Canadian sector's (8.2%) reflecting increases in residential mortgage loans of 3.5% (vs 2.2%), commercial loans of 11.5% (vs 3.6%) and agricultural loans of 2.2% (vs 3.4%).

Sector income statements

% of average assets (except as noted)	Ontario sector 1Q-2021	Ontario sector 4Q-2020	Ontario sector 1Q-2020	Canadian sector[1] 4Q-2020
Interest and investment income				
Loan interest	2.81%	3.06%	3.29%	2.94%
Investment income	0.40%	0.23%	0.09%	0.25%
Total interest and investment income	3.21%	3.29%	3.38%	3.20%
Interest and dividend expense				
Interest expense on deposits	0.94%	1.20%	1.40%	1.16%
Rebates/dividends on share capital	0.04%	0.06%	0.04%	0.07%
Dividends on investment/other capital	0.01%	0.02%	0.01%	
Other interest expense	0.27%	0.30%	0.30%	0.18%
Total	0.34%	0.39%	0.35%	0.25%
Total interest & dividend expense	1.27%	1.59%	1.77%	1.41%
Net interest & investment income	1.94%	1.69%	1.61%	1.79%
Loan costs	0.03%	0.17%	0.10%	0.16%
Net interest & investment income after loan costs	1.90%	1.52%	1.50%	1.63%
Other (non-interest) income	0.41%	0.42%	0.44%	0.51%
Net interest, investment & other income	2.32%	1.95%	1.95%	2.14%
Non-interest expenses				
Salaries & benefits	0.89%	0.92%	0.98%	
Occupancy	0.14%	0.15%	0.16%	
Computer, office & other equipment	0.18%	0.17%	0.18%	
Advertising & communications	0.06%	0.07%	0.09%	
Member security	0.08%	0.08%	0.08%	
Administration	0.13%	0.14%	0.15%	
Other	0.07%	0.08%	0.08%	
Total non-interest expenses	1.56%	1.62%	1.72%	1.76%
Net income/(loss) before taxes	0.76%	0.32%	0.22%	0.38%
Taxes	0.12%	0.05%	0.03%	0.08%
Net income/(loss)	0.65%	0.27%	0.20%	0.30%
Average assets (billions)	$79	$75	$71	$257

[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		
	1Q-2021	4Q-2020	1Q-2020
Assets			
Cash and investments	13,018	13,255	8,493
Personal loans	1,998	2,047	2,261
Residential mortgage loans	40,536	40,266	38,852
Commercial loans	19,887	19,440	18,751
Institutional loans	83	84	109
Unincorporated association loans	75	84	97
Agricultural loans	2,299	2,272	2,275
Total loans	64,879	64,193	62,345
Total loan allowances	268	256	168
Capital (fixed) assets	665	685	708
Intangible and other assets	810	745	622
Total assets	79,105	78,621	71,999
Liabilities			
Demand deposits	27,173	26,406	21,286
Term deposits	22,031	22,172	22,088
Registered deposits	13,742	13,648	13,381
Other deposits	0	0	0
Total deposits	62,946	62,226	56,755
Borrowings	497	503	867
Securitizations	9,046	9,398	8,360
Other liabilities	1,227	1,231	1,037
Total liabilities	73,716	73,358	67,019
Members' equity & capital			
Membership shares	64	63	64
Retained earnings	3,192	3,113	2,922
Other tier 1 & 2 capital	2,173	2,153	2,013
AOCI	(39)	(66)	(18)
Total members' equity & capital	5,389	5,263	4,981
Total liabilities, members' equity & capital	79,105	78,621	71,999

* Totals may not agree due to rounding

Sector balance sheets

	1Q-2021 $millions	Sector % increase/(decrease) from 4Q-2020	Sector % increase/(decrease) from 1Q-2020
Assets			
Cash and investments	13,018	-1.8%	53.3%
Personal loans	1,998	-2.4%	-11.6%
Residential mortgage loans	40,536	0.7%	4.3%
Commercial loans	19,887	2.3%	6.1%
Institutional loans	83	-0.5%	-23.3%
Unincorporated association loans	75	-10.9%	-22.5%
Agricultural loans	2,299	1.2%	1.1%
Total loans	64,879	1.1%	4.1%
Total loan allowances	268	4.4%	59.3%
Capital (fixed) assets	665	-2.9%	-6.0%
Intangible and other assets	810	8.8%	30.2%
Total assets	79,105	0.6%	9.9%
Liabilities			
Demand deposits	27,173	2.9%	27.7%
Term deposits	22,031	-0.6%	-0.3%
Registered deposits	13,742	0.7%	2.7%
Other deposits	0	0.0%	0.0%
Total deposits	62,946	1.2%	10.9%
Borrowings	497	-1.2%	-42.6%
Securitizations	9,046	-3.7%	8.2%
Other liabilities	1,227	-0.3%	18.3%
Total liabilities	73,716	0.5%	10.0%
Members' equity & capital			
Membership shares	64	0.2%	-0.8%
Retained earnings	3,192	2.5%	9.2%
Other tier 1 & 2 capital	2,173	0.9%	7.9%
Accumulated other comprehensive income	(39)	-40.4%	114.0%
Total members' equity & capital	5,389	2.4%	8.2%
Total liabilities, members' equity & capital	79,105	0.6%	9.9%

* Totals may not agree due to rounding

Sector balance sheets

As a percentage of total assets	Sector 1Q-2021	Sector 4Q-2020	Sector 1Q-2020	Canadian sector[1] 4Q-2020
Assets				
Cash and investments	16.5%	16.9%	11.8%	19.0%
Personal loans	2.5%	2.6%	3.1%	3.8%
Residential mortgage loans	51.2%	51.2%	54.0%	47.2%
Commercial loans	25.1%	24.7%	26.0%	23.6%
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	82.0%	81.6%	86.6%	79.1%
Total loan allowances	0.3%	0.3%	0.2%	-0.3%
Capital (fixed) assets	0.8%	0.9%	1.0%	1.0%
Intangible and other assets	1.0%	0.9%	0.9%	1.2%
Total assets	100.0%	100.0%	100.0%	100.0%
Liabilities				
Demand deposits	34.4%	33.6%	29.6%	40.1%
Term deposits	27.9%	28.2%	30.7%	29.4%
Registered deposits	17.4%	17.4%	18.6%	15.0%
Other deposits	0.0%	0.0%	0.0%	0.2%
Total deposits	79.6%	79.1%	78.8%	84.7%
Borrowings	0.6%	0.6%	1.2%	5.8%
Securitizations	11.4%	12.0%	11.6%	0.0%
Other liabilities	1.6%	1.6%	1.4%	2.6%
Total liabilities	93.2%	93.3%	93.1%	93.1%
Members' equity & capital				
Membership shares	0.1%	0.1%	0.1%	0.6%
Retained earnings	4.0%	4.0%	4.1%	5.3%
Other tier 1 & 2 capital	2.7%	2.7%	2.8%	1.1%
AOCI	0.0%	-0.1%	0.0%	0.0%
Total members' equity & capital	6.8%	6.7%	6.9%	7.0%
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