FSRA

Financial Services Regulatory Authority of Ontario

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Autorité ontarienne de réglementation des services financiers

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Sector Outlook Report 3Q-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 October 21st, 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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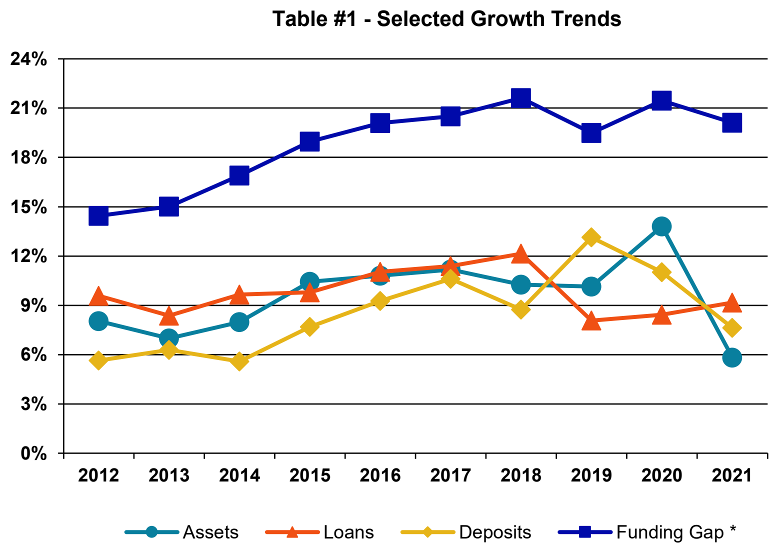
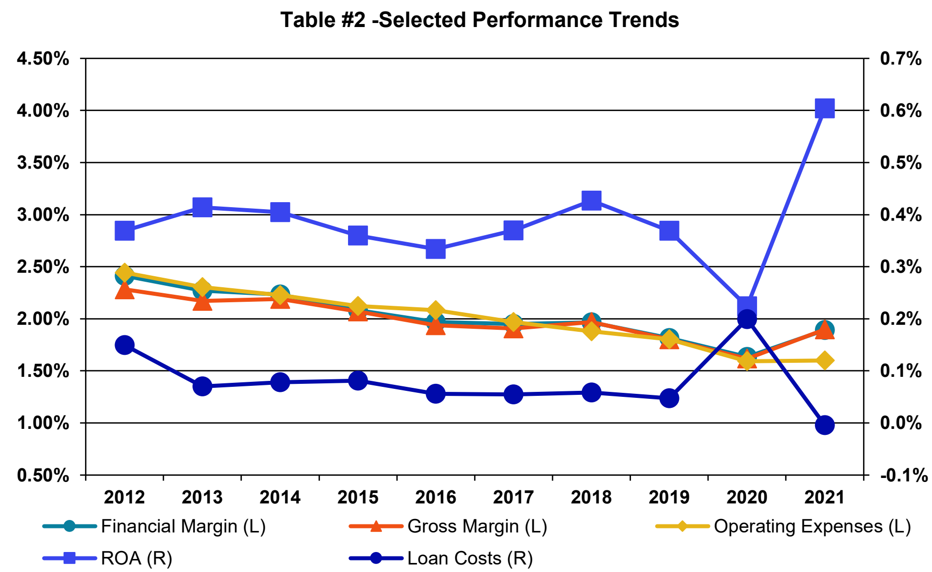
Financial Highlights

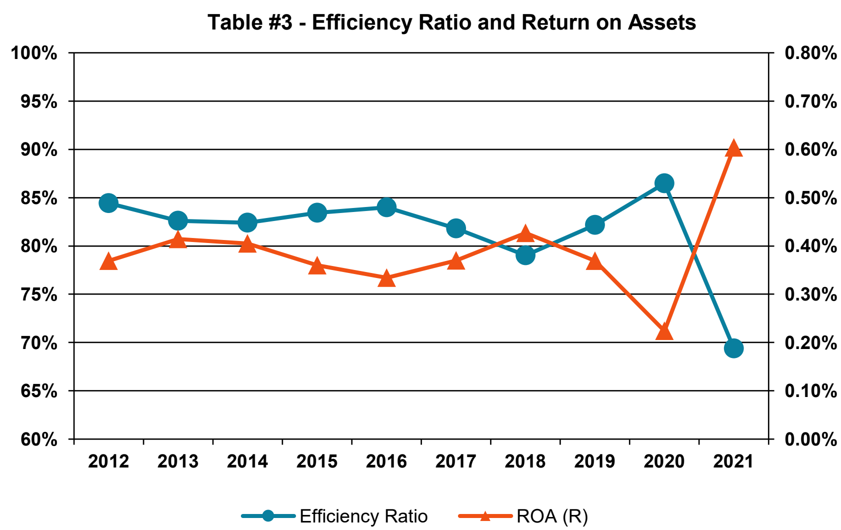
	Ontario Sector		
	3Q-2021*	2Q-2021	3Q-2020
Income Statement (% average assets)			
Net Interest Income	1.89[3]	1.90	1.63
Loan Costs	0.00[3]	-0.01	0.20
Other Income	0.43[2]	0.43	0.43
Non-Interest Expense	1.60[3]	1.57	1.59
Taxes	0.13[2]	0.13	0.05
Net Income	0.60[3]	0.65	0.22
Balance Sheet ($ billions; as at quarter end)			
Assets	82.3[1]	80.7	77.8
Loans	69.7[1]	67.8	63.9
Deposits	65.7[1]	64.4	61.1
Members' Equity & Capital	5.68[1]	5.54	5.10
Capital Ratios (%)			
Leverage	6.94[1]	6.92	6.62
Risk Weighted	13.65[1]	13.64	13.71
Key Measures and Ratios (% except as noted)			
Return on Regulatory Capital	8.83[3]	9.48	3.36
Liquidity Ratio	13.9[3]	14.9	16.3
Efficiency Ratio (before dividends/rebates)	67.0[3]	65.5	82.8
Efficiency Ratio	68.7[3]	66.9	85.5
Mortgage Loan Delinquency>30 days	0.28[3]	0.24	0.32
Commercial Loan Delinquency>30 days	0.87[1]	1.07	1.91
Total Loan Delinquency>30 days	0.46[1]	0.51	0.82
Total Loan Delinquency>90 days	0.29[1]	0.33	0.42
Asset Growth (from last quarter)	1.92[3]	2.67	2.13
Loan Growth (from last quarter)	2.84[3]	5.64	0.83
Deposit Growth (from last quarter)	2.04[3]	3.51	1.93
Credit Unions (number)	61[2]	61	65
Membership (thousands)	1,735[1]	1,732	1,750
Average Assets ($ millions, per credit union)	1,349[1]	1,302	1,196

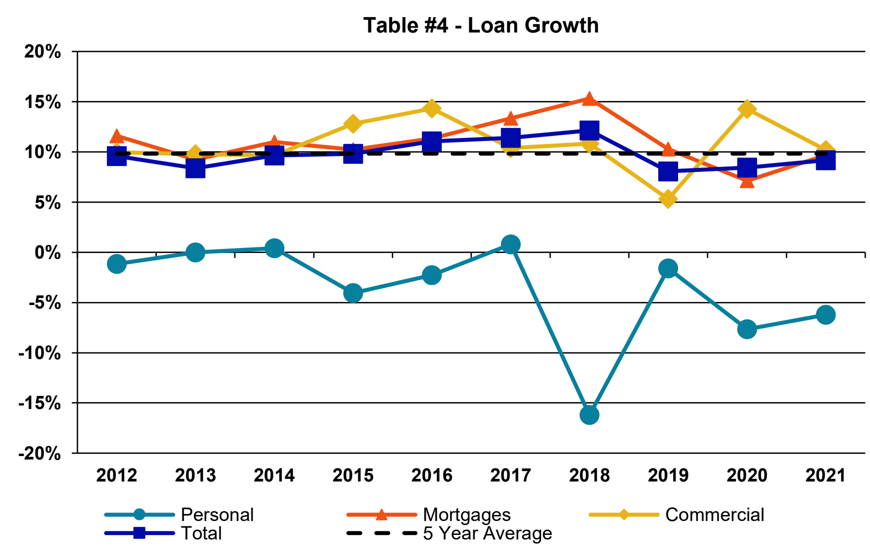
* Trends are current quarter to last quarter	Better[1]	Neutral[2]	Worse[3]

Sector Key Financial Trends

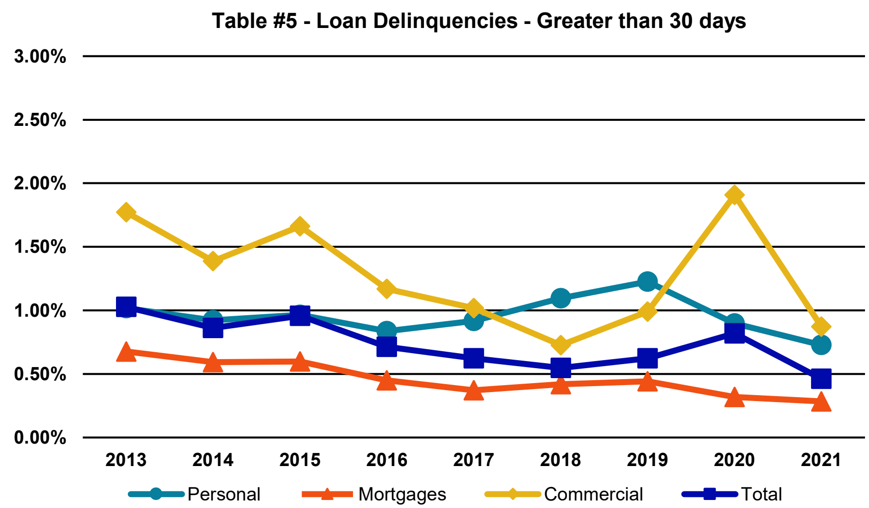


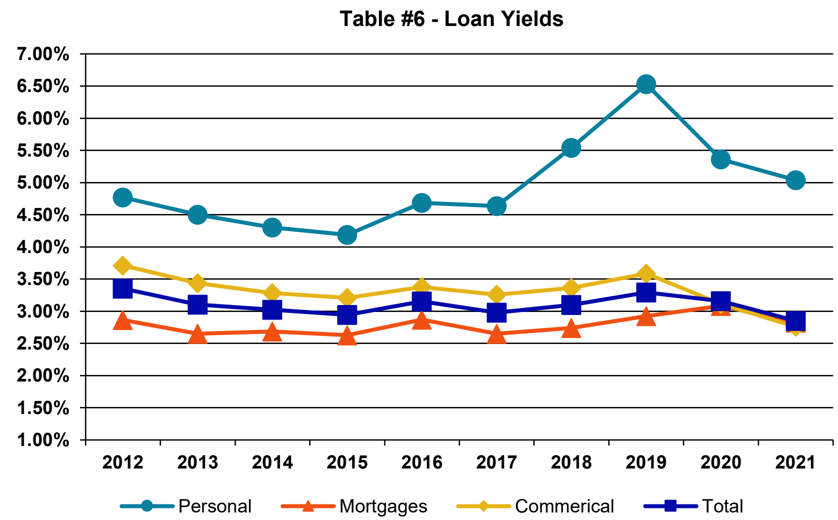


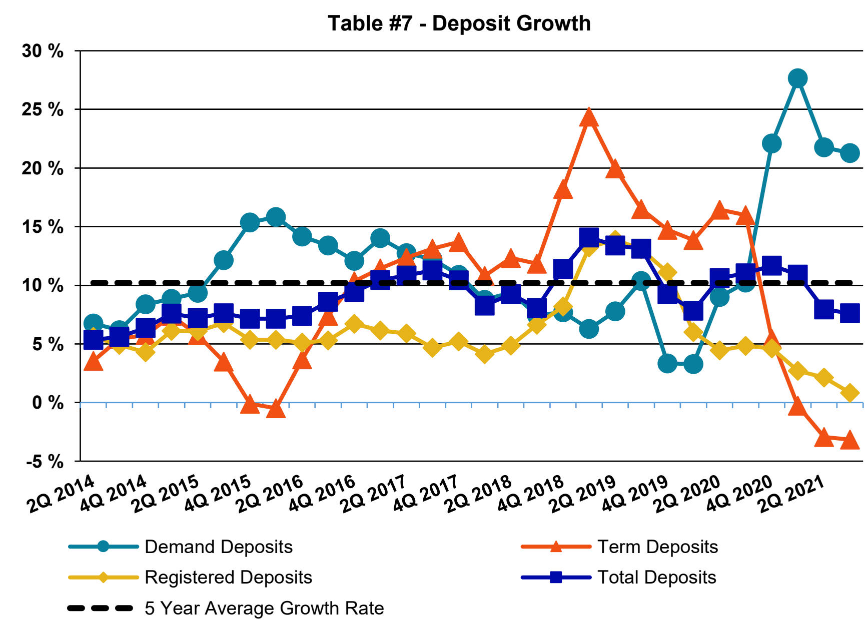


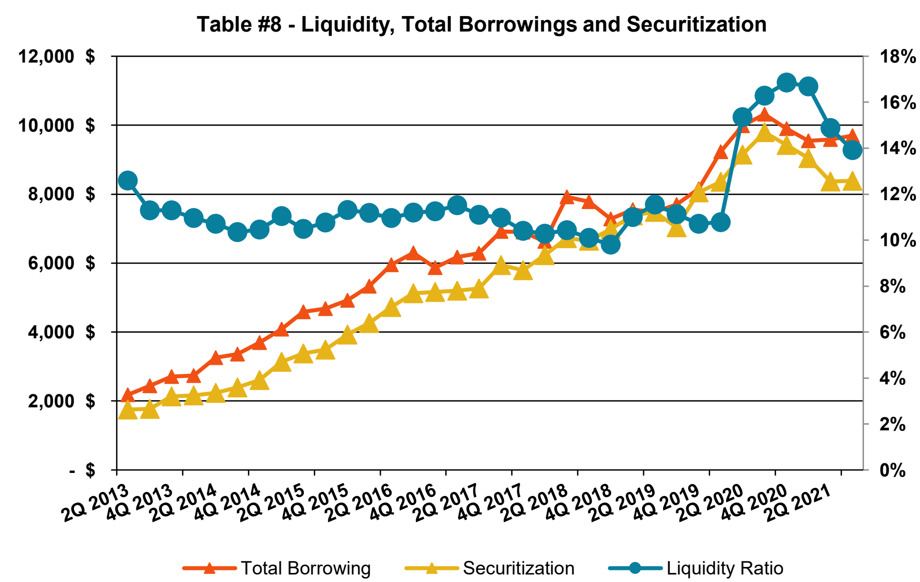


Sector Key Financial Trends (Continued)









FSRA Observations 3Q-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.

- Reported profitability in 3Q-2021 was 60 bps, below last quarter by 5 bps and higher than last year's quarter by 38 bps. Credit unions continue to manage the effects of COVD-19 and continuing low interest rates. Credit quality (delinquencies, impairments and allowances) continues to improve. Results show the positive effects of numerous government support programs (some of which have since ended) and the ability of some sectors to adapt to changing economies.

- Over 30-day delinquency on residential mortgages (which represent 53.4% of sector assets) was 28 bps, down 4 bps from last year and up 4 bps from last quarter. Delinquency on commercial loans (which represent 25.7% of sector assets) was 87 bps, down 104 bps year over year and 20 bps from last quarter. As a result, total loan delinquency at 46 bps improved 36 bps year over year (from 82 bps) and 5 bps from 2Q-2021 (from 51 bps).

- At 3Q-2021 end, sector assets totaled $82.3 billion, reflecting year over year growth of $4.5 billion (up 5.8%). Growth was driven by increases in residential mortgage loans of $3.9 billion (up 9.7%, but still below historic, pre-COVID growth rates) as markets remained strong and sales prices high and in commercial loans of $2.0 billion (up 10.2%), offset by redeployment of accumulated cash/investments that fell $1.3 billion (down 10.6%).

- 3Q-2021 liquidity remains strong at 13.9% although 240 bps below last year as deposits and borrowings (but not securitization activities which fell by 14.4%) grew whereas liquid assets fell.

- Year over year growth in retained earnings (14.4%) exceeded growth in assets (5.8%). However, the dependency on investment shares (up $119 million or 5.8% year over year) continues and they represent significant funding ($2.2 billion or 38.6% of capital in 3Q-2021, similar to 40.6% in 3Q-2020) to maintain minimum capital requirements and provide for future growth.

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Economic Overview

The Bank of Canada (the “Bank”) met October 27th, 2021. In summary, the Bank held the target for the overnight rate at the lower bound of 0.25%, unchanged since March 2020 when the pandemic began. It also maintained its forward guidance on the path for the overnight rate. However, the Bank is ending quantitative easing (QE) and moving into the reinvestment phase, during which it will purchase Government of Canada bonds solely to replace maturing bonds.

In its detailed release, the Bank said the following. “The global economic recovery from the COVID-19 pandemic is progressing. Vaccines are proving highly effective against the virus, although their availability and distribution globally remain uneven and COVID variants pose risks to health and economic activity. In the face of strong global demand for goods, pandemic-related disruptions to production and transportation are constraining growth. Inflation rates have increased in many countries, boosted by these supply bottlenecks and by higher energy prices. While bond yields have risen in recent weeks, financial conditions remain accommodative and continue to support economic activity.

“The Bank projects global GDP will grow by 6½ percent in 2021 – a strong pace but less than projected in the July Monetary Policy Report – and by 4¼ percent in 2022 and about 3½ percent in 2023.

“In Canada, robust economic growth has resumed, following a pause in the second quarter. Strong employment gains in recent months were concentrated in hard-to-distance sectors and among workers most affected by lockdowns. This has significantly reduced the very uneven impact of the pandemic on workers. As the economy reopens, it is taking time for workers to find the right jobs and for employers to hire people with the right skills. This is contributing to labour shortages in certain sectors, even as slack remains in the overall labour market.

“The Bank now forecasts Canada’s economy will grow by 5 percent this year before moderating to 4¼ percent in 2022 and 3¾ percent in 2023. Demand is expected to be supported by strong consumption and business investment, and a rebound in exports as the US economy continues to recover. Housing activity has moderated, but is expected to remain elevated. On the supply side, shortages of manufacturing inputs, transportation bottlenecks, and difficulties in matching jobs to workers are limiting the economy’s productive capacity. Although the impact and persistence of these supply factors are hard to quantify, the output gap is likely to be narrower than the Bank had forecast in July.

“The recent increase in CPI inflation was anticipated in July, but the main forces pushing up prices – higher energy prices and pandemic-related supply bottlenecks – now appear to be stronger and more persistent than expected. Core measures of inflation have also risen, but by less than the CPI. The Bank now expects CPI inflation to be elevated into next year, and ease back to around the 2 percent target by late 2022. The Bank is closely watching inflation expectations and labour costs to ensure that the temporary forces pushing up prices do not become embedded in ongoing inflation.

“The Governing Council judges that in view of ongoing excess capacity, the economy continues to require considerable 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 projection, this happens sometime in the middle quarters of 2022. In light of the progress made in the economic recovery, the Governing Council has decided to end quantitative easing and keep its overall holdings of Government of Canada bonds roughly constant.

“We will continue to provide the appropriate degree of monetary policy stimulus to support the recovery and achieve the inflation target.”

Housing Markets

Toronto Region Real Estate Board (TREB) reports home sales were the second highest on record in October 2021. However, the inventory of homes for sale did not keep up with demand causing tight market conditions.

October home sales were 9,783, down 720 (6.9%) from the year earlier which was the record month. Average house price rose to $1.2 million (up 19.3%) from $969 thousand in the year earlier period. New listings in October 2021 were 11,740, a significant drop of 6,066 (34.1%) from those of October 2020.

In its Market Watch, TREB said “The tight market conditions across all market segments and areas of the GTA is testament to the broadening scope of economic recovery in the region and household confidence that this recovery will continue. A key part of future economic development in the GTA will be the ability to provide adequate ownership and rental housing supply so that people can continue to move to the region to live, work and spend money in the local economy.”

Sector Consolidation

There were 61 institutions in 3Q-2021, a reduction of four from the year earlier quarter but unchanged from 2Q-2021. Average assets per institution increased to $1.3 billion (up $153 million or 12.8%) year over year reflecting the effects of organic growth and mergers or amalgamations.

Profitability

3Q-2021 vs 3Q-2020

As shown in Tables 2 and 3, return on average assets in 3Q-2021 increased to 60 bps (up 38 bps) from 22 bps in the year earlier quarter, the results of which reflected early effects of the pandemic. Lower interest expense on deposits (down 38 bps to 87 bps) and on other borrowings (down 4 bps to 26 bps), increased investment income (up 8 bps to 28 bps which includes the MLP effects discussed within FSRA's Observations on page 7) and reduced loan costs (down 20 bps) more than offset lower loan interest (down 26 bps to 2.81%) and higher taxes (up 8 bps to 13 bps).

Four 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.

3Q-2021 vs 2Q-2021

Sector profitability decreased by 5 bps (from 65 bps) from last quarter, primarily due to investment income down 4 bps (from 32 bps) and non- interest expense up 3 bps (from 157 bps).

2Q-2021 Ontario Sector vs 2Q-2021 Canadian Sector*

Ontario sector profitability of 65 bps was 14 bps above the Canadian sector's of 51 bps.

Capital

3Q-2021 vs 3Q-2020

Sector capital increased to $5.7 billion (up $573 million or 11.2%) from the year earlier quarter comprised of:

- Retained earnings of $3.5 billion (up $435 million or 14.4%)
- Investment and patronage shares of $2.2 billion (up $119 million or 5.8%)
- Membership shares of $62 million (down $1 million or 1.6%)

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

As a percent of risk weighted assets, sector capital was 13.65%, down 6 bps from the year earlier quarter, as growth in risk weighted assets outpaced growth in capital. Leverage was 6.94%, up 32 bps from the year earlier quarter.

3Q-2021 vs 2Q-2021

Sector capital increased by $134 million (2.4% from $5.5 billion) from last quarter due to increases in retained earnings of $117 million (3.5% from $3.3 billion), issuances of investment shares of $15 million (0.7% from $2.2 billion) and decreases in membership shares of $1 million (0.8% from $63 million).

Sector capital as a percent of risk weighted assets increased 1 bp (from 13.64%) in the previous quarter. Leverage increased 2 bps (from 6.92%).

Liquidity (including Securitization)

3Q-2021 vs 3Q-2020

As shown in Tables 7 and 8, sector deposits increased by $4.7 billion (up 7.6% to $65.7 billion), securitizations decreased by $1.4 billion (down 14.4% to $8.4 billion) and borrowings increased by $0.8 billion (up 149.9% to $1.3 billion), a net increase of $4.0 billion (up 5.7% to $75.4 billion) from the year earlier. Liquid assets decreased $1.1 billion (down 9.6% to $10.5 billion) resulting in a decrease in liquidity to 13.9% (down 240 bps from 16.3% in 2Q-2020).

In 3Q-2021, there were 23 institutions (21 credit unions and 2 caisses populaires) with total assets of $74.6 billion (90.7% of sector assets) participating in securitization programs.

3Q-2021 vs 2Q-2021

Sector deposits increased by $1.3 billion (up 2.0% from $64.4 billion), securitizations increased by $17 million (from $8.4 billion) and borrowings increased by $94 million (up 7.7% from $1.2 billion), a net increase of $1.4 billion (up 1.9% from $74.0 billion) from last quarter. However, liquid assets decreased by $513 million (down 4.9% from $11.0 billion) resulting in a decrease of 100 bps in liquidity (from 14.9%).

Efficiency Ratio (before dividends/interest rebates)

3Q-2021 vs 3Q-2020

As shown in Table 3, the sector efficiency ratio improved to 67.0% (down 15.8 percentage points from 82.8%) from the year earlier quarter.

3Q-2021 vs 2Q-2021

Compared to last quarter, sector efficiency deteriorated by 150 bps (from 65.5%).

2Q-2021 Ontario sector vs. 2Q-2021 Canadian sector

Non-interest expense as a percent of average assets for the Ontario sector (1.57%) was 15 bps better than the Canadian sector (1.72%). Ontario sector efficiency ratio (65.5%) was 530 bps better than the Canadian sector (70.8%). Ontario sector efficiency reflects a significant improvement from 2Q-2020 when at 88.0%, it was 12.6 percentage points worse than the Canadian sector at 75.4 %.

Credit Quality (delinquency greater than 30 days)

3Q-2021 vs 3Q-2020

As shown in Table 5, total loan delinquency decreased to 46 bps (down 36 bps from 82 bps) compared to the year earlier quarter. Residential mortgage loan delinquency decreased to 28 bps (down 4 bps from 32 bps) and commercial loan delinquency decreased to 87 bps (down 104 bps from 191 bps).

3Q-2021 vs 2Q-2021

Compared to last quarter, total loan delinquency decreased by 5 bps (from 51 bps) reflecting increased residential mortgage loan delinquency of 4 bps (from 24 bps) offset by decreased commercial loan delinquency of 30 bps (from 107 bps).

Growth

3Q-2021 vs 3Q-2020

Compared to the previous year, total sector assets increased to $82.3 billion (up $4.5 billion or 5.8%). This reflects growth in residential mortgage loans to $44.0 billion (up $3.9 billion or 9.7%), commercial loans to $21.2 billion (up $2.0 billion or 10.2%) and cash/investments of $11.3 billion (down $1.4 billion or 10.6%).

3Q-2021 vs 2Q-2021

Total assets for the sector increased by $1.6 billion (1.9% from $80.7 billion) from last quarter reflecting increases in residential mortgage loans of $1.5 billion (3.6% from $42.4 billion) and in commercial loans of $374 million (1.8% from $20.8 billion), offset by decreased cash/investments of $386 million (3.3% from $11.7 billion).

2Q-2021 Ontario Sector vs 2Q-2021 Canadian Sector

Growth in total assets of the Ontario sector (6.0%) exceeded the Canadian sector’s (5.3%) reflecting increases in residential mortgage loans of 6.9% (vs 4.7%), commercial loans of 9.5% (vs 6.1%) and agricultural loans of 6.9% (vs 6.1%).

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Sector Income Statements

% of Average Assets (except as noted)	Ontario Sector			Canadian Sector[1]
	3Q-2021	2Q-2021	3Q-2020	2Q-2021
Interest and Investment Income				
Loan Interest	2.81%	2.80%	3.07%	2.70%
Investment Income	0.28%	0.32%	0.20%	0.20%
Total Interest and Investment Income	3.09%	3.12%	3.26%	2.90%
Interest and Dividend Expense				
Interest Expense on Deposits	0.87%	0.89%	1.25%	0.83%
Rebates/Dividends on Share Capital	0.05%	0.05%	0.05%	
Dividends on Investment/Other Capital	0.01%	0.01%	0.01%	
Other Interest Expense	0.26%	0.26%	0.30%	0.15%
Total	0.33%	0.33%	0.37%	0.15%
Total Interest & Dividend Expense	1.20%	1.22%	1.63%	0.98%
Net Interest & Investment Income	1.89%	1.90%	1.63%	1.92%
Loan Costs	(0.0%)	(0.01%)	0.20%	0.01%
Net Interest & Investment Income after Loan Costs	1.90%	1.91%	1.44%	1.91%
Other (non-interest) Income	0.43%	0.43%	0.43%	0.51%
Net Interest, Investment & Other Income	2.33%	2.34%	1.86%	2.42%
Non-Interest Expenses				
Salaries & Benefits	0.89%	0.90%	0.89%	
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%	0.13%	0.14%	
Other	0.08%	0.08%	0.08%	
Total Non-Interest Expenses	1.60%	1.57%	1.59%	1.72%
Net Income/(Loss) Before Taxes	0.73%	0.78%	0.27%	0.71%
Taxes	0.13%	0.13%	0.05%	0.13%
Net Income/(Loss)	0.60%	0.65%	0.22%	0.51%
Average Assets (Billions)	$80	$80	$74	$267

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

*Totals may not agree due to rounding

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Sector Balance Sheets

As at $millions

	Sector		
	3Q-2021	2Q-2021	3Q-2020
Assets			
Cash and Investments	11,334	11,720	12,679
Personal Loans	2,000	2,025	2,133
Residential Mortgage Loans	43,958	42,424	40,083
Commercial Loans	21,185	20,811	19,225
Institutional Loans	89	88	86
Unincorporated Association Loans	54	45	93
Agricultural Loans	2,453	2,422	2,263
Total Loans	69,739	67,816	63,883
Total Loan Allowances	250	255	251
Capital (Fixed) Assets	650	659	695
Intangible and Other Assets	802	784	746
Total Assets	82,276	80,724	77,752
Liabilities			
Demand Deposits	30,010	28,573	24,744
Term Deposits	22,074	22,120	22,795
Registered Deposits	13,643	13,718	13,530
Other Deposits	0	0	0
Total Deposits	65,726	64,411	61,069
Borrowings	1,307	1,213	523
Securitizations	8,388	8,371	9,794
Other Liabilities	1,178	1,186	1,263
Total Liabilities	76,598	75,181	72,648
Members' Equity & Capital			
Membership Shares	62	63	63
Retained Earnings	3,453	3,336	3,018
Other Tier 1 & 2 Capital	2,191	2,176	2,072
AOCI	(29)	(33)	(50)
Total Members' Equity & Capital	5,677	5,543	5,104
Total Liabilities, Members' Equity & Capital	82,276	80,724	77,752

* Totals may not agree due to rounding

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Sector Balance Sheets

	3Q-2021 $millions	Sector % Increase/(Decrease) from 2Q-2021	3Q-2020
Assets			
Cash and Investments	11,334	-3.3%	-10.6%
Personal Loans	2,000	-1.2%	-6.2%
Residential Mortgage Loans	43,958	3.6%	9.7%
Commercial Loans	21,185	1.8%	10.2%
Institutional Loans	89	0.7%	3.9%
Unincorporated Association Loans	54	19.8%	-42.5%
Agricultural Loans	2,453	1.3%	8.4%
Total Loans	69,739	2.8%	9.2%
Total Loan Allowances	250	-2.1%	-0.7%
Capital (Fixed) Assets	650	-1.4%	-6.5%
Intangible and Other Assets	802	2.3%	7.5%
Total Assets	82,276	1.9%	5.8%
Liabilities			
Demand Deposits	30,010	5.0%	21.3%
Term Deposits	22,074	-0.2%	-3.2%
Registered Deposits	13,643	-0.5%	0.8%
Other Deposits	0	0.0%	0.0%
Total Deposits	65,726	2.0%	7.6%
Borrowings	1,307	7.7%	149.9%
Securitizations	8,388	0.2%	-14.4%
Other Liabilities	1,178	-0.7%	-6.7%
Total Liabilities	76,598	1.9%	5.4%
Members' Equity & Capital			
Membership Shares	62	-0.8%	-1.6%
Retained Earnings	3,453	3.5%	14.4%
Other Tier 1 & 2 Capital	2,191	0.7%	5.8%
Accumulated Other Comprehensive Income	(29)	-11.4%	-41.2%
Total Members' Equity & Capital	5,677	2.4%	11.2%
Total Liabilities, Members' Equity & Capital	82,276	1.9%	5.8%

* Totals may not agree due to rounding

Sector Balance Sheets

As a percentage of total assets	Sector			Canadian sector[1]
	3Q-2021	2Q-2021	3Q-2020	2Q-2021
Assets				
Cash and investments	13.8%	14.5%	16.3%	18.2%
Personal loans	2.4%	2.5%	2.7%	3.6%
Residential mortgage loans	53.4%	52.6%	51.6%	47.8%
Commercial loans	25.7%	25.8%	24.7%	24.0%
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%	84.0%	82.2%	80.0%
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%	1.0%	1.2%
Total assets	100.0%	100.0%	100.0%	100.0%
Liabilities				
Demand deposits	36.5%	35.4%	31.8%	43.0%
Term deposits	26.8%	27.4%	29.3%	27.8%
Registered deposits	16.6%	17.0%	17.4%	14.7%
Other deposits	0.0%	0.0%	0.0%	0.2%
Total deposits	79.9%	79.8%	78.5%	85.7%
Borrowings	1.6%	1.5%	0.7%	5.1%
Securitizations	10.2%	10.4%	12.6%	
Other liabilities	1.4%	1.5%	1.6%	2.3%
Total liabilities	93.1%	93.1%	93.4%	93.1%
Members' equity & capital				
Membership shares	0.1%	0.1%	0.1%	0.5%
Retained earnings	4.2%	4.1%	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%	6.9%	6.6%	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.