Q1 2021 Financial Services Canada Industry Insights Report

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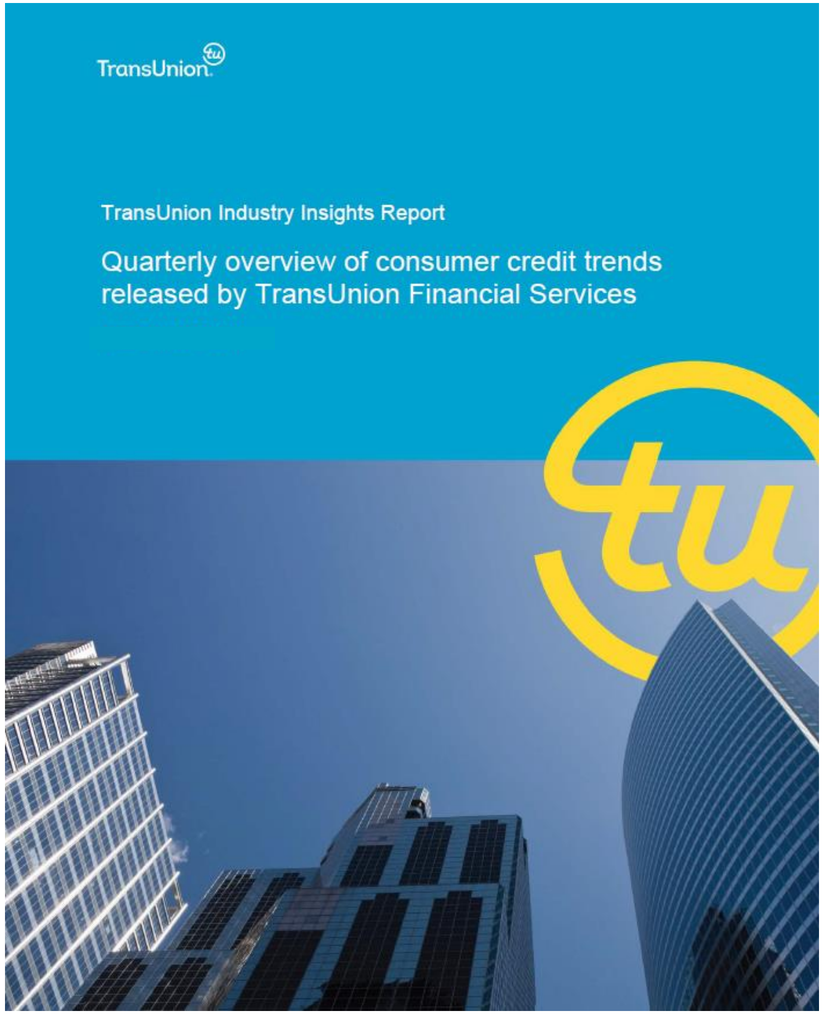
TransUnion's Industry Insights Report is a quarterly overview summarizing trends within the consumer lending industry

Data pulled from TransUnion's consumer credit database includes:

- Both **account-level** and **consumer-level** views of key metrics and trends
- Data and trends for the national population, as well as breakdowns within consumer credit score risk tiers
- Analysis of consumer loan product types — **credit card**, **auto**, **mortgage**, **home equity line of credit and personal loan** — as well as aggregate views of all **revolving** and all **non-revolving** loans



Today’s agenda

- Overview of Consumer Credit Health
- Credit Card
- Auto
- Mortgage
- Lines of Credit
- Unsecured Personal Loans

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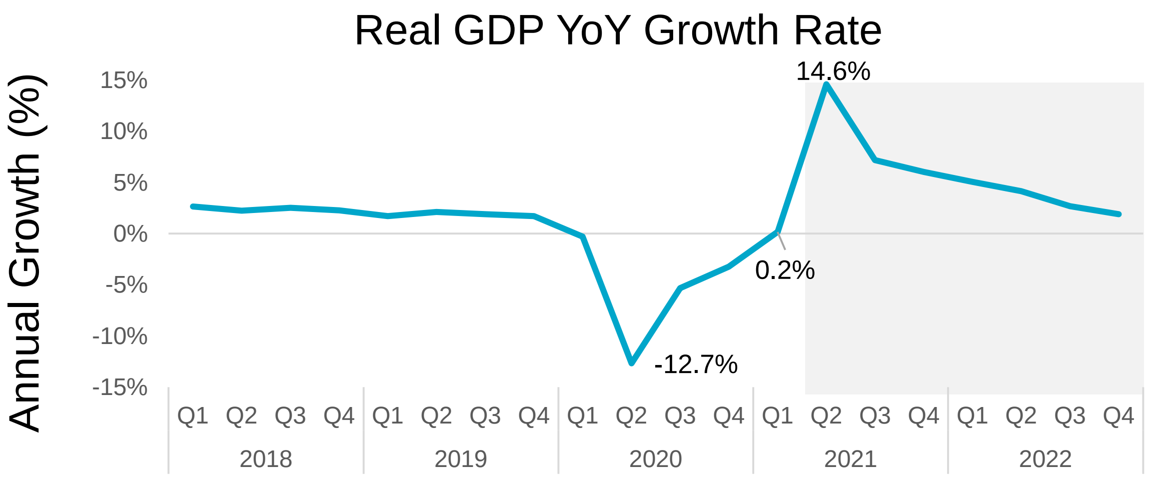
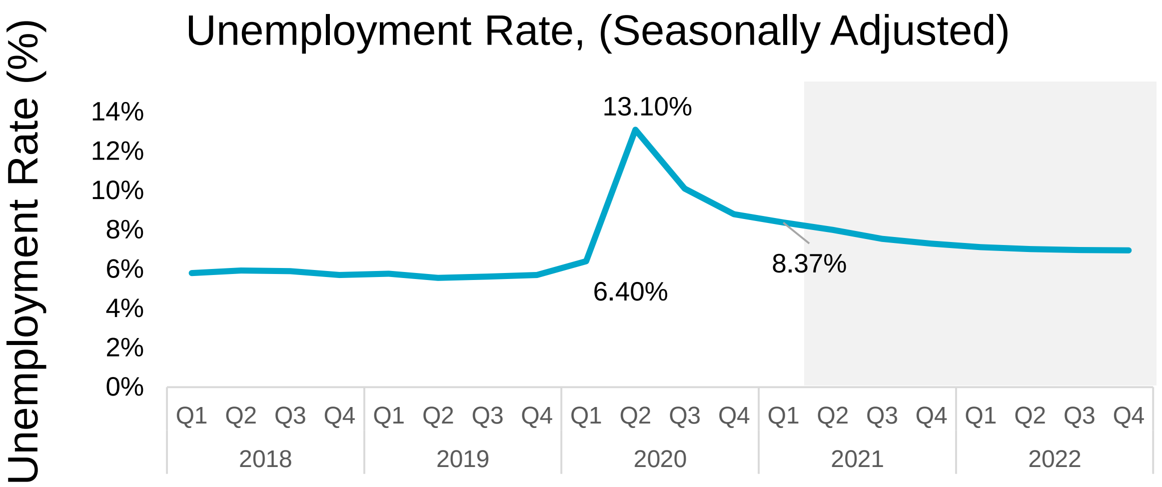
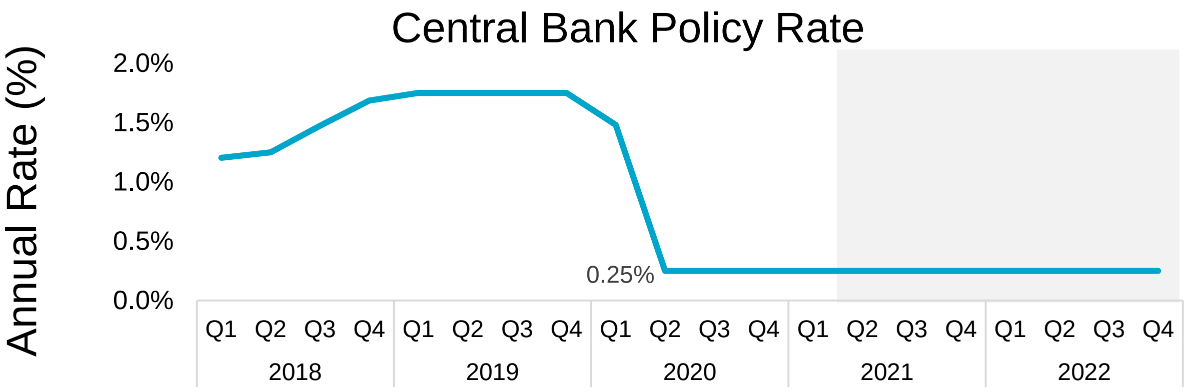
An overview of consumer credit health

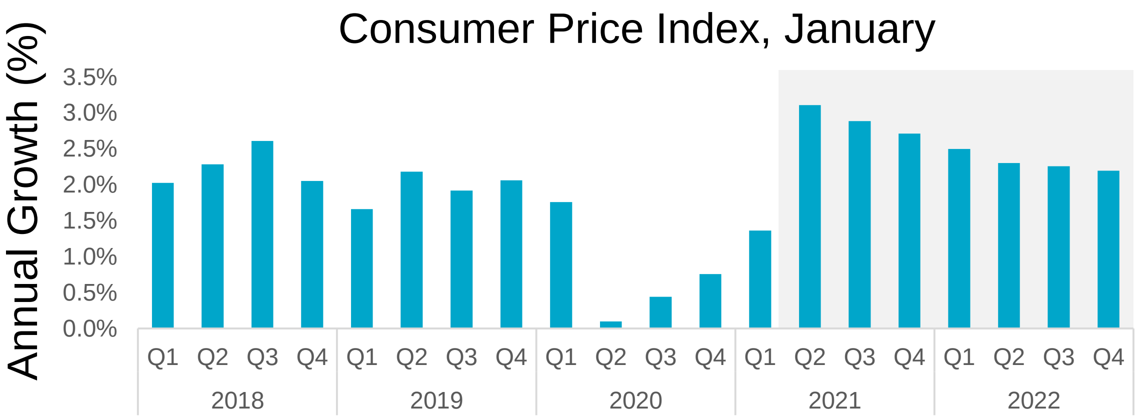
Understanding consumer scores, participation, debt levels, and performance

Monthly indicators of economic activity continue to show signs of recovery, as expansionary monetary policy continues





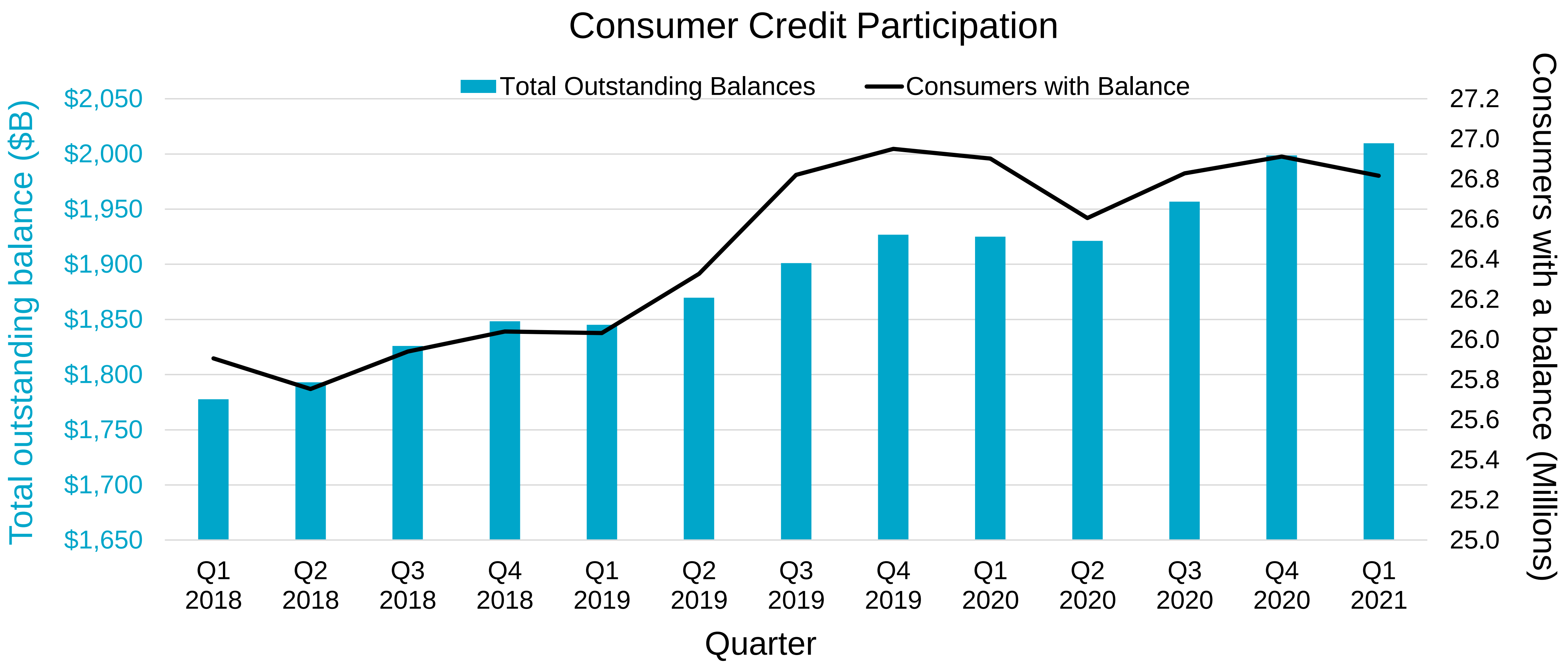




Forecast

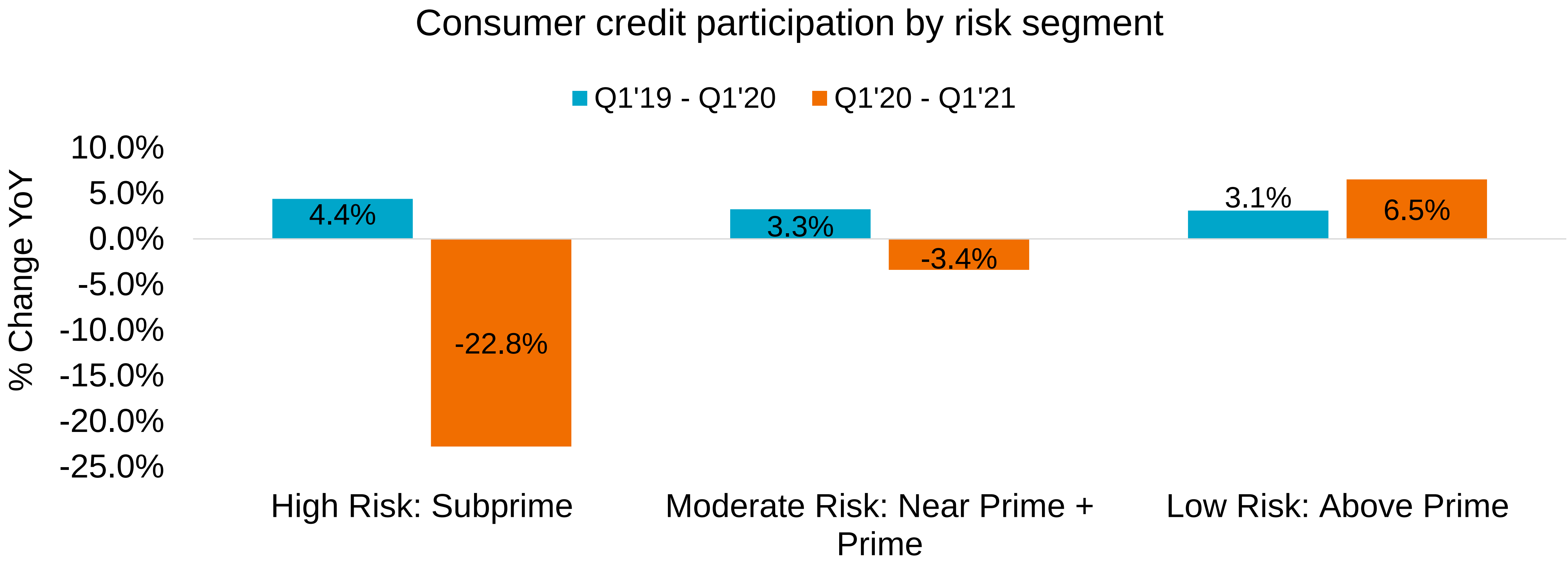
Source: Oxford Economics

Outstanding credit balances in Canada increased 4.4% despite fewer consumers carrying balances



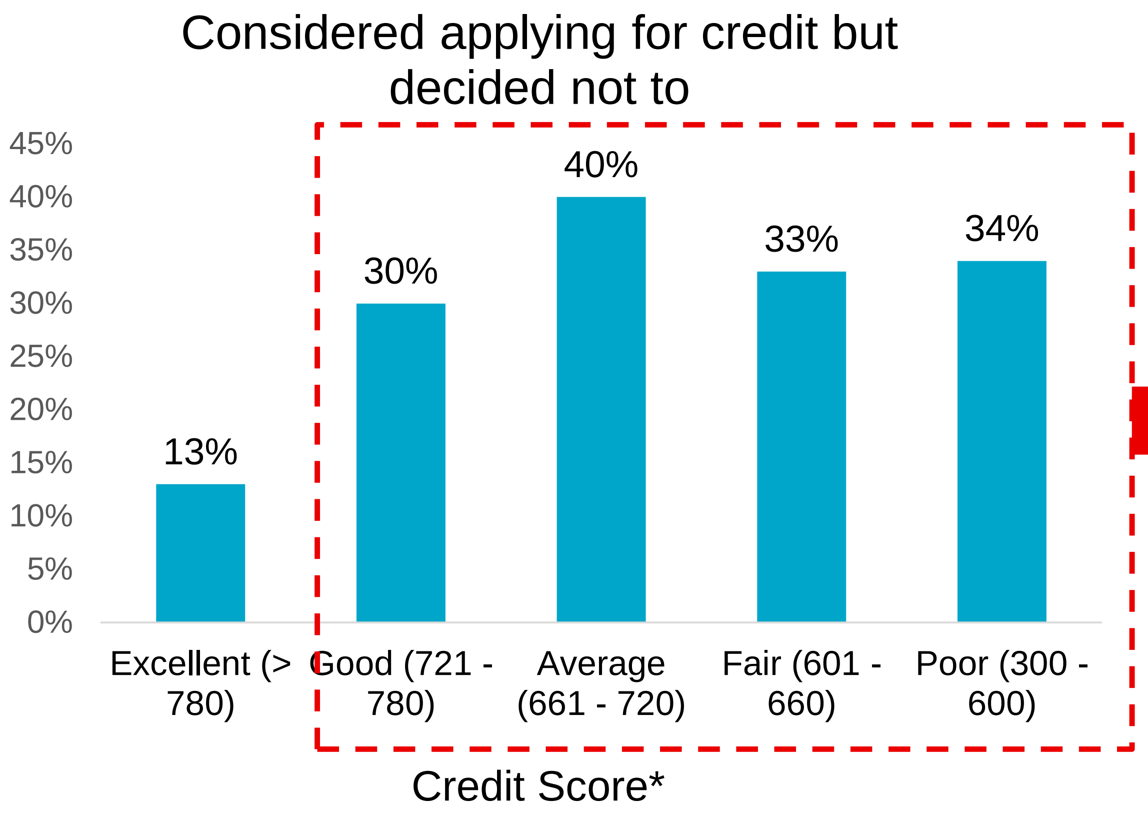
Source: TransUnion Canada consumer credit database

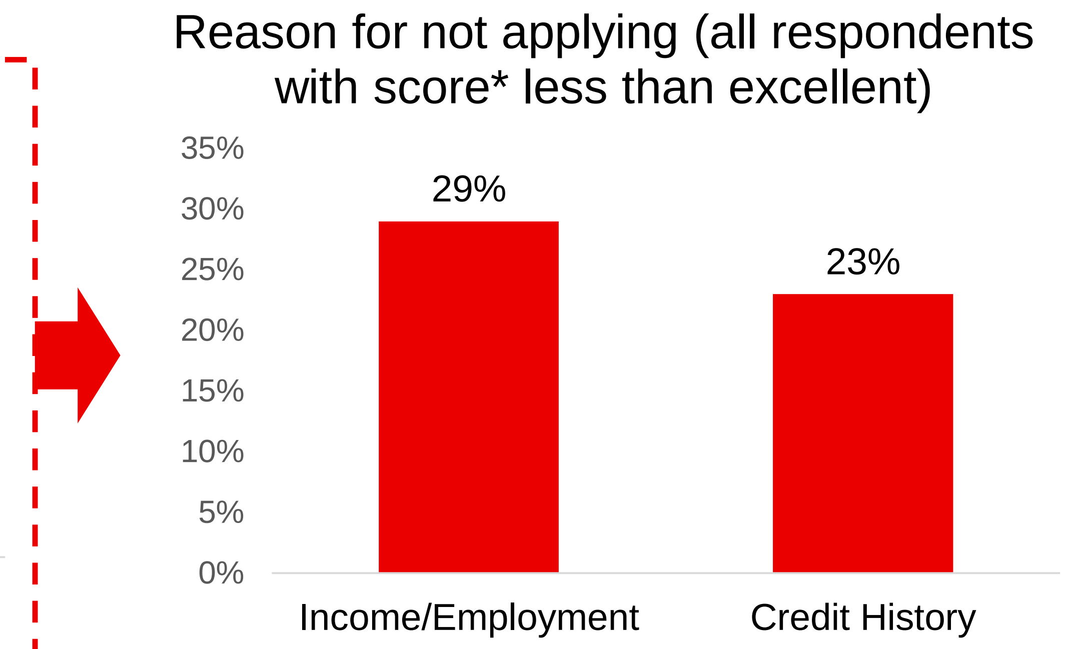
Credit participation among higher risk segments declined as consumers retreated from credit and lender risk appetite tightened



Source: TransUnion Canada consumer credit database

The economic shock of the pandemic seems to have created potential demand but also uncertainty among consumers

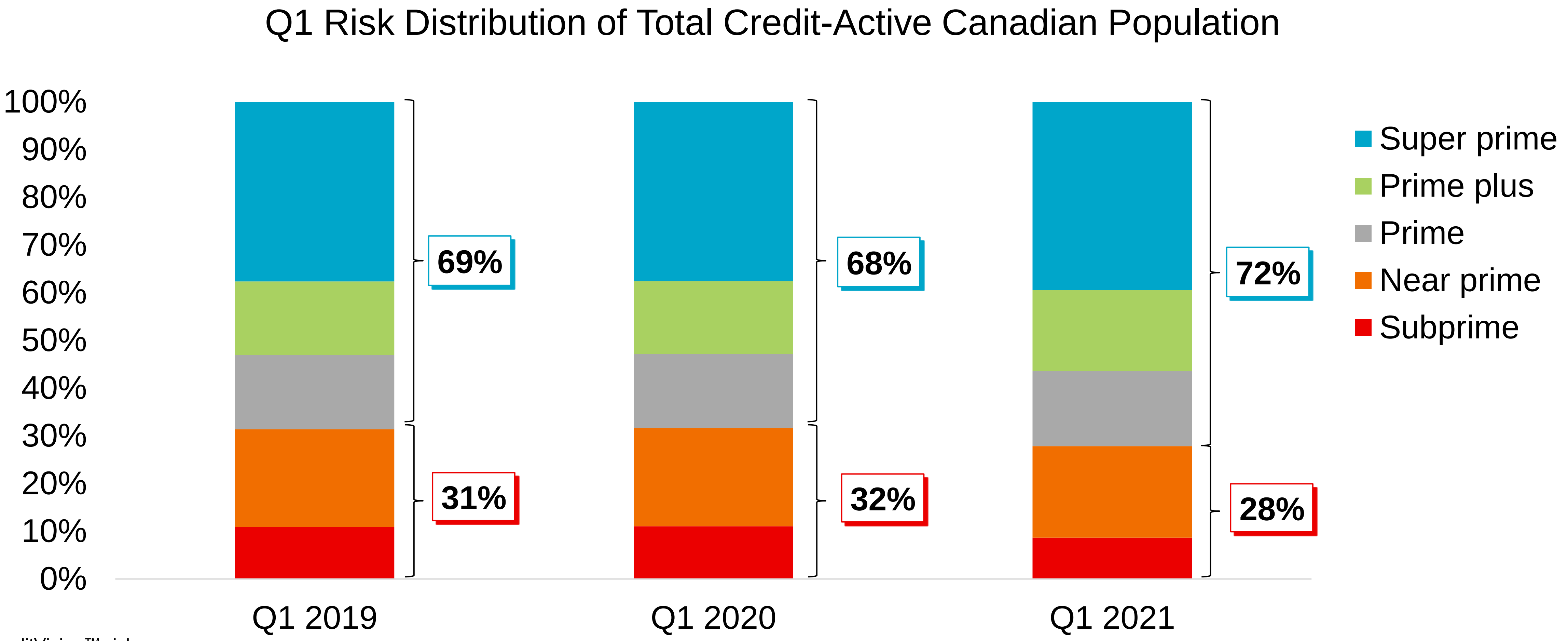




* Credit scores are self reported by survey respondents

Source: TransUnion Canada Consumer Pulse Survey, Q1 2021

Consumer score distribution has improved as Canadian credit consumers exhibit positive behaviours



CreditVision™ risk score:
Subprime = 300-639; Near prime = 640-719; Prime = 720-759; Prime plus = 760-799; Super prime = 800+

Source: TransUnion Canada consumer credit database

More consumers show improvement in scores than deterioration

YoY Score Migration, Q1 2021

	Risk Tier Q1 2021		
Risk Tier Q1 2020	**Worse***	**Same**	**Better****
Super prime	15%	85%	N/A
Prime plus	19%	49%	32%
Prime	17%	44%	39%
Near prime	8%	59%	33%
Subprime	N/A	62%	38%

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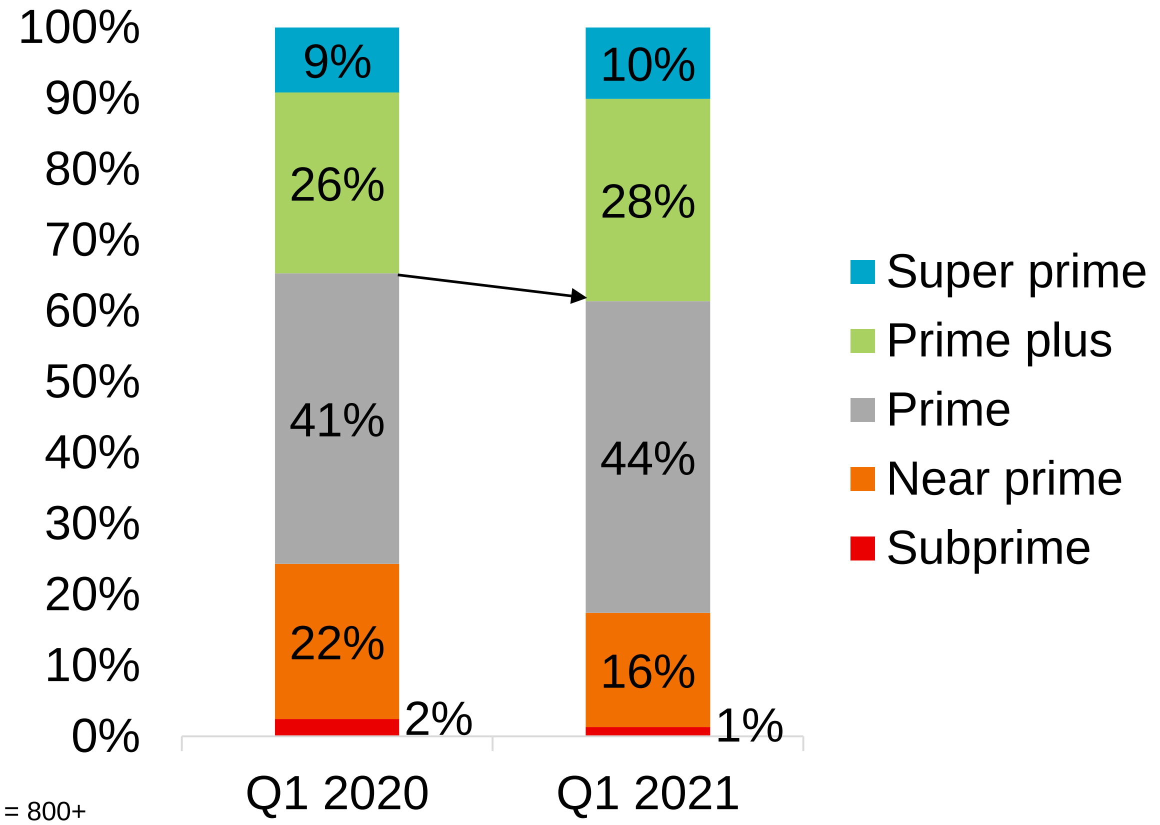
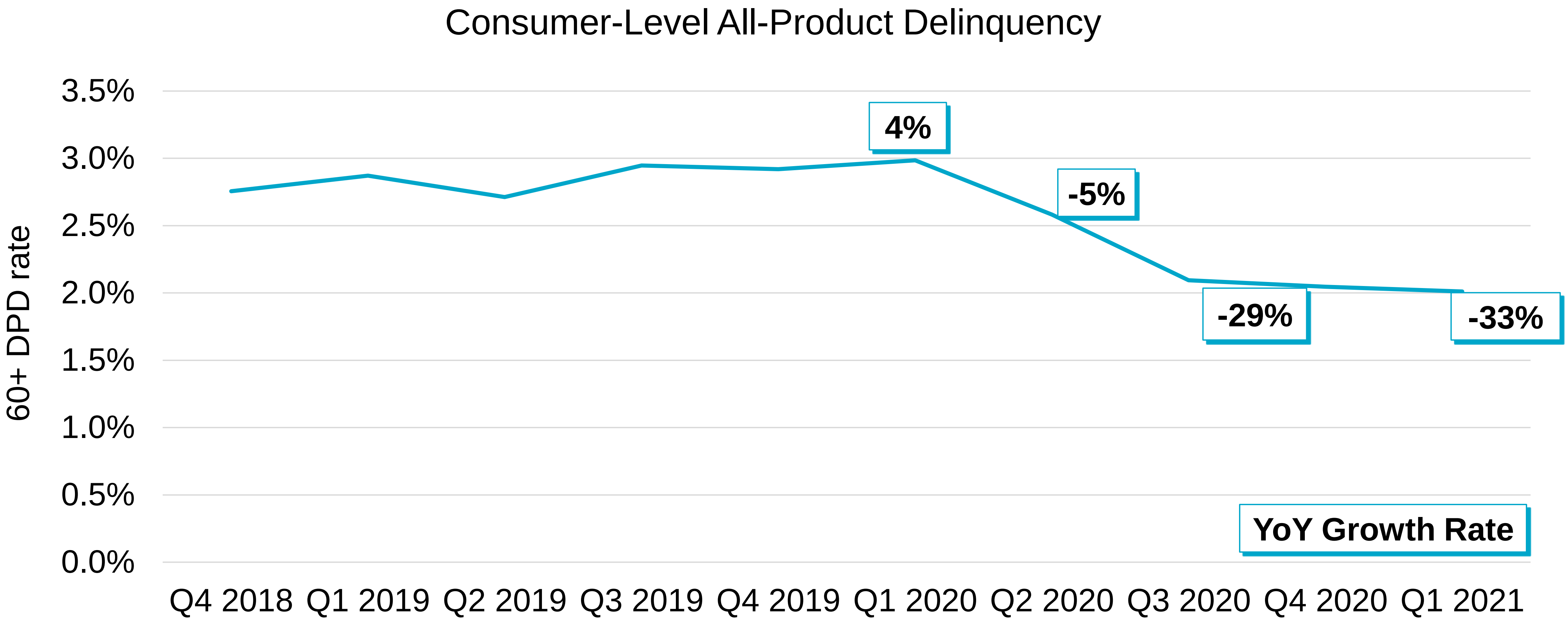
YoY Migration for Prime Consumers



* Worse refers to consumers whose scores dropped one or more risk segments, for example from prime to near prime.
** Better refers to consumers whose scores improved one or more risk segments, for example from prime plus to super prime.

Source: TransUnion Canada consumer credit database

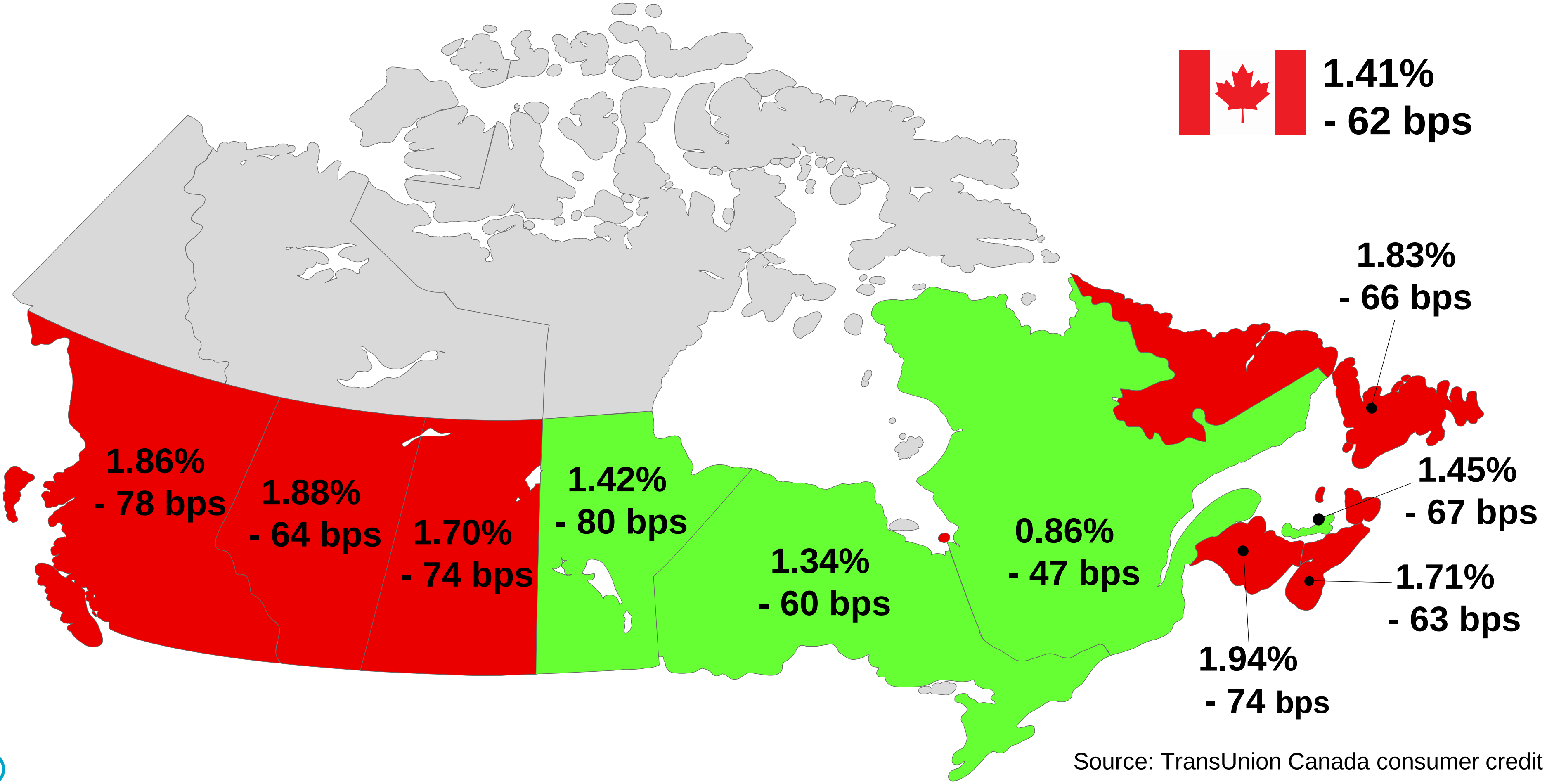
In light of the relief programs, consumer delinquency showed a drastic decline



Source: TransUnion Canada consumer credit database

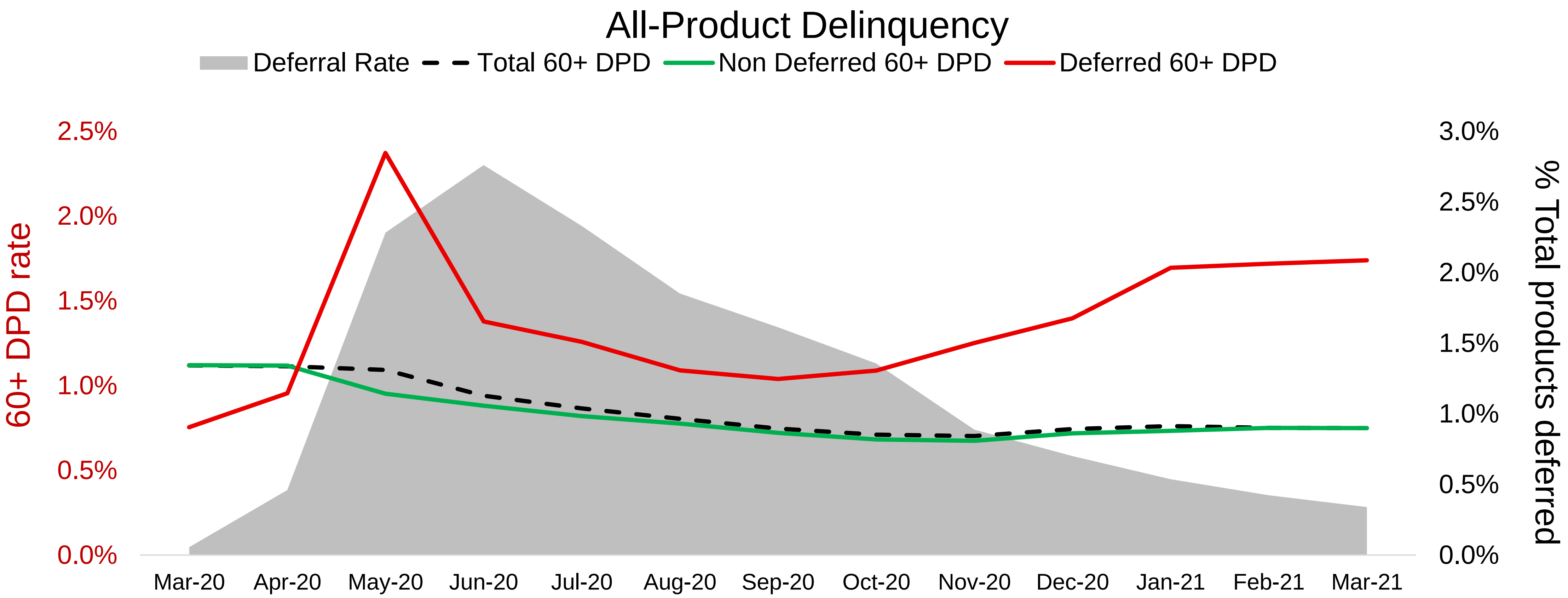
The artificial drop in consumer delinquency is consistent across all regions

Q1 2021 Consumer-Level All-Product Serious Delinquency (90+ DPD)



Source: TransUnion Canada consumer credit database

As deferrals roll off, a bifurcation in delinquency is occurring between consumers with and without deferrals



Source: TransUnion Canada consumer credit database

Consumers are becoming more optimistic about their ability to adapt to an unprecedented consumer lending environment

Canada Consumer Financial Hardship

50% of consumers reported being negatively impacted

61% of consumers are not concerned about paying their current bills

41% of consumers have had their work hours reduced

22% of household finances are better than planned in 2020

Consumers impacted negatively feel they will be **$875** short on their bills

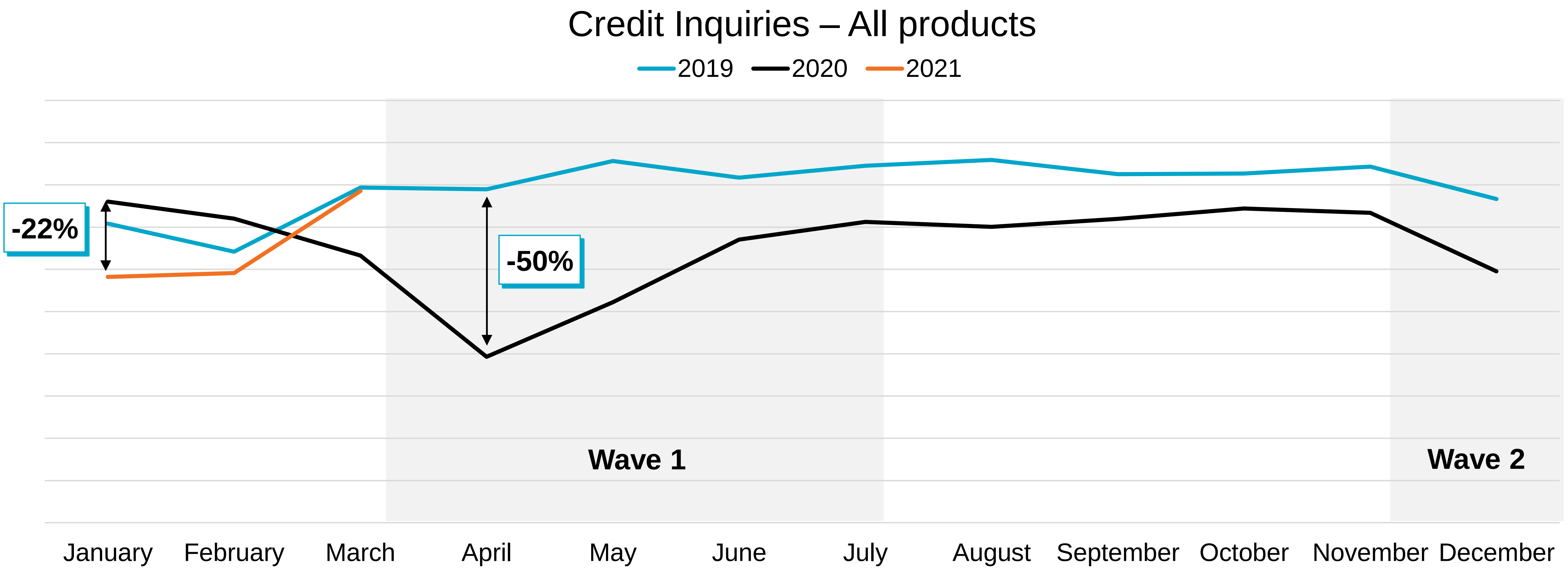
62% of consumers expect to be able to meet their obligations longer than **4 weeks**

Source: TransUnion Canada Consumer Financial Hardship Survey, Wave 11 November 2020

Overarching themes driving market dynamics

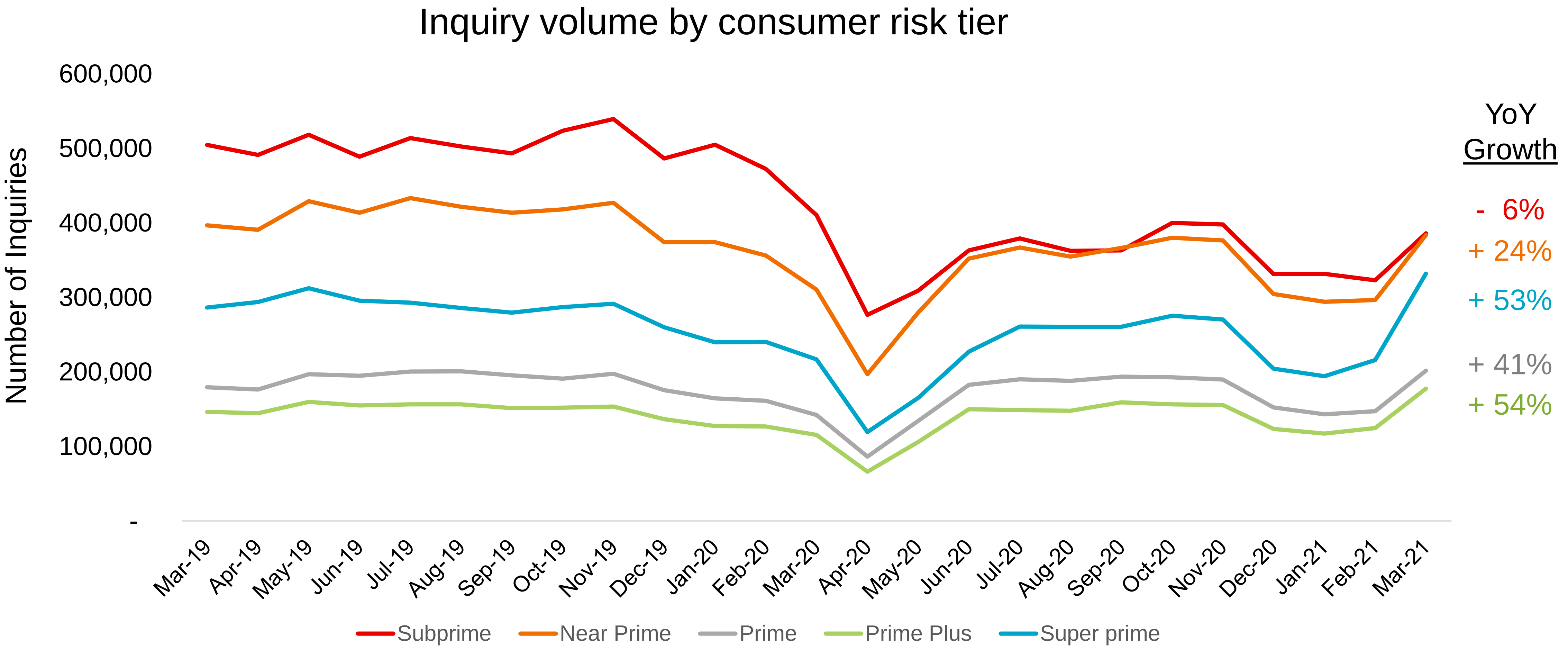
Summarizing growth and performance drivers for key lending products: card, mortgage, auto and personal loans

Credit inquiries were shocked in the early months of the pandemic, but have slowly returned to 2019 levels



Source: TransUnion Canada consumer credit database

Credit demand is being driven by Prime and better consumers while Subprime demand remains dampened



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Source: TransUnion Canada consumer credit database

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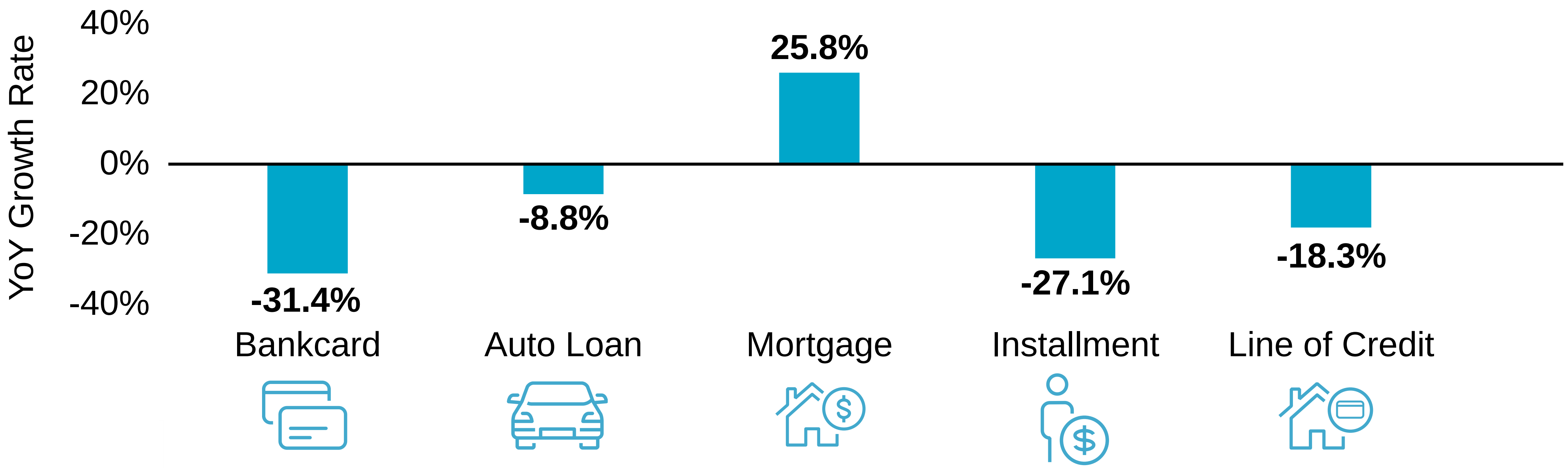
Origination volumes across most products saw significant declines in Q4, but low interest rates propped up mortgage originations

Total new accounts Q4 2020
2.6MM (- 21% YoY)

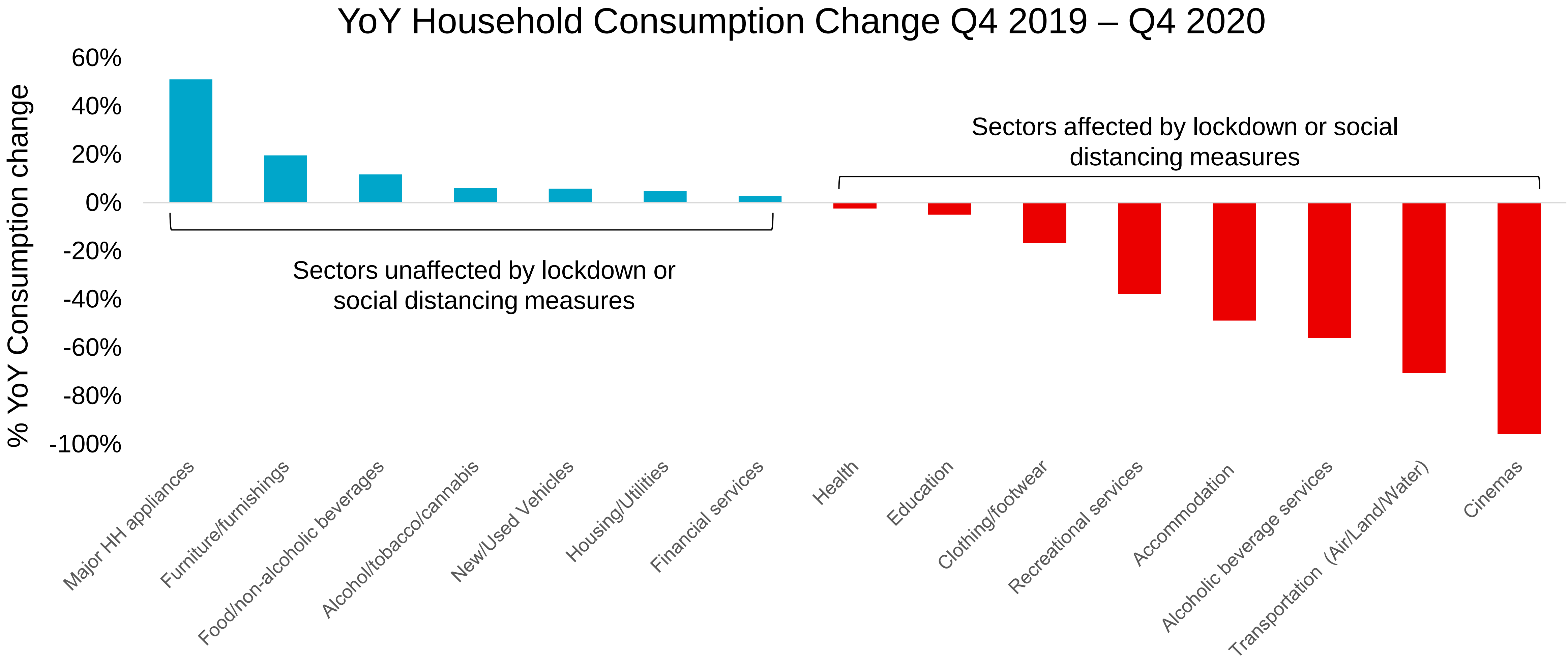
Q4 2020 YoY origination volume growth



	Bankcard	Auto Loan	Mortgage	Installment	Line of Credit
Q4 2020 Origination volume	**1,130 K**	**435 K**	**327 K**	**387 K**	**283 K**

Source: TransUnion Canada consumer credit database

Consumption categories have been unevenly affected by lockdown and social distancing measures affecting spend

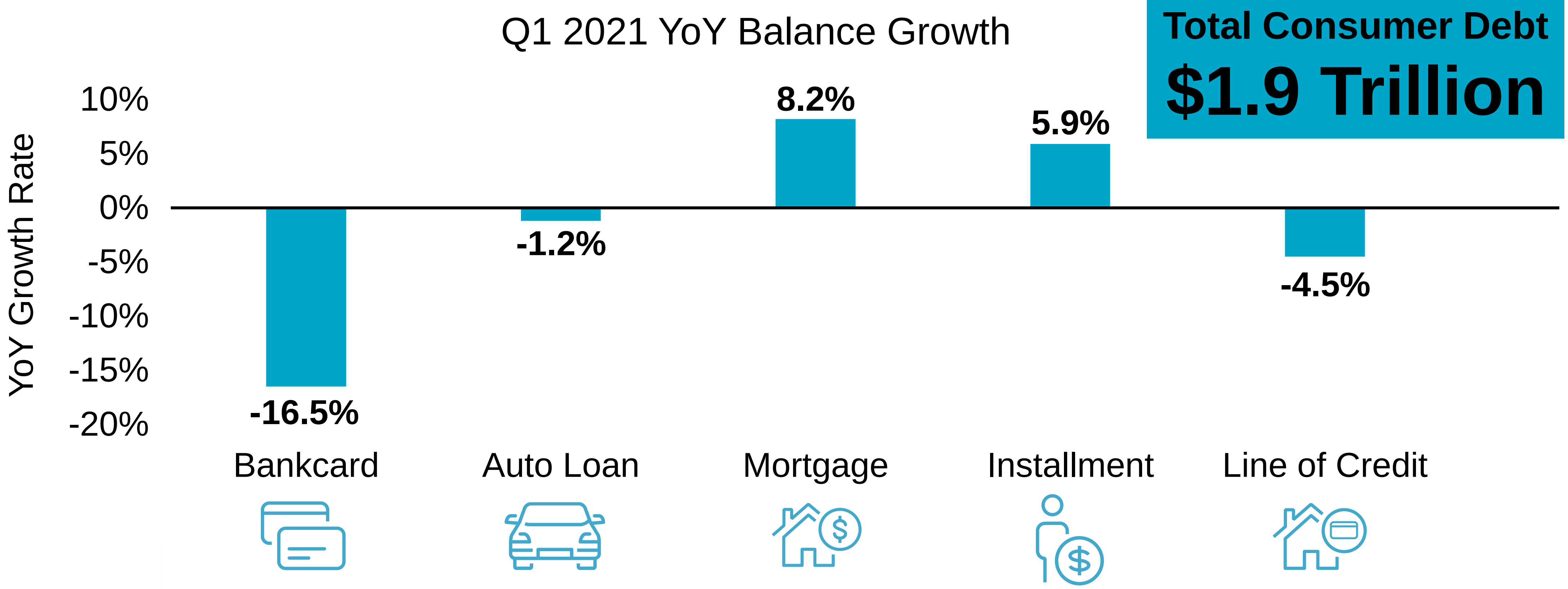


Source: Statistics Canada. Table 36-10-0124-01 Detailed household final consumption expenditure, Canada, quarterly (x 1,000,000)

Aggregate balances dropped for most products, led by credit cards, as lockdowns impacted purchase and spend volumes

Total Consumer Debt

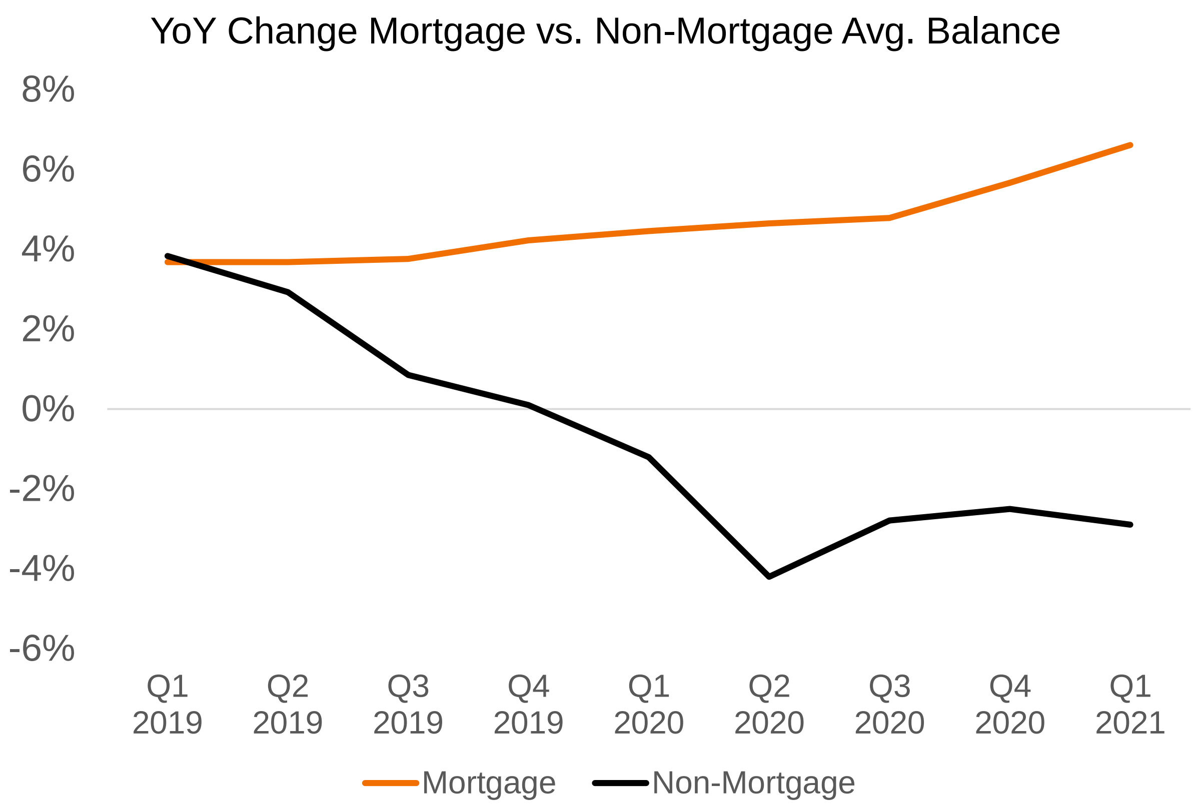
$1.9 Trillion

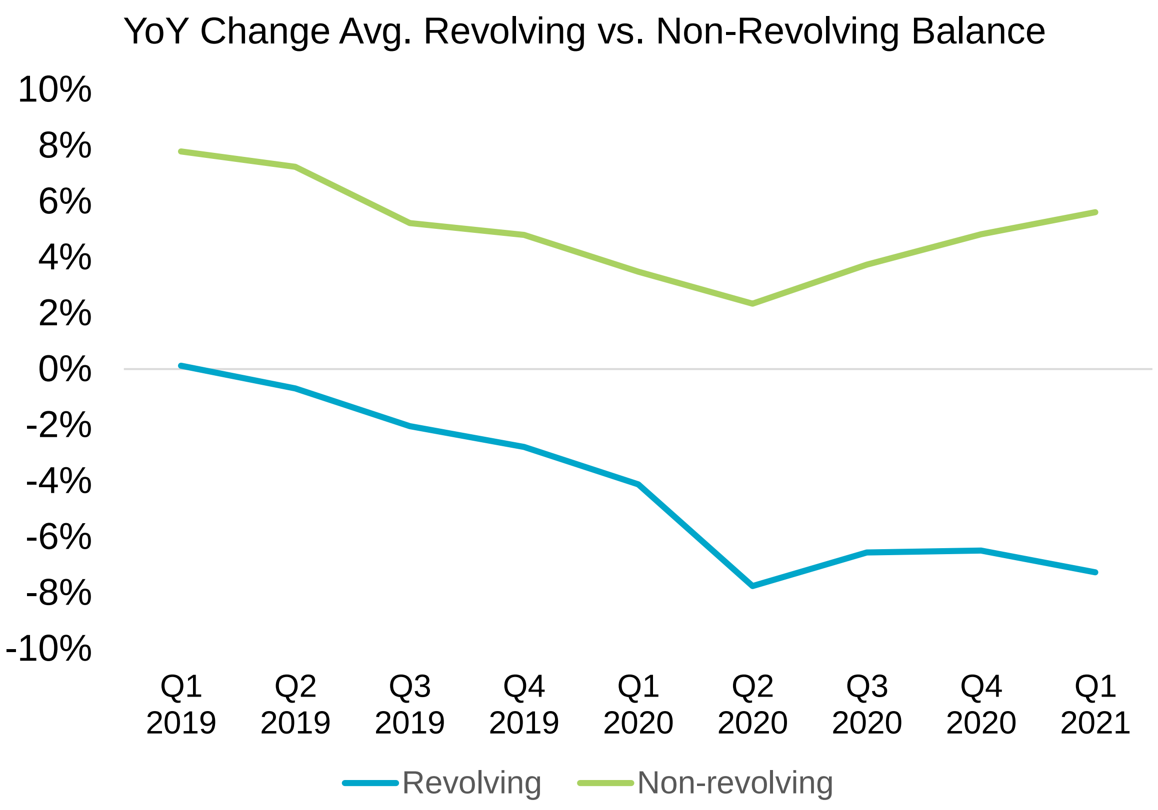


Q1 2021 Outstanding balance	Bankcard	Auto Loan	Mortgage	Installment	Line of Credit
	$79 B	$143 B	$1,405 B	$102 B	$243 B

Source: TransUnion Canada consumer credit database

Mortgages are driving balance growth while balances in non-mortgage, particularly revolving products, drops





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Source: TransUnion Canada consumer credit database

To summarize consumer credit health trends:

Trend	Indicator	Key Insights
Consumer Scores		• Positive behaviours have driven score and risk distribution improvements • Score migration for recent cohorts shows a similar trend
Consumer Debt Levels and Participation		• Some deleveraging, particularly in revolving credit, is emergent • A surge in demand and rising prices is driving mortgage balance growth • Average debt is declining, potentially driven by consumer demand and usage
Credit Supply and Demand		• Inquiry volumes are slowly approaching pre-pandemic levels • While most products are still below pre-pandemic origination new balance growth is emerging
Consumer Performance		• Delinquencies continue to decline • A consistent observation was made across all products

Key product highlights

The bankcard market has been challenged with a negative impact on growth drivers

Key Insight

Declining demand for credit and lower utilization continue to drive a difficult environment for bankcard growth

YoY change for Q1 2021

Originations* dropped 31%

- Origination volumes dropped across all risk tiers
- Inquiry volumes are significantly down, indicating reduced consumer demand
- Supply side may be impacted by lenders implementing tightened policies

Account balances declined by 70 bps

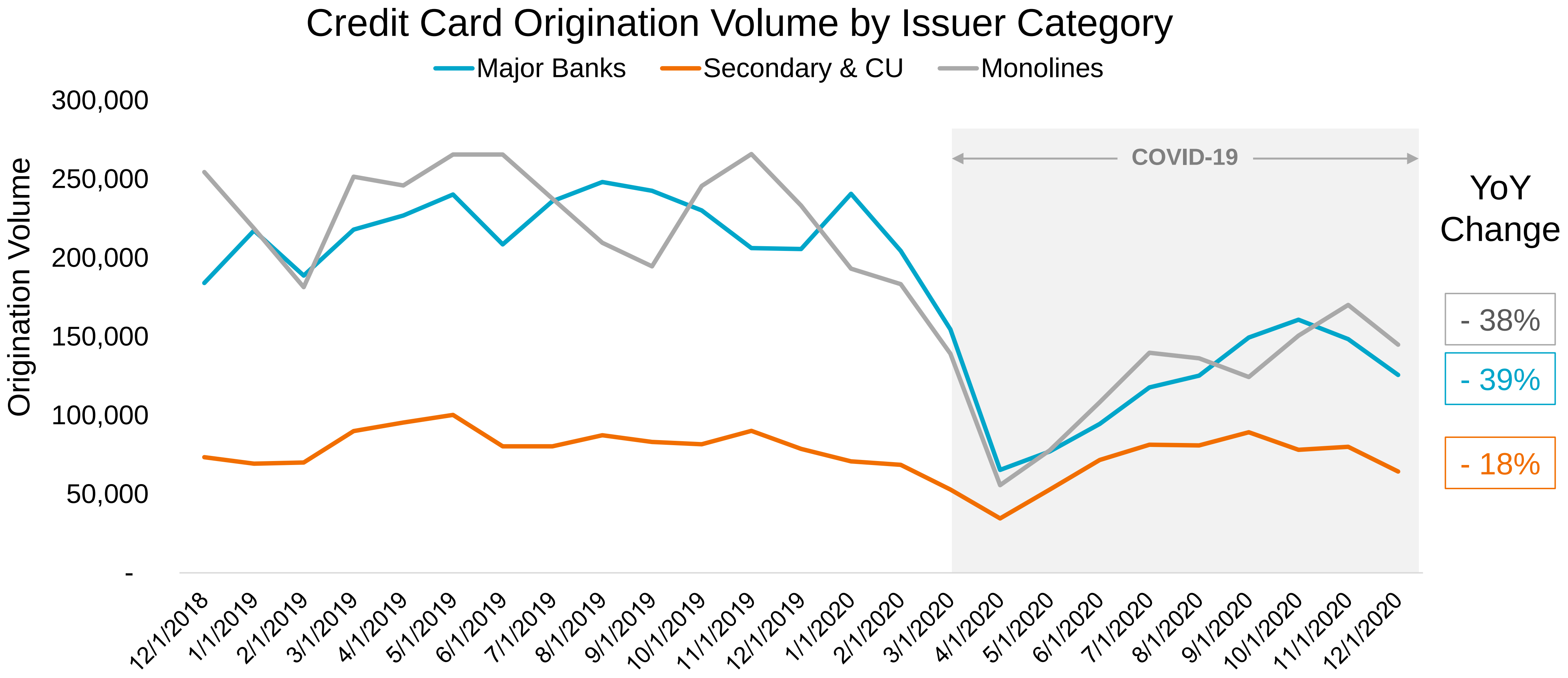
- Outstanding balances decreased as spend rates fell and consumers focused on paying down bankcard debt
- Average payment rates continue to outpace depressed spend rates driving down balances

Delinquency rates improved

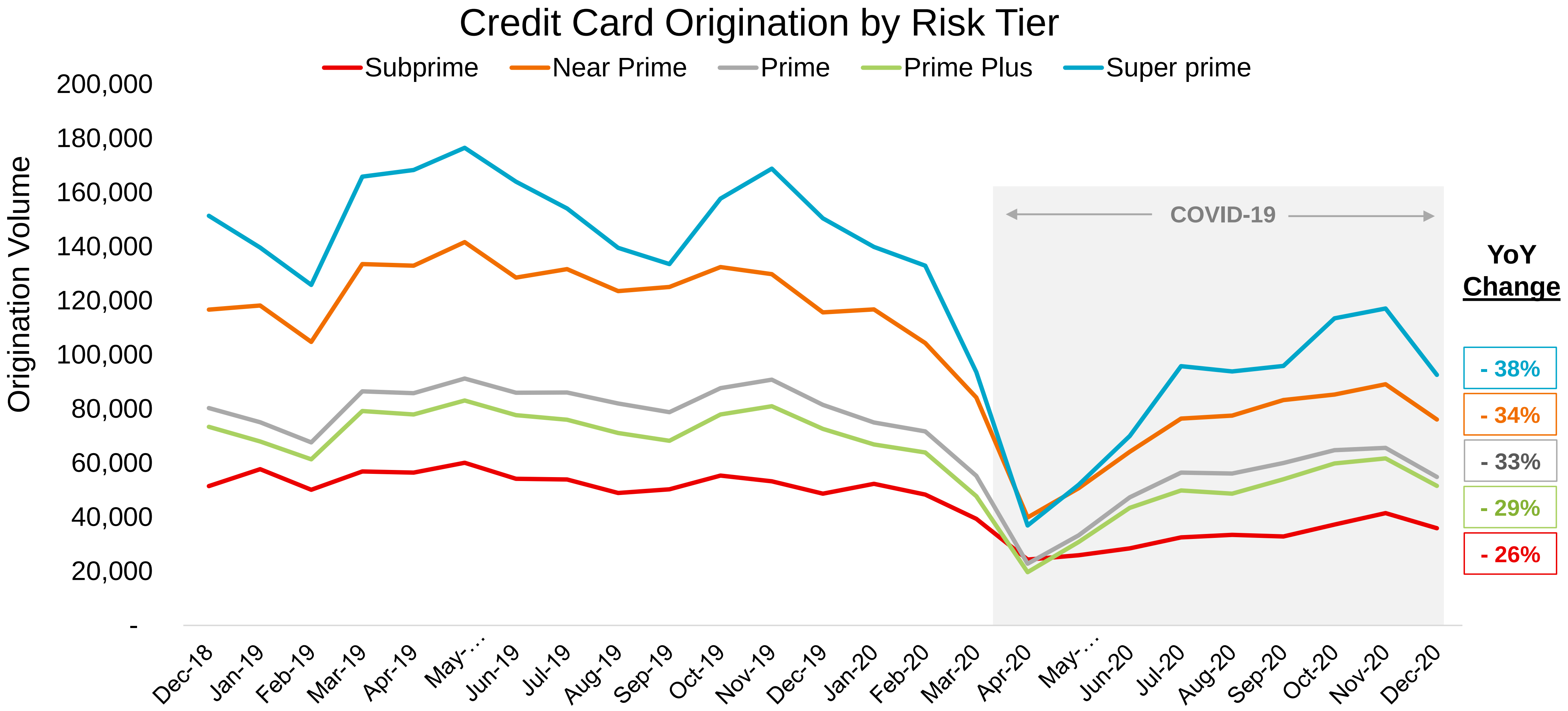
- Account-level 90+ DPD rates are down 19 bps. Balance-level 90+ DPD rates are down 22 bps
- Increased payment activity has continued to drive down delinquency

* Originations are reported one quarter in arrears, so Q4 2020 YoY

Major banks and monolines have yet to recover to pre-COVID levels



Prime and better originations have seen largest decline and elasticity



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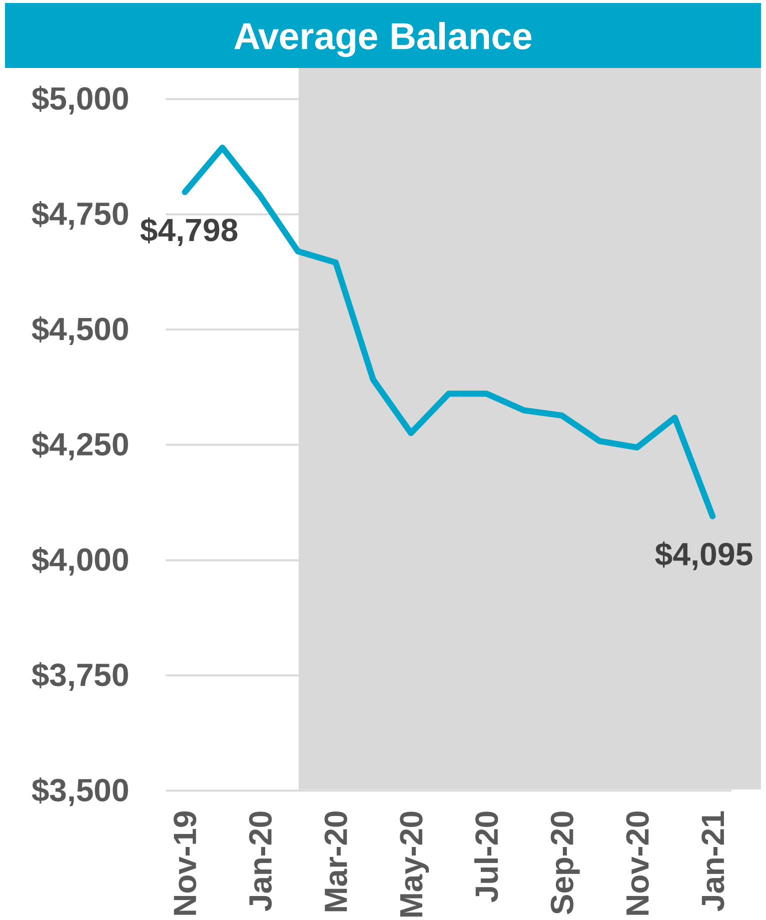
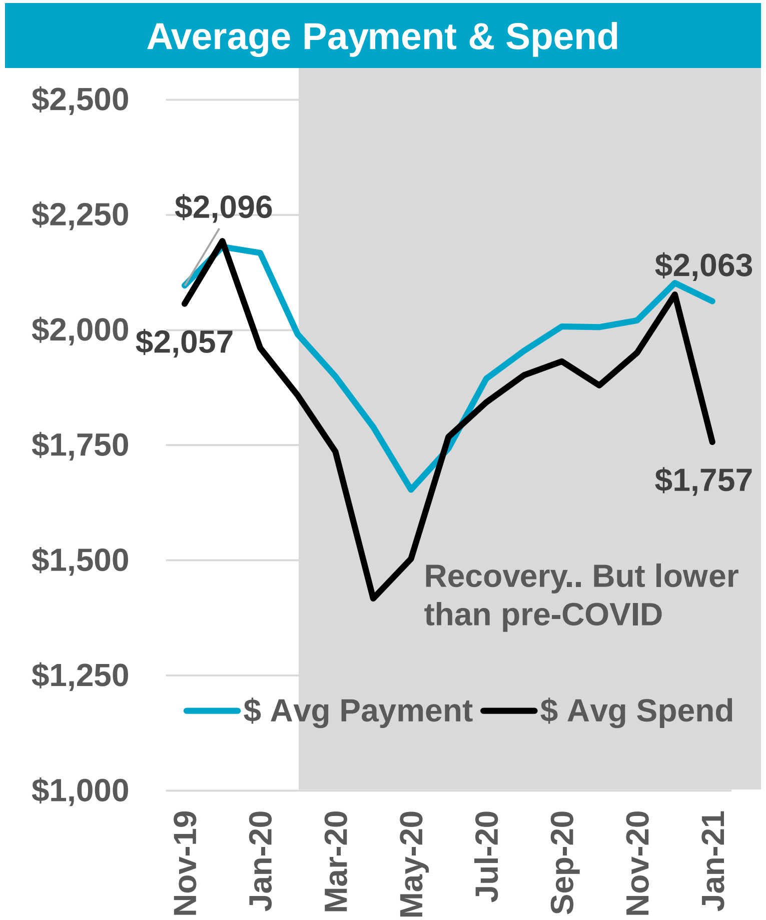
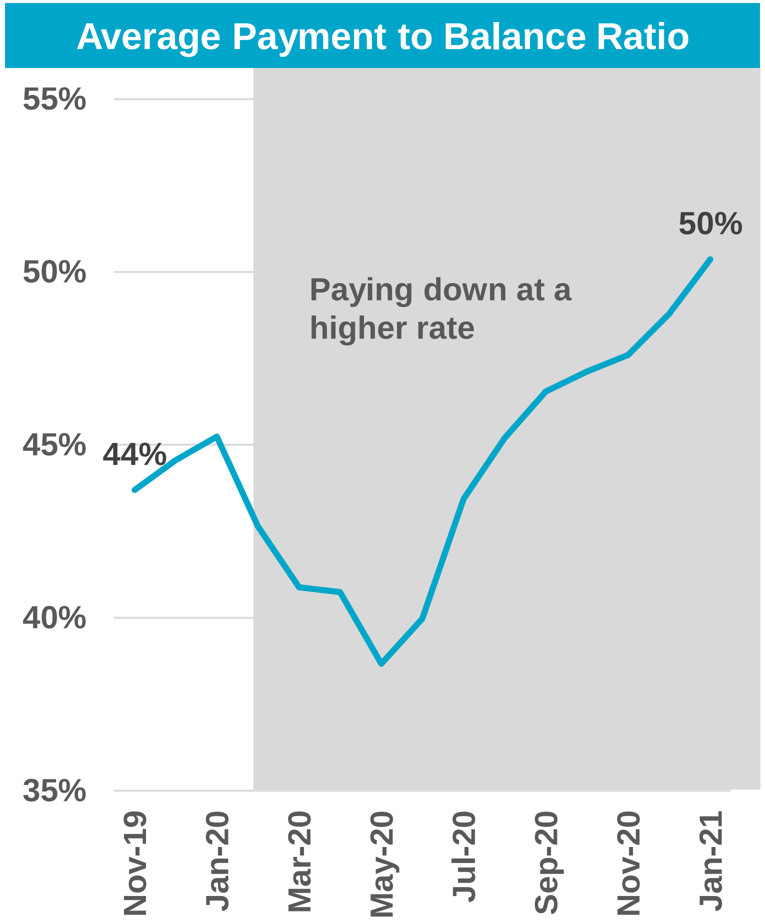
Government stimulus and changes in card spend and borrowing have led to evolving consumer behaviour







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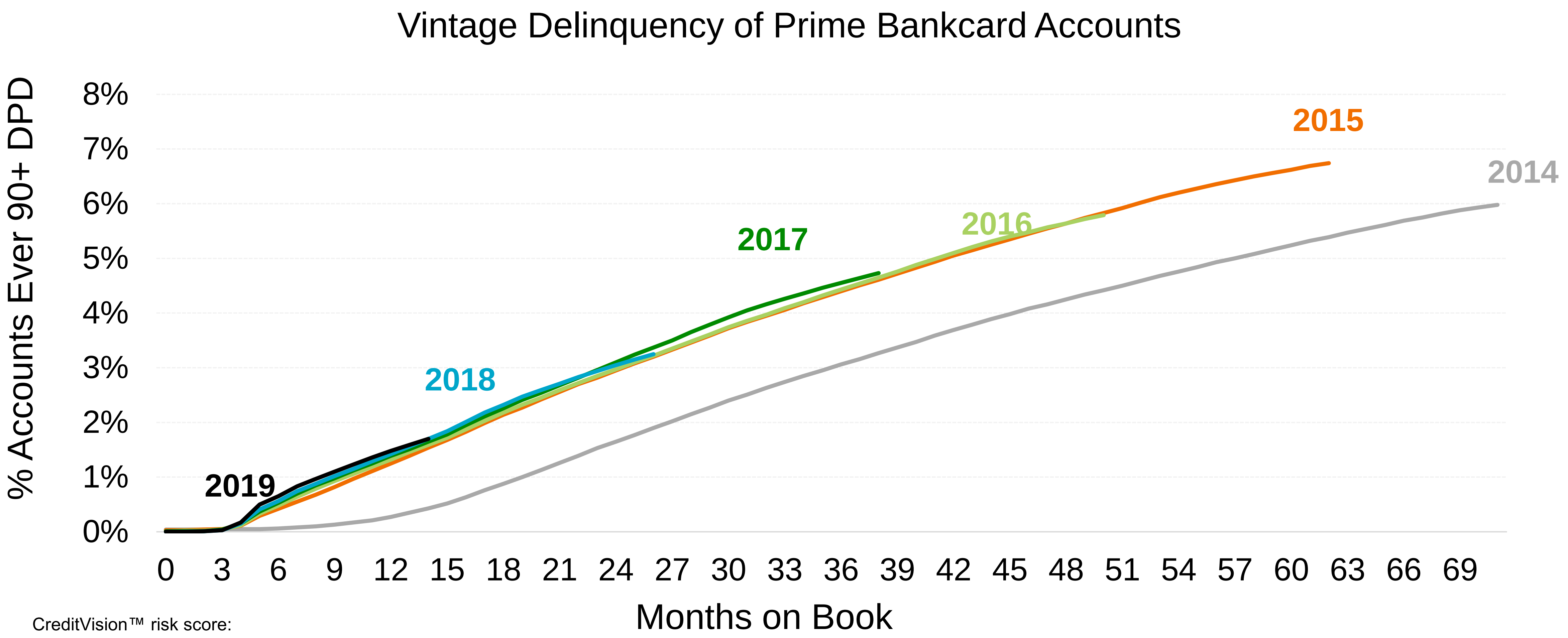
1 month delay in payment/spend calculation
Excludes consumers who have cards but $0 balance/spend/payment respectively
Source: TransUnion Canada consumer database

Recent vintages for prime cardmembers show stable performance. We observed a similar trend for all cardmembers as well.



CreditVision™ risk score:
Prime = 720-759

Source: TransUnion Prama[SM] Vintage Analysis

Despite the pre-pandemic strong growth trends, auto market has slowed down

Key Insight

While the auto market had a strong recovery coming out of the first wave, the growth has stalled due to exhausted pent-up demand, reduced incentives and inventory and production challenges

YoY change for Q1 2021

Originations* dropped 9%

- A slowdown in vehicle sales and lockdown restrictions led to a decline in originations
- Below prime originations, which were growing previously, have stalled as lenders tightened risk appetites

Account balances decreased 3%

- Balance growth was flat overall compared to prior year but was not uniform across all tiers
- Reduction in below Prime lending and higher ticket sales have driven up average balances and have slightly offset lower origination volume

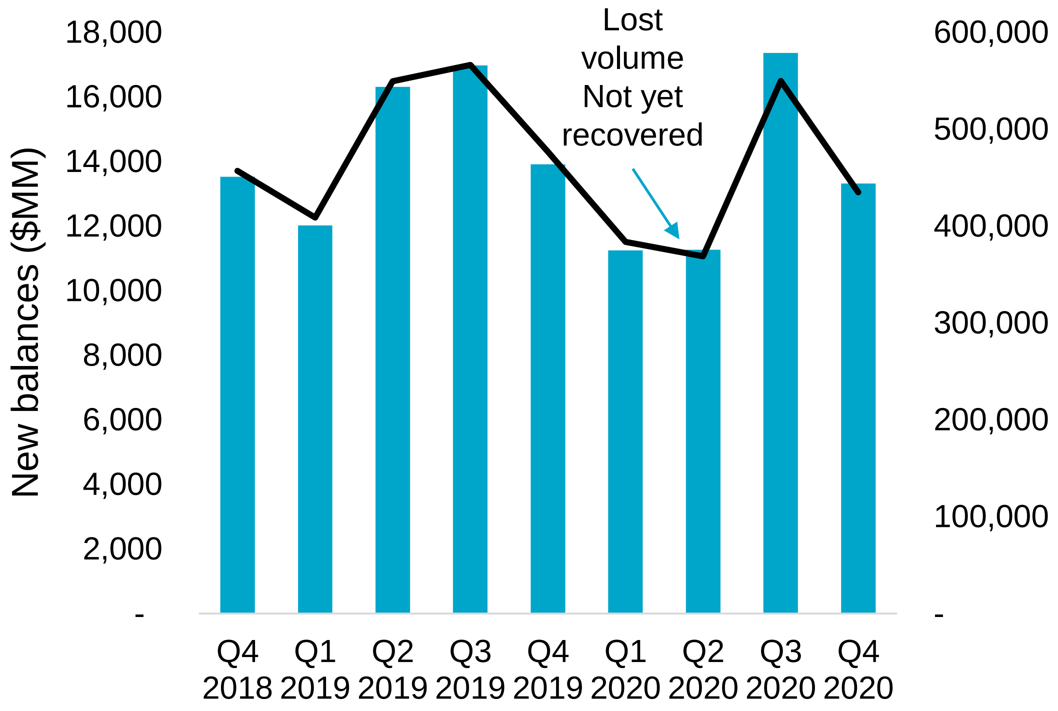
Delinquency rates improved

- Account-level 60+ DPD delinquencies improved by 12 bps
- Recent industry swing away from below Prime lending focus has helped drive positive delinquency rates

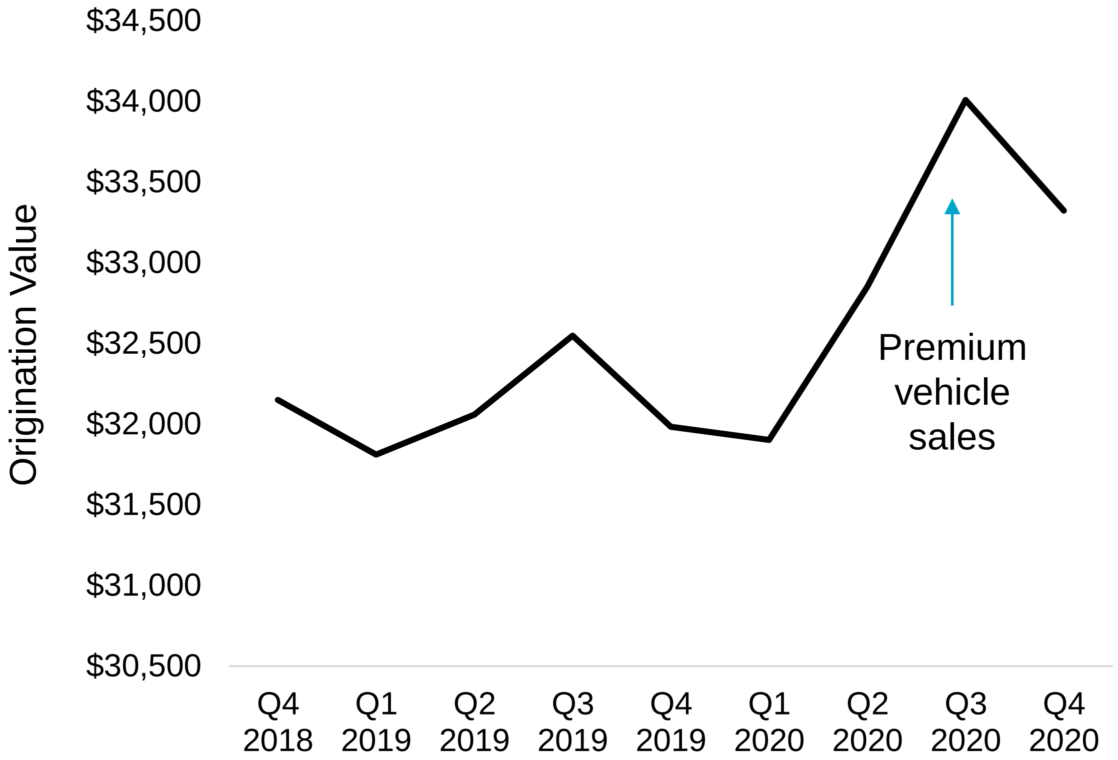
* Originations are reported one quarter in arrears, so Q4 2020 YoY

Originations were down 9% YoY but balance recovery is partially driven by light truck sales pushing up ticket size

Auto Finance Roll-on (New Originations)

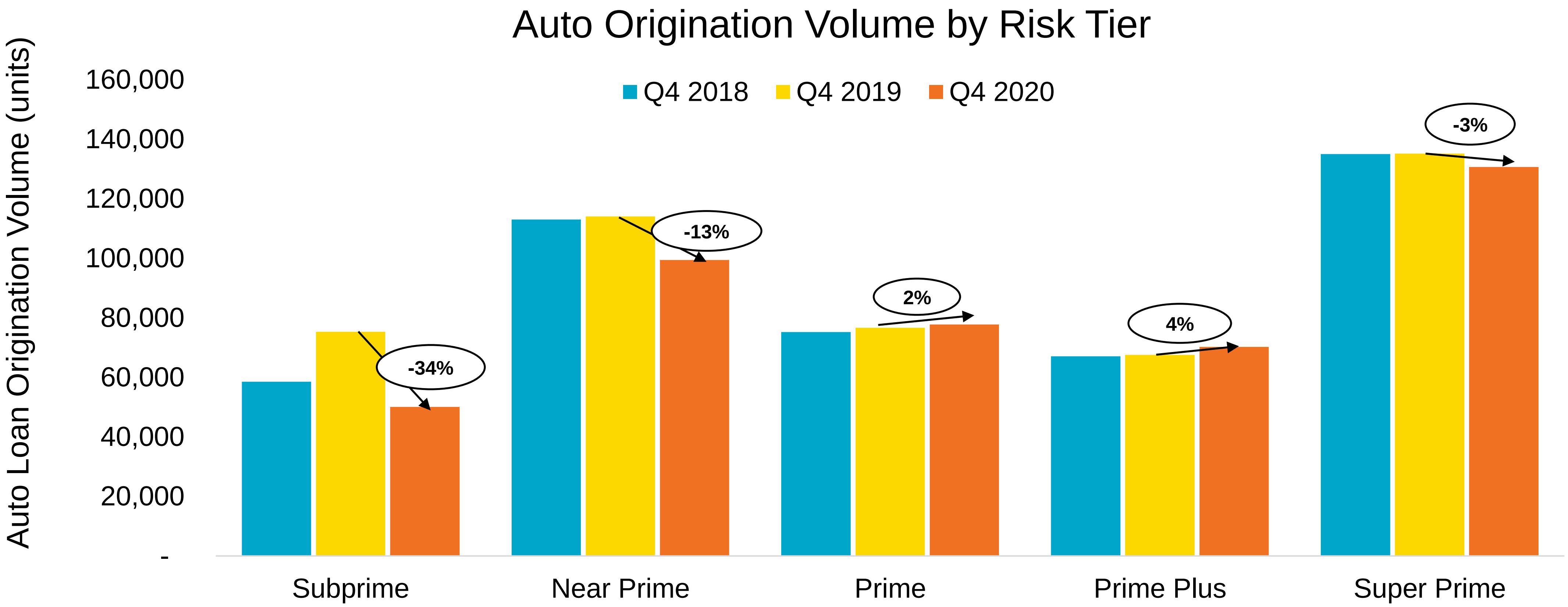


Average amount to finance



Source: TransUnion Canada consumer database

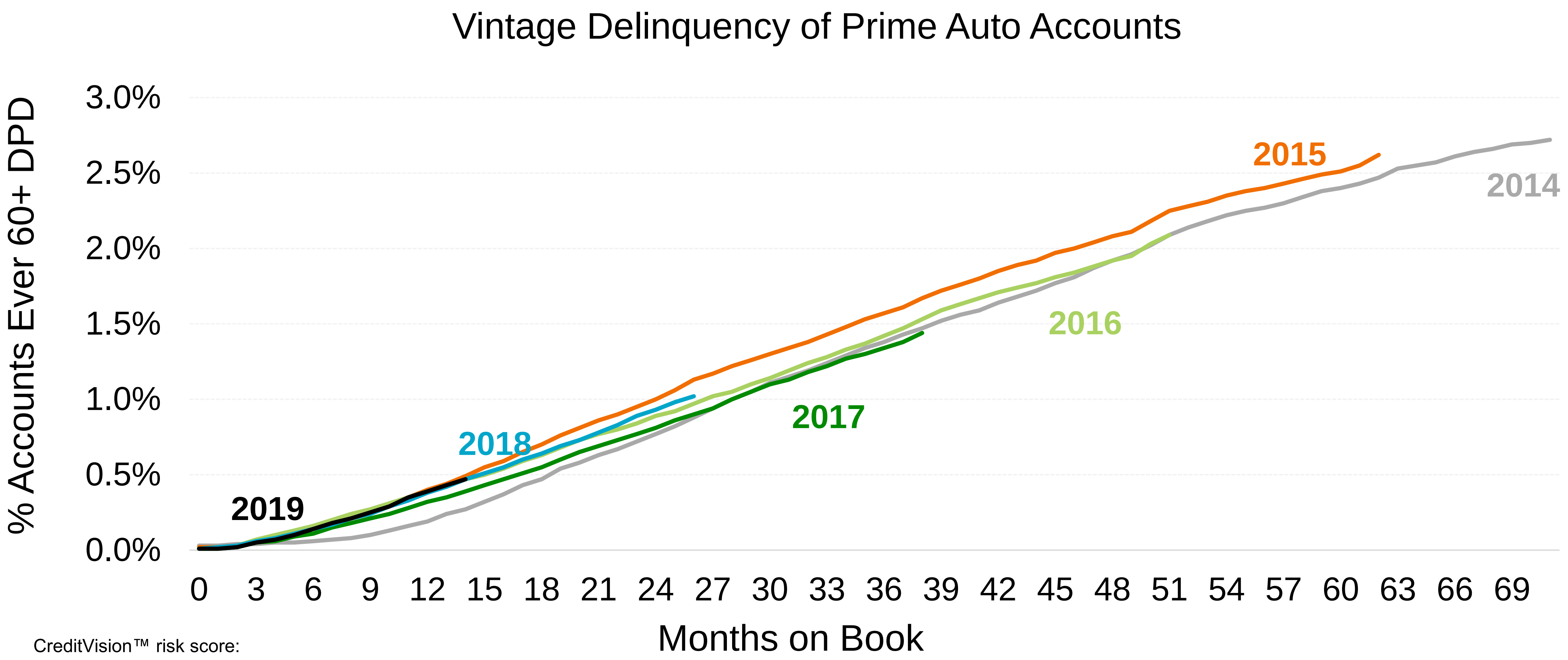
Origination slowdown was observed across below Prime risk tiers as lenders tightened policies through the pandemic



CreditVision™ risk score:
Subprime = 300-639; Near prime = 640-719; Prime = 720-759; Prime plus = 760-799; Super prime = 800+

Source: TransUnion Canada consumer credit database

Recent vintages are performing better. Similar improvements were observed across all risk segments



CreditVision™ risk score:
Prime = 720-759

Source: TransUnion Prama℠ Vintage Analysis

Mortgage is the only lending product experiencing balance growth, fueled by a low interest rate environment

Key Insight

Originations volumes and balance growth surge in Q4 fueled by pent up market demand and low interest rates

YoY change for Q1 2021

Originations* grew by 26%

- Mortgage volumes continued strong growth fueled by surging home sales
- Renewals are driving new mortgage volume
- Qualifying rules continue to drive volumes in above Prime risk tiers

Account balances increased by 8.2%

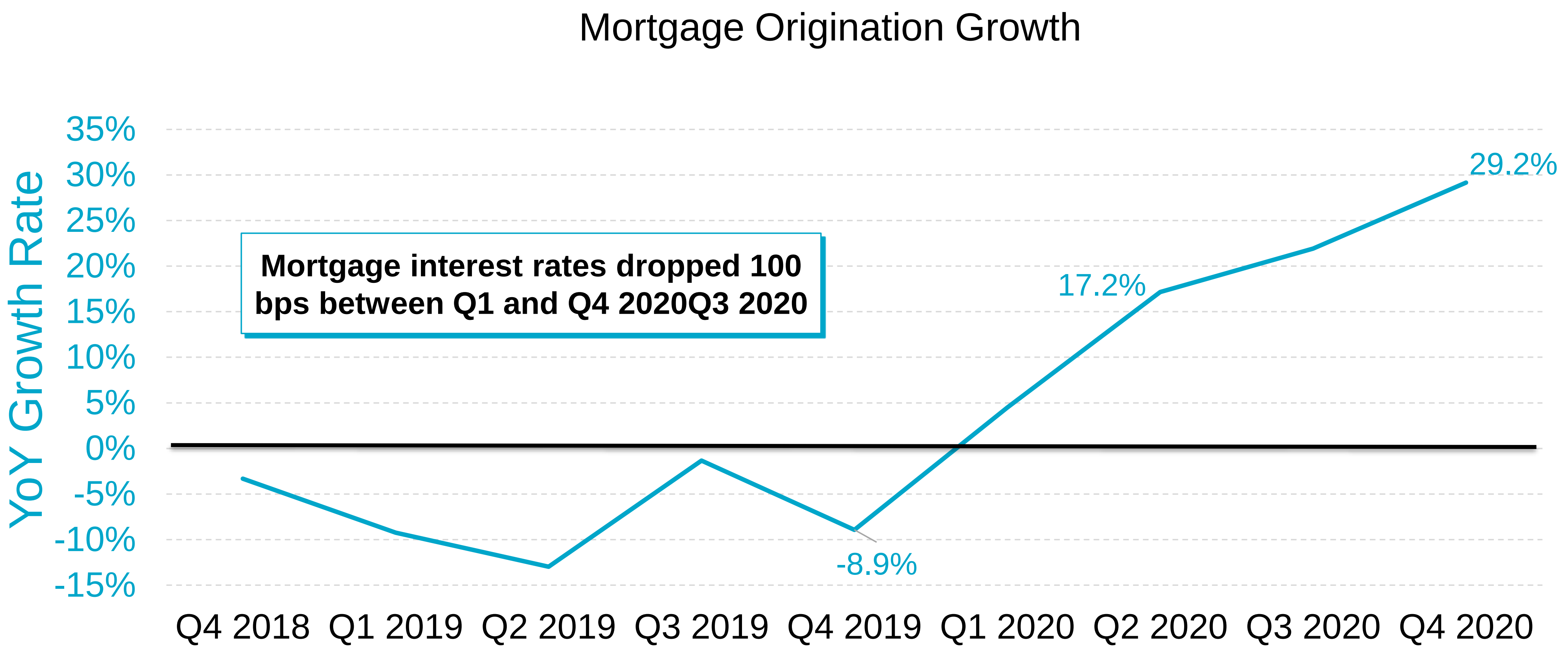
- Balance increases were driven by real estate demand and higher sales values
- Aggregate mortgage balances for subprime and near prime consumers fell

Delinquency rates masked by deferrals

- Decreases in account-level delinquency rates by -6 bps and -4 bps balance level delinquency

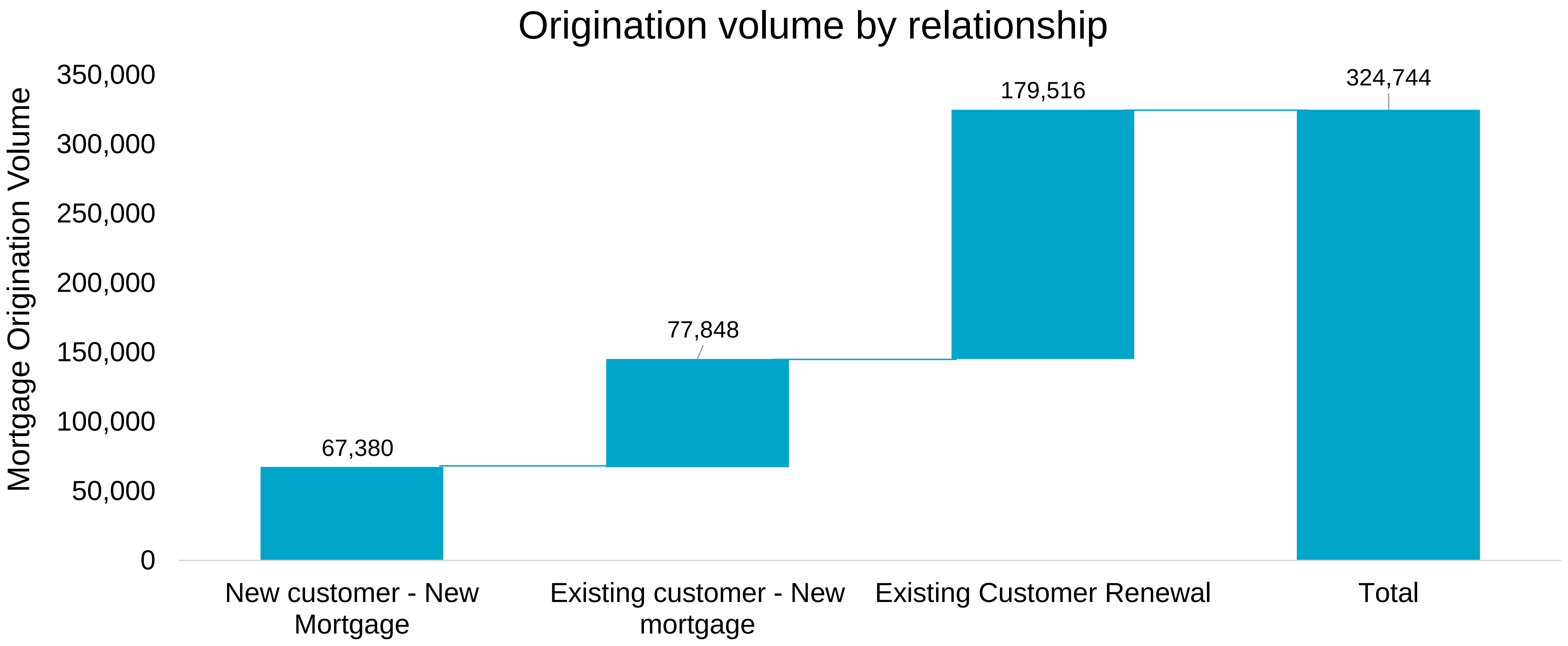
* Originations are reported one quarter in arrears, so Q4 2020 YoY

Mortgage originations soared in the most recent quarter, as a result of lower rates spurring refinance activity



Source: TransUnion Canada consumer credit database

Over half of mortgage originations are driven from existing customer renewals



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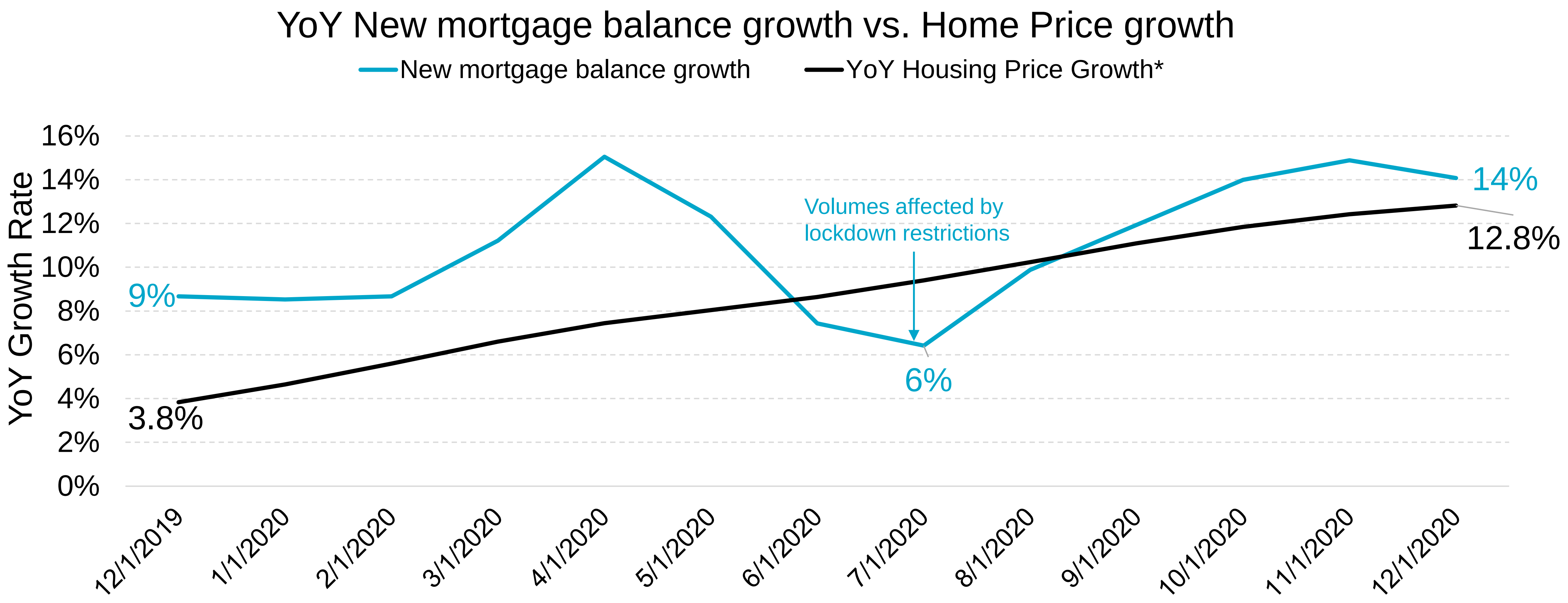
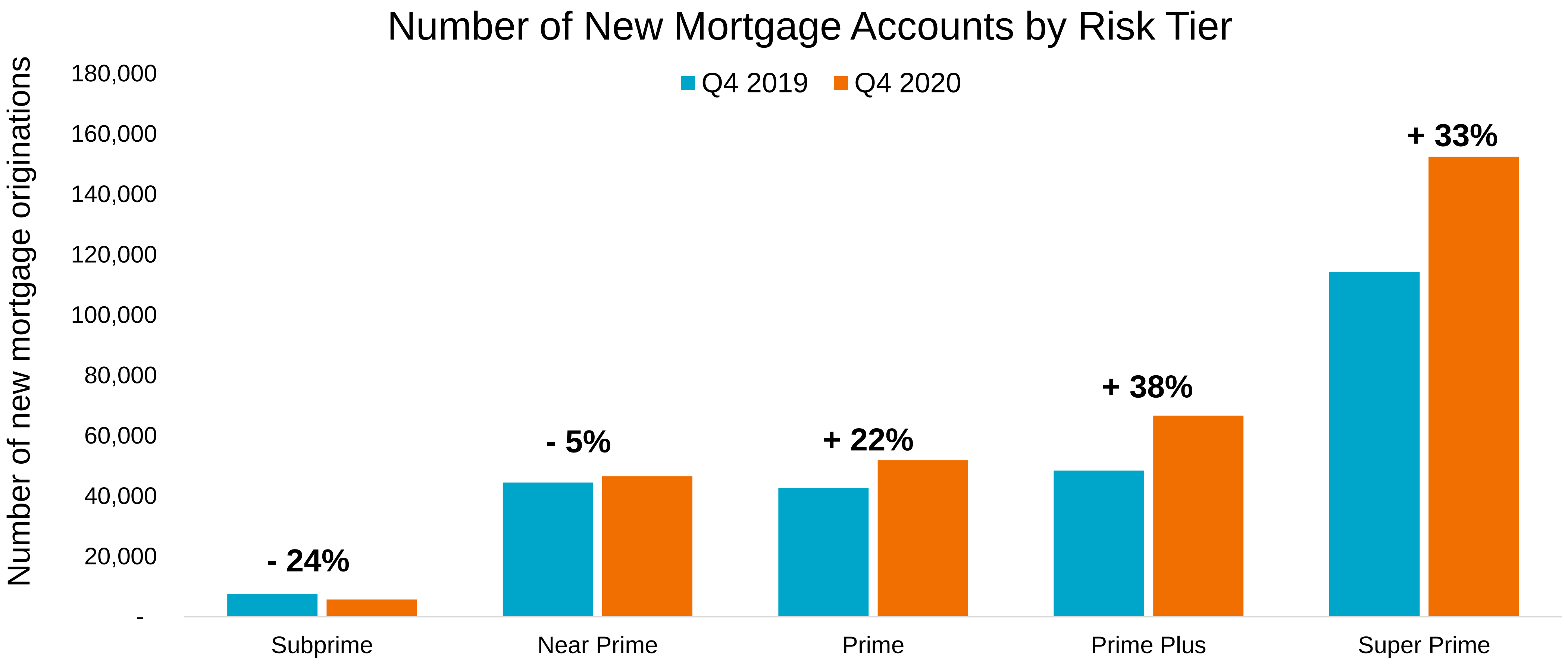


* Based off weighted average of RPS HPI National 3500, which is a more robust measure that includes all 3,500 cities and towns from coast to coast.

Source: TransUnion Canada consumer credit database , RPS House Price Index, March 2021

Existing qualifying rules continue to push origination volume increases across Prime and better risk tiers



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Source: TransUnion Canada consumer credit database

A drop in installment originations was observed across all lender segments—risk appetite may shift drastically in the near future

Key Insight

Secondary banks and new market entrants compete in the installment loan market

Growth may be challenged given the recent pandemic impact causing a shift in risk appetite

YoY change for Q1 2021

Originations* decreased 27% YoY

- All risk tiers slowed down in Q3 2020 led by Subprime at – 42% YoY decline
- New installment average loan balances increased overall by 70% with all risk tiers seeing positive new balance growth

Account balances increased 6% YoY

- Prime and above consumers drove the increase in overall installment loan balances
- Subprime and near prime consumers experienced a decline in overall balances

Delinquency rates continue to fall

- Account-level 60+ DPD rate fell by 24 bps
- Balance-level rate also fell by 11 bps

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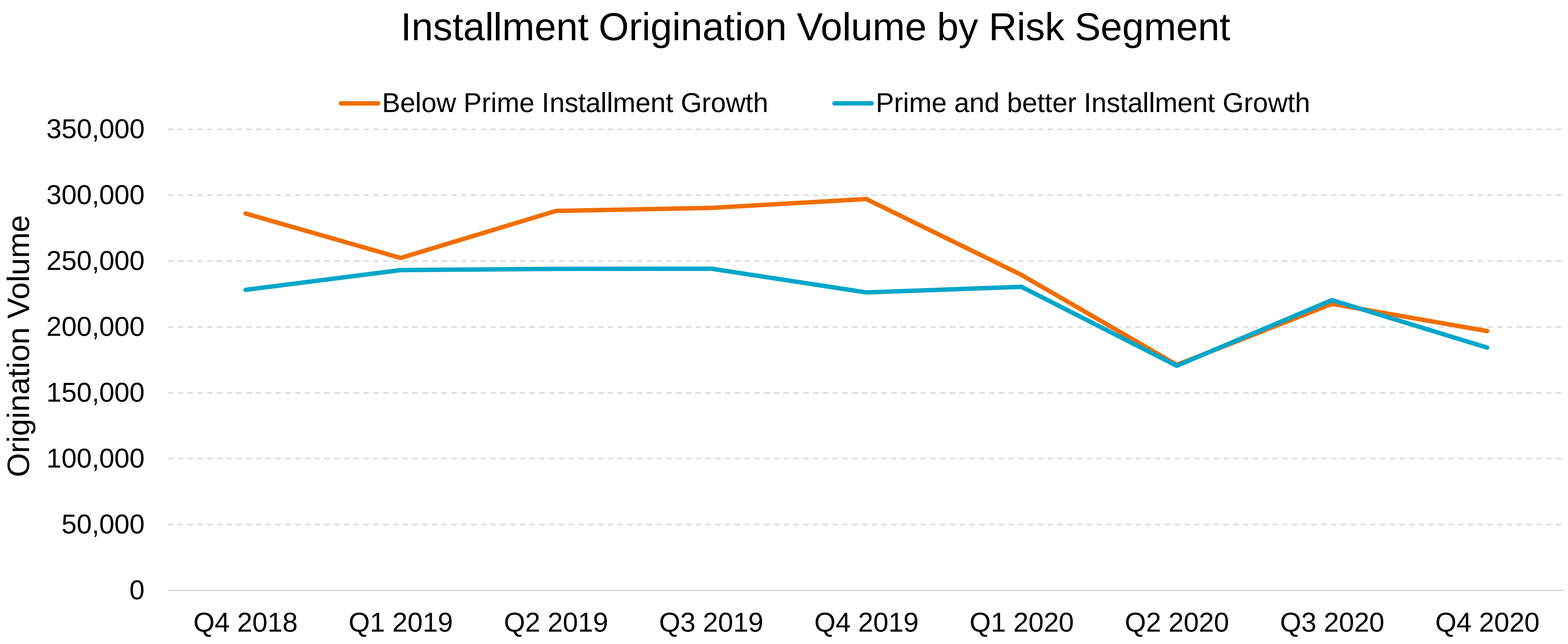
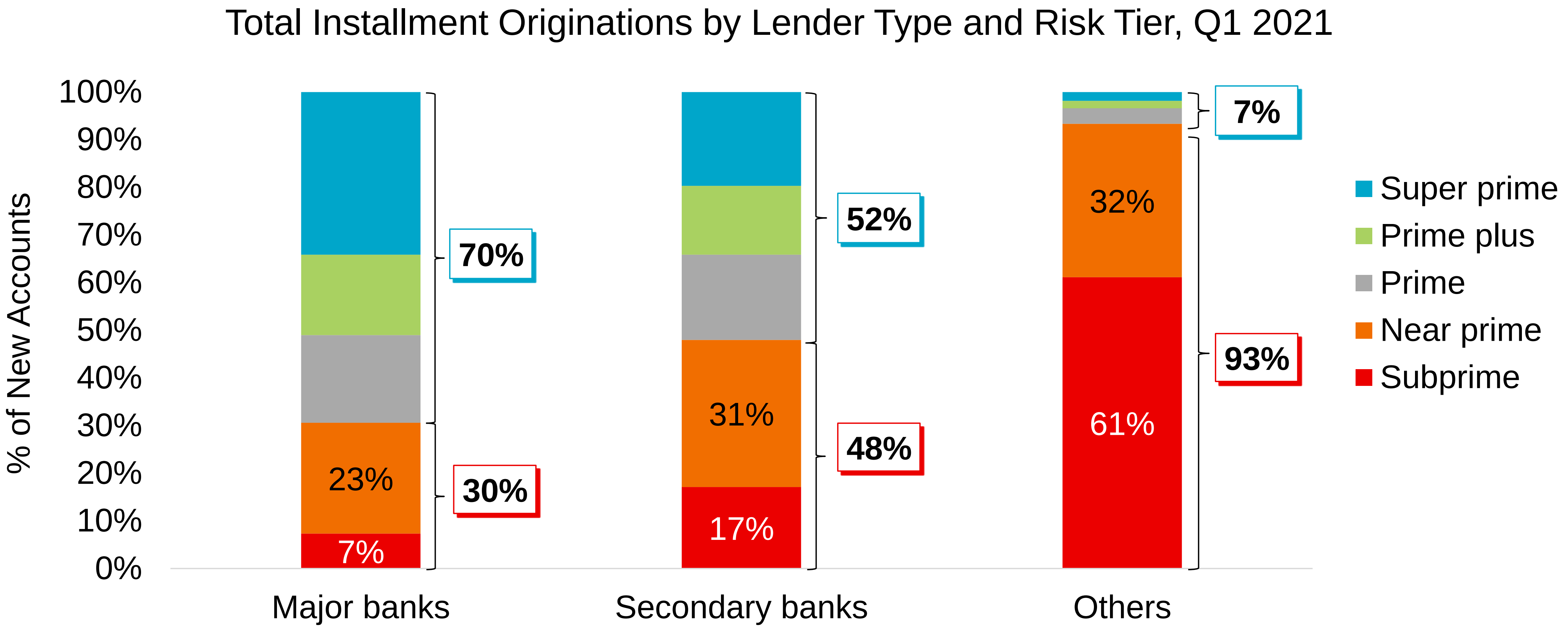
* Originations are reported one quarter in arrears, so Q4 2020 YoY

Installment originations remain below pre-pandemic levels driven primarily by a significant decline in below Prime lending activity



Source: TransUnion Canada consumer credit database

Each type of installment lender plays in a different risk space



CreditVision™ risk score:
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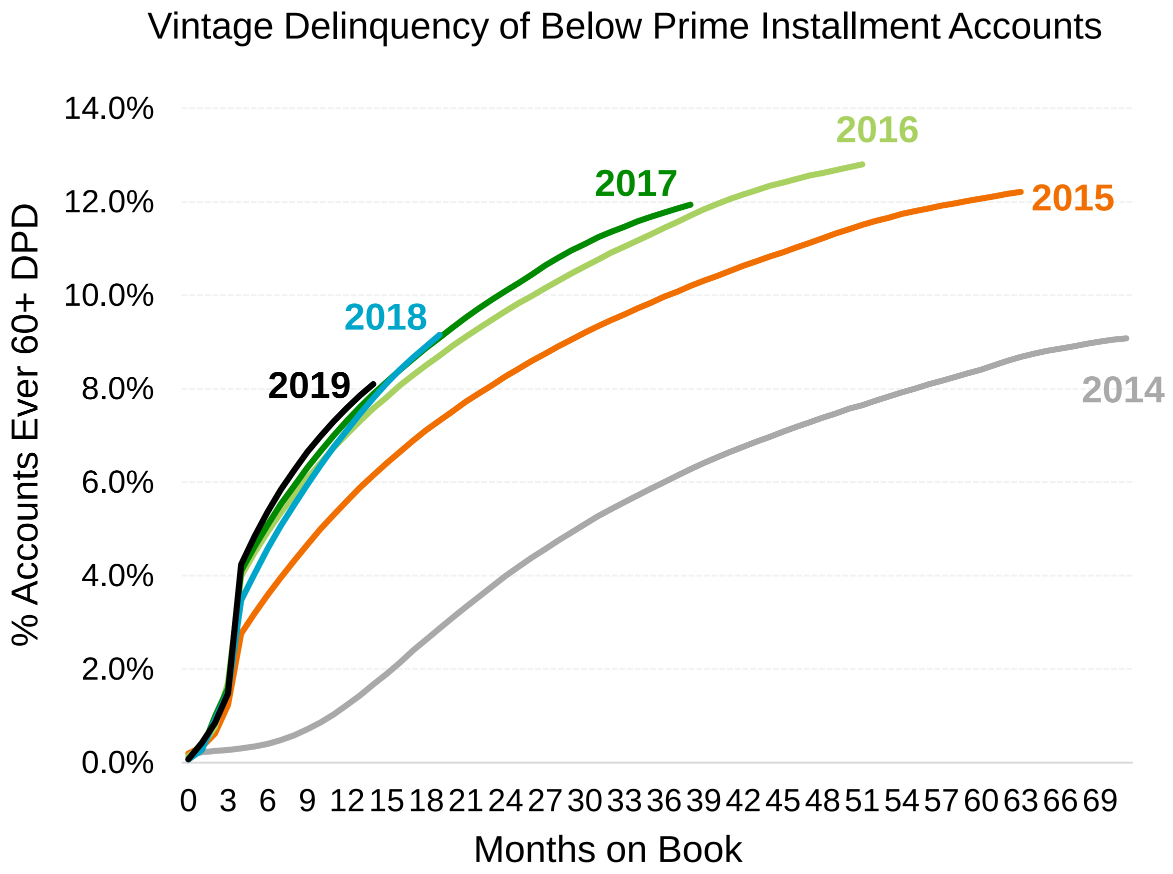
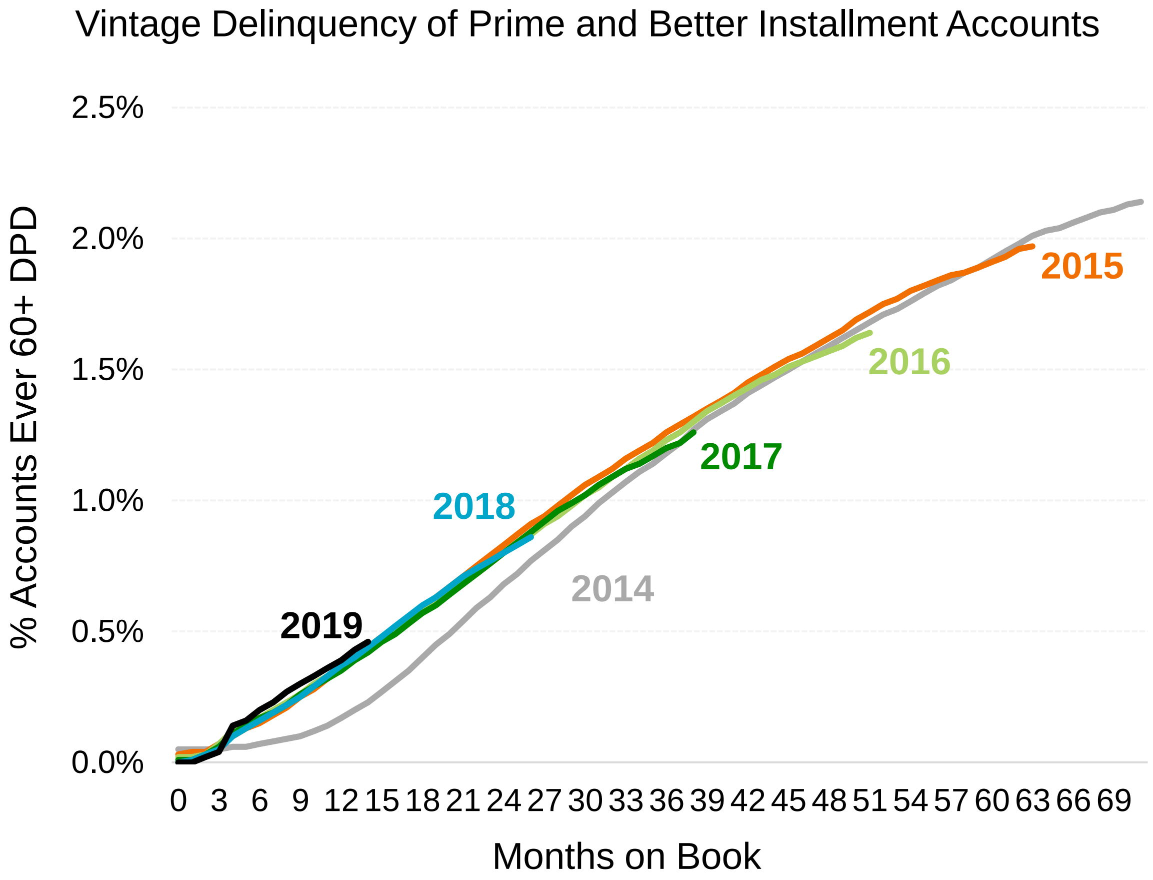
Source: TransUnion Canada consumer credit database

Recent vintages for below Prime segments has shown higher risk as new market entrants continue to accelerate below Prime lending





CreditVision™ risk score:
Prime = 720-759

Source: TransUnion Prama^{SM} Vintage Analysis

Line of credit products performance is worsening and may be further impacted by the pandemic

Key Insight

There is an opportunity for lenders to consider programs to provide consumers liquidity and generate growth amongst resilient consumers

YoY change for Q1 2021

Originations* dropped 18% YoY

- Unsecured origination volume dropped as the crisis progressed
- Despite lower originations, lenders increased newly originated balances by 23% through higher issued limits

Account balances decreased 4.5% YoY

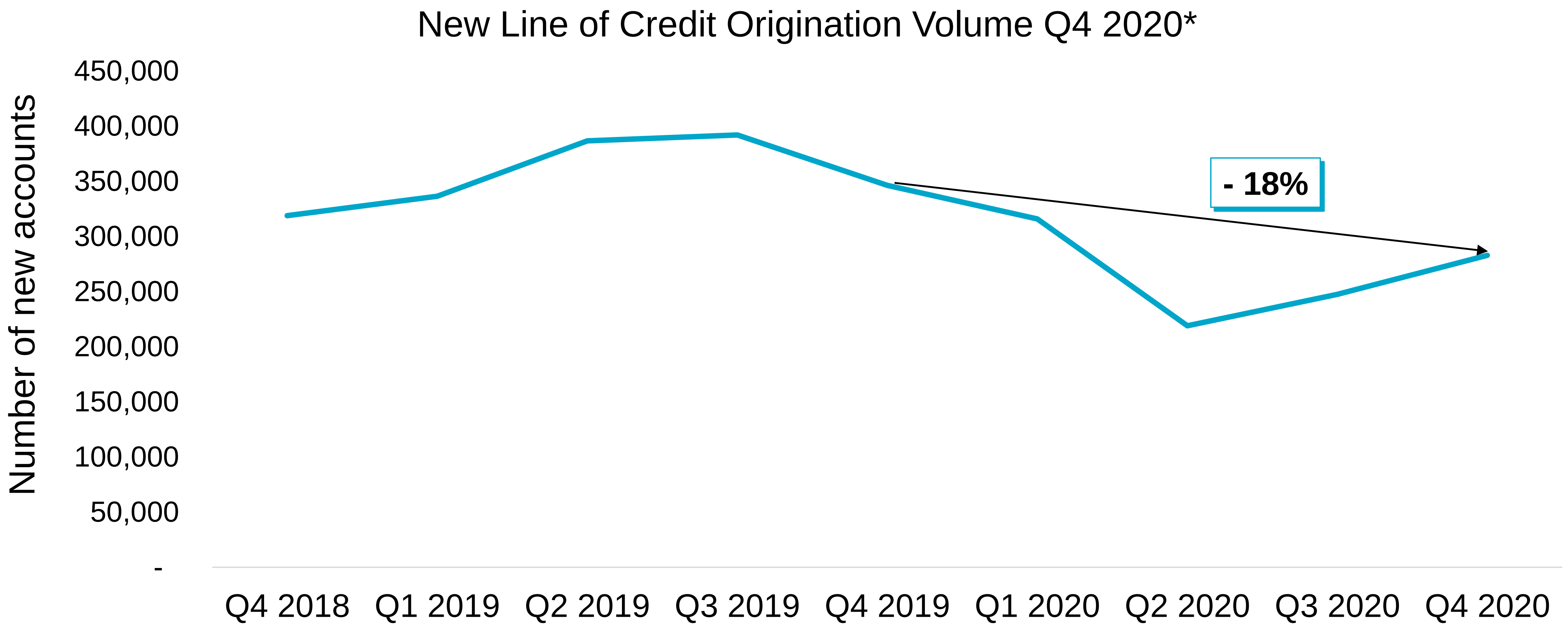
- The largest balance drops were observed in subprime and near prime, at 34% and 25%, respectively
- Prime plus and super prime balances were flat to prior year

Delinquency rates were muted by deferrals

- Account-level 60+ DPD delinquency rates are down 7 bps
- Balance-level delinquencies are down 9 bps
- LOC delinquency rates remain at very low levels overall

* Originations are reported one quarter in arrears, so Q4 2020 YoY

Line of credit origination volumes remain low from previous year



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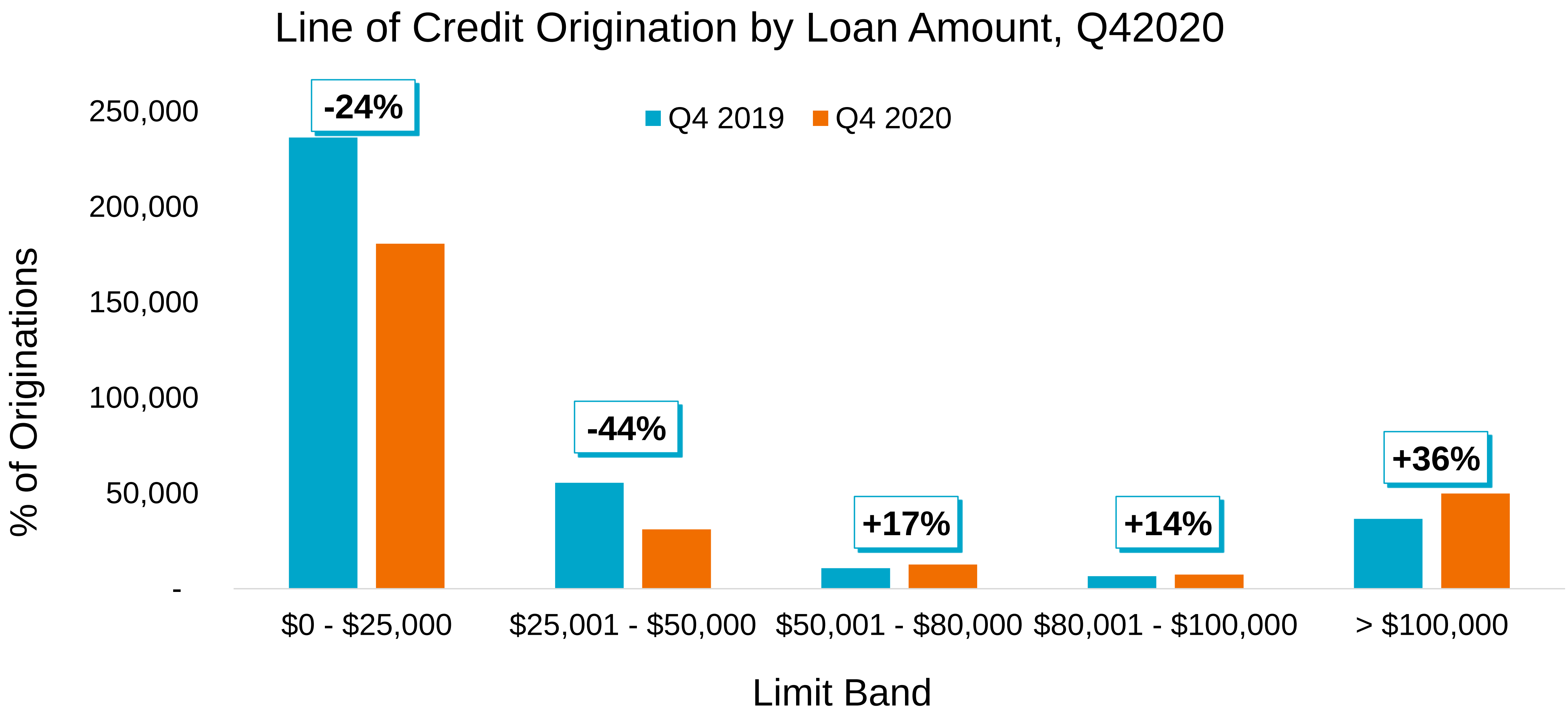
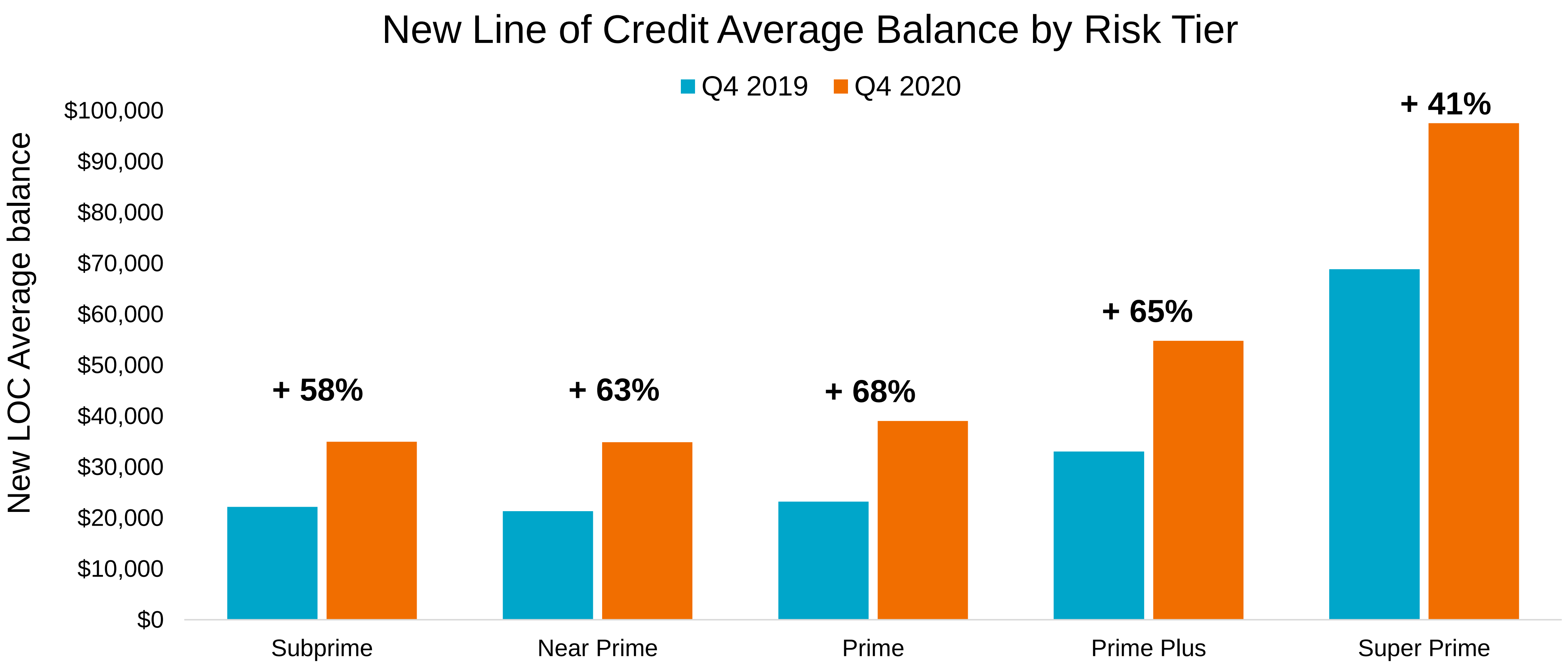
Unsecured lines with smaller limits have seen the largest decrease in origination volume



Source: TransUnion Canada consumer credit database

Utilization has increased with line of credit balance growth across all risk tiers



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Source: TransUnion Canada consumer credit database

To summarize TransUnion's perspective on the credit marketplace:

Products	Key Insights
Card	• New card origination remains low driven by lower demand and balances continue to fall driven by slower spend • We expect slower origination volumes even after restrictions ease fueled by continued risk management by issuers and lower demand amongst consumers but expect spend to increase as COVID restrictions are lifted
Auto	• Pent up demand has been satisfied as originations slow and supply/demand issues hamper production and sales • Balances continue to climb as Canadians move to luxury vehicles and light trucks and away from passenger cars
Mortgage	• Interest rates have fueled growth in consumer demand and originations • Home price surges have not yet impacted demand for real estate or bigger mortgages
Installment Loans	• Market share varies significantly by risk segment due to the diverse risk focus of lenders serving this market • Alternative lenders continue to grow share in the lower limit and higher risk space

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These insights lead to key implications for lenders to consider

Themes	Key Implications for Lenders to Consider
Monitoring to Manage Portfolio Health	• Business models, consumer behaviours and risk management will **all change significantly**, requiring rapid deployment of new data, risk models and process changes. • Lenders and consumers need to **work together** on providing the most relevant treatment strategies to build resiliency
Prioritizing to Recover	• Focus on **prioritizing collections** for consumers who are likely to repay • Support your customers to understand their changing financial situation • **Enhance fraud and ID solutions** to protect digital transaction and interactions
Emerging for Growth	• As revenue growth and customer relationships come under pressure, lenders should **double down on digital marketing** not only to acquire new customers, but also to build and strengthen connections with current ones. • Strategize by monitoring and benchmarking trends to identify areas of growth and risk

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Thank you!