FSRA
Financial Services Regulatory Authority of Ontario
Ontario
www.fsrao.ca

Sector Outlook Report 3Q-2022

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, 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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Ontario

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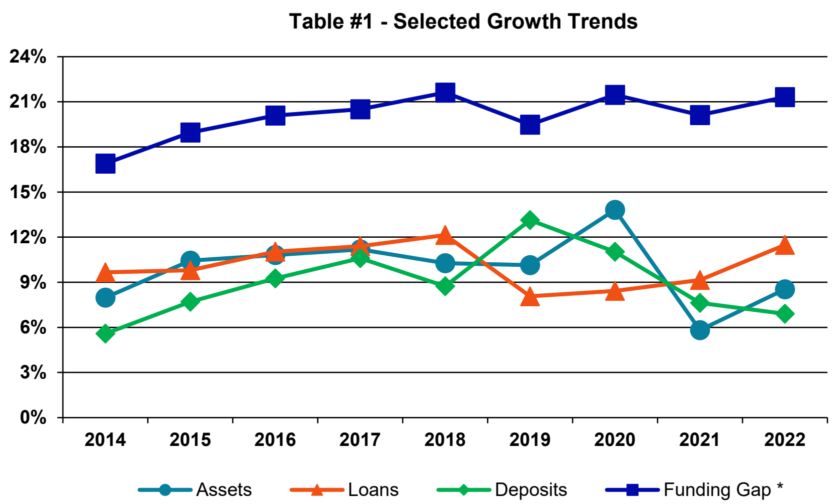
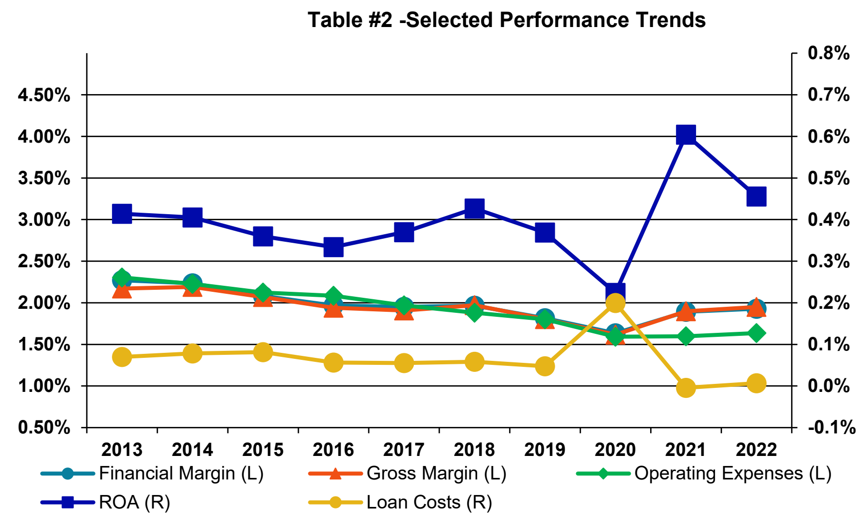
Financial Highlights

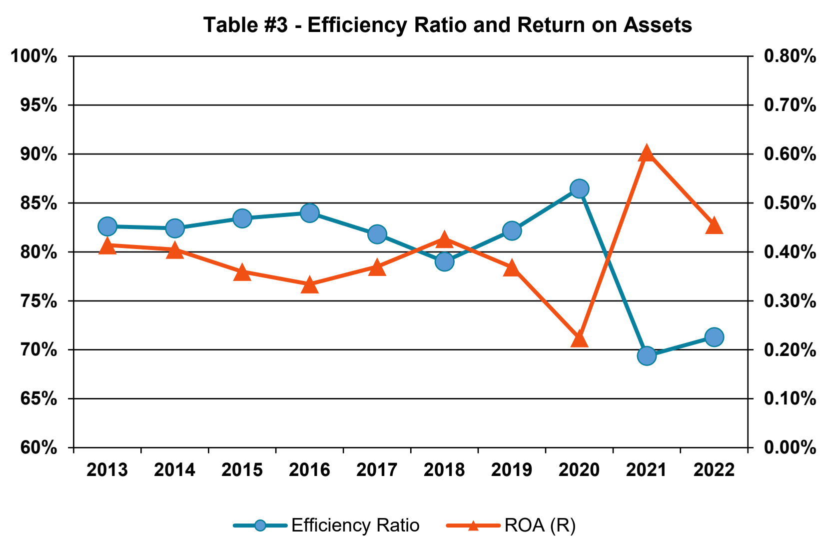
	Ontario Sector		
	3Q-2022*	2Q-2022	3Q-2021
Income Statement (% average assets)			
Net Interest Income	1.93[3.]	2.02	1.90
Loan Costs	0.01[3.]	-0.01	-0.02
Other Income	0.39[2.]	0.39	0.43
Non-Interest Expense	1.64[3.]	1.63	1.55
Taxes	0.22[3.]	0.15	0.14
Net Income	0.46[3.]	0.65	0.66
Balance Sheet ($ billions; as at quarter end)			
Assets	89.3[1.]	87.4	81.3
Loans	77.7[1.]	75.6	69.0
Deposits	70.3[1.]	69.0	64.8
Members' Equity & Capital	6.39[1.]	6.21	5.68
Capital Ratios (%)			
Leverage	7.09[1.]	6.86	7.03
Risk Weighted	13.68[1.]	13.17	13.80
Key Measures and Ratios (% except as noted)			
Return on Regulatory Capital	6.43[3.]	9.24	9.53
Liquidity Ratio	11.1[3.]	11.7	14.9
Efficiency Ratio (before dividends/rebates)	68.7[3.]	65.9	64.4
Efficiency Ratio	70.7[3.]	67.3	66.1
Mortgage Loan Delinquency>30 days	0.23[2.]	0.23	0.28
Commercial Loan Delinquency>30 days	0.46[1.]	0.57	0.76
Total Loan Delinquency>30 days	0.32[1.]	0.33	0.41
Total Loan Delinquency>90 days	0.15[2.]	0.15	0.25
Asset Growth (from last quarter)	2.16[3.]	2.94	2.03
Loan Growth (from last quarter)	2.83[3.]	3.91	2.79
Deposit Growth (from last quarter)	1.78[3.]	2.75	2.17
Credit Unions (number)	61[1.]	60	61
Membership (thousands)	1,738[2.]	1,738	1,695
Average Assets ($ millions, per credit union)	1,487[1.]	1,472	1,323

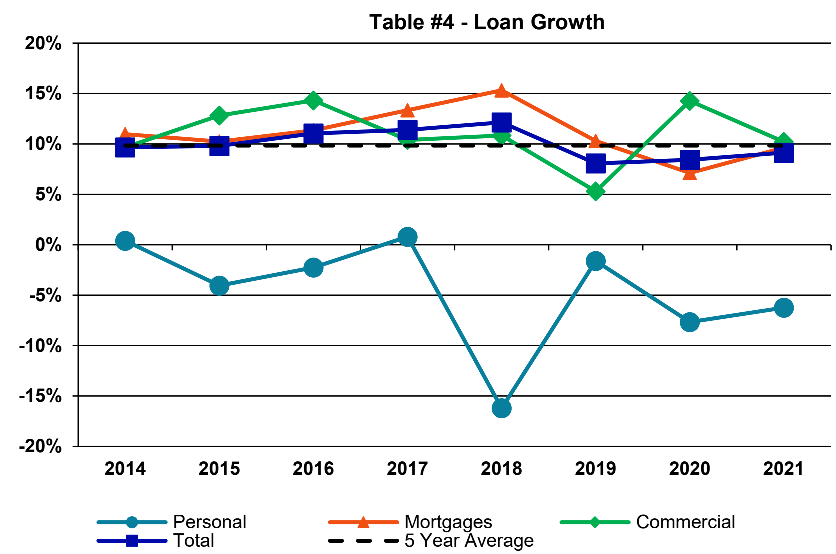
* Trends are current quarter to last quarter — Better[1.] | Neutral[2.] | Worse[3.]

Sector Key Financial Trends

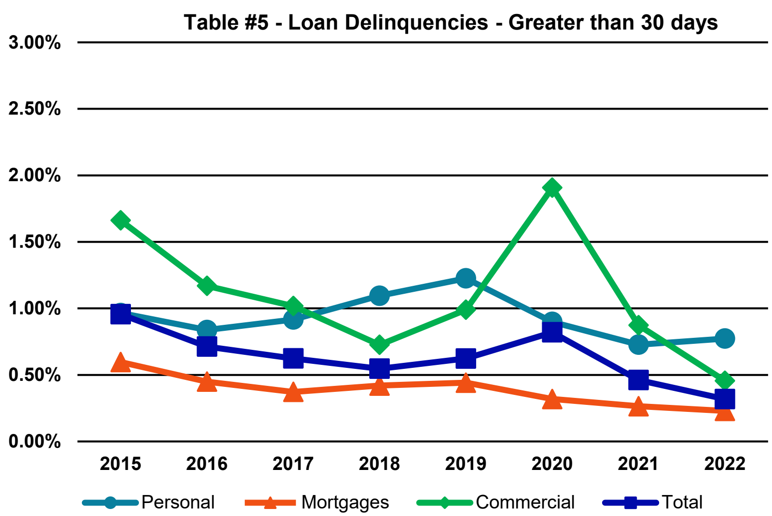


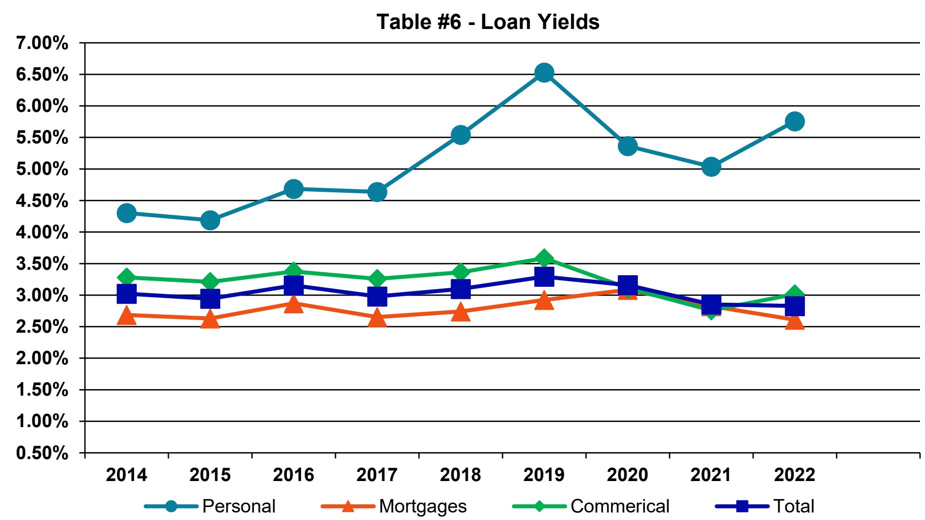


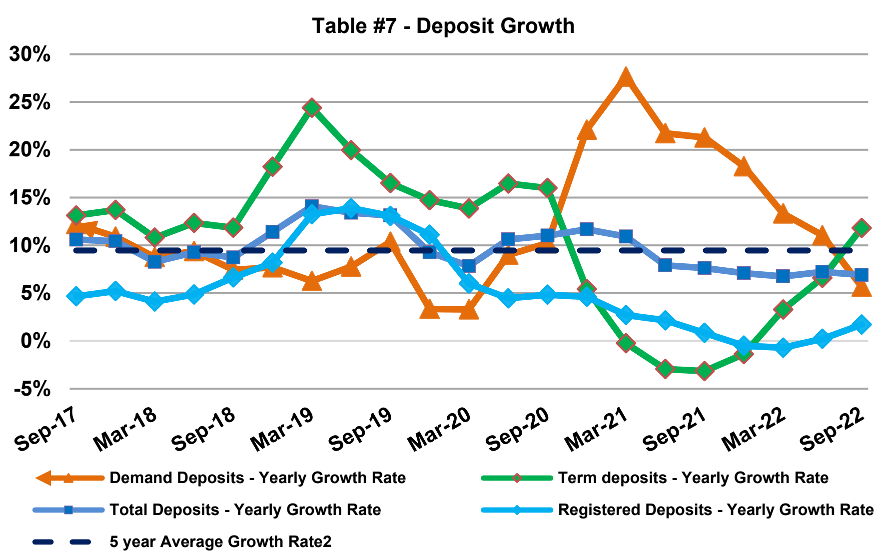


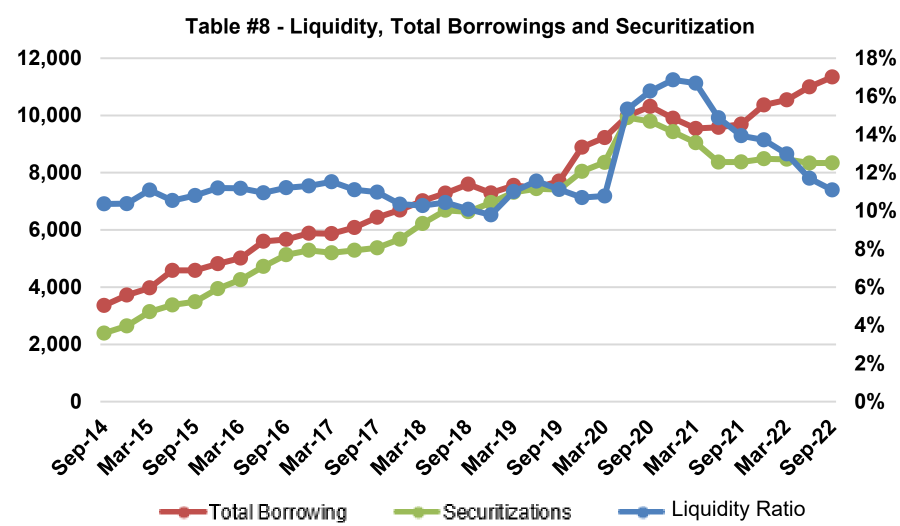


Sector Key Financial Trends (Continued)









FSRA Observations 3Q-2022

- There were 61 institutions in 3Q-2022, unchanged from the year earlier and increased by one from last quarter because Lighthouse Credit Union is now included.
- Profitability in 3Q-2022 was 46 bps, 20 bps below last year and 19 bps lower than last quarter. Increases in loan interest and investment income were more than offset by higher interest, non-interest and tax expenses. Credit quality remains stable but is likely to deteriorate as inflation persists, housing markets and mortgage affordability are challenged and interest rates remain elevated or increase.
- Over 30-day delinquency on residential mortgages (which at $50.5 billion represent 56.6% of sector assets) was 23 bps, down 5 bps year over year and unchanged from last quarter. Delinquency on commercial loans (which at $22.5 billion represent 25.2% of sector assets) was 46 bps, down 30 bps year over year and 11 bps from last quarter. Total loan delinquency was 32 bps, down 9 bps year over year and down 1 bp from last quarter.
- At 3Q-2022 end, sector assets totaled $89.3 billion, reflecting a year over year increase of $8.0 billion (up 9.8%). Residential mortgage loans grew $7.1 billion (up 16.4%, similar to historic growth rates) reflecting market strength and higher sales prices earlier in the 12 month period, commercial loans grew $1.5 billion (up 7.0%) and cash/investments fell $1.0 billion (down 8.6%) as funds were invested in higher yielding assets.
- Liquidity in 3Q-2022 remained strong at 11.1% although 380 bps below last year which was high because there was softness in core lines of business.
- Year over year growth in retained earnings (7.6%) did not keep pace with growth in total assets (9.8%). Investment shares (up $519 million or 23.9% year over year) represent a significant and growing source of funding ($2.7 billion or 42.1% of capital in 3Q-2022, up from 38.3% in 3Q-2021).

Economic Overview

Bank of Canada

On October 26th, 2022, Bank of Canada increased its target for the overnight rate to 3¾%, with the Bank Rate at 4% and the deposit rate at 3¾%. The Bank said it is also continuing its policy of quantitative tightening. In its release, the Bank made the following statements.

"Inflation around the world remains high and broadly based. This reflects the strength of the global recovery from the pandemic, a series of global supply disruptions, and elevated commodity prices, particularly for energy, which have been pushed up by Russia's attack on Ukraine. The strength of the US dollar is adding to inflationary pressures in many countries. Tighter monetary policies aimed at controlling inflation are weighing on economic activity around the world. As economies slow and supply disruptions ease, global inflation is expected to come down."

"In the United States, labour markets remain very tight even as restrictive financial conditions are slowing economic activity. The Bank projects no growth in the US economy through most of next year. In the euro area, the economy is forecast to contract in the quarters ahead, largely due to acute energy shortages. China's economy appears to have picked up after the recent round of pandemic lockdowns, although ongoing challenges related to its property market will continue to weigh on growth. Overall, the Bank projects that global growth will slow from 3% in 2022 to about 1½% in 2023, and then pick back up to roughly 2½% in 2024. This is a slower pace of growth than was projected in the Bank's July *Monetary Policy Report* (MPR)."

"In Canada, the economy continues to operate in excess demand and labour markets remain tight. The demand for goods and services is still running ahead of the economy's ability to supply them, putting upward pressure on domestic inflation. Businesses continue to report widespread labour shortages and, with the full reopening of the economy, strong demand has led to a sharp rise in the price of services."

"The effects of recent policy rate increases by the Bank are becoming evident in interest-sensitive areas of the economy: housing activity has retreated sharply, and spending by households and businesses is softening. Also, the slowdown in international demand is beginning to weigh on exports. Economic growth is expected to stall through the end of this year and the first half of next year as the effects of higher interest rates spread through the economy. The Bank projects GDP growth will slow from 3¼% this year to just under 1% next year and 2% in 2024."

"In the last three months, CPI inflation has declined from 8.1% to 6.9%, primarily due to a fall in gasoline prices. However, price pressures remain broadly based, with two-thirds of CPI components increasing more than 5% over the past year. The Bank's preferred measures of core inflation are not yet showing meaningful evidence that underlying price pressures are easing. Near-term inflation expectations remain high, increasing the risk that elevated inflation becomes entrenched."

“The Bank expects CPI inflation to ease as higher interest rates help rebalance demand and supply, price pressures from global supply disruptions fade, and the past effects of higher commodity prices dissipate. CPI inflation is projected to move down to about 3% by the end of 2023, and then return to the 2% target by the end of 2024.”

“Given elevated inflation and inflation expectations, as well as ongoing demand pressures in the economy, the Governing Council expects that the policy interest rate will need to rise further. Future rate increases will be influenced by our assessments of how tighter monetary policy is working to slow demand, how supply challenges are resolving, and how inflation and inflation expectations are responding. Quantitative tightening is complementing increases in the policy rate. We are resolute in our commitment to restore price stability for Canadians and will continue to take action as required to achieve the 2% inflation target.”

Statistics Canada

In a September 12th, 2022 release Statistics Canada reported household debt as a proportion of household disposable income rose to 181.7 per cent on a seasonally adjusted basis in the second quarter, up from 179.7 per cent in the first quarter. The increase came as households' disposable income increased 1.0 per cent, but household debt rose 2.1 per cent. The agency noted that although debt loads have been increasing, for the most part asset values were increasing by more, such that household net worth was increasing. That trend changed direction during the second quarter as household wealth fell by 6.1 per cent, the steepest decline on record since data tracking began in 1990.

Housing Markets

In its November Market Watch report, Toronto Region Real Estate Board (TRREB) reported sales of 4,962 in October 2022, down materially from 9,743 in October 2021 (by 4,781 or 49.1%) but similar to sales of 5,038 in September 2022. Average selling price was $1.089 million, down 5.8% from October 2021 ($1.156 million) but similar to September 2022 ($1.087 million). New listings in October 2022 were 10,390 down 1,359 (or 11.6%) from 11,749 in the year earlier period.

TREBB noted that notwithstanding the continuing housing market transition to a higher borrowing cost environment, the average selling price in the GTA has levelled near $1.1 million since late summer. It further noted that the persistent lack of inventory helps to explain why the downward trend in house prices experienced in the spring has flattened in the past three months.

Sector Consolidation

There were 61 institutions in 3Q-2022, unchanged from the year earlier and increased by one from the prior quarter because the results of Lighthouse

Credit Union are included. Average assets per institution were $1.5 billion (up $164 million or 12.4% year over year) reflecting organic growth and mergers or amalgamations.

Profitability

3Q-2022 vs 3Q-2021

As shown in Tables 2 and 3, return on average assets in 3Q-2022 was 46 bps, down 20 bps from 66 bps in the year earlier quarter. Higher loan interest (up 14 bps to 2.95%) and investment income (up 6 bps to 35 bps) were more than offset by increases interest expense on deposits (up 14 bps to 1.0%), non-interest expenses (up 9 bps to 1.64%) and taxes (up 8 bps to 22 bps) and decreases in other income (down 4 bps to 39 bps).

Six 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-2022 vs 2Q-2022

Sector profitability decreased 19 bps (from 65 bps) from last quarter. Investment income decreased 5 bps (from 40 bps), interest expense on deposits increased by 16 bps (from 84 bps), other interest expense increased 4 bps (from 24 bps) and taxes increased 7 bps (from 15 bps), all of which offset increases in loan interest of 17 bps (from 2.78%).

2Q-2022 Ontario Sector vs 2Q-2022 Canadian Sector*

Ontario sector profitability of 65 bps was 15 bps above the Canadian sector's of 50 bps.

Capital

3Q-2022 vs 3Q-2021

Sector capital increased to $6.4 billion (up $715 million or 12.6%) from the year earlier quarter comprised of:

- Retained earnings of $3.7 billion (up $266 million or 7.6%);
- Investment and patronage shares of $2.7 billion (up $519 million or 23.9%); and
- Membership shares of $56 million (up $1 million or 1.7%).

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

As a percent of risk weighted assets, sector capital was 13.68%, down 12 bps from the year earlier quarter. Leverage was 7.09%, up 6 bps from the year earlier quarter.

3Q-2022 vs 2Q-2022

Sector capital increased by $178 million (2.9% from $6.2 billion) from last quarter due to increased retained earnings of $28 million (0.7% from $3.7 billion) and issuances of investment shares of $154 million (6.1% from $2.5 billion); membership shares were unchanged at $56 million.

Compared to the previous quarter, sector capital as a percent of risk weighted assets increased 51 bps (from 13.17%) and leverage increased 23 bps (from 6.86%).

Liquidity (including Securitization)

3Q-2022 vs 3Q-2021

As shown in Tables 7 and 8, sector deposits increased by $5.5 billion (up 8.5% to $70.3 billion), securitizations were unchanged at $8.3 billion and borrowings increased by $1.7 billion (up 127.3% to $3.0 billion), a net increase of $7.2 billion (up 9.6% to $81.6 billion) from the year earlier. Liquid assets decreased $1.5 billion (down 13.9% to $9.1 billion) resulting in a decrease in liquidity to 11.1% (down 380 bps from 14.9% in 3Q-2021).

In 3Q-2022, there were 23 institutions (21 credit unions and 2 caisses populaires) with total assets of $79.9 billion (or 91.9% of sector assets) participating in securitization programs.

3Q-2022 vs 2Q-2022

Sector deposits increased by $1.2 billion (up 1.8% from $69.0 billion), securitizations were unchanged at $8.3 billion and borrowings increased by $340 million (up 12.7% from $2.7 billion), a net increase of $1.6 billion (up 2.0% from $80.0 billion) from last quarter. However, liquid assets decreased $318 million (3.4% from $9.4 billion) resulting in a decrease of 60 bps in liquidity (from 11.7%).

Efficiency Ratio (before dividends/interest rebates)

3Q-2022 vs 3Q-2021

As shown in Table 3, the sector efficiency ratio deteriorated to 68.7% (increasing 430 bps from 64.4%) from the year earlier quarter.

3Q-2022 vs 2Q-2022

Compared to last quarter, sector efficiency worsened by 280 bps (from 65.9%).

2Q-2022 Ontario Sector vs. 2Q-2022 Canadian Sector

Non-interest expense as a percent of average assets for the Ontario sector (1.63%) was 12 bps better than the Canadian sector (1.75%). Ontario sector efficiency ratio (65.9%) was 5.3 percentage points better than the Canadian sector (71.2%). This relative performance is unchanged from 2Q-2021 when at 65.5%, the Ontario sector was also 5.3 percentage points better than the Canadian sector (70.8%).

Credit Quality (delinquency greater than 30 days)

3Q-2022 vs 3Q-2021

As shown in Table 5, total loan delinquency decreased to 32 bps (down 9 bps from 41 bps) compared to the year earlier quarter. Residential mortgage loan delinquency decreased to 23 bps (down 5 bp from 28 bps) and commercial loan delinquency decreased to 46 bps (down 30 bps from 76 bps).

3Q-2022 vs 2Q-2022

Compared to last quarter, total loan delinquency decreased by 1 bps (from 33 bps) reflecting unchanged residential mortgage loan delinquency (of 23 bps) and decreased commercial loan delinquency of 11 bps (from 57 bps).

Growth

3Q-2022 vs 3Q-2021

Compared to the previous year, total sector assets increased to $89.3 billion (up $8.0 billion or 9.8%). This reflects increases in residential mortgage loans to $50.5 billion (up $7.1 billion or 16.4%) and commercial loans to $22.5 billion (up $1.5 billion or 7.0%), offset by decreased cash/investments of $10.2 billion (down $1.0 billion or 8.6%).

3Q-2022 vs 2Q-2022

Total sector assets increased by $1.9 billion (2.2% from $87.4 billion) from last quarter reflecting increases in residential mortgage loans of $2.0 billion (4.1% from $48.5 billion) offset by decreases in cash/investments of $0.2 billion (2.3% from $10.4 billion).

2Q-2022 Ontario Sector vs 2Q-2022 Canadian Sector

Ontario sector growth (8.3%) in total assets exceeded the Canadian sector's growth (5.8%) reflecting higher growth in residential mortgage loans of 14.4% (vs 9.8%) and agricultural loans of 5.5% (vs 5.3%), offset by lower growth in commercial loans of 7.8% (vs 8.7%).

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Sector Income Statements

% of Average Assets (except as noted)	Ontario Sector 3Q-2022	Ontario Sector 2Q-2022	Ontario Sector 3Q-2021	Canadian Sector[1] 2Q-2022
Interest and Investment Income				
Loan Interest	**2.95%**	2.78%	2.81%	2.64%
Investment Income	**0.35%**	0.40%	0.29%	0.24%
Total Interest and Investment Income	**3.30%**	3.18%	3.10%	2.88%
Interest and Dividend Expense				
Interest Expense on Deposits	**1.00%**	0.84%	0.86%	0.75%
Rebates/Dividends on Share Capital	**0.05%**	0.04%	0.05%	0.06%
Dividends on Investment/Other Capital	**0.02%**	0.01%	0.01%	
Other Interest Expense	**0.28%**	0.24%	0.26%	0.13%
Total	**0.37%**	0.32%	0.34%	0.19%
Total Interest & Dividend Expense	**1.37%**	1.16%	1.20%	0.94%
Net Interest & Investment Income	**1.93%**	2.02%	1.90%	1.94%
Loan Costs	**0.01%**	(0.01%)	(0.02%)	0.02%
Net Interest & Investment Income after Loan Costs	**1.92%**	2.03%	1.92%	1.92%
Other (non-interest) Income	**0.39%**	0.39%	0.43%	0.46%
Net Interest, Investment & Other Income	**2.31%**	2.42%	2.34%	2.38%
Non-Interest Expenses			0.89%	
Salaries & Benefits	**0.91%**	0.91%	0.89%	
Occupancy	**0.13%**	0.13%	0.13%	
Computer, Office & Other Equipment	**0.18%**	0.18%	0.18%	
Advertising & Communications	**0.07%**	0.07%	0.07%	
Member Security	**0.08%**	0.08%	0.08%	
Administration	**0.19%**	0.19%	0.13%	
Other	**0.08%**	0.07%	0.08%	
Total Non-Interest Expenses	**1.64%**	1.63%	1.55%	1.75%
Net Income/(Loss) Before Taxes	**0.68%**	0.79%	0.79%	0.63%
Taxes	**0.22%**	0.15%	0.14%	0.12%
Net Income/(Loss)	**0.46%**	0.65%	0.66%	0.50%
Average Assets (Billions)	**$86**	$85	$79	$282

[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		
	3Q-2022	2Q-2022	3Q-2021
Assets			
Cash and Investments	10,159	10,396	11,111
Personal Loans	1,904	1,868	1,977
Residential Mortgage Loans	50,522	48,542	43,410
Commercial Loans	22,485	22,429	21,016
Institutional Loans	153	147	89
Unincorporated Association Loans	49	50	54
Agricultural Loans	2,618	2,556	2,452
Total Loans	77,732	75,592	68,998
Total Loan Allowances	212	210	224
Capital (Fixed) Assets	619	595	636
Intangible and Other Assets	997	1,031	772
Total Assets	89,296	87,405	81,294
Liabilities			
Demand Deposits	31,708	31,722	29,547
Term Deposits	24,680	23,576	21,799
Registered Deposits	13,875	13,739	13,435
Total Deposits	70,263	69,037	64,782
Borrowings	3,003	2,663	1,321
Securitizations	8,340	8,336	8,374
Other Liabilities	1,298	1,154	1,140
Total Liabilities	82,903	81,190	75,617
Members' Equity & Capital			
Membership Shares	56	56	55
Retained Earnings	3,744	3,716	3,478
Other Tier 1 & 2 Capital	2,692	2,538	2,173
AOCI	(99)	(95)	(29)
Total Members' Equity & Capital	6,392	6,214	5,677
Total Liabilities, Members' Equity & Capital	89,296	87,405	81,294

* Totals may not agree due to rounding

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Sector Balance Sheets

	3Q-2022 $millions	Sector % Increase/(Decrease) from 2Q-2022	Sector % Increase/(Decrease) from 3Q-2021
Assets			
Cash and Investments	10,159	-2.3%	-8.6%
Personal Loans	1,904	1.9%	-3.7%
Residential Mortgage Loans	50,522	4.1%	16.4%
Commercial Loans	22,485	0.3%	7.0%
Institutional Loans	153	3.8%	71.5%
Unincorporated Association Loans	49	-2.8%	-8.6%
Agricultural Loans	2,618	2.4%	6.8%
Total Loans	77,732	2.8%	12.7%
Total Loan Allowances	212	0.7%	-5.4%
Capital (Fixed) Assets	619	4.1%	-2.7%
Intangible and Other Assets	997	-3.3%	29.1%
Total Assets	89,296	2.2%	9.8%
Liabilities			
Demand Deposits	31,708	0.0%	7.3%
Term Deposits	24,680	4.7%	13.2%
Registered Deposits	13,875	1.0%	3.3%
Total Deposits	70,263	1.8%	8.5%
Borrowings	3,003	12.7%	127.4%
Securitizations	8,340	0.1%	-0.4%
Other Liabilities	1,298	12.4%	13.8%
Total Liabilities	82,903	2.1%	9.6%
Members' Equity & Capital			
Membership Shares	56	-0.1%	1.7%
Retained Earnings	3,744	0.7%	7.6%
Other Tier 1 & 2 Capital	2,692	6.1%	23.9%
Accumulated Other Comprehensive Income	(99)	4.6%	244.7%
Total Members' Equity & Capital	6,392	2.9%	12.6%
Total Liabilities, Members' Equity & Capital	89,296	2.2%	9.8%

* Totals may not agree due to rounding

Sector Balance Sheets

As a percentage of Total Assets	Sector			Canadian Sector[1]
	3Q-2022	2Q-2022	3Q-2021	2Q-2022
Assets				
Cash and Investments	11.4%	11.9%	13.7%	15.6%
Personal Loans	2.1%	2.1%	2.4%	3.5%
Residential Mortgage Loans	56.6%	55.5%	53.4%	49.7%
Commercial Loans	25.2%	25.7%	25.9%	24.7%
Institutional Loans	0.2%	0.2%	0.1%	0.9%
Unincorporated Association Loans	0.1%	0.1%	0.1%	0.0%
Agricultural Loans	2.9%	2.9%	3.0%	3.6%
Total Loans	87.0%	86.5%	84.9%	82.4%
Total Loan Allowances	0.2%	0.2%	0.3%	-0.3%
Capital (Fixed) Assets	0.7%	0.7%	0.8%	0.8%
Intangible and Other Assets	1.1%	1.2%	0.9%	1.4%
Total Assets	100.0%	100.0%	100.0%	100.0%
Liabilities			35.4%	
Demand Deposits	35.5%	36.3%	36.3%	44.0%
Term Deposits	27.6%	27.0%	26.8%	27.7%
Registered Deposits	15.5%	15.7%	16.5%	13.8%
Total Deposits	78.7%	79.0%	79.7%	85.6%
Borrowings	3.4%	3.0%	1.6%	5.2%
Securitizations	9.3%	9.5%	10.3%	
Other Liabilities	1.5%	1.3%	1.4%	2.2%
Total Liabilities	92.8%	92.9%	93.0%	93.0%
Members' Equity & Capital				
Membership Shares	0.1%	0.1%	0.1%	0.5%
Retained Earnings	4.2%	4.3%	4.3%	5.6%
Other Tier 1 & 2 Capital	3.0%	2.9%	2.7%	1.1%
AOCI	-0.1%	-0.1%	0.0%	-0.1%
Total Members' Equity & Capital	7.2%	7.1%	7.0%	7.0%
Total Liabilities, Members' Equity & Capital	100.0%	100.0%	100.0%	100.0%