FSRA
Financial Services Regulatory Authority of Ontario

Ontario

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Sector Outlook Report 4Q-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 January 21st, 2023 and as such accuracy and completeness cannot be guaranteed. Income Statement results are based on aggregate year-to-date annualized information for each credit union.

Electronic Publication

The Sector Outlook is available in PDF format (readable using Adobe Acrobat Reader) and can be downloaded from the Publications section on the Credit Unions and Caisses Populaires page on FSRA's website at www.fsrao.ca.

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Ce document est également disponible en français.

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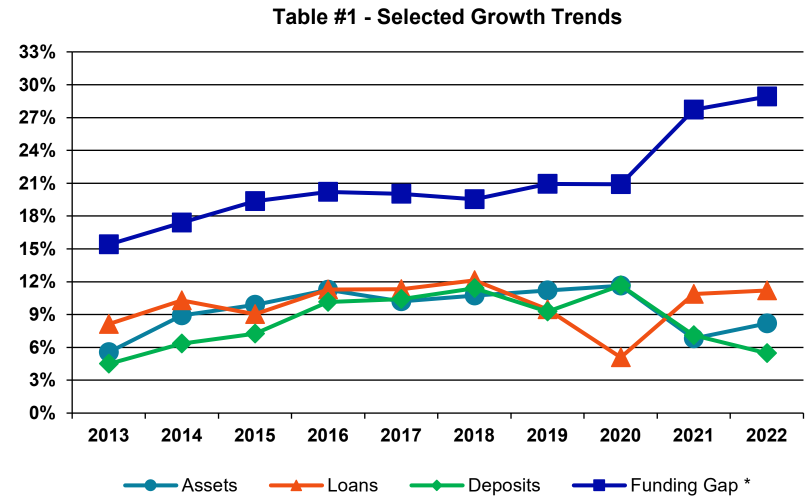
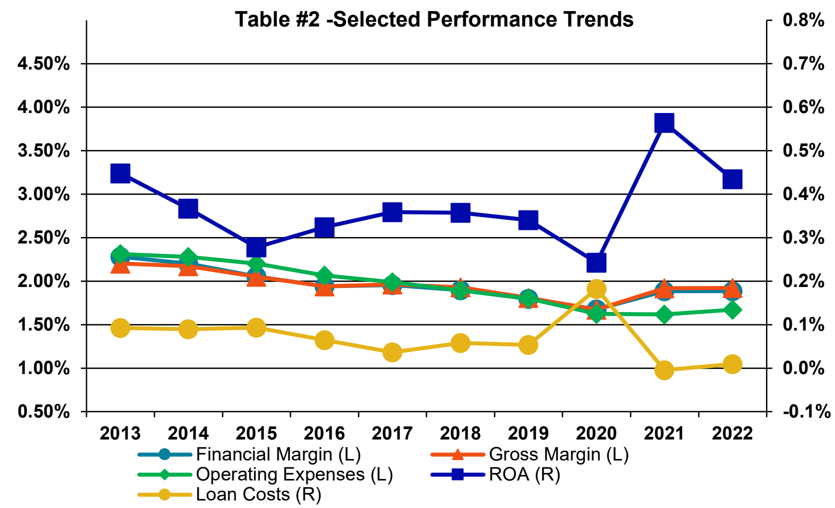
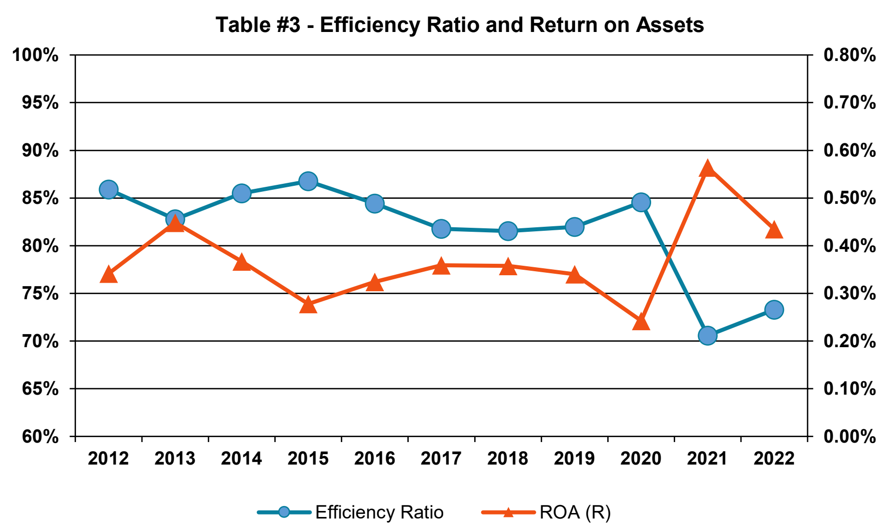
Financial Highlights

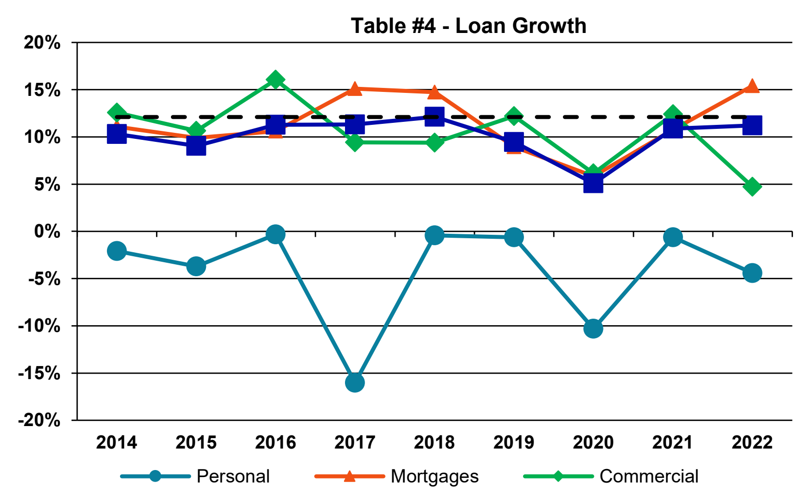
	Ontario Sector		
	4Q-2022*	3Q-2022	4Q-2021
Income Statement (% average assets)			
Net Interest Income	1.89[3]	1.93	1.89
Loan Costs	0.01[2]	0.01	0.00
Other Income	0.40[1]	0.39	0.41
Non-Interest Expense	1.67[3]	1.64	1.62
Taxes	0.17[1]	0.22	0.12
Net Income	0.43[3]	0.46	0.56
Balance Sheet ($ billions; as at quarter end)			
Assets	90.8[1]	89.3	83.9
Loans	79.2[1]	77.7	71.2
Deposits	70.2[3]	70.3	66.5
Members' Equity & Capital	6.56[1]	6.39	5.86
Capital Ratios (%)			
Leverage	6.91[1]	6.89	7.01
Risk Weighted	13.61[1]	13.57	13.69
Key Measures and Ratios (% except as noted)			
Return on Regulatory Capital	6.08[3]	6.40	8.21
Liquidity Ratio	10.9[3]	11.1	14.9
Efficiency Ratio (before dividends/rebates)	70.4[3]	68.8	68.1
Efficiency Ratio	73.4[3]	70.8	70.5
Mortgage Loan Delinquency>30 days	0.30[3]	0.23	0.25
Commercial Loan Delinquency>30 days	0.54[3]	0.46	0.51
Total Loan Delinquency>30 days	0.38[3]	0.32	0.34
Total Loan Delinquency>90 days	0.15[2]	0.15	0.17
Asset Growth (from last quarter)	1.70[3]	2.16	2.01
Loan Growth (from last quarter)	1.83[3]	2.83	2.08
Deposit Growth (from last quarter)	0.10[3]	1.78	1.25
Credit Unions (number)	60[1]	61	61
Membership (thousands)	1,758[1]	1,740	1,723
Average Assets ($ millions, per credit union)	1,551[1]	1,493	1,323
* Trends are current quarter to last quarter	Better[1]	Neutral[2]	Worse[3]

Sector Key Financial Trends









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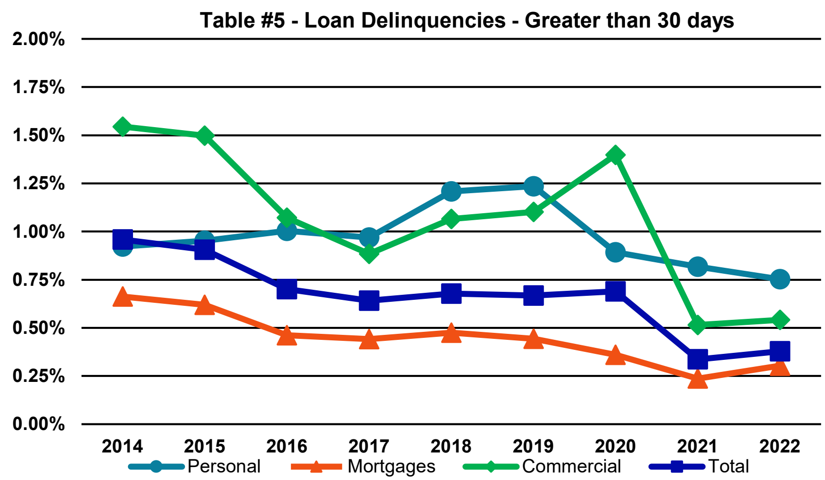
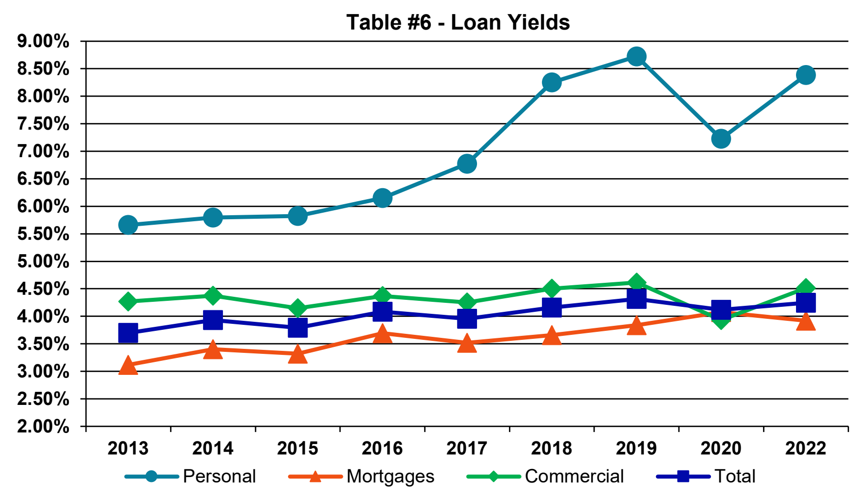
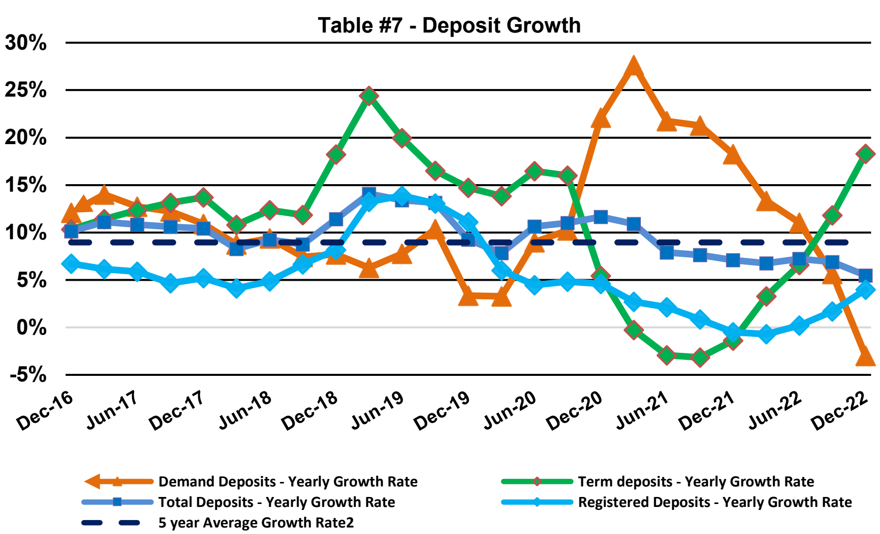
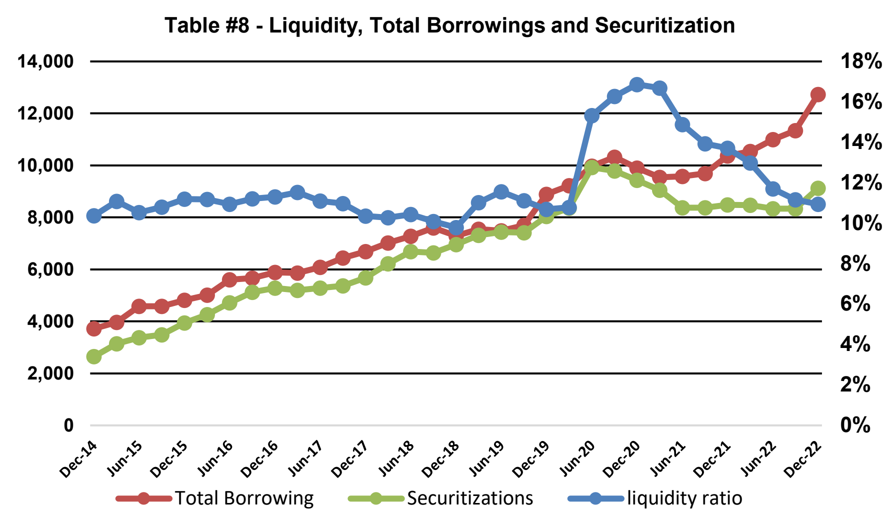
Sector Key Financial Trends (Continued)









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FSRA Observations 4Q-2022

- To accommodate reporting of consolidated capital ratios pursuant to FSRA Rule 2021-002: Capital Adequacy Requirements for Credit Unions and Caisses Populaires, credit unions with consolidating subsidiaries were required to report consolidated data each fiscal quarter beginning with September 30th, 2022 filings. Prior data has not been restated; FSRA notes the effect of this is not considered significant at the sector level.

- The sector was comprised of 60 institutions in 4Q-2022, a decrease of one from the year earlier and last quarter periods.

- Profitability in 4Q-2022 was 43 bps, 13 bps below last year and 3 bps below last quarter. Increases in loan interest and investment income were more than offset by higher interest, borrowing and non-interest expenses. Credit quality in the most recent quarter has begun to deteriorate in an environment where inflation remains high, housing markets and mortgage affordability are challenged and interest rates are elevated.

- Over 30-day delinquency on residential mortgages (which at $51.5 billion represent 56.7% of sector assets) was 30 bps, up 5 bps year over year and 7 bps from last quarter. Delinquency on commercial loans (which at $22.9 billion represent 25.2% of sector assets) was 54 bps, up 3 bps year over year and 8 bps from last quarter. Total loan delinquency was 38 bps, up 4 bps year over year and 6 bp from last quarter.

- At 4Q-2022 end, sector assets totaled $90.8 billion, reflecting a year over year increase of $6.9 billion (up 8.2%). Residential mortgage loans grew $6.9 billion (up 15.4%) but growth has begun to slow as prices and volumes weakened and borrowing costs increased from levels earlier in the 12 month period; commercial loans grew $1.0 billion (up 4.7%) and cash/investments fell $1.4 billion (down 11.8%).

- Liquidity in 4Q-2022 remained strong at 10.9% although 400 bps below last year, a time when there was softness in core lines of business.

- Growth in retained earnings (6.8%) was less than growth in total assets (8.2%) year over year. Investment shares (up $532 million or 23.8% year over year) represent a significant and increasing source of funding ($2.8 billion or 42.1% of capital in 4Q-2022, up from 38.1% in 4Q-2021).

Economic Overview

Bank of Canada

On January 25th, 2023 Bank of Canada (the "Bank") increased its target for the overnight rate to 4½%, with the Bank Rate at 4¾% and the deposit rate at 4½%. The Bank said its policy of quantitative tightening would continue and in its release provided the following comments.

"Global inflation remains high and broad-based. Inflation is coming down in many countries, largely reflecting lower energy prices as well as improvements in global supply chains. In the United States and Europe, economies are slowing but proving more resilient than was expected at the time of the Bank's October Monetary Policy Report (MPR). China's abrupt lifting of COVID-19 restrictions has prompted an upward revision to the growth forecast for China and poses an upside risk to commodity prices. Russia's war on Ukraine remains a significant source of uncertainty. Financial conditions remain restrictive but have eased since October, and the Canadian dollar has been relatively stable against the US dollar.

"The Bank estimates the global economy grew by about 3½% in 2022, and will slow to about 2% in 2023 and 2½% in 2024. This projection is slightly higher than October's.

"In Canada, recent economic growth has been stronger than expected and the economy remains in excess demand. Labour markets are still tight: the unemployment rate is near historic lows and businesses are reporting ongoing difficulty finding workers. However, there is growing evidence that restrictive monetary policy is slowing activity, especially household spending. Consumption growth has moderated from the first half of 2022 and housing market activity has declined substantially. As the effects of interest rate increases continue to work through the economy, spending on consumer services and business investment are expected to slow. Meanwhile, weaker foreign demand will likely weigh on exports. This overall slowdown in activity will allow supply to catch up with demand.

"The Bank estimates Canada's economy grew by 3.6% in 2022, slightly stronger than was projected in October. Growth is expected to stall through the middle of 2023, picking up later in the year. The Bank expects GDP growth of about 1% in 2023 and about 2% in 2024, little changed from the October outlook.

"Inflation has declined from 8.1% in June to 6.3% in December, reflecting lower gasoline prices and, more recently, moderating prices for durable goods. Despite this progress, Canadians are still feeling the hardship of high inflation in their essential household expenses, with persistent price increases for food and shelter. Short-term inflation expectations remain elevated. Year-over-year measures of core inflation are still around 5%, but 3-month measures of core inflation have come down, suggesting that core inflation has peaked.

"Inflation is projected to come down significantly this year. Lower energy prices, improvements in global supply conditions, and the effects of higher interest rates on demand are expected to bring CPI inflation down to around 3% in the middle of this year and back to the 2% target in 2024.

"With persistent excess demand putting continued upward pressure on many prices, Governing Council decided to increase the policy interest rate by a further 25 basis points. The Bank's ongoing program of quantitative tightening is complementing the restrictive stance of the policy rate. If economic developments evolve broadly in line with the MPR outlook, Governing Council expects to hold the policy rate at its current level while it assesses the impact of the cumulative interest rate increases. Governing Council is prepared to increase the policy rate further if needed to return inflation to the 2% target, and remains resolute in its commitment to restoring price stability for Canadians."

Household Debt

In its December 12th, 2022 release Statistics Canada reported households' debt-to-income ratio rose in the third quarter of 2022 as rising interest rates affected the cost of borrowing.

The agency reported household credit market debt as a proportion of household disposable income increased to 183.3 per cent on a seasonally adjusted basis in the third quarter compared with 182.6 per cent (restated) in the second quarter. The increase came as households' disposable income gained 0.8 per cent in the quarter, while household credit market debt rose 1.2 per cent.

Housing Markets

In its February 2023 release, Toronto Region Real Estate Board (TRREB) reported the 2023 housing market was unfolding as expected with the number of January sales and average selling prices similar to those of December 2022. On a year over year basis, TREBB said both sales and prices were down markedly, continuing to highlight the impact of higher borrowing costs on affordability.

Reported sales were 3,100 in January 2023, similar to those of December (3,110) but down a significant 2,494 (or 44.6%) from 5,594 in the year earlier period. Average selling price in January 2023 was $1.039 million, slightly lower than the month earlier but down $0.203 million (or 16.1%) from $1.242 million in January 2022. New listings in January 2023 were 7,688, down 295 (or 3.7%) from 7,983 in the year earlier period.

TREBB provided the following assessment. "Home prices declined over the past year as homebuyers sought to mitigate the impact of substantially higher borrowing costs. While short-term borrowing costs increased again in January 2023, negotiated medium-term mortgage rates, like the five-year fixed rate, have actually started to trend lower compared to the end of last year. The expectation is that this trend will continue, further helping with affordability as we move through 2023."

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Sector Consolidation

There were 60 institutions in 4Q-2022, a decrease of one from the year and quarter earlier. Average assets per institution were $1.6 billion (up $228 million or 17.2% year over year) reflecting organic growth and the effects of mergers or amalgamations.

Profitability

4Q-2022 vs 4Q-2021

As shown in Tables 2 and 3, return on average assets in 4Q-2022 was 43 bps, down 13 bps from 56 bps in the year earlier quarter. Higher loan interest (up 32 bps to 3.15%) and investment income (up 11 bps to 37 bps) were more than offset by increased interest expense on deposits (up 34 bps to 1.18%) and borrowings (up 8 bps to 33 bps), non-interest expenses (up 5 bps to 1.67%) and taxes (up 5 bps to 17 bps).

Three of 60 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-2022 vs 3Q-2022

Sector profitability decreased 3 bps (from 46 bps) from last quarter. Interest expense on deposits increased by 18 bps (from 1.00%), interest expense on borrowings increased 5 bps (from 28 bps) and non-interest expenses increased by 3 bps (from 1.64%), all of which offset increases in loan interest of 20 bps (from 2.95%) and decreases in taxes of 5 bps (from 22 bps).

3Q-2022 Ontario Sector vs 3Q-2022 Canadian Sector*

Ontario sector profitability of 46 bps was 3 bps below the Canadian sector's of 49 bps.

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

Capital

4Q-2022 vs 4Q-2021

Sector capital increased to $6.6 billion (up $709 million or 12.1%) from the year earlier quarter and was comprised of:

- Retained earnings of $3.8 billion (up $246 million or 6.8%);
- Investment and patronage shares of $2.8 billion (up $532 million or 23.8%); and
- Membership shares of $56 million (down $6 million or 9.9%).

As a percent of risk weighted assets, sector capital was 13.61%, down 8 bps from the year earlier quarter. Leverage was 6.91%, down 10 bps from the year earlier quarter.

4Q-2022 vs 3Q-2022

Sector capital increased by $172 million (2.7% from $6.4 billion) from last quarter due to increased retained earnings of $86 million (2.3% from $3.7 billion) and issuances of investment shares of $73 million (2.7% from $2.7 billion); membership shares were unchanged at $56 million.

Compared to the previous quarter, sector capital as a percent of risk weighted assets increased 4 bps (from 13.57%) and leverage increased 2 bps (from 6.89%).

Liquidity (including Securitization)

4Q-2022 vs 4Q-2021

As shown in Tables 7 and 8, sector deposits increased by $3.6 billion (up 5.5% to $70.2 billion), securitizations increased by $0.6 billion (up 7.6% to $9.1 billion) and borrowings increased by $1.7 billion (up 91.6% to $3.6 billion), a net increase of $6.0 billion (up 7.8% to $82.9 billion) from the year earlier. However, liquid assets decreased $1.5 billion (down 14.0% to $9.1 billion) resulting in a decrease in liquidity to 10.9% (down 400 bps from 14.9% in Q-2021).

In 4Q-2022, there were 23 institutions (21 credit unions and 2 caisses populaires) with total assets of $83.8 billion (or 92.3% of sector assets) participating in securitization programs.

4Q-2022 vs 3Q-2022

Sector deposits were unchanged at $70.2 billion, securitizations increased by $0.8 billion (up 9.5% from $8.3 billion) and borrowings increased by $604 million (up 20.1% from $3.0 billion), a net increase of $1.3 billion (up 1.6% from $81.6 billion) from last quarter. Liquid assets were also unchanged at $9.1 billion resulting in a decrease of 20 bps in liquidity (from 11.1%).

Efficiency Ratio (before dividends/interest rebates)

4Q-2022 vs 4Q-2021

As shown in Table 3, the sector efficiency ratio deteriorated to 70.4% (increasing 230 bps from 68.1%) from the year earlier quarter.

4Q-2022 vs 3Q-2022

Compared to last quarter, sector efficiency worsened by 160 bps (from 68.8%).

3Q-2022 Ontario Sector vs. 3Q-2022 Canadian Sector

Non-interest expense as a percent of average assets for the Ontario sector (1.64%) was 12 bps better than the Canadian sector (1.76%). Ontario sector efficiency ratio (68.8%) was 2.6 percentage points better than the Canadian sector (71.4%). This relative performance is worse than in 3Q-2021 when at 64.4%, the Ontario sector was 6.8 percentage points better than the Canadian sector (71.2%).

Credit Quality (delinquency greater than 30 days)

4Q-2022 vs 4Q-2021

As shown in Table 5, total loan delinquency increased to 38 bps (up 4 bps from 34 bps) compared to the year earlier quarter. Residential mortgage loan delinquency increased to 30 bps (up 5 bp from 25 bps) and commercial loan delinquency increased to 54 bps (up 3 bps from 51 bps).

4Q-2022 vs 3Q-2022

Compared to last quarter, total loan delinquency increased by 6 bps (from 32 bps) reflecting increased residential mortgage loan delinquency of 7 bps (from 23 bps) and increased commercial loan delinquency of 8 bps (from 46 bps).

Growth

4Q-2022 vs 4Q-2021

Total sector assets increased to $90.8 billion (up $6.9 billion or 8.2%) compared to the year earlier quarter. This reflects increases in residential mortgage loans to $51.5 billion (up $6.9 billion or 15.4%) and commercial loans to $22.9 billion (up $1.0 billion or 4.7%), offset by decreased cash/investments of $10.2 billion (down $1.4 billion or 11.8%).

4Q-2022 vs 3Q-2022

Total sector assets increased by $1.5 billion (1.7% from $89.3 billion) from last quarter reflecting increases in residential mortgage loans of $1.0 billion (1.9% from $50.5 billion) and commercial loans of $0.4 billion (1.7% from $22.5 billion).

3Q-2022 Ontario Sector vs 3Q-2022 Canadian Sector

Ontario sector growth in total assets (9.8%) exceeded the Canadian sector’s growth (6.2%) due to higher growth in residential mortgage loans of 16.4% (compared to 9.2%) and agricultural loans of 6.8% (compared to 5.9%), offset by lower growth in commercial loans of 7.0% (compared to 9.1%).

Sector Income Statements

% of Average Assets (except as noted)	Ontario Sector 4Q-2022	Ontario Sector 3Q-2022	Ontario Sector 4Q-2021	Canadian Sector[1] 3Q-2022
Interest and Investment Income				
Loan Interest	3.15%	2.95%	2.83%	2.80%
Investment Income	0.37%	0.35%	0.26%	0.26%
Total Interest and Investment Income	3.52%	3.30%	3.09%	3.06%
Interest and Dividend Expense				
Interest Expense on Deposits	1.18%	1.00%	0.84%	0.91%
Rebates/Dividends on Share Capital	0.07%	0.05%	0.07%	0.05%
Dividends on Investment/Other Capital	0.03%	0.02%	0.01%	
Other Interest Expense	0.33%	0.28%	0.25%	0.14%
Total	0.45%	0.37%	0.36%	0.19%
Total Interest & Dividend Expense	1.63%	1.37%	1.20%	1.11%
Net Interest & Investment Income	1.89%	1.93%	1.89%	1.96%
Loan Costs	0.01%	0.01%	(0.00%)	0.05%
Net Interest & Investment Income after Loan Costs	1.88%	1.92%	1.89%	1.91%
Other (non-interest) Income	0.40%	0.39%	0.41%	0.46%
Net Interest, Investment & Other Income	2.28%	2.31%	2.30%	2.36%
Non-Interest Expenses				
Salaries & Benefits	0.92%	0.91%	0.91%	
Occupancy	0.13%	0.13%	0.14%	
Computer, Office & Other Equipment	0.18%	0.18%	0.18%	
Advertising & Communications	0.08%	0.07%	0.07%	
Member Security	0.08%	0.08%	0.08%	
Administration	0.20%	0.19%	0.17%	
Other	0.08%	0.08%	0.07%	
Total Non-Interest Expenses	1.67%	1.64%	1.62%	1.76%
Net Income/(Loss) Before Taxes	0.61%	0.68%	0.68%	0.60%
Taxes	0.17%	0.22%	0.12%	0.12%
Net Income/(Loss)	0.43%	0.46%	0.56%	0.49%
Average Assets (Billions)	$87	$86	$81	285

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

*Totals may not agree due to rounding

Sector Balance Sheets

As at $millions

	Sector		
	4Q-2022	3Q-2022	4Q-2021
Assets			
Cash and Investments	10,161	10,159	11,517
Personal Loans	1,945	1,904	2,035
Residential Mortgage Loans	51,491	50,522	44,616
Commercial Loans	22,868	22,485	21,837
Institutional Loans	164	153	90
Unincorporated Association Loans	48	49	55
Agricultural Loans	2,636	2,618	2,541
Total Loans	79,152	77,732	71,173
Total Loan Allowances	209	212	222
Capital (Fixed) Assets	634	619	650
Intangible and Other Assets	1,072	997	812
Total Assets	90,811	89,296	83,930
Liabilities			
Demand Deposits	30,066	31,708	30,991
Term Deposits	26,096	24,680	22,062
Registered Deposits	14,033	13,875	13,495
Total Deposits	70,195	70,263	66,548
Borrowings	3,607	3,003	1,883
Securitizations	9,129	8,340	8,484
Other Liabilities	1,316	1,298	1,161
Total Liabilities	84,247	82,903	78,075
Members' Equity & Capital			
Membership Shares	56	56	62
Retained Earnings	3,830	3,744	3,584
Other Tier 1 & 2 Capital	2,765	2,692	2,233
AOCI	(86)	(99)	(24)
Total Members' Equity & Capital	6,564	6,392	5,855
Total Liabilities, Members' Equity & Capital	90,811	89,296	83,930

* Totals may not agree due to rounding

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Sector Balance Sheets

	4Q-2022 $millions	Sector % Increase/(Decrease) from 3Q-2022	Sector % Increase/(Decrease) from 4Q-2021
Assets			
Cash and Investments	10,161	0.0%	-11.8%
Personal Loans	1,945	2.1%	-4.4%
Residential Mortgage Loans	51,491	1.9%	15.4%
Commercial Loans	22,868	1.7%	4.7%
Institutional Loans	164	7.2%	81.4%
Unincorporated Association Loans	48	-1.9%	-12.4%
Agricultural Loans	2,636	0.7%	3.8%
Total Loans	79,152	1.8%	11.2%
Total Loan Allowances	209	-1.1%	-5.7%
Capital (Fixed) Assets	634	2.5%	-2.4%
Intangible and Other Assets	1,072	7.6%	32.1%
Total Assets	90,811	1.7%	8.2%
Liabilities			
Demand Deposits	30,066	-5.2%	-3.0%
Term Deposits	26,096	5.7%	18.3%
Registered Deposits	14,033	1.1%	4.0%
Total Deposits	70,195	-0.1%	5.5%
Borrowings	3,607	20.1%	91.6%
Securitizations	9,129	9.5%	7.6%
Other Liabilities	1,316	1.4%	13.3%
Total Liabilities	84,247	1.6%	7.9%
Members' Equity & Capital			
Membership Shares	56	0.0%	-9.9%
Retained Earnings	3,830	2.3%	6.8%
Other Tier 1 & 2 Capital	2,765	2.7%	23.8%
Accumulated Other Comprehensive Income	(86)	-13.1%	253.0%
Total Members' Equity & Capital	6,564	2.7%	12.1%
Total Liabilities, Members' Equity & Capital	90,811	1.7%	8.2%

* Totals may not agree due to rounding

Sector Balance Sheets

As a percentage of Total Assets

	Sector			Canadian Sector[1]
	4Q-2022	3Q-2022	4Q-2021	3Q-2022
Assets				
Cash and Investments	11.2%	11.4%	13.7%	14.80%
Personal Loans	2.1%	2.1%	2.4%	3.5%
Residential Mortgage Loans	56.7%	56.6%	53.2%	50.1%
Commercial Loans	25.2%	25.2%	26.0%	25.0%
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%	3.7%
Total Loans	87.2%	87.0%	84.8%	83.2%
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	1.2%	1.1%	1.0%	1.4%
Total Assets	100.0%	100.0%	100.0%	100.0%
Liabilities				
Demand Deposits	33.1%	35.5%	36.9%	42.3%
Term Deposits	28.7%	27.6%	26.3%	29.2%
Registered Deposits	15.5%	15.5%	16.1%	13.7%
Total Deposits	77.3%	78.7%	79.3%	85.4%
Borrowings	4.0%	3.4%	2.2%	5.2%
Securitizations	10.1%	9.3%	10.1%	
Other Liabilities	1.4%	1.5%	1.4%	2.2%
Total Liabilities	92.8%	92.8%	93.0%	92.8%
Members' Equity & Capital				
Membership Shares	0.1%	0.1%	0.1%	0.5%
Retained Earnings	4.2%	4.2%	4.3%	5.6%
Other Tier 1 & 2 Capital	3.0%	3.0%	2.7%	1.1%
AOCI	-0.1%	-0.1%	0.0%	-0.2%
Total Members' Equity & Capital	7.2%	7.2%	7.0%	7.0%
Total Liabilities, Members' Equity & Capital	100.0%	100.0%	100.0%	100.0%