FSRA
Financial Services Regulatory Authority of Ontario

Ontario

ARSF
Autorité ontarienne de réglementation des services financiers

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Sector Outlook Report 3Q-2023

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, 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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Contents

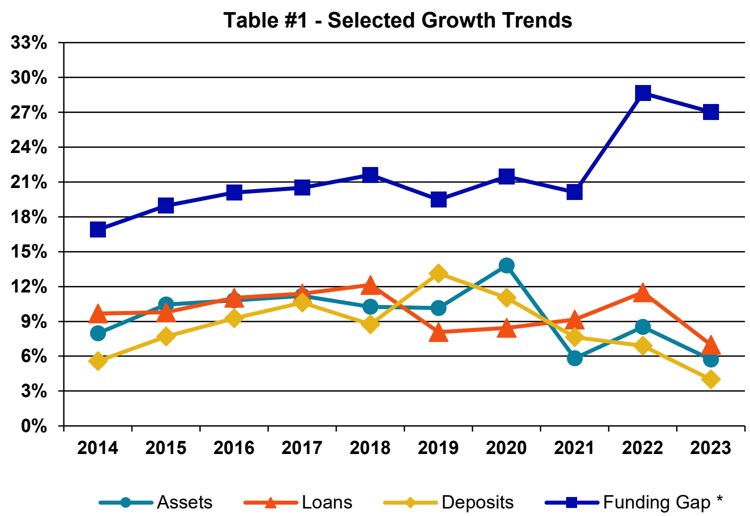
Financial highlights

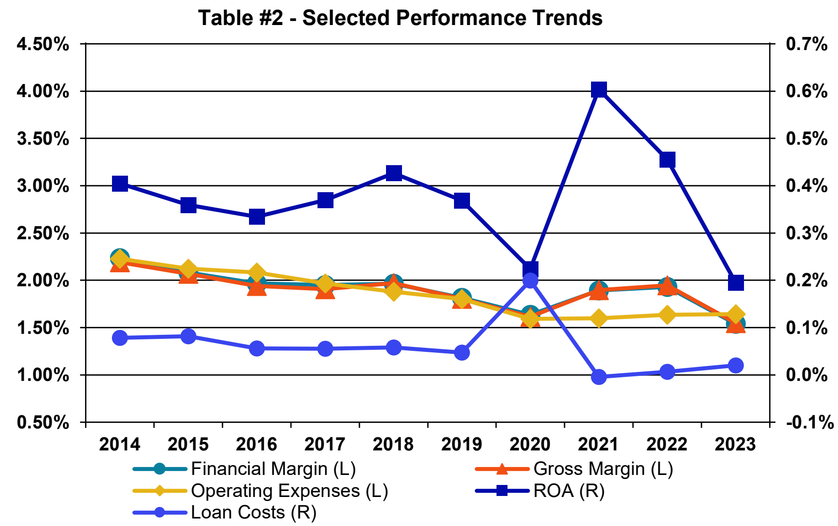
	Ontario Sector		
	3Q-2023*	2Q-2023	3Q-2022
Income Statement (% average assets)			
Net Interest Income	1.54[1]	1.52	1.93
Loan Costs	0.02[3]	0.01	0.01
Other Income	0.36[3]	0.39	0.39
Non-Interest Expense	1.64[1]	1.66	1.64
Taxes	0.04[3]	0.04	0.22
Net Income	0.20[3]	0.20	0.46
Balance Sheet ($ billions; as at quarter end)			
Assets	94.4[1]	92.9	89.3
Loans	83.2[1]	81.2	77.7
Deposits	73.1[1]	71.8	70.3
Members' Equity & Capital	6.66[1]	6.61	6.39
Capital Ratios (%)			
Leverage	6.76[3]	6.79	6.89
Risk Weighted	13.29[3]	13.35	13.57
Key Measures and Ratios (% except as noted)			
Return on Regulatory Capital	2.76[2]	2.76	6.40
Liquidity Ratio	10.6[3]	10.9	11.2
Efficiency Ratio (before dividends/rebates)	84.0[1]	84.9	68.8
Efficiency Ratio	87.5[1]	87.7	70.8
Mortgage Loan Delinquency>30 days	0.43[3]	0.38	0.23
Commercial Loan Delinquency>30 days	0.83[3]	0.47	0.46
Total Loan Delinquency>30 days	0.55[3]	0.41	0.32
Total Loan Delinquency>90 days	0.24[3]	0.16	0.15
Asset Growth (from last quarter)	1.56[1]	1.04	2.16
Loan Growth (from last quarter)	2.38[1]	1.60	2.83
Deposit Growth (from last quarter)	1.77[1]	1.09	1.77
Credit Unions (number)	58[4]	58	61
Membership (thousands)	1,766[1]	1,765	1,740
Average Assets ($ millions, per credit union)	1,628[1]	1575	1464

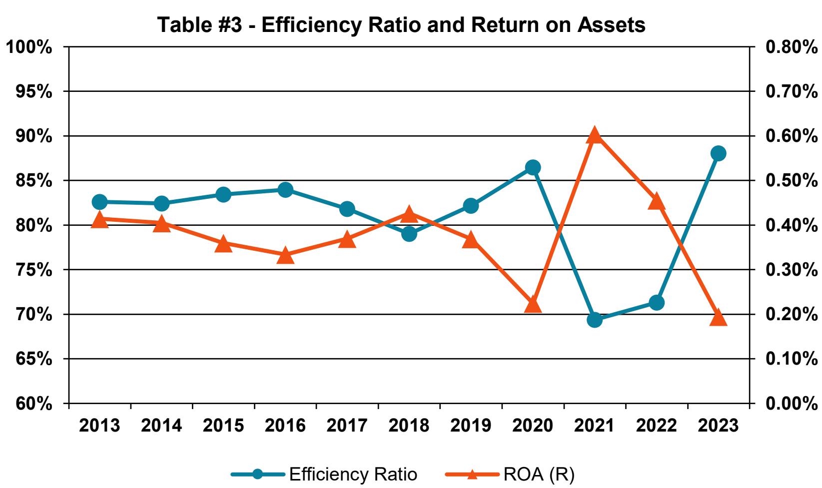
* Trends are current quarter to last quarter

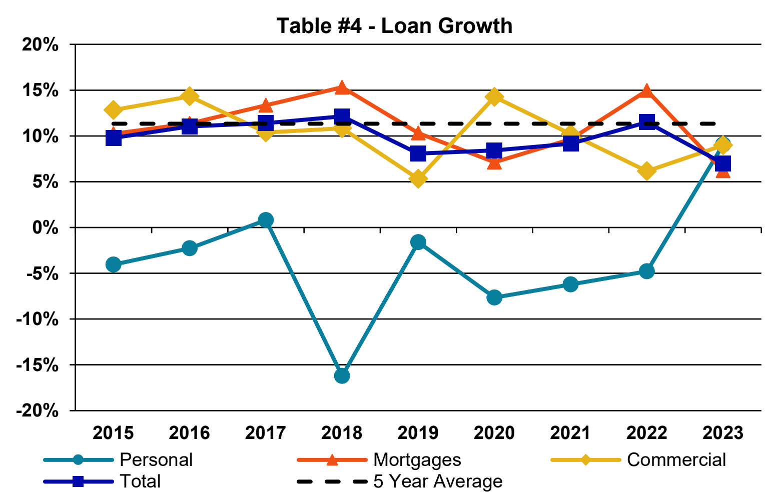
Better[1] | Neutral[2] | Worse[3] | Not Meaningful[4]

Sector key financial trends

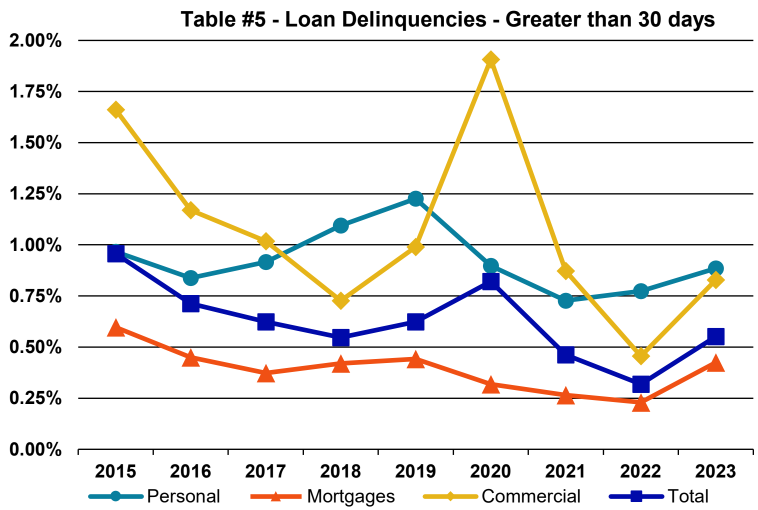


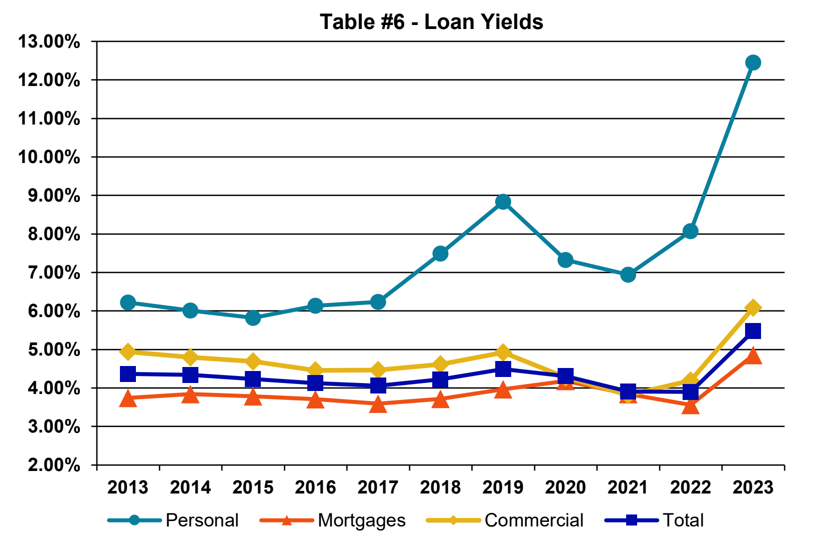


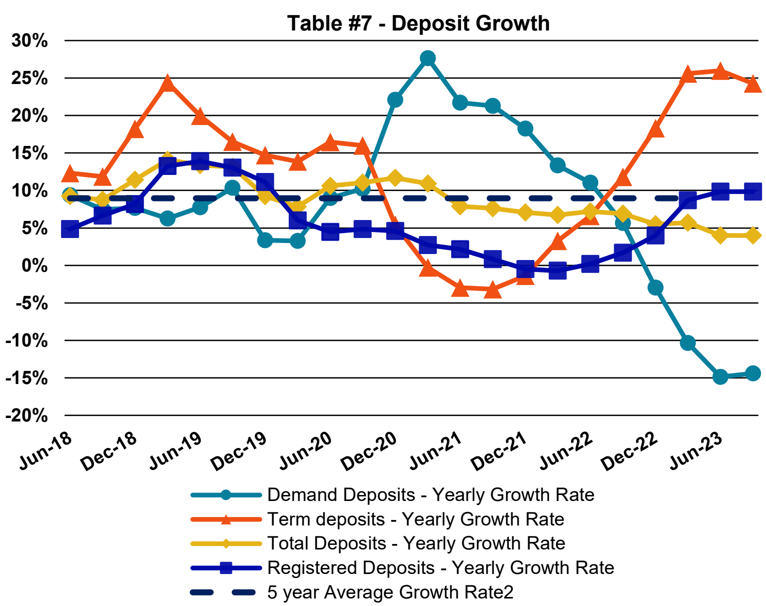


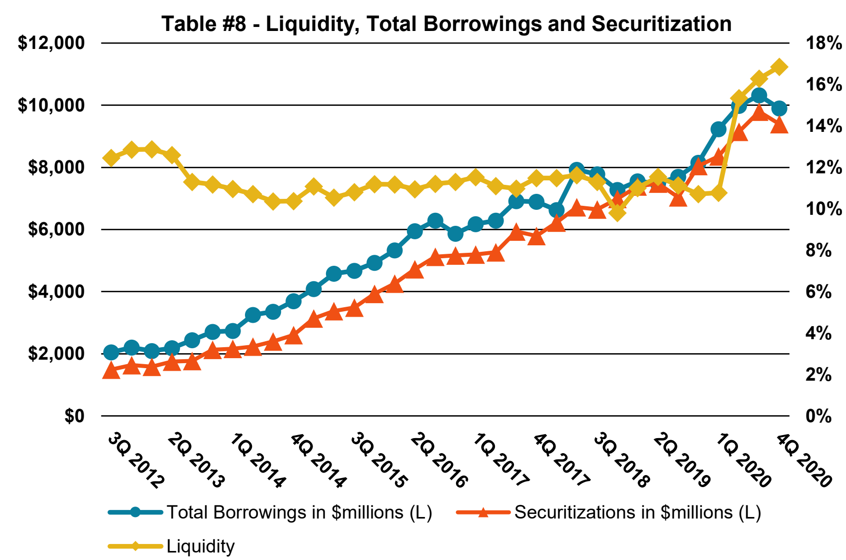


Sector key financial trends (continued)









FSRA observations 3Q-2023

- 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 period data has not been restated; FSRA notes the effect of this is not considered significant at the sector level.

- The sector included 58 institutions in 3Q-2023, unchanged from last quarter and three less than in the year earlier quarter.

- Profitability in 3Q-2023 was 20 bps, 26 bps below last year. Higher loan interest and lower income taxes were more than offset by higher interest expenses and borrowing costs. Profitability remained flat from last quarter, however, credit quality of mortgage portfolios (refer below) continued to deteriorate as housing markets and mortgage affordability were challenged, inflation remained high but showed some signs of moderation and both the unprecedented pace of rate hikes and elevated interest rate levels squeezed margins.

- Over 30-day delinquency on residential mortgages (which at $53.6 billion represent 56.8% of sector assets) was 43 bps, up 20 bps year over year and 5 bps from last quarter. 30-day delinquency on commercial loans (which at $24.5 billion represent 26% of sector assets) was 83 bps, up 37 bps year over year and 36 bps from last quarter. Total loan delinquency was 55 bps, up 23 bps year over year and 14 bps quarter over quarter.

- At 3Q-2023 end, sector assets totaled $94.4 billion, reflecting a year over year increase of $5.1 billion (up 5.7%). Residential mortgage loans grew $5.4 billion (up 6.2%) but recent growth is below historical rates after seasonal adjustment as prices and volumes weakened and mortgage rate increased rapidly from levels earlier in the 12-month period; commercial loans grew $2 billion (up 9%) and cash/investments fell $0.5 billion (down 5.0%).

- Liquidity ratio was at 10.6% at 3Q-2023 end and was 59 bps below the year earlier period at 11.2%.
- Year over year growth in retained earnings (5.1%) lagged growth in total assets (5.7%). Other Tier one & Tier 2 capital including investment shares (up $88 million or 3.3% year over year) represents a significant source of capital ($2.8 billion or 41.8% of capital in 3Q-2023, compared to 42.1% in 3Q-2022).

Economic overview

Bank of Canada

In its October 25th meeting, the Bank of Canada held its target for the overnight rate at 5%, with the Bank Rate at 5¼% and the deposit rate at 5%. The Bank said it was continuing its policy of quantitative tightening and in its release said the following.

“The global economy is slowing and growth is forecast to moderate further as past increases in policy rates and the recent surge in global bond yields weigh on demand. The Bank projects global GDP growth of 2.9% this year, 2.3% in 2024 and 2.6% in 2025. While this global growth outlook is little changed from the July Monetary Policy Report (MPR), the composition has shifted, with the US economy proving stronger and economic activity in China weaker than expected. Growth in the euro area has slowed further. Inflation has been easing in most economies, as supply bottlenecks resolve and weaker demand relieves price pressures. However, with underlying inflation persisting, central banks continue to be vigilant. Oil prices are higher than was assumed in July, and the war in Israel and Gaza is a new source of geopolitical uncertainty.”

“In Canada, there is growing evidence that past interest rate increases are dampening economic activity and relieving price pressures. Consumption has been subdued, with softer demand for housing, durable goods and many services. Weaker demand and higher borrowing costs are weighing on business investment. The surge in Canada’s population is easing labour market pressures in some sectors while adding to housing demand and consumption. In the labour market, recent job gains have been below labour force growth and job vacancies have continued to ease. However, the labour market remains on the tight side and wage pressures persist. Overall, a range of indicators suggest that supply and demand in the economy are now approaching balance. After averaging 1% over the past year, economic growth is expected to continue to be weak for the next year before increasing in late 2024 and through 2025. The near-term weakness in growth reflects both the broadening impact of past increases in interest rates and slower foreign demand. The subsequent pickup is driven by household spending as well as stronger exports and business investment in response to improving foreign demand. Spending by governments contributes materially to growth over the forecast horizon. Overall, the Bank expects the Canadian economy to grow by 1.2% this year, 0.9% in 2024 and 2.5% in 2025."

"CPI inflation has been volatile in recent months—2.8% in June, 4.0% in August, and 3.8% in September. Higher interest rates are moderating inflation in many goods that people buy on credit, and this is spreading to services. Food inflation is easing from very high rates. However, in addition to elevated mortgage interest costs, inflation in rent and other housing costs remains high. Near-term inflation expectations and corporate pricing behaviour are normalizing only gradually, and wages are still growing around 4% to 5%. The Bank's preferred measures of core inflation show little downward momentum."

"In the Bank's October projection, CPI inflation is expected to average about 3½% through the middle of next year before gradually easing to 2% in 2025. Inflation returns to target about the same time as in the July projection, but the near-term path is higher because of energy prices and ongoing persistence in core inflation."

"With clearer signs that monetary policy is moderating spending and relieving price pressures, Governing Council decided to hold the policy rate at 5% and to continue to normalize the Bank's balance sheet. However, Governing Council is concerned that progress towards price stability is slow and inflationary risks have increased, and is prepared to raise the policy rate further if needed. Governing Council wants to see downward momentum in core inflation, and continues to be focused on the balance between demand and supply in the economy, inflation expectations, wage growth and corporate pricing behaviour. The Bank remains resolute in its commitment to restoring price stability for Canadians."

The next scheduled date for announcing the overnight rate target is December 6, 2023.

Household debt

Statistics Canada reported on Sept 9th, 2023 that the amount Canadians owe relative to their income fell in the second quarter of the year as growth in household disposable income outpaced that of credit market debt.

The agency says that on a seasonally adjusted basis, household credit market debt as a proportion of household disposable income fell to 180.5% in the second quarter from 184.2% in the first quarter of 2023.

Housing markets

On Nov 2nd, 2023 Toronto Region Real Estate Board (TRREB) reported that October 2023 home sales edged lower compared to last year. However, selling prices remained higher than last year's levels. However, it provided the following color: "Record population growth and a relatively resilient GTA economy have kept the overall demand for housing strong. However, more of that demand has been pointed at the rental market, as high borrowing costs and uncertainty on the direction of interest rates has seen many would-be home buyers remain on the sidelines in the short term. When mortgage rates start trending lower, home sales will pick up quickly."

On a year over year basis, TRREB reported 4,646 GTA home sales through TRREB's MLS® System in October 2023 – down 5.8 per cent compared to October 2022. On a month-over-month seasonally adjusted basis, sales were also down in comparison to September. New listings in October 2023 were up noticeably compared to the 12-year low reported in October 2022, but up more modestly compared to the 10-year average for October. New listings, on a seasonally-adjusted basis, edged slightly lower month-over-month compared to September 2023.

In its report, TRREB made the following observations.

"Competition between buyers remained strong enough to keep the average selling price above last year's level in October and above the cyclical lows experienced in the first quarter of this year. The Bank of Canada also noted this resilience in its October statement. However, home prices remain well-below their record peak reached at the beginning of 2022, so lower home prices have mitigated the impact of higher borrowing costs to a certain degree," said TRREB Chief Market Analyst Jason Mercer.

Sector consolidation

There were 58 institutions in 3Q-2023, a decrease of three from the year earlier and unchanged from previous quarter. Average assets per institution were $1.6 billion (up $164 million or 11.2% year over year) reflecting organic growth and consolidations.

Profitability

3Q-2023 vs 3Q-2022

As shown in Tables 2 and 3, return on average assets in 3Q-2023 was 20 bps, down 26 bps from 46 bps in the year earlier quarter. Higher loan interest (up 104 bps to 4.0%) and lower taxes (down 18 bps to 4 bps) were more than offset by increased interest expense on deposits (up 121 bps to 2.2%) and borrowings (up 26 bps to 54 bps).

Seven of 58 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-2023 vs 2Q-2023

Sector profitability remained flat from last quarter reflecting increases in loan interest of 12 bps (from 3.9%) and investment income of 1 bps (from 39 bps), mostly offset by increased interest expense on deposits of 10 bps (from 2.1%) and decreased other income of 3 bps (from 39 bps).

2Q-2023 Ontario Sector vs 2Q-2023 Canadian Sector*

Ontario sector profitability of 20 bps was 8 bps below the Canadian sector's of 28 bps.

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

Capital

3Q-2023 vs 3Q-2022

Sector capital increased to $6.7 billion (up $265 million or 4.1%) from the year earlier quarter and was comprised of:

- retained earnings of $3.9 billion (up $190 million or 5.1%)
- investment and patronage shares of $2.8 billion (up $88 million or 3.3%)
- membership shares of $56 million (up 508K or 0.9%)

As a percent of risk weighted assets, sector capital was 13.3%, down 28 bps from the year earlier quarter. Leverage was 6.8%, down 12 bps from the year earlier quarter.

3Q-2023 vs 2Q-2023

Sector capital increased by $52 million (0.8% from $6.6 billion) from last quarter as retained earnings, investment and membership shares were largely unchanged.

Compared to the previous quarter, sector capital as a percent of risk weighted assets decreased 6 bps (from 13.4%); leverage also decreased 3 bps (from 6.8%).

Liquidity (including securitization)

3Q-2023 vs 3Q-2022

As shown in Tables 7 and 8, sector deposits increased by $2.8 billion (up 4.0% to $73 billion); securitizations increased by $1.1 billion (up 13.4% to $9.5 billion); and borrowings increased by $0.5 billion (up 16.6% to $3.5 billion), total liability saw a net increase of $4.8 billion (up 5.8% to $87.7 billion) from the year earlier. However, liquid assets decreased $0.5 billion (down 5.0% to $9.7 billion) resulting in a decrease in liquidity to 10.6% (down 59 bps from 11.2% in 3Q-2022).

In 3Q-2023, 24 institutions with total assets of $87.7 billion (or 96.6% of sector assets) participated in securitization programs.

3Q-2023 vs 2Q-2023

Sector deposits increased by $1.3 billion (up 1.8% from $71.8 billion), securitizations increased by $104 million (up 1.2% to $9.5 billion), while borrowings fell $55 million (down 1.5% to $3.5 billion) from last quarter. Liquid assets decreased by $0.6 billion (down 5.3% from $10.2 billion) resulting in a decrease of 35 bps in liquidity (from 10.9%).

Efficiency ratio (before dividends/interest rebates)

3Q-2023 vs 3Q-2022

As shown in Table 3, the sector efficiency ratio deteriorated to 84.0% (increasing 15.2 percentage points from 68.8%) from the year earlier quarter.

3Q-2023 vs 2Q-2023

Compared to last quarter, sector efficiency remained flat (at 87.5%).

2Q-2023 Ontario sector vs. 2Q-2023 Canadian sector

Non-interest expense as a percent of average assets for the Ontario sector (1.7%) was 18 bps better than the Canadian sector (1.8%). However, Ontario sector efficiency ratio (87.7%) was 6 percentage points worse than the Canadian sector (81.8%). This relative performance is worse than in 2Q-2022 when at 67.3%, the Ontario sector was 4 percentage points better than the Canadian sector (71.7%).

Credit quality (delinquency greater than 30 days)

3Q-2023 vs 3Q-2022

As shown in Table 5, total loan delinquency increased to 55 bps (up 23 bps from 32 bps) compared to the year earlier quarter. Residential mortgage loan delinquency increased to 43 bps (up 20 bps from 23 bps) and commercial loan delinquency increased to 83 bps (up 37 bps from 46 bps).

3Q-2023 vs 2Q-2023

Compared to last quarter, total loan delinquency increased by 14 bps (from 41 bps) reflecting increased delinquency in residential mortgage loans of 5 bps (from 38 bps) and commercial loans of 36 bps (from 47 bps).

Growth

3Q-2023 vs 3Q-2022

Total sector assets increased to $94.4 billion (up $5.1 billion or 5.7%) compared to the year earlier quarter. This reflects increases in residential mortgage loans to $53.6 billion (up $3.1 billion or 6.2%) and commercial loans to $24.5 billion (up $1.4 billion or 9.1%), offset by decreased cash/investments of $9.6 billion (down $0.5 billion or 5%).

3Q-2023 vs 2Q-2023

Total sector assets increased by $1.4 billion (1.6% from $92.9 billion) from last quarter reflecting increases in residential mortgage loans of $1.2 billion (2.3% from $52.4 billion) and commercial loans of $638 million (2.6% from $23.9 billion), offset by decreases in cash/investments of $577 million (down 5.3% from $10.2 billion).

2Q-2023 Ontario sector vs 2Q-2023 Canadian sector

Ontario sector growth in total assets (6.4%) exceeded the Canadian sector's growth (3.9%) reflecting higher growth in residential mortgage loans of 8.0% (compared to 4.0% from Canadian Sector) offset by lower growth in commercial loans of 6.4% (compared to 6.5%) and agricultural loans of 5.1% (compared to 6.5%).

Sector income statements

% of average assets (except as noted)

	Ontario Sector			Canadian Sector[1]
	3Q-2023	**2Q-2023**	**3Q-2022**	**2Q-2023**
Interest and Investment Income				
Loan Interest	**3.99%**	3.87%	2.95%	3.66%
Investment Income	**0.40%**	0.39%	0.35%	0.54%
Total Interest and Investment Income	**4.40%**	4.26%	3.30%	4.20%
Interest and Dividend Expense				
Interest Expense on Deposits	**2.21%**	2.11%	1.00%	2.13%
Rebates/Dividends on Share Capital	**0.05%**	0.05%	0.05%	0.00%
Dividends on Investment/Other Capital	**0.02%**	0.01%	0.02%	0.07%
Other Interest Expense	**0.54%**	0.53%	0.28%	0.23%
Total	**0.64%**	0.63%	0.37%	0.30%
Total Interest & Dividend Expense	**2.86%**	2.74%	1.37%	2.43%
Net Interest & Investment Income	**1.54%**	1.52%	1.93%	1.77%
Loan Costs	**0.02%**	0.01%	0.01%	0.06%
Net Interest & Investment Income after Loan Costs	**1.52%**	1.51%	1.92%	1.71%
Other (non-interest) Income	**0.36%**	0.39%	0.39%	0.45%
Net Interest, Investment & Other Income	**1.88%**	1.90%	2.31%	2.25%
Non-Interest Expenses				
Salaries & Benefits	**0.92%**	0.93%	0.91%	1.04%
Occupancy	**0.13%**	0.13%	0.13%	0.13%
Computer, Office & Other Equipment	**0.18%**	0.18%	0.18%	
Advertising & Communications	**0.07%**	0.07%	0.07%	0.14%
Member Security	**0.08%**	0.08%	0.08%	0.34%
Administration	**0.19%**	0.20%	0.19%	0.17%
Other	**0.08%**	0.08%	0.08%	
Total Non-Interest Expenses	**1.64%**	1.66%	1.64%	1.84%
Net Income/(Loss) Before Taxes	**0.24%**	0.24%	0.68%	0.42%
Taxes	**0.04%**	0.04%	0.22%	0.07%
Net Income/(Loss)	**0.20%**	0.20%	0.46%	0.28%
Average Assets (Billions)	**$93**	**$92**	**$86**	**$295**

[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-2023	2Q-2023	3Q-2022
Assets			
Cash and Investments	9,654	10,189	10,159
Personal Loans	2,077	2,013	1,904
Residential Mortgage Loans	53,639	52,453	50,522
Commercial Loans	24,503	23,872	22,485
Institutional Loans	154	160	153
Unincorporated Association Loans	46	45	49
Agricultural Loans	2,744	2,688	2,618
Total Loans	83,162	81,230	77,732
Total Loan Allowances	199	204	212
Capital (Fixed) Assets	669	671	619
Intangible and Other Assets	1,114	1,060	997
Total Assets	94,400	92,946	89,295
Liabilities			
Demand Deposits	27,148	27,008	31,707
Term Deposits	30,675	29,701	24,680
Registered Deposits	15,244	15,090	13,875
Total Deposits	73,067	71,799	70,262
Borrowings	3,501	3,556	3,003
Securitizations	9,458	9,350	8,340
Other Liabilities	1,717	1,637	1,298
Total Liabilities	87,743	86,341	82,903
Members' Equity & Capital			
Membership Shares	56	56	56
Retained Earnings	3,933	3,879	3,743
Other Tier 1 & 2 Capital	2,781	2,758	2,692
AOCI	(113)	(87)	(99)
Total Members' Equity & Capital	6,657	6,606	6,392
Total Liabilities, Members' Equity & Capital	94,400	92,946	89,295

* Totals may not agree due to rounding

Sector balance sheets

	3Q-2023 $millions	Sector % Increase/(Decrease) from 2Q-2023	Sector % Increase/(Decrease) from 3Q-2022
Assets			
Cash and Investments	9,654	-5.3%	-5.0%
Personal Loans	2,077	3.2%	9.1%
Residential Mortgage Loans	53,639	2.3%	6.2%
Commercial Loans	24,503	2.6%	9.0%
Institutional Loans	154	-3.7%	0.5%
Unincorporated Association Loans	46	2.8%	-6.0%
Agricultural Loans	2,744	2.1%	4.8%
Total Loans	83,162	2.4%	7.0%
Total Loan Allowances	199	-2.4%	-5.8%
Capital (Fixed) Assets	669	-0.3%	8.1%
Intangible and Other Assets	1,114	5.1%	11.7%
Total Assets	94,400	1.6%	5.7%
Liabilities			
Demand Deposits	27,148	0.5%	-14.4%
Term Deposits	30,675	3.3%	24.3%
Registered Deposits	15,244	1.0%	9.9%
Total Deposits	73,067	1.8%	4.0%
Borrowings	3,501	-1.5%	16.6%
Securitizations	9,458	1.2%	13.4%
Other Liabilities	1,717	4.9%	32.3%
Total Liabilities	87,743	1.6%	5.8%
Members' Equity & Capital			
Membership Shares	56	-0.1%	1.2%
Retained Earnings	3,933	1.4%	5.1%
Other Tier 1 & 2 Capital	2,781	0.8%	3.3%
Accumulated Other Comprehensive Income	(113)	29.5%	14.1%
Total Members' Equity & Capital	6,657	0.8%	4.1%
Total Liabilities, Members' Equity & Capital	94,400	1.6%	5.7%

* Totals may not agree due to rounding

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Sector balance sheets

As a percentage of total assets

	Sector			Canadian Sector[1]
	3Q-2023	2Q-2023	3Q-2022	2Q-2023
Assets				
Cash and Investments	10.2%	11.0%	11.4%	14.80%
Personal Loans	2.2%	2.2%	2.1%	3.5%
Residential Mortgage Loans	56.8%	56.4%	56.6%	49.7%
Commercial Loans	26.0%	25.7%	25.2%	25.3%
Institutional Loans	0.2%	0.2%	0.2%	0.9%
Unincorporated Association Loans	0.0%	0.0%	0.1%	0.0%
Agricultural Loans	2.9%	2.9%	2.9%	3.7%
Total Loans	88.1%	87.4%	87.1%	83.2%
Total Loan Allowances	0.2%	0.2%	0.2%	-0.3%
Capital (Fixed) Assets	0.7%	0.7%	0.7%	0.8%
Intangible and Other Assets	1.2%	1.1%	1.1%	1.5%
Total Assets	100.0%	100.0%	100.0%	100.0%
Liabilities				
Demand Deposits	28.8%	29.1%	35.5%	37.7%
Term Deposits	32.5%	32.0%	27.6%	32.4%
Registered Deposits	16.1%	16.2%	15.5%	14.4%
Total Deposits	77.4%	77.2%	78.7%	84.7%
Borrowings	3.7%	3.8%	3.4%	5.5%
Securitizations	10.0%	10.1%	9.3%	
Other Liabilities	1.8%	1.8%	1.5%	2.6%
Total Liabilities	92.9%	92.9%	92.8%	92.8%
Members' Equity & Capital				
Membership Shares	0.1%	0.1%	0.1%	0.5%
Retained Earnings	4.2%	4.2%	4.2%	5.8%
Other Tier 1 & 2 Capital	2.9%	3.0%	3.0%	1.1%
AOCI	-0.1%	-0.1%	-0.1%	-0.1%
Total Members' Equity & Capital	7.1%	7.1%	7.2%	7.3%
Total Liabilities, Members' Equity & Capital	100.0%	100.0%	100.0%	100.0%