Financial Services Regulatory Authority of Ontario

Ontario

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Sector Outlook Report 1Q-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 April 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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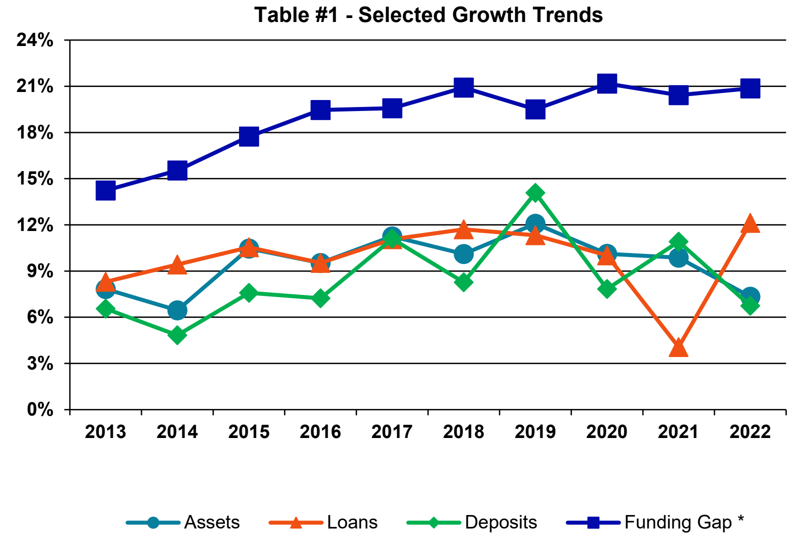
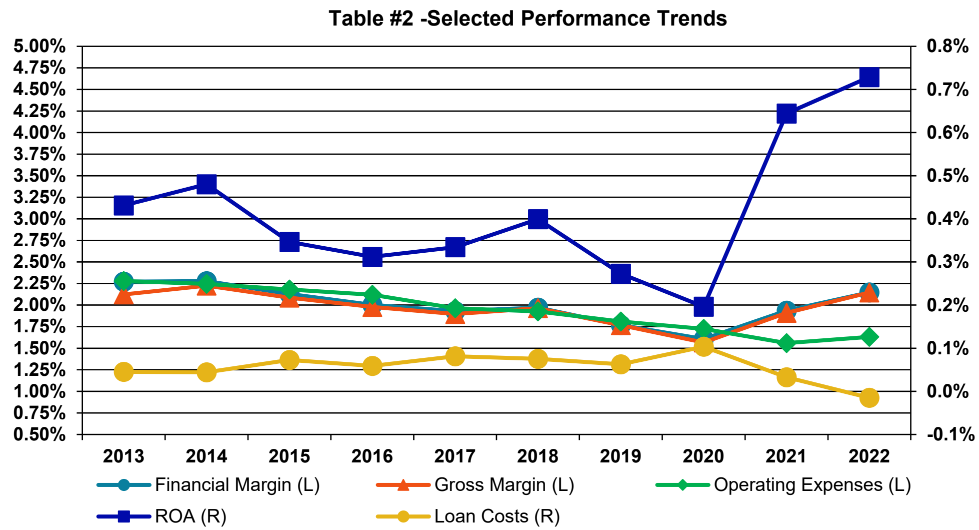
Financial Highlights

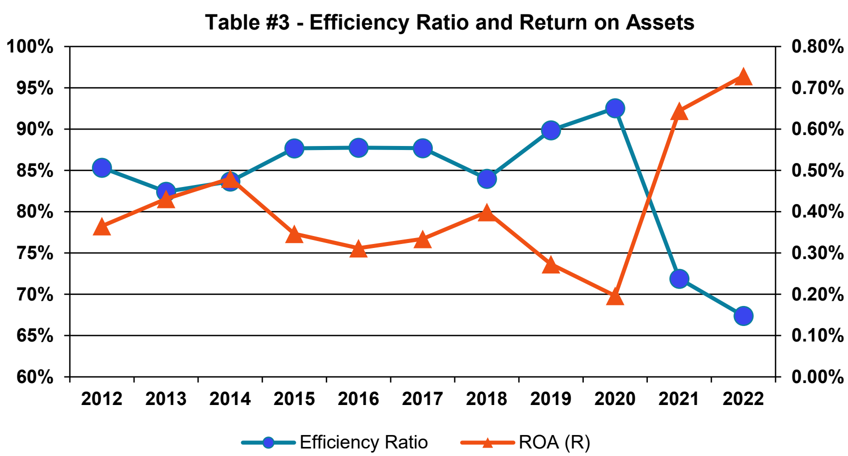
	Ontario Sector		
	1Q-2022*	4Q-2021	1Q-2021
Income Statement (% average assets)			
Net Interest Income	2.15[1]	1.90	1.94
Loan Costs	-0.01[1]	0.00	0.03
Other Income	0.38[3]	0.41	0.41
Non-Interest Expense	1.63[3]	1.61	1.56
Taxes	0.18[3]	0.12	0.12
Net Income	0.73[1]	0.58	0.64
Balance Sheet ($ billions; as at quarter end)			
Assets	84.9[1]	83.9	79.1
Loans	72.7[1]	71.2	64.9
Deposits	67.2[1]	66.5	62.9
Members' Equity & Capital	6.06[1]	5.86	5.39
Capital Ratios (%)			
Leverage	7.21[1]	7.02	6.89
Risk Weighted	13.83[1]	13.69	13.83
Key Measures and Ratios (% except as noted)			
Return on Regulatory Capital	10.28[1]	8.42	9.45
Liquidity Ratio	13.0[3]	13.7	16.7
Efficiency Ratio (before dividends/rebates)	63.2[1]	67.6	66.0
Efficiency Ratio	64.3[1]	69.8	67.4
Mortgage Loan Delinquency>30 days	0.24[1]	0.25	0.33
Commercial Loan Delinquency>30 days	0.66[3]	0.52	1.21
Total Loan Delinquency>30 days	0.38[3]	0.35	0.61
Total Loan Delinquency>90 days	0.18[3]	0.17	0.37
Asset Growth (from last quarter)	1.17[3]	2.01	0.67
Loan Growth (from last quarter)	2.21[1]	2.08	1.07
Deposit Growth (from last quarter)	0.98[3]	1.24	1.30
Credit Unions (number)	61[2]	61	62
Membership (thousands)	1,732[1]	1,720	1,730
Average Assets ($ millions, per credit union)	1,392[1].	1,376	1,276

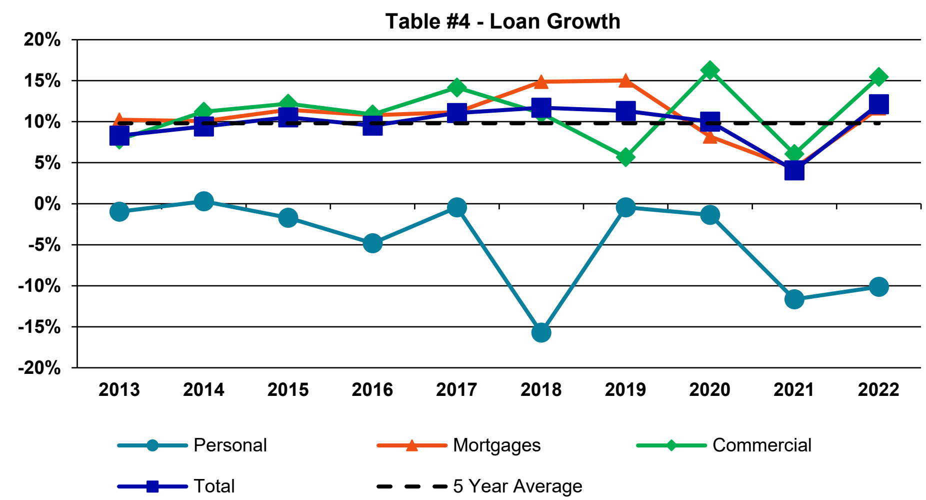
* Trends are current quarter to last quarter — Better[1] | Neutral[2] | Worse[3]

Sector Key Financial Trends









Sector Key Financial Trends (Continued)

Table #5 - Loan Delinquencies - Greater than 30 days

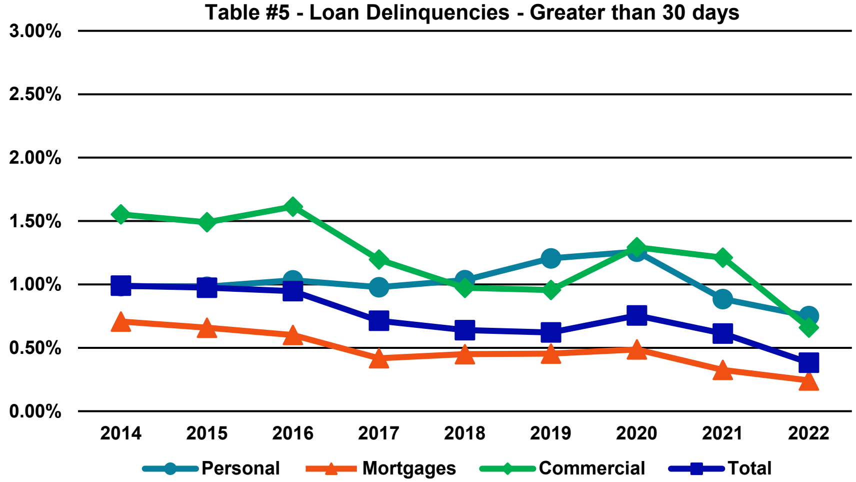


Table #6 - Loan Yields

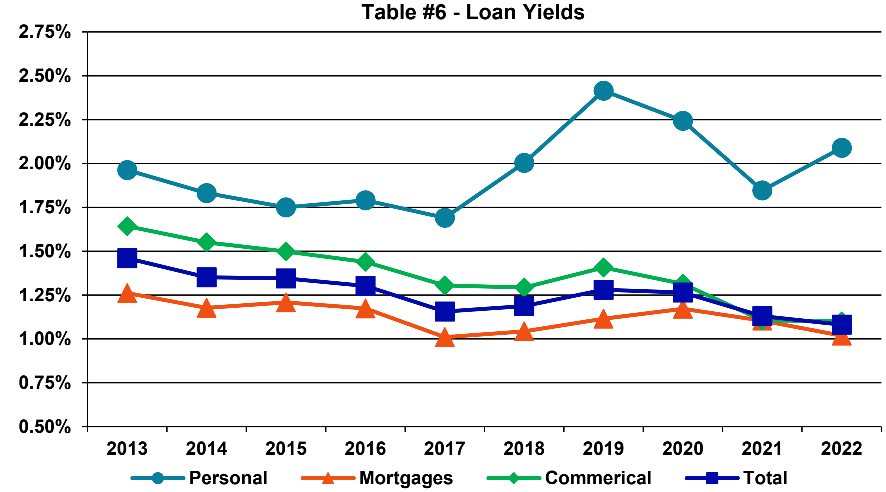


Table #7 - Deposit Growth

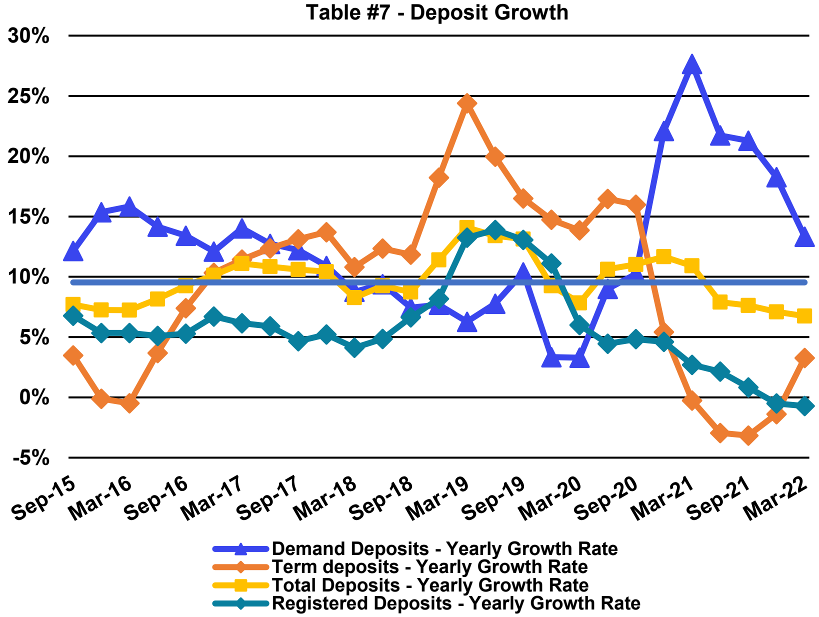
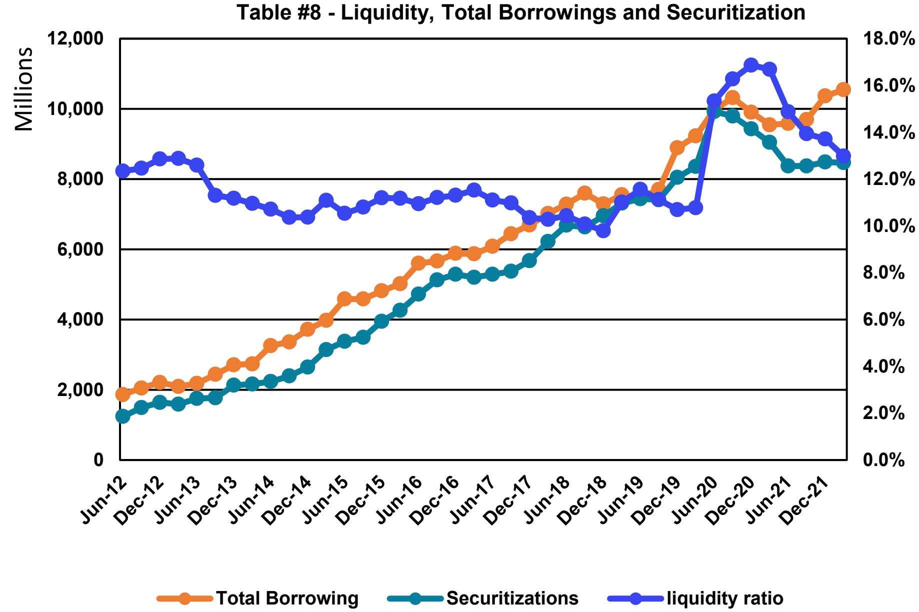


Table #8 - Liquidity, Total Borrowings and Securitization



FSRA Observations 1Q-2022

- Profitability in 1Q-2022 was 73 bps, 9 bps higher than last year and 15 bps higher than last quarter, reflecting large mark to market gains on investments at some credit unions.
- Over 30-day delinquency on residential mortgages (which at $45.3 billion represent 53.3% of sector assets) was 24 bps, down 9 bps from last year and 1 bp from last quarter. Delinquency on commercial loans (which at $23.0 billion represent 27.0% of sector assets) was 66 bps, down 55 bps year over year but up 14 bps from last quarter. Total loan delinquency was 38 bps, down 23 bps year over year (from 61 bps) but up 3 bps from 4Q-2021 (from 35 bps).
- At 1Q-2022 end, sector assets totaled $84.9 billion, reflecting a year over year increase of $4.7 billion (up 7.3%). Residential mortgage loans grew $4.4 billion (up 11.6%, similar to pre-COVID growth rates) as markets were strong and sales prices high, commercial loans grew $3.1 billion (up 15.5%) and cash/investments fell $2.3 billion (down 17.3%) as funds were redeployed in higher yielding assets.
- Liquidity in 1Q-2022 remained strong at 13.0% although 370 bps below last year which was unusually high as there was softness in core lines of business.
- Year over year growth in retained earnings (16.5%) exceeded growth in total assets (7.3%). However, investment shares (up $179 million or 8.2% year over year) continue to represent a significant source of funding ($2.4 billion or 38.8% of capital in 1Q-2022, down slightly from 40.3% in 1Q-2021).

Economic Overview

At its April 13th, 2022 meeting, the Bank of Canada (the “Bank”) increased its target for the overnight rate to 1%, with the Bank Rate at 1¼% and the deposit rate at 1%. The Bank announced it would end reinvestment and begin quantitative tightening (QT), effective April 25th, 2022. The effect of this is that maturing Government of Canada bonds on the Bank’s balance sheet will no longer be replaced and the size of its balance sheet will decline over time. In a detailed release, the Bank made the following statements.

“Russia’s ongoing invasion of Ukraine is causing unimaginable human suffering and new economic uncertainty. Price spikes in oil, natural gas and other commodities are adding to inflation around the world. Supply disruptions resulting from the war are also exacerbating ongoing supply constraints and weighing on activity. These factors are the primary drivers of a substantial upward revision to the Bank’s outlook for inflation in Canada.

“The war in Ukraine is disrupting the global recovery, just as most economies are emerging from the impact of the Omicron variant of COVID-19. European countries are more directly impacted by confidence effects and supply dislocations caused by the war. China’s economy is facing new COVID outbreaks and an ongoing correction in its property market. In the United States, domestic demand remains very strong and the US Federal Reserve has clearly indicated its resolve to use its monetary policy tools to control inflation. As policy stimulus is withdrawn, US growth is expected to moderate to a pace more in line with potential growth. Global financial conditions have tightened and volatility has increased. The Bank now forecasts global growth of about 3½% this year, 2½% in 2023 and 3¼% in 2024.

“In Canada, growth is strong and the economy is moving into excess demand. Labour markets are tight, and wage growth is back to its pre-pandemic pace and rising. Businesses increasingly report they are having difficulty meeting demand, and are able to pass on higher input costs by increasing prices. While the COVID-19 virus continues to mutate and circulate, high rates of vaccination have reduced its health and economic impacts. Growth looks to have been stronger in the first quarter than projected in January and is likely to pick up in the second quarter. Consumer spending is strengthening with the lifting of pandemic containment measures. Exports and business investment will continue to recover, supported by strong foreign demand and high commodity prices. Housing market activity, which has been exceptionally high, is expected to moderate.

“The Bank forecasts that Canada’s economy will grow by 4¼% this year before slowing to 3¼% in 2023 and 2¼% in 2024. Robust business investment, labour productivity growth and higher immigration will add to the economy’s productive capacity, while higher interest rates should moderate growth in domestic demand.

“CPI inflation in Canada is 5.7%, above the Bank’s forecast in its January *Monetary Policy Report (MPR)*. Inflation is being driven by rising energy and food prices and supply disruptions, in combination with strong global and domestic demand. Core measures of inflation have all moved higher as price pressures broaden. CPI inflation is now expected to average almost 6% in the first half of 2022 and remain well above the control range throughout this year. It is then expected to ease to about 2½% in the second half of 2023 and return to the 2% target in 2024. There is an increasing risk that expectations of elevated inflation could become entrenched. The Bank will use its monetary policy tools to return inflation to target and keep inflation expectations well-anchored.

“With the economy moving into excess demand and inflation persisting well above target, the Governing Council judges that interest rates will need to rise further. The policy interest rate is the Bank’s primary monetary policy instrument, and quantitative tightening will complement increases in the policy rate. The timing and pace of further increases in the policy rate will be guided by the Bank’s ongoing assessment of the economy and its commitment to achieving the 2% inflation target.”

Statistics Canada reported on March 11th, 2022 that the ratio of household debt to disposable income hit a record level in the fourth quarter of 2021 as mortgage borrowing rose and disposable income fell. The agency says the ratio rose to 186.2 per cent, compared with a revised reading of 180.4 per cent for the third quarter.

Statistics Canada noted the ratio stood at 181.1 per cent at the end of 2019 before the pandemic, while the previous record high was in the third quarter of 2018 at 184.7 per cent.

Housing Markets

In its Market Watch report, Toronto Region Real Estate Board (TRREB) said April 2022 sales were 8,008, down materially from 13,613 in April 2021 (by 5,605 or 41.2%) and from 10,955 in March 2022 (by 2,947 or 26.9%). Average selling price was $1.25 million, up 15% from $1.1 million in April 2021 but down 3.5% from $1.3 million in March 2022. There were 18,413 new listings compared to 20,841, down by 2,428 (or 11.7%) from the year earlier period.

The Board offered the following market commentary. “The Greater Toronto Area (GTA) housing market continued its adjustment to higher borrowing costs, with the number of transactions down on a monthly and annual basis. As has been the case with previous rate tightening cycles, some home buyers have moved to the sidelines to determine how they will reposition themselves in the marketplace given the higher rate environment and related impact on affordability. Based on the trends observed in the April housing market, it certainly appears that the Bank of Canada is achieving its goal of slowing consumer spending as it fights high inflation. Negotiated mortgage rates rose sharply over the past four weeks, prompting some buyers to delay their purchase. Moving forward, it will be interesting to see the balance the Bank of Canada strikes between combatting inflation versus stunting economic growth and related government revenues as we continue to recover from and pay for pandemic-related programs.”

Sector Consolidation

There were 61 institutions in 1Q-2022, a reduction of one from the year earlier quarter but unchanged from 4Q-2021. Average assets per institution increased to $1.4 billion (up $116 million or 9.1% year over year) reflecting the effects of organic growth and mergers or amalgamations.

In March, 2022 FSRA approved a charter for Lighthouse Credit Union, the first new credit union in Ontario in over a decade. The credit union will open in the second quarter of 2022.

Profitability

1Q-2022 vs 1Q-2021

As shown in Tables 2 and 3, return on average assets in 1Q-2022 increased to 73 bps (up 9 bps) from 64 bps in the year earlier quarter. Lower interest expense on deposits (down 18 bps to 76 bps) and on other borrowings (down 5 bps to 22 bps), increased investment income (up 9 bps to 49 bps, impacted by mark to market gains at some credit unions) and reduced loan costs (down 4 bps) more than offset lower loan interest (down 10 bps to 2.71%), higher non-interest expenses (up 7 bps to 1.63%) and higher taxes (up 6 bps to 18 bps).

Seven 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.

1Q-2022 vs 4Q-2021

Sector profitability increased by 15 bps (from 58 bps) from last quarter. Investment income increased by 22 bps (from 27 bps, impacted by mark to market gains) and interest expense on deposits decreased by 8 bps (from 84 bps), partially offset by decreases in loan interest of 12 bps (from 2.83%) and increases in income taxes of 6 bps (from 12 bps).

4Q-2021 Ontario Sector vs 4Q-2021 Canadian Sector*

Ontario sector profitability of 58 bps was 11 bps above the Canadian sector's of 47 bps.

Capital

1Q-2022 vs 1Q-2021

Sector capital increased to $6.1 billion (up $671 million or 12.5%) from the year earlier quarter comprised of:

- Retained earnings of $3.7 billion (up $527 million or 16.5%);
- Investment and patronage shares of $2.4 billion (up $179 million or 8.2%); and
- Membership shares of $63 million (down $1 million or 1.5%)

As a percent of risk weighted assets, sector capital was 13.83%, unchanged from the year earlier quarter. Leverage was 7.21%, up 32 bps from the year earlier quarter.

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

1Q-2022 vs 4Q-2021

Sector capital increased by $203 million (3.5% from $5.9 billion) from last quarter due to increases in retained earnings of $119 million (3.3% from $3.6 billion), issuances of investment shares of $121 million (5.4% from $2.2 billion) and increases in membership shares of $1 million (0.7% from $62 million).

Sector capital as a percent of risk weighted assets increased 14 bps (from 13.69%) in the previous quarter. Leverage increased 19 bps (from 7.02%).

Liquidity (including Securitization)

1Q-2022 vs 1Q-2021

As shown in Tables 7 and 8, sector deposits increased by $4.2 billion (up 6.7% to $67.2 billion), securitizations decreased by $0.6 billion (down 6.4% to $8.5 billion) and borrowings increased by $1.6 billion (up 317.2% to $2.1 billion), a net increase of $5.2 billion (up 7.2% to $77.7 billion) from the year earlier. Liquid assets decreased $2.0 billion (down 16.6% to $10.1 billion) resulting in a decrease in liquidity to 13.0% (down 370 bps from 16.7% in Q-2021).

In 1Q-2022, there were 23 institutions (21 credit unions and 2 caisses populaires) with total assets of $77.2 billion (90.9% of sector assets) participating in securitization programs.

1Q-2022 vs 4Q-2021

Sector deposits increased by $0.6 billion (up 1.0% from $66.5 billion), securitizations decreased by $21 million (down 0.2% from $8.5 billion) and borrowings increased by $188 million (up 10.0% from $1.9 billion), a net increase of $0.8 billion (up 1.1% from $76.9 billion) from last quarter. However, liquid assets decreased by $410 million (down 3.9% from $10.5 billion) resulting in a decrease of 70 bps in liquidity (from 13.7%).

Efficiency Ratio (before dividends/interest rebates)

1Q-2022 vs 1Q-2021

As shown in Table 3, the sector efficiency ratio improved to 63.2% (down 280 bps from 66.0%) from the year earlier quarter.

1Q-2022 vs 4Q-2021

Compared to last quarter, sector efficiency improved by 440 bps (from 67.6%).

4Q-2021 Ontario Sector vs. 4Q-2021 Canadian Sector

Non-interest expense as a percent of average assets for the Ontario sector (1.61%) was 14 bps better than the Canadian sector (1.75%). Ontario sector efficiency ratio (67.6%) was 4.5 percentage points better than the Canadian sector (72.1%). This reflects a significant improvement from 4Q-2020 when at 80.3%, the Ontario sector was 6.2 percentage points worse than the Canadian sector (74.1%).

Credit Quality (delinquency greater than 30 days)

1Q-2022 vs 1Q-2021

As shown in Table 5, total loan delinquency decreased to 38 bps (down 23 bps from 61 bps) compared to the year earlier quarter. Residential mortgage loan delinquency decreased to 24 bps (down 9 bps from 33 bps) and commercial loan delinquency decreased to 66 bps (down 55 bps from 121 bps).

1Q-2022 vs 4Q-2021

Compared to last quarter, total loan delinquency increased by 3 bps (from 35 bps) reflecting decreased residential mortgage loan delinquency of 1 bp (from 25 bps) offset by increased commercial loan delinquency of 14 bps (from 52 bps).

Growth

1Q-2022 vs 1Q-2021

Compared to the previous year, total sector assets increased to $84.9 billion (up $5.8 billion or 7.3%). This reflects increases in residential mortgage loans to $45.3 billion (up $4.7 billion or 11.6%) and commercial loans to $23.0 billion (up $3.1 billion or 15.5%), offset by decreased cash/investments of $10.8 billion (down $2.3 billion or 17.3%).

1Q-2022 vs 4Q-2021

Total sector assets increased by $1.0 billion (1.2% from $83.9 billion) from last quarter reflecting increases in residential mortgage loans of $0.6 billion (1.4% from $44.6 billion) and in commercial loans of $1.1 billion (5.2% from $21.8 billion) offset by decreases in cash/investments of $0.7 billion (6.4% from $11.5 billion).

4Q-2021 Ontario Sector vs 4Q-2021 Canadian Sector

Ontario sector growth (6.7%) in total assets exceeded the Canadian sector's growth (4.9%) reflecting increases in residential mortgage loans of 10.8% (vs 8.3%), commercial loans of 12.3% (vs 8.8%) and agricultural loans of 11.8% (vs 8.1%).

Sector Income Statements

% of Average Assets (except as noted)	Ontario Sector 1Q-2022	Ontario Sector 4Q-2021	Ontario Sector 1Q-2021	Canadian Sector[1] 4Q-2021
Interest and Investment Income				
Loan Interest	**2.71%**	2.83%	2.81%	2.64%
Investment Income	**0.49%**	0.27%	0.40%	0.19%
Total Interest and Investment Income	**3.20%**	3.10%	3.21%	2.83%
Interest and Dividend Expense				
Interest Expense on Deposits	**0.76%**	0.84%	0.94%	0.76%
Rebates/Dividends on Share Capital	**0.04%**	0.06%	0.04%	
Dividends on Investment/Other Capital	**0.01%**	0.01%	0.01%	0.08%
Other Interest Expense	**0.22%**	0.25%	0.27%	0.14%
Total	**0.29%**	0.35%	0.34%	0.22%
Total Interest & Dividend Expense	**1.05%**	1.19%	1.27%	0.98%
Net Interest & Investment Income	**2.15%**	1.90%	1.94%	1.85%
Loan Costs	**(0.01%)**	(0.00%)	0.03%	0.00%
Net Interest & Investment Income after Loan Costs	**2.16%**	1.91%	1.90%	1.85%
Other (non-interest) Income	**0.38%**	0.41%	0.41%	0.50%
Net Interest, Investment & Other Income	**2.54%**	2.31%	2.31%	2.35%
Non-Interest Expenses				
Salaries & Benefits	**0.90%**	0.90%	0.89%	
Occupancy	**0.14%**	0.14%	0.14%	
Computer, Office & Other Equipment	**0.18%**	0.18%	0.18%	
Advertising & Communications	**0.07%**	0.07%	0.06%	
Member Security	**0.08%**	0.08%	0.08%	
Administration	**0.20%**	0.17%	0.13%	
Other	**0.07%**	0.08%	0.07%	
Total Non-Interest Expenses	**1.63%**	1.61%	1.56%	1.75%
Net Income/(Loss) Before Taxes	**0.91%**	0.70%	0.76%	0.60%
Taxes	**0.18%**	0.12%	0.12%	0.12%
Net Income/(Loss)	**0.73%**	0.58%	0.64%	0.47%
Average Assets (Billions)	**$84**	$81	$79	$273

[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		
	1Q-2022	4Q-2021	1Q-2021
Assets			
Cash and Investments	10,768	11,510	13,018
Personal Loans	1,796	2,034	1,998
Residential Mortgage Loans	45,254	44,616	40,536
Commercial Loans	22,962	21,837	19,887
Institutional Loans	106	90	83
Unincorporated Association Loans	54	55	75
Agricultural Loans	2,576	2,541	2,299
Total Loans	72,749	71,173	64,879
Total Loan Allowances	216	223	268
Capital (Fixed) Assets	647	656	665
Intangible and Other Assets	959	809	810
Total Assets	84,907	83,926	79,105
Liabilities			
Demand Deposits	30,795	30,985	27,173
Term Deposits	22,752	22,062	22,031
Registered Deposits	13,644	13,495	13,742
Total Deposits	67,191	66,542	62,946
Borrowings	2,074	1,886	497
Securitizations	8,469	8,490	9,046
Other Liabilities	1,113	1,152	1,227
Total Liabilities	78,847	78,070	73,717
Members' Equity & Capital			
Membership Shares	63	62	64
Retained Earnings	3,718	3,599	3,191
Other Tier 1 & 2 Capital	2,352	2,231	2,173
AOCI	(72)	(35)	(39)
Total Members' Equity & Capital	6,059	5,856	5,388
Total Liabilities, Members' Equity & Capital	84,907	83,926	79,105

* Totals may not agree due to rounding

Sector Balance Sheets

	1Q-2022 $millions	Sector % Increase/(Decrease) from 4Q-2021	Sector % Increase/(Decrease) from 1Q-2021
Assets			
Cash and Investments	10,768	-6.4%	-17.3%
Personal Loans	1,796	-11.7%	-10.1%
Residential Mortgage Loans	45,254	1.4%	11.6%
Commercial Loans	22,962	5.2%	15.5%
Institutional Loans	106	17.0%	26.8%
Unincorporated Association Loans	54	-1.0%	-27.6%
Agricultural Loans	2,576	1.4%	12.0%
Total Loans	72,749	2.2%	12.1%
Total Loan Allowances	216	-3.2%	-19.5%
Capital (Fixed) Assets	647	-1.4%	-2.6%
Intangible and Other Assets	959	18.5%	18.3%
Total Assets	84,907	1.2%	7.3%
Liabilities			
Demand Deposits	30,795	-0.6%	13.3%
Term Deposits	22,752	3.1%	3.3%
Registered Deposits	13,644	1.1%	-0.7%
Total Deposits	67,191	1.0%	6.7%
Borrowings	2,074	10.0%	317.2%
Securitizations	8,469	-0.2%	-6.4%
Other Liabilities	1,113	-3.4%	-9.3%
Total Liabilities	78,847	1.0%	7.0%
Members' Equity & Capital			
Membership Shares	63	0.7%	-1.5%
Retained Earnings	3,718	3.3%	16.5%
Other Tier 1 & 2 Capital	2,352	5.4%	8.2%
Accumulated Other Comprehensive Income	(72)	104.1%	84.1%
Total Members' Equity & Capital	6,059	3.5%	12.5%
Total Liabilities, Members' Equity & Capital	84,907	1.2%	7.3%

*** Totals may not agree due to rounding**

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Sector Balance Sheets

As a percentage of Total Assets	Sector			Canadian Sector[1]
	1Q-2022	4Q-2021	1Q-2021	4Q-2021
Assets				
Cash and Investments	12.7%	13.7%	16.5%	16.90%
Personal Loans	2.1%	2.4%	2.5%	3.4%
Residential Mortgage Loans	53.3%	53.2%	51.2%	48.7%
Commercial Loans	27.0%	26.0%	25.1%	24.5%
Institutional Loans	0.1%	0.1%	0.1%	0.9%
Unincorporated Association Loans	0.1%	0.1%	0.1%	0.0%
Agricultural Loans	3.0%	3.0%	2.9%	3.7%
Total Loans	85.7%	84.8%	82.0%	81.3%
Total Loan Allowances	0.3%	0.3%	0.3%	-0.3%
Capital (Fixed) Assets	0.8%	0.8%	0.8%	0.9%
Intangible and Other Assets	1.1%	1.0%	1.0%	1.2%
Total Assets	100.0%	100.0%	100.0%	100.0%
Liabilities				
Demand Deposits	36.3%	36.9%	34.4%	44.4%
Term Deposits	26.8%	26.3%	27.9%	27.0%
Registered Deposits	16.1%	16.1%	17.4%	14.1%
Total Deposits	79.1%	79.3%	79.6%	85.7%
Borrowings	2.4%	2.2%	0.6%	5.0%
Securitizations	10.0%	10.1%	11.4%	
Other Liabilities	1.3%	1.4%	1.6%	2.2%
Total Liabilities	92.9%	93.0%	93.2%	92.9%
Members' Equity & Capital				
Membership Shares	0.1%	0.1%	0.1%	0.5%
Retained Earnings	4.4%	4.3%	4.0%	5.5%
Other Tier 1 & 2 Capital	2.8%	2.7%	2.7%	1.1%
AOCI	-0.1%	0.0%	0.0%	0.0%
Total Members' Equity & Capital	7.1%	7.0%	6.8%	7.1%
Total Liabilities, Members' Equity & Capital	100.0%	100.0%	100.0%	100.0%