

Credit Union Sector Report

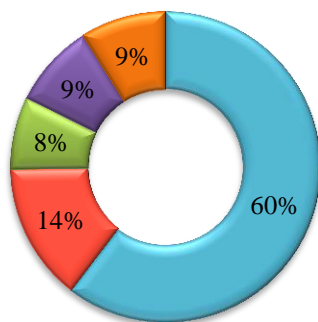


Credit Union Division • IQ2016 Data

1Q Economic Trends

- The economy was estimated to have grown by 1.7 percent in 2016, mainly due to an excellent tourism performance.
- The average unemployment rate for 2016 was 11.3 percent, compared with 12.3 percent in 2015.
- The international reserves totalled \$938 million, which is equivalent to approximately 14 weeks of imports.

Assets of the Financial Sector



- Commercial Banks
- Insurance Sector
- Trust & Finance Companies
- Credit Union Sector
- Mutual Funds

Source: Central Bank of Barbados

Sector Profile at a Glance

	2016	2015
Number of credit unions	34	35
Total Assets (billion)	\$1.9	\$1.8
Total Loans (billion)	\$1.5	\$1.4
Total Deposits (billion)	\$1.6	\$1.5
Capital Adequacy Ratio	11.8%	11.9%
Profitability	1.1%	0.9%

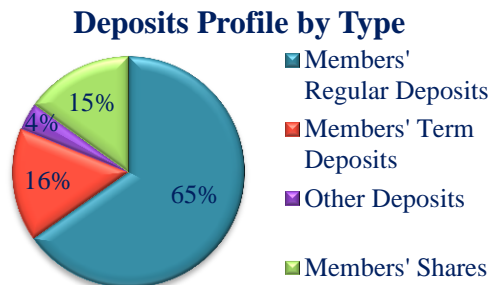
During the financial year 2015/2016 the credit union sector saw some consolidation as a small credit union transferred its assets and liabilities to a larger credit union. As a result, the sector consisted of thirty four (34) credit unions as at 1Q16, one less than 1Q15.

It is anticipated that during 2016 there is likely to be further consolidation as smaller credit unions consider the option to merge with larger credit unions thereby enhancing their members' access to a larger network and additional products and services. This emerging trend of consolidation can also be attributed to challenges facing smaller credit unions including; an aging membership base, greater regulatory compliance requirements and the reluctance of members to volunteer to serve as elected officers.

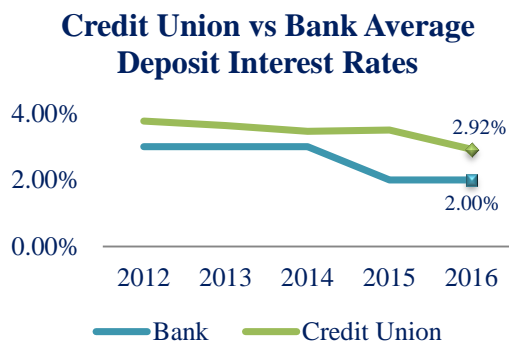
Membership within the credit union sector grew from 170,047 to 178,584, resulting in an expansion of 8,537 or 5.0%. Generally, membership growth coincided with the reduction in interest rates on savings offered by the banking sector, subsequent to the de-regulation of savings rate on deposits effective April 21, 2015.

The credit union sector in Barbados is characterised by a high degree of heterogeneity. At March 2016, approximately 91.7% of the assets of the credit union sector were held by the seven largest credit unions. The largest credit union surpassed the milestone of BDS\$1 billion in assets, which represented 52.6% in assets. In contrast, the smallest 20 credit unions only accounted for two per cent of assets in the sector of which the smallest held BDS\$116,256.

Total assets grew by 8.1% to BDS\$1.9 billion at 1Q16 from BDS\$1.8 billion at 1Q15. Total loans grew 6.5% to BDS\$1.5 billion with net loans being BDS\$1.4 billion which represented 73.1% of total assets in 1Q16 compared to 73.9% in 1Q15. Deposits grew by 9.6% to BDS\$1.6 billion in 1Q16, compared to a 5.3% growth 1Q15.



Subsequent to the reduction in interest rates on savings by the banking sector, the credit union sector saw a significant increase in its term deposits which grew by 17.9% in 1Q16.



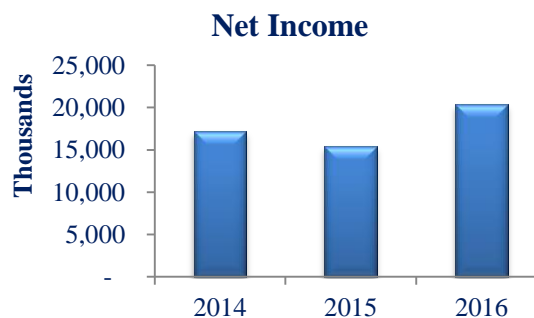
The sector's loans to deposits ratio stood at 88.5% at 1Q16, a 2.6% decline from 1Q15 due to the deposits growing at a faster rate than the loans over the year.

Cash and investments totalled BDS\$403.4 million or 20.8% of total assets as credit unions paid down BDS\$30.0 million in external borrowings. The sector's liquid investments are comprised mainly of term deposits which represent approximately 43% of total investments.

The sector's liquidity ratio¹ increased to 24.1% at the first quarter of 2016 compared to 23.6% at the beginning of 2015. This evidenced the sector's ability to adequately meet the demands of members.

At 1Q16 the sector's net interest income stood at BDS\$85.2 million or 3.1% growth from 1Q15. Interest earned on loans and investments increased by 7.8% while interest paid on deposits grew by 19.7% representing dollar values of BDS\$9.0 million and BDS\$6.4 million respectively.

The net interest margin grew by 4.9% over the prior year which suggests that the industry continues to find investment options that are consistent with the industry's risk appetite.

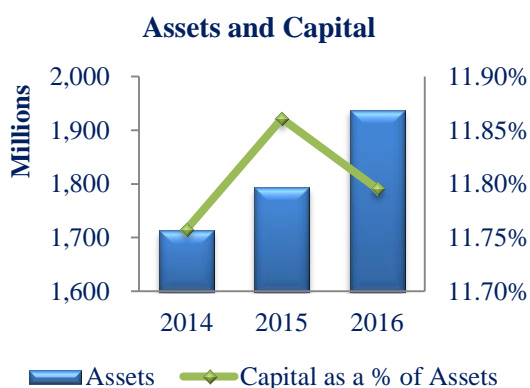


¹ Liquidity ratio is defined as cash and investments to savings and loans payable

Thirty of the thirty four or 88% of the credit unions continued to be profitable at the end of 1Q16. The sector's return on average assets marginally increased to 1.1% from 0.9% the previous year, reflecting continued strong returns from its lending and investments.

For the reporting period, the quality of capital continued to be high. Capital was comprised of 92% reserves/retained earnings, with membership shares representing the remaining 8%.

Despite the low interest rate environment the sector was well capitalized at 11.8% of assets which is relatively on par with 11.9% in 2015. Over the year, the sector's capital grew by 7.5% (BDS\$15.9 million). This was outpaced by the growth in assets and resulted in a marginal reduction of the capital adequacy ratio² by 6 bp.



Five credit unions reported capital levels below 10%.

As at March 2016, the sector's gross delinquency declined to 12.1% compared to 14.0% at 1Q15, mainly due to the decrease in the 1 – 3 month delinquency category.

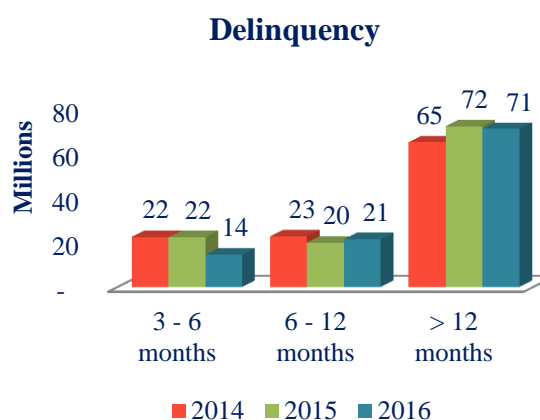
² Capital adequacy ratio is defined as capital to total assets

Non-performing Loans (NPLs)³ represented 7.3% of total loans and represented a 102 bp decrease from 1Q15.

The over 12 month delinquency category continued to be the category with the highest NPL delinquency rate. These NPLs tend to be concentrated in mortgages which involve a lengthy legal resolution process.

The coverage ratio⁴ declined to 33.5% in 2016 compared to 34.7% in 2015 as both LLPs and NPLs declined with the latter declining at a slower rate. The decline in the LLPs was a result of actions by the largest credit unions to charge off some NPLs against loan loss provisions. Although LLPs only covered 33.5% of NPLs, the sector's LLPs and capital combined sufficiently covers its NPLs.

Typically 30% of members' savings are pledged as loan security and cannot be withdrawn.



³ Non-performing loans represent delinquency greater than 90 days

⁴ Coverage ratio is defined as loan loss provision to non-performing loans

Financial Indicators for the Credit Union Sector

	2013Q1	2014Q1	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1
Total Assets (Growth) %	5.5	5.9	4.6	5.5	7.1	7.3	8.1
Loans (Growth) %	2.3	3.6	6.3	7.1	7.0	6.5	6.5
Deposit (Growth) %	5.4	7.1	5.3	6.1	8.1	8.9	9.6
Liquid Assets, % of Total Assets	20.3	22.0	20.3	19.9	19.5	19.2	20.8
Loan to Deposit Ratio	93.3	90.2	91.1	91.4	91.0	90.8	88.5
Net Loan to Total Assets Ratio	74.3	72.4	73.9	74.3	74.6	74.8	73.1
Non-Performing Loans, % of Total Loans	8.3	8.6	8.4	8.2	8.9	9.1	7.3
Loan Loss Provisions/Non-Performing Loans %	37.2	38.4	34.7	36.0	30.0	29.2	33.5
Capital Adequacy Ratio	11.2	11.8	11.9	11.5	11.5	11.6	11.8
ROA (Annualized)	1.2	1.0	0.9	0.8	0.8	0.9	1.1