

# Credit Union Sector Report

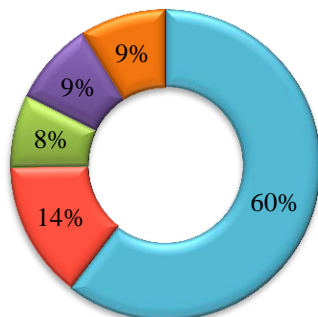


Credit Union Division • 2Q2016 Data

## 2Q Economic Trends

- The economy was estimated to have grown by 1.3 percent in 2016, mainly due to tourism.
- The average unemployment rate for 2016 was 10.7 percent, compared with 12.4 percent in 2015.
- The international reserves totalled \$884 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
<b>Number of credit unions</b>	34	34
<b>Total Assets (billion)</b>	\$2.0	\$1.8
<b>Total Loans (billion)</b>	\$1.5	\$1.4
<b>Total Deposits (billion)</b>	\$1.7	\$1.5
<b>Capital Adequacy Ratio</b>	11.7%	11.5%
<b>Profitability</b>	1.1%	0.8%

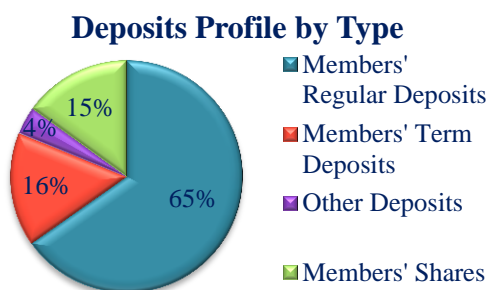
During the financial year 2015/2016 the credit union sector saw some consolidation as a small credit union transferred its assets and liabilities to a larger credit union. As a result, the sector consisted of thirty four (34) credit unions as at 2Q16, one less than 1Q15.

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.

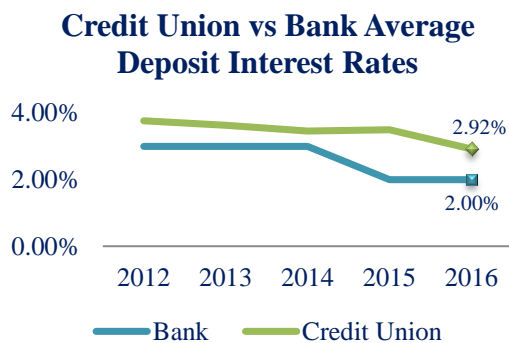
Membership within the credit union sector grew from 171,671 to 180,538, resulting in an expansion of 8,867 or 5.2%.

At June 2016, approximately 91.8% of the assets of the credit union sector were held by the seven largest credit unions. The largest credit union represented 52.8% in assets with BDS\$1.0 billion. In contrast, the smallest 20 credit unions only accounted for 1.9% of assets in the sector of which the smallest held BDS\$106,046.

Total assets grew by 8.5% to BDS\$2.0 billion at 2Q16 from BDS\$1.8 billion at 2Q15. Total loans grew 6.1% to BDS\$1.5 billion with net loans being BDS\$1.4 billion which represented 72.9% of total assets in 2Q16 compared to 74.3% in 2Q15. Deposits grew by 10.1% to BDS\$1.7 billion in 2Q16, compared to a 6.1% growth 2Q15.



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 18.2% in 2Q16.



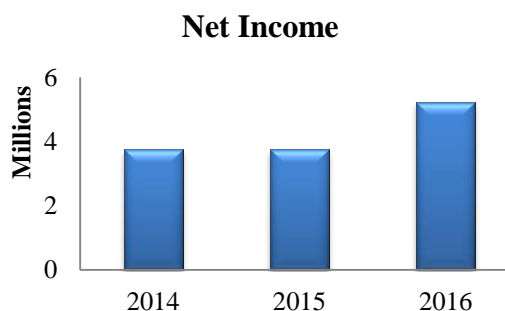
The sector's loans to deposits ratio stood at 88.0% at 2Q16, a 3.4% decline from 2Q15 due to the deposits growing at a faster rate than the loans over the year.

Cash and investments totalled BDS\$416.3 million or 21.1% of total assets as credit unions paid down BDS\$23.1 million in external borrowings. The sector's liquid investments are comprised mainly of term deposits which represent approximately 42% of total investments.

The sector's liquidity ratio<sup>1</sup> increased to 24.5% at the second quarter of 2016 compared to 23.1% at the second quarter of 2015. This evidenced the sector's ability to adequately meet the demands of members.

At 2Q16 the sector's net interest income stood at BDS\$24.7 million or 5.4% growth from 2Q15. Interest earned on loans and investments increased by 7.9% while interest paid on deposits grew by 14.3% representing dollar values of BDS\$2.6 million and BDS\$1.3 million respectively.

The net interest margin grew by 1.4% over the prior year which suggests that the industry continues to find investment options that are consistent with the industry's risk appetite.



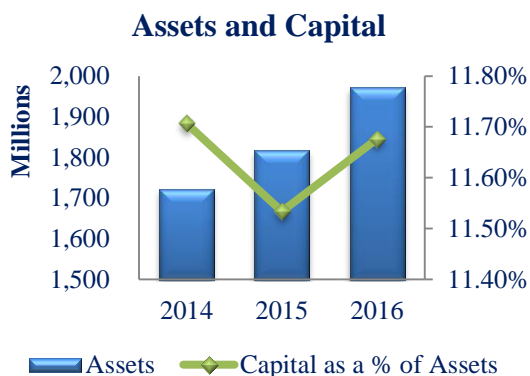
Twenty eight of the thirty four or 82% of the credit unions continued to be profitable at the end of 2Q16. The sector's return on average assets marginally increased to 1.1% from 0.8% the previous year, reflecting

<sup>1</sup> Liquidity ratio is defined as cash and investments to savings and loans payable

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 11.7% of assets which is relatively on par with 11.5% in 2015. Over the year, the sector's capital grew by 9.9% (BDS\$20.7 million) which outpaced the growth in assets and resulted in a marginal increase of the capital adequacy ratio<sup>2</sup> by 15 bp.



Five credit unions reported capital levels below 10%.

As at June 2016, the sector's gross delinquency declined to 12.2% compared to 14.3% at 2Q15, mainly due to the decrease in the 1 – 3 month delinquency category.

Non-performing Loans (NPLs)<sup>3</sup> represented 7.7% of total loans and represented a 54 bp decrease from 2Q15.

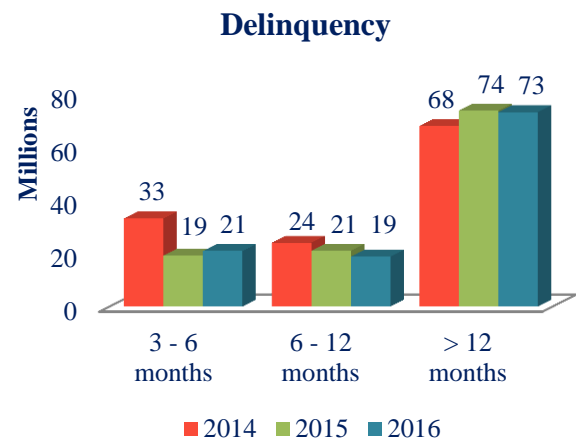
<sup>2</sup> Capital adequacy ratio is defined as capital to total assets

<sup>3</sup> Non-performing loans represent delinquency greater than 90 days

The over 12 month delinquency category continued to be the category with the highest NPL delinquency rate as it represented 5.0% of total NPLs. These NPLs tend to be concentrated in mortgages which involve a lengthy legal resolution process.

The coverage ratio<sup>4</sup> declined to 32.4% in 2016 compared to 36.0% in 2015 as both LLPs and NPLs declined with the latter declining at a slower rate. At the end of 2Q16, the sector saw an increase in its LLPs from 1Q16 as the largest credit unions increased their allocations to loan loss provision in response to the decline reported in 1Q16 that resulted from the charge off of some NPLs. Although LLPs only covered 32.4% 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.



<sup>4</sup> Coverage ratio is defined as loan loss provision to non-performing loans

## Financial Indicators for the Credit Union Sector

	2013Q2	2014Q2	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2
Total Assets (Growth) %	6.1	5.1	5.5	7.1	7.3	8.1	8.5
Loans (Growth) %	2.7	4.3	7.1	7.0	6.5	6.5	6.1
Deposit (Growth) %	6.3	6.6	6.1	8.1	8.9	9.6	10.1
Liquid Assets, % of Total Assets	21.0	20.9	19.9	19.5	19.2	20.8	21.1
Loan to Deposit Ratio	92.6	90.5	91.4	91.0	90.8	88.5	88.0
Net Loan to Total Assets Ratio	73.6	72.9	74.3	74.6	74.8	73.1	72.9
Non-Performing Loans, % of Total Loans	8.3	9.6	8.2	8.9	9.1	7.3	7.7
Loan Loss Provisions/Non-Performing Loans %	38.4	34.9	36.0	30.0	29.2	33.5	32.4
Capital Adequacy Ratio	11.2	11.7	11.5	11.5	11.6	11.8	11.7
ROA (Annualized)	1.2	0.9	0.8	0.8	0.9	1.1	1.1