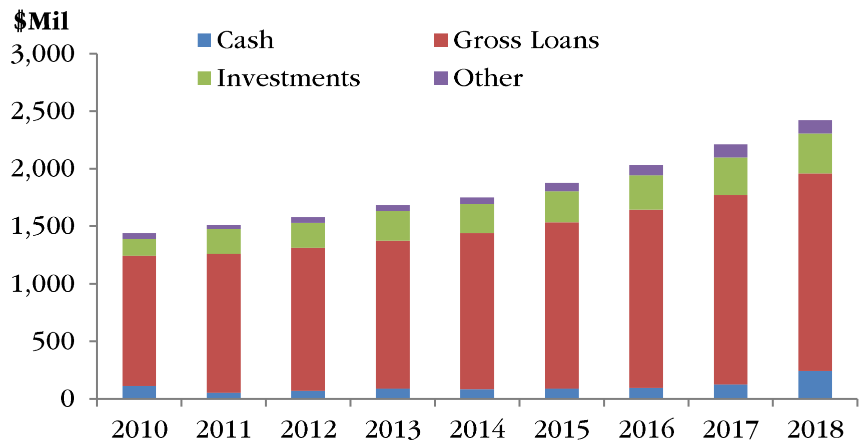
FINANCIAL STABILITY REPORT 2018

FINANCIAL SERVICES
COMMISSION

Credit Unions

The credit union sector experienced growth in 2018, with total assets rising by 9.5 percent over the period (**Figure 32**) One significant facet of this growth was loans, which expanded by 4.2 percent, as the credit union sector outperformed other deposit-taking intermediaries in loan origination. Nevertheless, this performance represented the slowest rate of expansion of the credit unions' loan book in the past five years. Given robust deposit growth, the sector grappled with burgeoning liquidity, reflected in rising cash and other liquid assets, which nearly doubled. Collectively, the credit unions were only modestly impacted by Government's debt restructuring, but the unavailability of short-term treasury bills to manage short-term liquidity spurred the credit unions to hold larger deposit balances at other financial institutions.

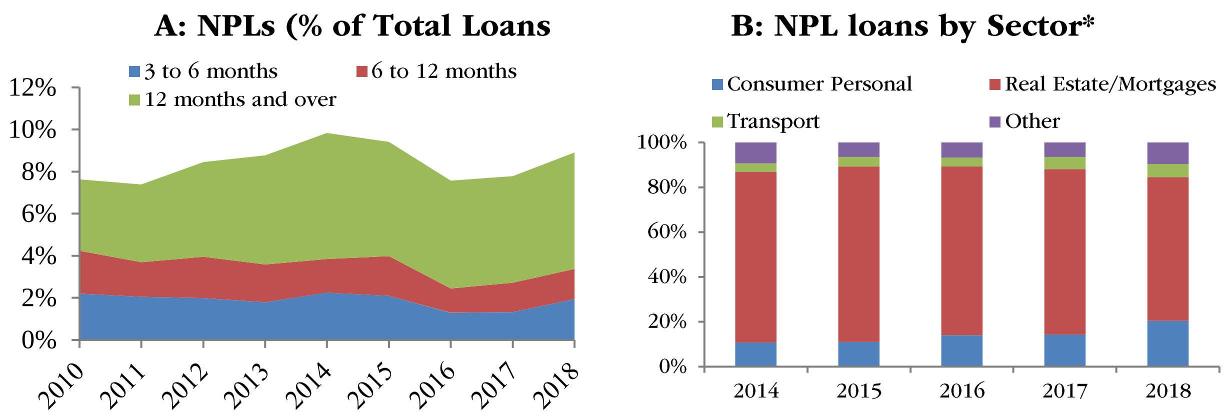
Figure 1. Assets of the Credit Union Sector



Source: Financial Services Commission

Non-performing loans (NPLs) for the sector rose to approximately 8.9 percent of gross loans compared to 7.8 percent at the end of 2017. The increase in loans classified as non-performing was almost equally split between in the twelve-month-and-over and three-to-six-month categories **(Figure 33)**.

Figure 2: Non-Performing Loans

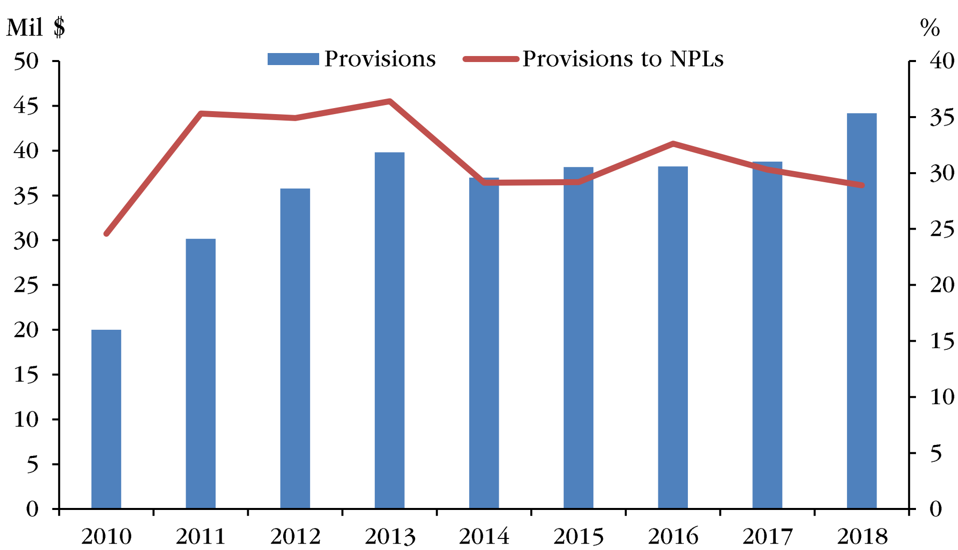


Source: Financial Services Commission

**This data captures 80 percent of the sector*

Data for the largest credit unions shows that real estate/mortgages continue to be the most significant component of the NPLs, accounting for 57.5 percent of the total, followed by consumer personal lending, which accounted for approximately 18.3 percent of NPLs. While the credit unions continued to write-off loans in the twelve-month-and-over category, these were generally unrelated to mortgages. Consequently, the twelve-month-and-over category of NPLs remains elevated. Provisioning within the sector increased modestly but due to the rising NPLs, the provisions-to-NPL ratio fell slightly to 28.9 percent in 2018 **(Figure 34)**.

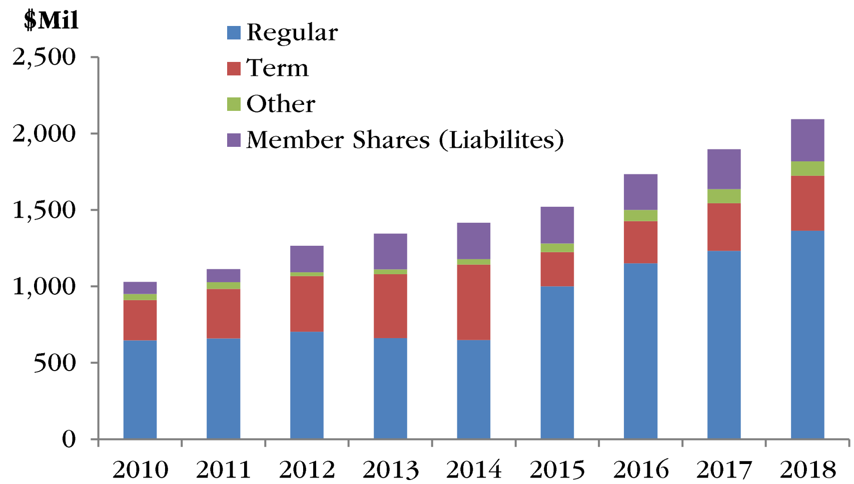
Figure 3: NPLs as a Percentage of Provisioning



Source: Financial Services Commission

Funding for the growth in assets continued to be provided largely by regular members' savings and term deposits. With the abolition in 2015 of the minimum savings rate at commercial banks', credit unions have seen an acceleration in deposit growth as savers seek higher yields than what is available in the commercial banking sector. Indeed, deposits grew by an average of 11 percent per annum in the four years ending 2018, while between 2010 and 2014 the average rate of growth was just under 7 percent per year. Member savings' over 2018 expanded by 10.4 percent, with regular and term deposits being the main contributors **(Figure 35)**.

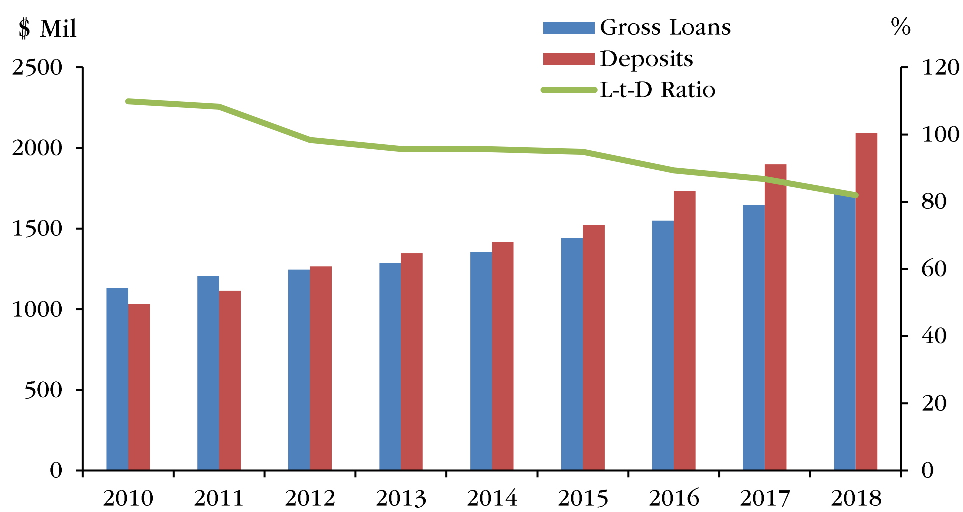
Figure 4: Member Savings



Source: Financial Services Commission

Another major indicator of rising liquidity with the credit union sector, has been the ratio of the sector's loans to its deposit base. In a reflection of the modest loan demand relative to significant deposit inflows, the downward trend in the loan-to-deposit ratio continued into 2018 with the ratio falling from 86.7 percent to 81.9 percent **(Figure 36).**

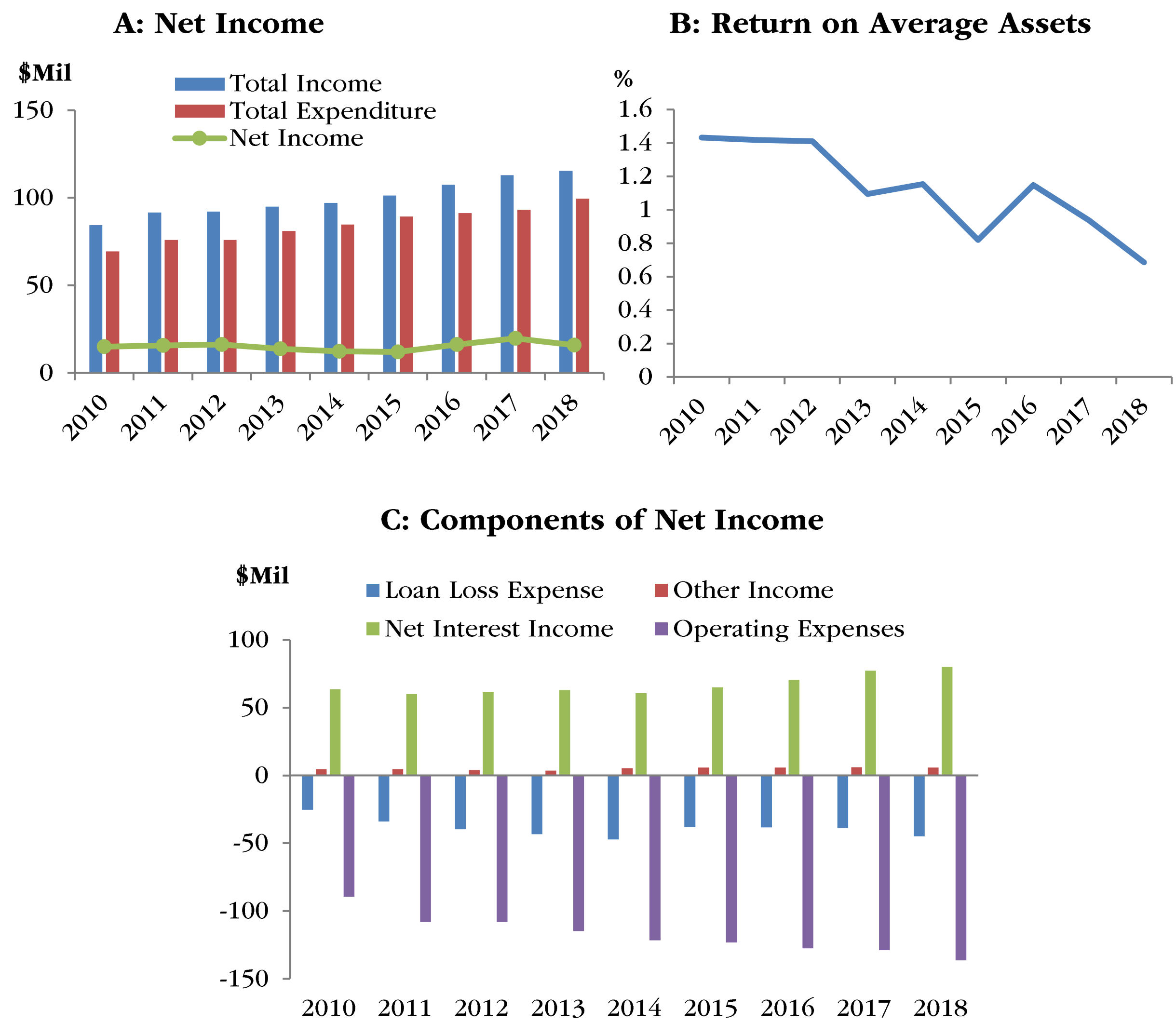
Figure 5: The Loan-to-Deposit Ratio



Source: Financial Services Commission

Net interest income for the period under review increased marginally, as higher interest income on loans offset the marginal decline in the investment income and interest expense on deposits. However, a near 6 percent increase in operational expenditure and rising loan loss expenses drove down the overall net income by 19 percent compared to 2017 **(Figure 37)**. Consequently, the return on average assets slipped for the second consecutive year, falling to 0.7 percent.

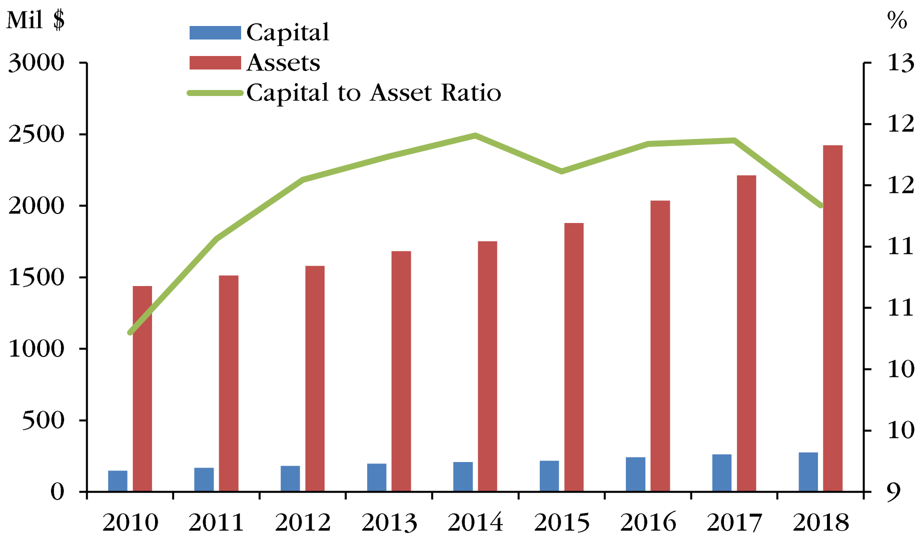
Figure 6: Profitability



Source: Financial Services Commission

With the growth in assets and weaker profitability, the credit union sector experienced a marginal decline in its capital-to-asset ratio. However, the capital-to-asset ratio remained above the regulatory requirements of 10 percent **(Figure 38)**. Two credit unions registered capital asset ratios below the threshold.

Figure 7: Capital to Asset Ratio



Source: Financial Services Commission

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