



Financial Stability Update 
2015



CENTRAL BANK OF BARBADOS

Preface

The Central Bank and the Financial Services Commission (FSC) are jointly responsible for the continuous oversight of the financial system, the assessment of vulnerabilities and the initiation of policies that increase the resilience of the system in the face of possible adverse events. The Central Bank's Financial Stability Unit works with the FSC's staff to ensure that the assessment of risk exposures covers the activities of banks, insurance companies, non-bank financial institutions, credit unions, the activities of the Barbados Securities Exchange and issues and redemptions of government securities. This report analyses a range of financial stability indicators for banks and other financial institutions, as well as balance sheet and income and expenditure trends. For the deposit taking institutions, financial forecasts are used to project expectations for capital adequacy and the quality of credit. Progressive stress tests are also used to test for possible contagion among banks for both their domestic and foreign exposures.

Overview

Evidence of a slowly recovering financial system emerged over the twelve months ending March 2015 as the loan portfolios of major deposit-taking institutions (DTIs), expanded by just over one percentage point of GDP. Commercial banks' recorded 1.4 percent growth in credit, while the credit unions' expansion was a more substantial 6.7 percent, albeit from a smaller base. DTIs remain well capitalised, with banks in particular possessing capital levels that make them extremely resilient to substantial economic shocks. Credit risk within commercial banks has been contained as net write-offs continued to average less than one percent per year of total loans.

The domestic insurance sector recorded strong growth in premiums, particularly in the life insurance subsector, even though overall assets continued to contract. The life insurance industry also increased its holdings of domestic debt in 2014 in contrast to a marginal reduction in holdings by the general insurance industry. Efforts continued apace to recapitalise CLICO with that company's contingent liabilities being quantified, while the Government of Barbados proposed the creation of a new company to replace CLICO. The assets of the domestic fund management industry grew by 2.3 percent, with most of the expansion concentrated in the growth and income funds. The actual number of funds, however, was reduced by one compared to March 2014 due to the maturation of an exchange-traded fund.

As at March 2015, inferences from stress tests suggest that the financial system is very stable; the capital reserves that are set aside by institutions to protect them against unexpected losses are sufficient to ward off adverse occurrences of sizeable proportions. Additionally Table 1 suggests that in the event of a systemic crisis, the parent entities of the banks remain well positioned to assist their subsidiaries and branches as they remain well capitalised.

Regulatory authorities continued to build on efforts to enhance the domestic supervisory framework. The Central Bank launched guidelines on measuring capital adequacy for controlling interest rate risks on the banking book.

Table 1: Capital Adequacy and Rating of Parent

Domestic Bank	Majority Shareholder	Majority Shareholder Capital Adequacy (Tier 1-2014)	Majority Shareholder's Rating (Moody's)	Country Rating (Majority Shareholder) (Standard and Poor's)
Republic Bank Barbados Limited	Republic Bank Limited	25.8*	Baa1	A/Trinidad and Tobago
CIBC First Caribbean International Bank	CIBC	10.3**	Aa3	AAA/Canada
Bank of Nova Scotia	Bank of Nova Scotia	10.8**	Aa2	AAA/Canada
Royal Bank of Canada	Royal Bank of Canada	11.4**	Aa3	AAA/Canada
First Citizens	First Citizens Group	54.7 [#]	Baa1	A/Trinidad and Tobago
Citibank Ltd	Citigroup Inc.	11.4	Baa1	AA+/USA

* Tier I & Tier II Capital Adequacy.

** Based on Basel III Tier 1 capital requirements and definitions

[#] The Bank reports a capital/assets ratio of 17.9 percent (Annual Report 2014)

Appendices

Table 1: Selected Financial Indicators – Commercial Banks

	2009	2010	2011	2012	2013	2014	2014Q1	2015Q1
Solvency Indicators								
Capital Adequacy Ratio (CAR)	17.5	17.1	19.3	21.0	19.7	20.5	19.8	20.4
Liquidity Indicators[#]								
Loan to deposit ratio (%)	65.5	67.2	70.9	73.6	70.0	70.3	68.5	68.7
Demand deposits to total deposits (%)	36.6	35.2	32.1	29.3	32.3	33.9	31.9	35.5
Domestic demand deposits to total domestic deposits	27.9	27.1	27.6	26.8	29.3	30.9	28.9	32.4
Liquid assets, % of total assets	10.8	11.5	12.0	14.6	18.0	20.3	18.6	21.3
Credit Risk Indicators (%)								
Total assets (growth rate)	-5.6	-1.5	-4.7	11.5*	2.8	-1.3	1.9	0.3
Domestic assets (growth rate)	2.3	0.6	-6.1	6.1*	6.5	-0.6	1.1	1.8
Loans and advances (growth rate)	0.9	0.6	-0.5	-1.1*	-2.6	-0.4	-2.5	1.4
Non-performing loans ratio	7.9	10.8	11.1	12.9	11.7	11.5	10.5	11.4
Substandard loans/ Total loans	6.7	9.1	8.7	9.9	8.6	9.0	7.3	8.4
Doubtful loans/ Total loans	0.4	1.0	1.8	2.3	2.5	2.0	2.6	2.4
Loss Loans / Total loans	0.9	0.7	0.6	0.8	0.6	0.5	0.6	0.6
Provisions to non-performing loans	41.5	37.4	32.9	33.9	44.9	47.7	52.8	50.7
Foreign Exchange Risk Indicators								
Deposits in Foreign Exchange (% of total deposits)	13.3	12.9	6.6	4.9	4.4	4.9	5.0	5.3
Profitability Indicators								
Return on Assets (ROA)	1.6	1.1	1.0	1.1	0.8	0.7	0.7	0.7

Source: Central Bank of Barbados

* Reflects removal of financial consolidation; [#] Includes foreign components unless otherwise stated

Table 2: Selected Financial Indicators – Deposit-taking Finance and Trusts

	2009	2010	2011	2012	2013	2014	2014Q1	2015Q1
Solvency Indicator								
Capital / Assets (%)	22.6	23.3	24.5	23.6	24.2	24.3	24.3	24.7
Liquidity Indicators								
Loan to deposit ratio (%)	168.3	167.6	152.3	109.9	99	105.5	99.5	110.3
Liquid assets, % of total assets	7.8	10.3	14.7	17.8	19.8	16.0	19.0	16.1
Credit risk indicators								
Asset Growth	2.5	2.9	-20.2	6.1	3.9	2.6	2.6	-0.2
Non-performing loans ratio (%)	7.1	8.0	8.6	9.1	8.2	8.3	8.6	8.5
Substandard loans/Total loans (%)	6.6	7.3	6.7	6.0	6.1	6.0	6.5	5.8
Doubtful loans/Total loans (%)	0.1	0.2	1.0	2.0	1.8	2.1	1.7	2.2
Loss loans/Total loans (%)	0.5	0.5	0.9	1.1	0.4	0.3	0.4	0.4
Reserves to nonperforming loans (%)	12.9	11.6	12.5	11.3	12.2	9.4	12.2	14.4
Profitability indicators								
Net Income/Capital (%)	11.2	10.6	10.8	6.3	7.8	3.9	6.5	4.1
Return on Assets (ROA)	2.4	2.5	1.9	1.2	1.9	0.9	1.6	1.0

Source: Central Bank of Barbados

Table 3: Selected Financial Indicators – Credit Unions

	2009	2010	2011	2012	2013	2014	2014Q1	2015 Q1
Solvency Indicator								
Reserves to Total Liabilities (percent)	10.3	10.4	10.7	13.2	13.4	11.9	12.1	12.4
Liquidity Indicators								
Loan to deposits and shares ratio [#] (percent)	105.2	105.9	107.1	96.2	90.5	92.7	90.2	91.0
Credit risk Indicators (percent)								
Total assets, annual growth rate	9.1	9.7	5.1	4.3	5.8	6.2	3.6	4.4
Loans, annual growth rate	8.0	8.6	6.5	3.2	2.9	7.3	3.4	5.9
Nonperforming loans ratio	6.5	7.2	7.1	8.2	8.7	9.4	8.5	8.4
Arrears 3-6 months/ Total Loans	2.1	2.1	2.0	1.9	1.9	2.2	1.7	1.6
Arrears 6 – 12 months/Total Loans	1.8	1.9	1.6	1.9	1.8	1.5	1.7	1.5
Arrears over 12 months/Total Loans	2.7	3.2	3.5	4.4	4.9	5.7	5.0	5.2
Provisions to Total loans	1.9	2.2	2.8	3.2	3.3	3.5	3.3	2.9
Profitability Indicator								
Return on Assets (ROA)	1.4	1.1	1.1	1.0	0.9	0.6	1.1	0.9

Source: Financial Services Commission

Deposits and shares consists of members' regular deposits, members' term deposits, other deposits and members' shares (liabilities)