CENTRAL BANK of BELIZE

Financial Stability Report 2015 - 2016

Acronyms

Acronyms:

AFSI	Aggregate Financial Stability Index
AML/CFT	Anti Money Laundering/Combating the Financing of Terrorism
APSSS	Automated Payment and Securities Settlement System
ATM	Automated Teller Machines
BCB	British Caribbean Bank
BEL	Belize Electricity Limited
BGA	Banana Grower Association
BTL	Belize Telecommunications Limited
CAR	Capital Adequacy Ratio
CARICOM	Caribbean Community
CARTAC	Caribbean Regional Technical Assistance Centre
CBB	Central Bank of Belize
CBOE	Chicago Board Options Exchange
CBRs	Correspondent Banking Relations
CDs	Certificate of Deposits
CFATF	Caribbean Financial Action Task Force
CFZ	Commercial Free Zone
CLICO	Colonial Life Insurance Company
DBFIA	Domestic Bank and Financial Institutions Act
DFC	Development Finance Corporation
DTI	Deposit Taking Institution
EPZ	Export Processing Zone
EU	European Union
FATF	Financial Action Task Force
FCIB	First Caribbean International Bank
FDI	Foreign Direct Investment
FIU	Financial Intelligence Unit
FSIs	Financial Soundness Indicators
GDP	Gross Domestic Product
GOB	Government of Belize
GPI	Gross Premium Income
ICRG	International Cooperation Review Group
IMF	International Monetary Fund
MLTPA	Money Laundering and Terrorism (Prevention) Act
MSCI	Morgan Stanley Capital International
MTSP	Money Transfer Service Providers
NPL	Non performing loan
NRA	National Risk Assessment
OPEC	Organization of the Petroleum Exporting Countries
RBA	Risk Based Approach
ROA	Return on assets
ROE	Return on equity
US	United States

Abbreviations and Conventions:

$	the Belize dollar unless otherwise stated
bn	billion
mn	million

Notes:

1. Since May of 1976, the Belize dollar has been fixed to the US dollar at the rate of US$1.00 = BZ$2.00.
2. Unless otherwise indicated, the Central Bank of Belize is the source of all tables and charts.

Table of Contents

		Page No.
EXECUTIVE SUMMARY		1
Chapter 1	Financial System Overview	4
	1.1 Deposit Taking Institutions	4
	1.2 Non-Deposit Taking Institutions	6
	1.3 Ownership Structure	8
Chapter 2	Regulatory Developments	11
	2.1 Changes in Legislative and Regulatory Framework	11
	2.2 AML/CFT Implementation	12
	2.3 Practice Directions	13
	2.4 Financial Infrastructure	13
Chapter 3	Macro-Financial Environment	14
	3.1 Global Macro-Financial Risk	15
	3.2 External Macro-Economic Risk	17
	3.3 Regional Environment	25
	3.4 Domestic Environment	25
Chapter 4	Financial Performance of Deposit Taking Institutions	29
	4.1 Private Sector Credit	29
	4.2 Domestic Banks	31
	4.3 International Banks	33
	4.4 Credit Unions	35
Chapter 5	Evaluating the Resilience of the Deposit Taking Institutions	39
	5.1 Domestic Banks	39
	5.2 International Banks	40
	5.3 Macro-Stress Test	42
Chapter 6	Financial Performance of the Insurance Sector	45
	6.1 Sectoral Performance	45
	6.2 Life Insurance Sector: Financial Soundness Indicators	50
	6.3 Non-Life Insurance Sector: Financial Soundness Indicators	52
Annex		55

EXECUTIVE SUMMARY

The 2015-2016 Financial Stability Report aims to provide decision makers and the general public with a comprehensive assessment of Belize's financial system focusing in particular on the stability of the major financial institutions and the capacity of the system (at the micro and macro level) to withstand various shocks that have the potential to damage economic and financial activity. The Report covers a two-year period in which developments in Belize's financial sector were significantly influenced by external pressures ranging from the loss of correspondent banking relationships to the prolongation of the low-interest rate environment that was a reflection of the continuing uncertainty in the economic climate and failure of global growth to gain traction.

Across the world, the issue of de-risking was a critical one producing disruptions in cross-border flows for jurisdictions in Africa, the Caribbean, East Asia and Pacific, Central Asia and the Middle East. In Belize, these disruptions contributed to imbalances in the foreign exchange market that caused domestic foreign exchange queues to lengthen. In addition to the heightened need for careful management and, in some cases, reallocation of commercial banks' foreign exchange holdings, the long-term viability of affected financial institutions was put in question pending the favourable resolution of the correspondent banking issue. The domestic credit market continued to be marked by sluggishness during this period, which partly reflected the external malaise, the reversion to inward looking trade and economic policies in major trading partners and local lender risk aversion.

In this rather challenging setting, the local authorities accelerated efforts to streamline and upgrade Belize's regulatory framework and financial infrastructure. The reform of anti-money laundering and combatting of the financing of terrorism laws took priority, with the Money Laundering and Terrorism (Prevention) Act (MLTPA) being amended in February 2016 to incorporate FATF recommendations, and preparations being initiated to facilitate the Caribbean Financial Action Task Force (CFATF) fourth round evaluation of Belize currently scheduled to occur in 2021. These preparations include the conducting of Belize's first National Risk Assessment exercise which was launched in July 2016 under the auspices of the National Anti-Money Laundering Committee with the Financial Intelligence Unit coordinating the activities of six working groups.

On the infrastructural side, the modernization of the domestic payments system advanced with the October 2016 launching of the Automated Payments and Securities Settlement System (APSSS), which is comprised of an automated clearing house, real time gross settlements system and central securities depository. The supporting legislation

(National Payment Systems Act) was passed in December 2016 and in that month a new act was also passed to bring moneylenders under the regulatory ambit of the Central Bank of Belize. The regulatory ambit of the Office of the Supervisor of Insurance was also expanded in 2016 with enactment of legislation that added International Insurance and Private Pensions to its portfolio of responsibilities.

The period under review was punctuated by institutional changes in the banking and insurance sectors. The share of local ownership of the insurance sector increased as RF&G acquired American Life Insurance Company (ALICO) early in 2015 and followed this up later that year with the acquisition of Guardian Life Insurance Company. There was also an increase in the concentration of assets in the domestic banking system as First Caribbean International Bank (FCIB) divested itself of local holdings by selling its Belize branch to Heritage Bank Ltd. This reduced the number of banks to five in January 2016. Notwithstanding FCIB's disengagement and the uncertain external environment, financial stability indicators at the aggregate level pointed to a relatively stable banking sector with levels of capitalization at 23.84% of risk weighted assets in 2016. There was a significant improvement in asset quality, with the ratio of non-performing loan (NPL) (net of specific provisions) to total loans declining from 7.02% to 3.01% in the two-year period, as domestic banks came into full compliance with the revised requirements for NPL provisioning initiated by the Central Bank in December 2011.

In the aggregate, the international banking sector was well capitalized at 24.59% of risk weighted assets in 2016. Although the loss of correspondent banking relationships affected some institutions negatively, as a whole, the sector's liquid asset ratio stood at 45.1% at the end of 2016 which is much above the 24% requirement. There was a marginal improvement in the level of capitalization for the credit union sector as the ratio of net institutional capital to total assets inched up from 9.99% to 10.61%, and steady growth in member deposits in the two year period boosted the sector's excess liquidity by 14.3%.

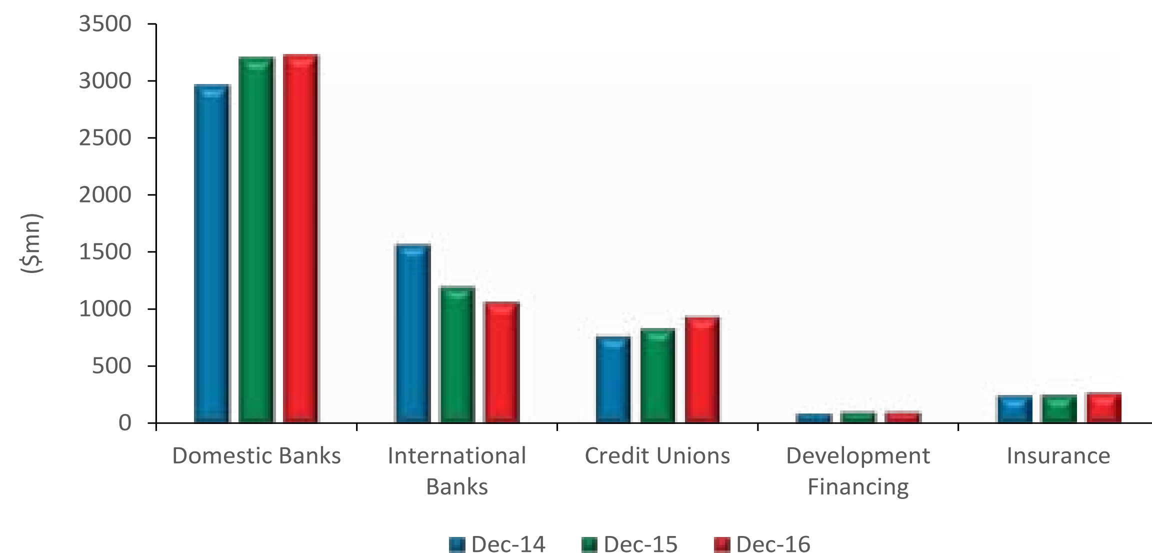
Turning the focus to the assessment of resiliency, the analysis of the domestic banking sector revealed a measure of vulnerability to credit-related shocks including related party transactions and loan concentration. In the case of the international banking sector, there was a heightening of liquidity risks due to deposit withdrawals triggered by the loss of correspondent banking relationships. When subjected to the macroeconomic stress tests, the domestic banks appeared able to withstand shocks of various degrees, although one bank evidenced vulnerability to macroeconomic shocks with its level of capitalization being heavily impacted under all three scenarios. The Central Bank

continued to closely monitor the situation, which showed slow and steady improvement with a time line having been imposed for the major indicators to meet required standards, failing which a capital injection will be required.

CHAPTER 1

Financial System Overview

Chart 1.1: Structure of the Financial System

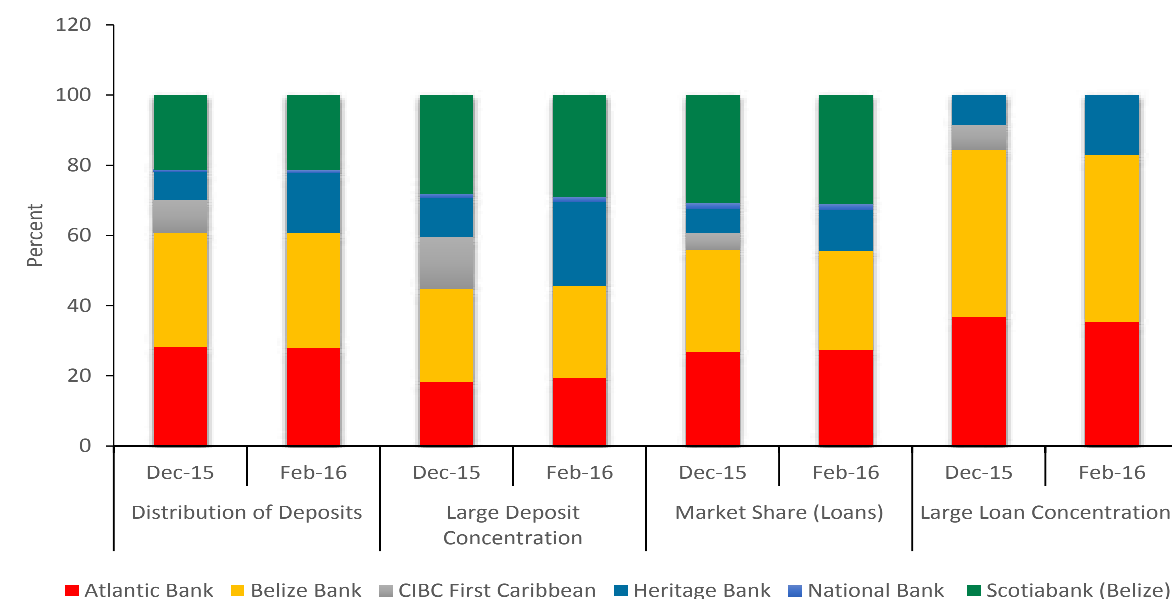


1.1 Deposit Taking Institutions

The assets of the domestic banks grew by a robust 9.5% in 2015, but this declined by 0.7% in 2016 partly reflecting the economic contraction in that year due to reversals in the primary sector, and the negative impact of the loss of some correspondent banking relationships. In the case of the credit unions, asset growth amounted to 8.6% in 2015 and 2016. The five largest credit unions accounted for 94.45% and 93.55% of total assets in 2015 and 2016, respectively.

CIBC First Caribbean International Bank (FCIB) sold its local branch to Heritage Bank Limited in January 2016. As a Canadian owned bank headquartered in Barbados, FCIB had taken over the operations of the local branch of Barclay's Bank in 2002. However, its low levels of lending coupled with exorbitant levels of liquidity led to annual losses from 2012 onward. The poor performance of the local branch was a reflection of excessive centralisation of decision making as well as the strategy of booking domestic loans with offshore affiliates. In August 2015, FCIB announced that it would be exiting from Belize and would be taking steps to wind up its operations. Heritage Bank agreed to purchase all their domestic loans and deposit liabilities, as well as a portion of loans originating from Belize that were booked in FCIB's Cayman and Bahamas branches. It was also agreed that Heritage would acquire the remaining offshore loans as funding permitted. Heritage Bank's

Chart 1.2: Impact of FCIB's closure on the Domestic Banking System



acquisition of FCIB pushed its large loan concentration[1] from 8.6% to 17.0% and large deposit concentration from 11.2% to 23.9%, which heightened the attendant risks of contagion and vulnerability to adverse developments.

The impact of foreign correspondent banks' de-risking activities was particularly severe for the international banks, which mainly do business with the offshore sector. These institutions suffered an overall contraction in assets of 32.5% in the two-year period under review. As a result, their share of the financial system fell from 27.9% to 19.1%, while that of domestic banks and credit unions rose to 58.0% and 16.2%, respectively.

The loss of correspondent banking relations and outflows for the buyover of the FCIB branch caused the value of foreign deposits and investments by the commercial banks to decline. In 2015, the foreign asset holdings of the domestic banks shrank by 13.4%, and there was a further decline of 18.6% in 2016. The international banks also experienced declines of 26.0% and 53.4%, in the same periods, respectively.

Exposure to the North American region increased for the domestic banks relative to their dealings with CARICOM and Latin America. At the end of September, the combined share of assets held in CARICOM and Latin America stood at 13.1%, compared to 31.1% at the end of 2014 with this mainly reflecting FCIB's winding down during 2015 and the non-renewal of matured investments held in

[1] The amount of loans exceeding 10% of the bank's capital.

Table 1.1: Changes in the structure of International Insurance Sector

	2015	2016
Class of Intermediaries		
Insurance Managers	5	2
Principal Insurance Representatives	5	5
Total Intermediaries	**10**	**7**
Class of Insurers		
Long Term	1	1
Composite	2	2
Captives	14	11
Re-insurers	5	5
Total Insurers	**22**	**19**

these regions. Concurrently, the relative share of assets held in North America rose from 56.0% to 71.5% even though the overall value of deposits and investments in this region was down. Due to the closure of correspondent accounts in two banks, deposits held in North America plunged by 40.4% but this was partially offset by increased holdings of US Sovereign Bonds and commercial paper issued by Canadian and American financial institutions.

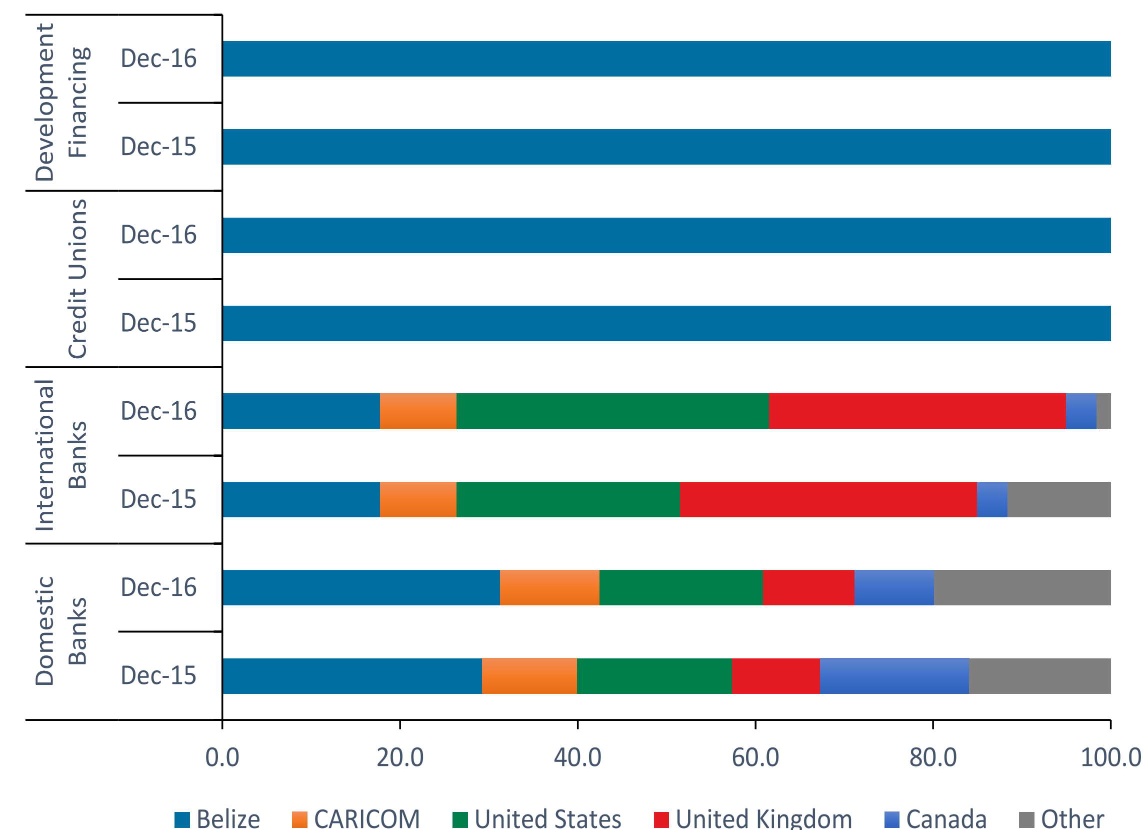
In the case of the international banks, the impact of the loss of correspondent banking relations was severely felt in 2015 when the deposits they held in North American institutions contracted by 55.7%. In the first nine months of 2016, the deposit reductions were not as steep but other investments in the North American region were reduced. Overall, the share of foreign currency assets held in North America by the international banks fell by 10 percentage points between December 2014 and September 2016. Simultaneously, the relative share of holdings in Europe increased as alternative correspondent relations were established in the United Kingdom.

1.2 Non-Deposit Taking Institutions

In 2014, the insurance sector consisted of six life, four non-life and two composite insurers. By the end of 2016, the number of life insurance companies had declined by three due to the acquisition of two foreign owned branches by a local life insurer and the closure of another mutual life insurer.

In the two years under review, the assets of the life insurance companies grew by 8.3% and those of the non-life and composite insurers were up by 12.6% and 11.9%, respectively.

Chart 1.3: Ownership Structure of Financial Institutions



The life insurance products offered on the domestic market continued to be traditional with little or no investment features attached.

Institutions licensed under the International Insurance Act, are confined to providing services to non-residents. In August 2015, responsibility for supervision of the international insurance sector was consolidated in the Office of the Supervisor of Insurance. Prior to this, the sector was overseen by the International Financial Services Commission. Following the change, the number of international insurance companies declined with some immediately requesting cancellation of their licences while others waited until expiration and chose not to renew.

The Development Finance Corporation (DFC) is a statutory body that does not take deposits and funds its operations through borrowings from multilateral institutions at concessionary terms. In 2015, the DFC'S assets expanded by 15.3% followed by a significant deceleration to 0.3% in 2016. DFC maintained its share of total

assets in the financial system at 1.8% for 2015 and 2016.

1.3 Ownership Structure

The share of local ownership in domestic banks rose from 29.3% to 31.3% in 2016 while the portion held by Canada shrank from 16.8% to 8.9% due to FCIB's exit. The portion held by 'other' jurisdictions (namely Honduras) rose from 16.0% to 19.9%.

In the case of the international banks, resident ownership was unchanged at 17.8%, however, the change in ownership structure of one institution pushed the portion of US shareholdings up from 25.2% to 35.2% while resulting in a lowering from 11.6% to 1.6% in the ownership stake of residents from other jurisdictions. The holdings by entities in CARICOM, the United Kingdom and Canada were unchanged during the entire period.

The life insurance sector is dominated by two foreign insurers that are headquartered in Barbados. The largest accounted for 67% of total assets at the end of 2016. The locally owned life insurer has grown significantly due to its 2015 acquisition of portfolios previously held by American Life Insurance Company (ALICO) and Guardian Life Limited, both of which closed their Belize branches. This insurer had also acquired the CLICO life portfolio in 2009. Unlike the foreign insurers who operate branches in other jurisdictions, the local insurer has no operations outside of Belize.

In contrast to the life insurance sector, local insurers dominate the general insurance sector with five of them (including the two composites) accounting for 94% of the market.

Box 1: Impact of De-Risking on Belize's Economy

Like many other countries, Belize faced disruption in financial cross border flows following the loss of correspondent banking relationships (CBRs). Three domestic banks lost 90% of their established CBRs during a twelve-month period in 2015 and 2016. This was mainly as a result of strategies adopted by financial institutions in the United States, United Kingdom and Canada in response to heightened scrutiny of bank regulators, and increases in compliance costs and regulatory penalties.

During this period, one domestic bank operated without a CBR for four months before establishing a relationship that offered limited international financial services. This triggered a shift in banking activities as well as an increase in processing time and transaction costs. Between 2014 and 2016, foreign currency sales by one bank tumbled by $398.4mn, while sales by another bank surged by $365.4mn. A similar movement was observed in foreign currency purchases.

The cost of regaining limited services from foreign financial institutions came at a premium, resulting in higher costs and lengthened processing times for international transactions. These added costs and delays were particularly felt by importers who in addition to bearing higher costs due to the loss of discounts, were also deprived of the relaxed payment arrangements previously accorded to them by suppliers.

In an attempt to maintain existing CBRs and get new relationships, domestic banks employed their own de-risking strategies. Relationships with sectors identified as high risk, such as money transfer service providers (MTSPs) and commercial free zone (CFZ) companies, were terminated by some banks. As a result, a number of sub-agents of MTSPs were unable to maintain accounts with domestic banks, which forced a few of these to cease operations and reduce the access of individuals to the formal financial system. This lack of access obligated these agents to transport large volumes of cash, posing security concerns.

Moreover, a number of MTSPs were unable to receive funds for settlement purposes from their international counterparts, compelling these agents to utilize local funds to maintain operations. On the CFZ front, the withdrawal of one domestic

Box 1: Impact of De-Risking on Belize's Economy continued

bank, accompanied by deposit restrictions by the only bank operating within the CFZ amplified its cash intensive nature. The ceiling imposed on US dollar deposits generated within the CFZ partly contributed to the increase in cash holdings not deposited into the banking system, which rose from 41.6% in 2015 to 52.4% in 2016.

The effects of the de-risking strategies on the international banking sector were manifested in the erosion of deposit liabilities and a shift in lending activity. Deposits were stable for two of these banks but there was a gradual decline in deposits for the remaining three banks. While there was strong growth in loans, it was concentrated in one international bank, partly because the others were constrained by the inability to transfer and receive funds across borders.

To date, the full effects of de-risking are still not quantifiable; however, there have been observed shifts in trends and temporary disruptions in services provided by MTSPs, domestic banks and international banks. These have contributed to pressures with respect to the system's capacity to support the fixed exchange rate peg and service international debt and other payments. The effects on the economy can be said to be moderate, considering that banks were able to establish relationships with other providers. Nevertheless, there is a notable risk to the system where the lack or insufficiency of CBR services can severely impact financial and economic activity.

Chapter 2

Regulatory Developments and Financial Infrastructure

The domestic supervisory framework underwent modification in response to the rapid changes in the world financial system. The strengthening of the AML/CFT legal framework is one of the many priorities being addressed through the National Risk Assessment work programme. At the institutional level, a practice direction for corporate governance was introduced in early 2015, and one for consolidated supervision is currently under review. Basel II implementation is another key initiative that is currently in its embryonic phase. Modifications to the regulatory oversight of non-deposit taking institutions, included the revamping of the Moneylenders Act and the introduction of a Pensions Act. The International Insurance Act was also amended to consolidate authority for supervision of the sector in the office of the Supervisor of Insurance.

In the last quarter of 2016, a major milestone was achieved in the project to improve Belize's payments infrastructure with the Central Bank's launch of the Automated Payments and Securities Settlement System (APSSS), which is comprised of an automated clearing house, real time gross settlements system and central securities depository.

2.1 Changes in Legislative and Regulatory Framework

(i) Money Laundering and Terrorism (Prevention) Act, 2008 (MLTPA)

To bring Belize's legal framework into further alignment with the FATF Recommendations, the Money Laundering and Terrorism (Prevention) Act, 2008 (MLTPA) was amended in February 2016. The amendments included enhancements to the customer due diligence process and the reporting of relevant information to the FIU as well as improved provisions for the investigation and prosecution of money laundering, financing of terrorism and other related crimes.

(ii) Moneylenders (Amendment) Act

The regulatory regime for moneylenders was modernized with the passage of amendments to the Moneylending Act. The amended legislation establishes the Central Bank as the Registrar of Moneylenders, conferring upon it supervisory and enforcement powers consistent with international standards. Prior to the amendments, the Ministry of Finance was responsible for oversight and licensing of money lenders. With the new legislation, it is anticipated that there will be a more concentrated focus on monitoring and

implementation of measures to identify and mitigate AML/CFT risks in the sector.

The Bill for Moneylenders (Amendment) Act had its first reading in the House of Representatives in the last quarter of 2016 and was passed by the year-end with the changes slated to come into full effect by April 2017.

(iii) Pensions Act

The Private Pensions Act was enacted in March 2016, however, the commencement order and ancillary Regulations were slated to take effect on 1st January 2017. As a result of this legislation, supervision of private pensions has been added to the portfolio of the Office of the Supervisor of Insurance.

(v) Basel II Implementation

Like its regional counterparts, the Central Bank of Belize has been broadening its focus to better account for market, operational, concentration, reputation, strategic, and systemic risks to the banking sector. In September 2016, CARTAC provided technical assistance to enable the groundwork to be laid for the implementation of the "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" also known as Basel II. Basel II requires banks to identify, measure and mitigate their own risk exposure with the objective of achieving a further strengthening of the financial sector. The Basel II implementation agenda for Belize was in the development stage in the last quarter of the year.

(vi) Insurance Act

There were also amendments to the Insurance Regulations in 2016 that allowed for the publishing of an Exemption Order so as to enable the introduction of micro-insurance in Belize and the lowering of fees payable for companies offering such products.

2.2 AML/CFT Implementation

(i) Caribbean Financial Action Task Force (CFATF)

Preparations are underway for the Fourth Round of the Caribbean Financial Action Task Force (CFATF) Mutual Evaluation Assessment which is scheduled for 2021. As a precursor, Belize commenced a National Risk Assessment exercise (NRA) in July 2016. This is being done in light of the FATF Recommendations, which requires countries to identify, assess, and understand money laundering and terrorist financing risks and also that they take action to effectively mitigate such risks. The National Risk Assessment Project is being led by the National Anti-Money Laundering Committee and is being coordinated by the Financial Intelligence Unit. Six NRA Working Groups have been mobilized. In addition to chairing the Banking Sector Working Group and Other Financial Services and Securities Working Group, the Central Bank is represented on the National Threats, National Vulnerabilities, Designated Non-Financial Businesses and Professions, and Insurance Sector Working Groups.

(ii) AML Supervision and Compliance

During 2016, the Central Bank's AML Unit participated in the on-site inspection of the Chamber of Commerce and Industry's Western Union operations to ensure that the latter's compliance measures are in accordance with international standards as it relates to the provision of money transfer services.

(iii) Other Issues

In 2015 and 2016, several Central Bank employees participated in trainings that equipped them to perform the role of assessor for CFATF and that also conferred the additional certification as "Anti-Money Laundering Specialist". Central Bank staff also received training to enhance capacity to detect financial crimes.

2.3 Practice Directions

(i) Corporate Governance

In early 2015, the Central Bank promulgated a practice direction on Corporate Governance which is applicable to all banks and financial institutions operating in Belize under its supervision. The practice direction aims to promote international best practice in corporate governance with respect to the Central Bank's role, the conduct and compensation of boards, risk management, senior management, internal controls, disclosure and transparency.

(ii) Consolidated Supervision

Preparatory work was done for a practice direction on Consolidated Supervision which is slated for implementation in 2017. The practice direction will establish guidelines for more effective monitoring of risk, capital adequacy and governance of institutions that operate as part of a financial group and thus reduce the likelihood of regulatory arbitrage.

2.4 Financial Infrastructure

(i) Modernization of the Payments System

In the last quarter of 2016, the Central Bank of Belize, in collaboration with Central Government and local financial institutions, operationalized the APSSS. The system connects directly with the local operating systems of banks to improve the quality and speed of electronic payments in Belize. It provides the environment for them to transfer funds and clear cheques faster, and more safely and reliably. Legislation to support the APSSS and other systems that form part of the national payment system was passed in December 2016.

Chapter 3

Macro-Financial Environment

The Aggregate Financial Stability Index (AFSI) improved by 4 basis points in 2015 reflecting a strengthening in the financial soundness of the domestic banking system and to a lesser extent, the improved performance of the macro-economy. There was a further improvement in 2016, with the AFSI increasing by 3.5 basis points as stronger banking performance was supplemented by further financial development and a more stable world economic climate.

(i) Financial Development

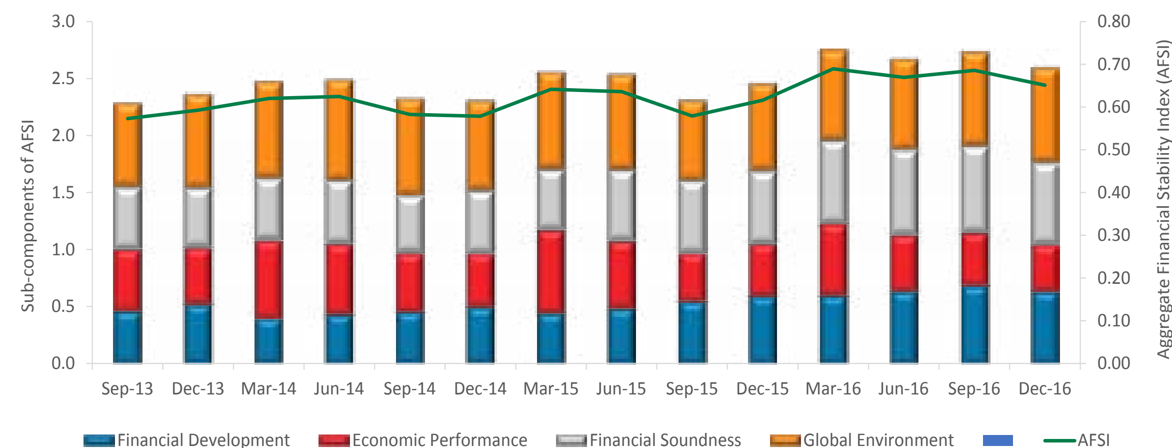
The financial development index is a sub-component of the AFSI which gauges the growth of the financial system by measuring its asset size and growth relative to GDP. An increase is an indication of improvement in the level of financial development. During 2015, the index improved by 9 basis points influenced by growth in the ratio of banking system assets to GDP from 87.8% to 92.1%. In the following year, the rise in the ratio of credit to GDP from 57.0% to 57.9% pushed the financial development index 4 basis points higher.

(ii) Economic Performance

The index of economic performance fell by 1 basis point during 2015 largely due to an 18.1% decline in net exports that was offset by an improvement in the credit to GDP gap[2]. The index declined further by 4.6 basis points in 2016 mostly due to the continued reduction in net exports.

[2] The credit to GDP gap is an indicator of systemic imbalance as growth in the gap suggests increasing leveraging taken on by borrowers as the level of credit relative to GDP has exceeded the long term trend.

Chart 3.1: Aggregate Financial Stability Index



(iii) Financial Soundness

As in previous years, the financial soundness index maintained an upward trend during the period under review, rising by 9 basis points in 2015 and with a further increase of 8 basis points in 2016. The improvement in 2015 was attributable to increases in the capital adequacy, profitability and liquidity of the banks, while significant improvements in asset quality bolstered its growth in 2016.

(iv) World Economic Climate

The slowdown in the growth of world ouput from 3.4% to 3.1% in 2015 caused the world economic climate index to fall by 2 basis points. However, there was a rebound in 2016 resulting in an increase of 7 basis points in the index that largely reflected a 4.2 basis point reduction in the CBOE Volatility Index (VIX) and 1.4% increase in the MSCI World Growth Index.

3.1 GLOBAL MACROFINANCIAL RISK

3.1.1 Macroeconomic Risk

Macroeconomic risks heightened in the last quarter of 2015 and the first three quarters of 2016 as global growth once more failed to gain traction and inflation remained at low levels. Projections for global growth in 2016 were revised downwards from 3.4% at the start of the year to 3.1% in October, and there was a marginal increase in inflation from 0.3% in 2015 to 0.5% in the first half of 2016. Among the contributing factors to the downward revision in global output was the lack of clarity as to the long term macroeconomic impact of the UK's exit from the EU with particular reference to future bilateral arrangements. Also of note was the steady deterioration in the terms of trade of commodity exporters. The attempts of the latter to reduce excessive debt while rationalizing production capacity, led to declines in trade volumes of 2.6% in 2015 and 2.3% in 2016. Other issues exerting a dampening effect on the prospects for world output were the aging populations in advanced economies and the political uncertainty associated with inward-looking policies currently supported in the United States and the EU.

3.1.2 Credit Risks and Monetary and Financial Conditions

Credit risk in the corporate and banking sectors intensified in the last quarter of 2015. With continued sluggishness in the macro-economy, stock market valuations plummeted in late 2015 and early 2016 with the global sell-off of equities being fueled by deteriorating earning expectations. The heightening

of corporate risk was evidenced by widening credit spreads that translated to increased pressure on the asset quality of banks. The impact was more severe for banks within the Euro area specifically, Greece, Italy, Portugal and Germany. Structural issues ranged from high NPLS, slow credit growth and weaker revenue streams, excess liquidity, inadequate capital buffers, heightened legal costs and regulatory pressure to meet additional capital requirements under the Basel III framework.

While rising corporate risk prompted US banks to tighten lending requirements in late 2015 and early 2016, there was an easing after this as the slowdown in lending and unimpressive growth caused monetary authorities to double down on monetary stimulus in order to offset these measures and stimulate credit growth in the middle and latter part of the year.

3.1.3 Market & Liquidity Risk and Risk Appetite

Market and liquidity risks rose in 2015 and the early part of 2016. The level of market uncertainty was linked to delays in the process of monetary normalization as there were heightened expectations that the US Federal Reserve would increase interest rates and that monetary policy would be less accommodative. This contributed to a widening in credit spreads. A significant and negative side-effect of the prolongation of monetary stimulus has been that the low interest rate environment has aggravated the search for yield and increased the demand for more risky, high yielding investments. In turn, this puts further strain on the viability of life insurers and pension funds.

There was a waning of risk appetite in the case of the emerging economies, as the downturn in their economic performance resulted in substantial outflows in 2015 and the early part of 2016. There was however a recovery in capital flows to these markets in the second and third quarters of 2016 as financial conditions eased.

3.1.4 Emerging Market Conditions

In the first fifteen months of the period under review, emerging economies experienced heightened risks due to declining oil and commodity prices, the appreciation of the US dollar, capital outflows, down-sizing of operations for industries that had built up large excess capacity and the loss of correspondent banking relations (CBRs).

Negative price shocks resulted in output declines, lower revenues and increased public sector indebtedness for the commodity exporters. This led to the need for deleveraging and a winding down of spending that had been ramped up amid rising commodity prices and low interest rates. Meanwhile, the appreciation of the US dollar negatively impacted economies such as Hungary, Indonesia and Mexico[3] whose corporate sectors had high levels of foreign currency exposure on the international markets.

The issue of de-risking also became a critical concern as the withdrawal of CBRs disrupted cross-border flow of funds for jurisdictions in Africa, the Caribbean, East Asia and Pacific, Central Asia and the Middle East, which experienced termination, restriction or significant alteration in their correspondent banking relationships (CBRs).

There was some abatement of these risks in the latter part of 2016 with commodity prices stabilizing and some improvements in the external account positions of these economies.

3.2 External Macroeconomic Risk

The critical issues affecting Belize in 2015 and 2016 included sharp declines in its production of commodities for the export market, the impact of global financial de-risking and the persistence of low and negative interest rates in developed economies.

While there were steady declines in commodity prices in 2015 and the first half of 2016, the revenue losses were mainly due to internal production constraints. At an aggregate level, loans by domestic banks to commodity producers accounted for 12.1%[4] of their portfolio and for less than 10% of their total non-performing loans. However, the risks were not spread evenly across the system since lending for the sugar and banana sectors was highly concentrated in two banks.

With the first round impact of global de-risking and loss of CBR's hindering international financial flows for affected banks, management of foreign asset holdings became a critical issue to address the artificial shortages that were created. The viability of these institutions and MTSPs was also challenged as increased regulatory and transactional costs were incurred to cope with changes in the system.

3.2.1 Declining commodity prices

Commodity prices sank in 2015 as a result of abundant supplies and weaker growth prospects in China

[3] According to IMF Global Financial Stability Report October 2015, for these countries their proportion of foreign currency non-financial corporate debt exceeds 50% of total corporate debt.

[4] As of September 2016.

and other emerging economies, which are both significant consumers and producers. With declines being recorded for most energy commodities (coal being the exception), the energy commodity price index moved downward by 45.1% in 2015 and by 15.3% in 2016. Non-energy prices also dipped by 15.1% in 2015 and 2.5% in 2016 with fertilizers, metals and minerals experiencing the largest price cuts over the two-year period.

In 2017, the commodity price index for energy is forecasted to rise by 25.8% reflecting higher prices for crude oil, natural gas and coal. The non-energy price index is expected to rise by 5.0% mainly due to higher prices for metals and minerals.

As a price-taker, Belize's trade performance depends partly on export volumes and partly on the specific trading arrangement negotiated for certain commodities. The major export commodities are sugar, citrus juices, marine products and bananas. Petroleum accounted for approximately 10.0% of Belize's exports on average over the past three years.

In assessing the impact of lower commodity earnings on the financial system, the banks were subjected to stress tests which indicated that they had sufficient capital to deal with increases in the level of non-performing loans. However, concentration risk is high for the sugar and banana sectors, which, when combined, account for 60% of loans extended to commodity producers.

3.2.2 Continuing trends in financial de-risking

A World Bank survey in 2015 identified Africa, the Caribbean,

Chart 3.2: Composition of Domestic Exports: 2016

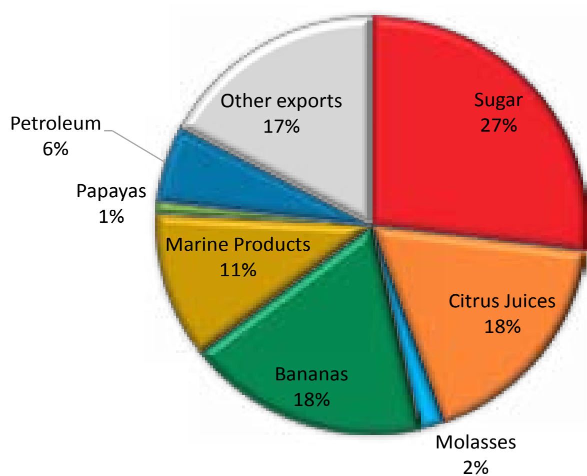
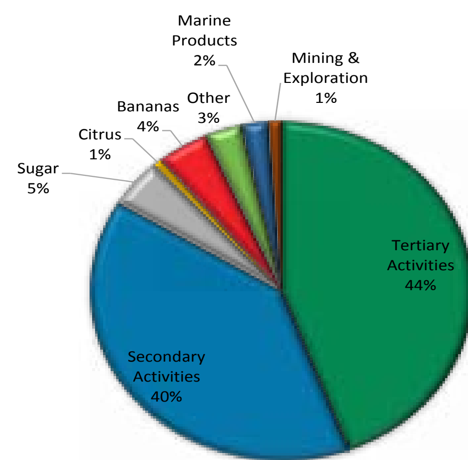


Chart 3.3: Domestic Banks Lending Portfolio: 2016

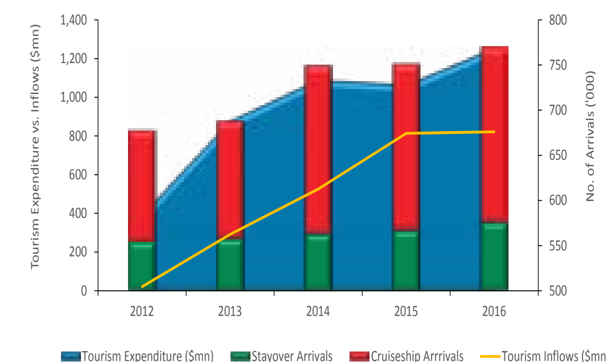


East Asia and Pacific, Central Asia and the Middle East as being key jurisdictions where correspondent banking relationships (CBRs) were terminated, restricted or significantly altered. Most of the financial institutions that were terminating or restricting these CBR services were based in the United States and the United Kingdom. The survey revealed that the banks and authorities in the affected jurisdictions viewed lack of profitability, change in risk appetite and regulatory parameters as the main reasons for being subjected to de-risking. For their part, the large international banks cited AML/CFT related issues as their prime concern.

The World Bank Survey identifies the Caribbean as one of the regions most affected by the decline in foreign correspondent banking relationships. Boyce & Kendall (2016) notes the primary economic impact is felt in reduced services, higher costs and loss of business for the Caribbean financial sector. There are also negative secondary impacts on the real sector due to constraints on payments such as lengthened time periods for settlements and possible loss of foreign direct investment. The social impact includes reduced financial inclusion and the loss of remittances.

Chart 3.4: Domestic Banks' Foreign Currency Inflows and Net Foreign Assets

Chart 3.5: Foreign Currency Inflows vs. Actual Performance for the Tourism Sector



In Belize, correspondent bank de-risking has significantly increased operational risk in the financial sector, particularly for commercial banks and money transfer service providers (MTSPs). During the last two years, three domestic banks and four international banks were affected as full banking services with their main correspondent banks were terminated and wire transfer services were only partially

Chart 3.6: Redistribution of Foreign Currency Inflows in the Domestic Banking System (%)

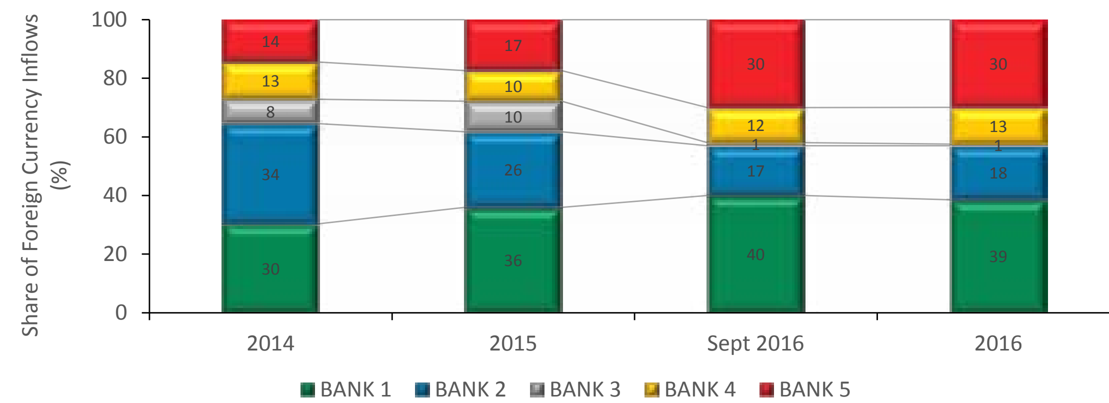


Chart 3.7: Distribution of Net Foreign Assets in the Domestic Banking System (%)

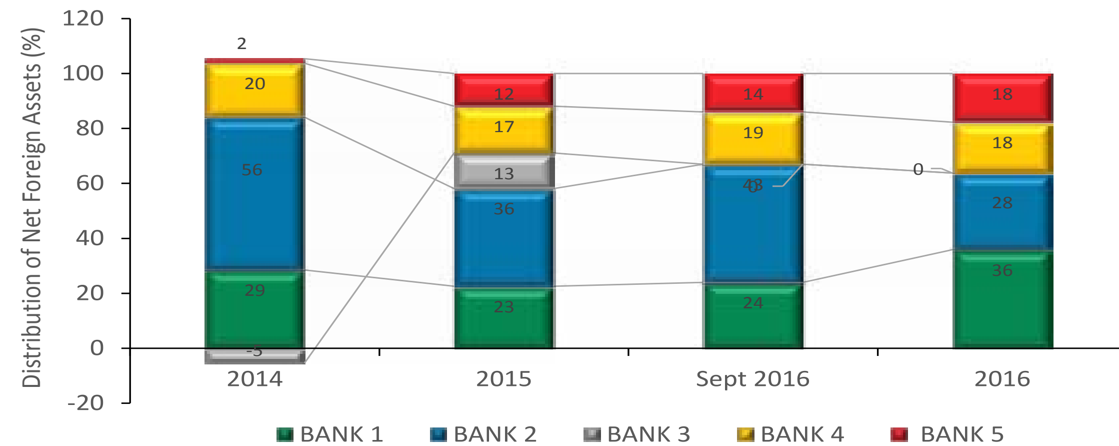
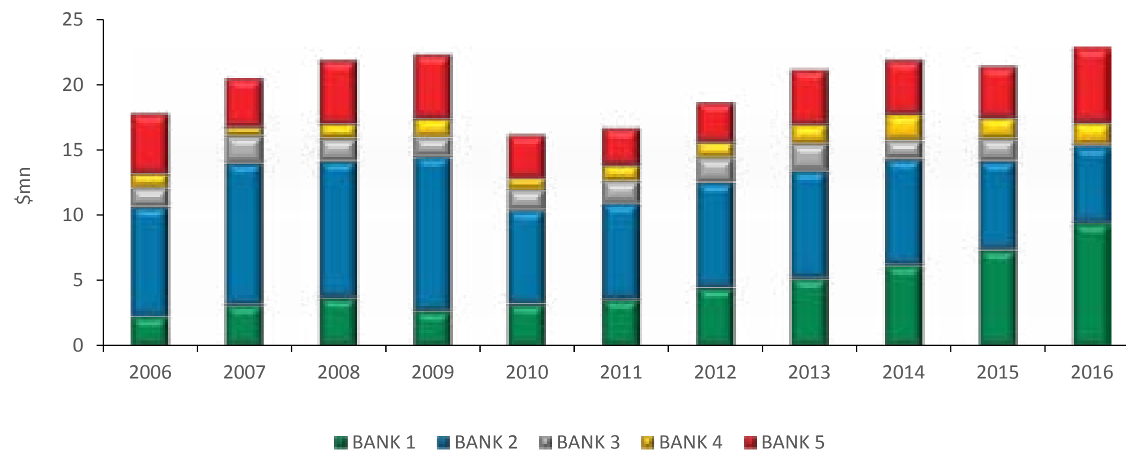


Chart 3.8: Distribution of Income from Foreign Exchange Transactions in the Banking System



restored. In their efforts to establish new correspondent relationships, some domestic banks closed existing accounts with MTSPs placing a strain on the operational viability of these institutions. From a financial system stability perspective, the impact of de-risking in Belize had implications for foreign reserve currency management and the sustainability of financial institutions.

(i) Foreign Currency Management

In 2015, the net foreign asset position of the domestic banks improved by 10.6% notwithstanding a 0.5% dip in foreign currency inflows. However, there were declines in both inflows (30.8%) and net foreign assets (13.0%) during the first three quarters of 2016. The steeper than expected decline in foreign inflows partially reflected the loss of correspondent bank relations as foreign exchange earners kept foreign currency abroad to hedge against operational risk. This was particularly evident in the tourism sector, which has a tendency to keep funds offshore. The increases in 2016 in stay-over arrivals (13.2%) and tourism earnings (5.6%) were not matched by a commensurate rise in tourism inflows, which registered a marginal 0.3% uptick.

Another significant impact of de-risking was the redistribution of foreign exchange inflows across the domestic banking system. The loss of CBRs by one of the larger players in the foreign exchange market meant that they could no longer facilitate inflows and outflows while still accounting for the largest share of foreign assets in the system. This rapid change in the organization of the market posed a challenge for the distribution of foreign assets to meet domestic foreign exchange demand.

One bank experienced a decline in its share of inflows from 34.0% in 2014 to 17.4% in the first three quarters of 2016. Despite the reduction in inflows, this bank still held the lion's share of foreign assets in the market, accounting for some 43% of the domestic system at the end of September 2016. It thus became necessary for Central Bank to direct the redistribution of foreign exchange within the domestic system so as to accommodate the smooth movement of payments and receipts. To this end, Exchange Control Direction #2 was amended to require authorised dealers that were unable to conduct foreign currency transactions to sell their foreign currency holdings either to the Central Bank or to an Authorised Dealer. In September 2016, Exchange Control Direction #19 was introduced in order to bring about the redistribution of foreign currency holdings among the banks, by enabling the Central Bank to issue directions to those dealers whose foreign asset holdings exceeded the average for the

entire system. The direction provided transparency on the Central Bank's approach to the calculation of the foreign asset availability position for each institution.

(ii) Impact of Financial De-risking on Viability of Financial Institutions

(a) Domestic Banks

Of the domestic banks that were directly impacted, one is considered to be of systemic importance because of its size and level of interconnectedness in the financial system. Prior to 2015, this bank's share of earnings from foreign exchange transactions were the highest in the system accounting for 40% of the market.[5] After the termination of relationships with its main correspondent bank, these earnings fell to 25.6%[6] of market share with declines occurring in 2015 and 2016. The reduction in income from foreign exchange transactions, higher cost of compliance and search for alternatives were added stress factors during a contractionary period when profitability is already being compressed.

(b) International Banks

Since 2003, when the International Banking Act was activated, the locally licensed international banks have been facilitating investments by non-residents in the tourism and real estate sectors of the domestic economy. Two of the five banks currently account for about 60% of the market and have ownership links with domestic banks. For one of these banks, no correspondent relationship was restored after these links were severed in 2015, while the second was able to obtain wire transfer services. To cope with the loss of services, clients moved to other institutions abroad which shrank the deposit base by 38.4% between December 2014 and December 2016 and heightened the liquidity risk of the sector.

The locally licensed international banks are required to maintain a minimum ratio of liquid assets to average deposit liabilities of 24%. Maintaining sufficient liquidity has implications for the long term viability of financial institutions, as it enables them to meet short term obligations and withstand stress events. At an aggregate level, the industry maintained these requirements although there was a decline in the average from 54.8% in 2014 to 45.1% in 2016. Two institutions experienced notable declines in liquidity during the period reviewed. In the case of one bank, the ratio plummeted from 59.6% to 34.0% in the second quarter of 2015 and declined further, ending the year at 28.9%. The other bank's operations came to a virtual standstill

[5] Average from 2012 - 2014

[6] December 2016

Chart 3.9: International Banks' Loan to Deposit Ratio (%)

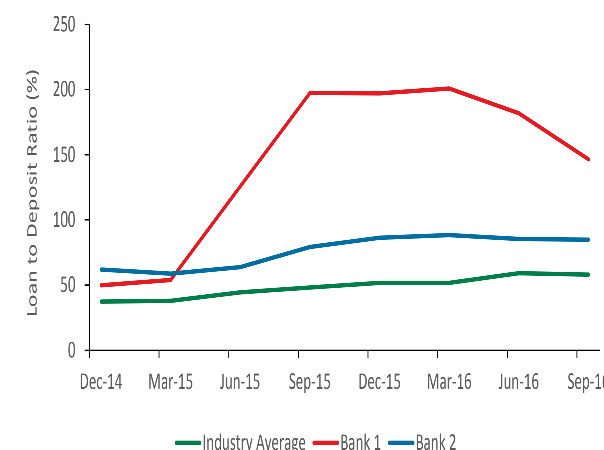
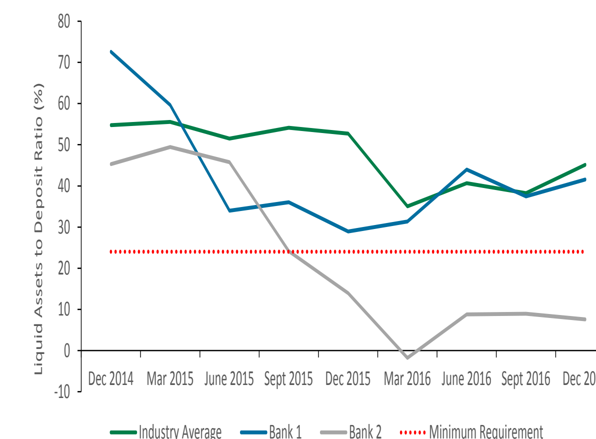


Chart 3.10: International Banks' Liquid Assets to Deposit Ratio (%)



and its liquid asset ratio fell below the 24% requirement in the last quarter of 2015, and remained below the legal requirement throughout 2016. At the end of December its liquid asset ratio stood at 7.6%.

(iii) Money Transfer Service Providers (MTSPs)

As key facilitators of remittance transfers, MTSPs make it possible for persons without formal access to the banking system to obtain and send funds internationally faster and at lower cost. Currently, there are five registered MTSPs in the Belizean market with a network of 83 branches and sub-agents distributed throughout the country. In 2015, remittance inflows from MTSPs accounted for 62.9% of total remittance inflows into Belize.

Despite being important for financial inclusion, this sector has been traditionally perceived as 'high risk' because of the inherent nature of the business (Durner and Shetret 2015). When small transactions are aggregated and deposited in lump sums, this results in the obscuring of transactional details and such transactions are deemed more risky if a jurisdiction's adherence to AML/CFT international best practices is considered weak.

The recent spate of de-risking activities have had a direct impact since domestic banks seeking to establish relationships with other correspondent banks have closed accounts linked to these MTSPs. In May 2015, upon losing its main correspondent bank, one bank made the decision to close accounts for 11 MTSP sub-agents. Of these, four were forced to shut down and the remaining seven continued to operate but on a fully cash basis. This drastic measure meant that funds

which could have been monitored in the banking system, were now being channelled to the informal sector. The use of cash also increased operational risk since the logistics of holding and transporting cash adds to security concerns. To date, four of these seven MTSPs have been able to restore banking relationships.

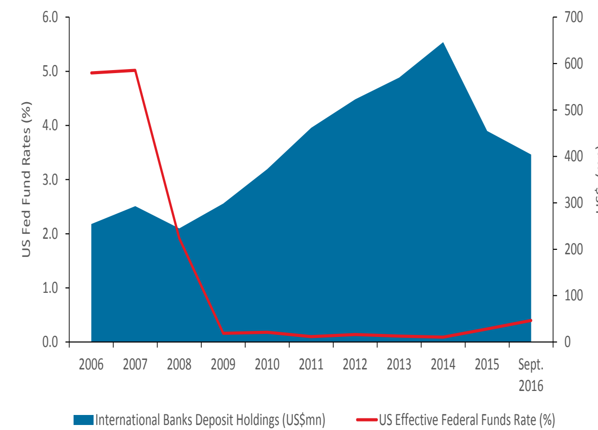
In other cases, while some sub-agents were able to maintain accounts with the domestic banks, over a period extending from October 2015 to May 2016, these sub-agents were unable to receive net settlements from their international counterparts which made it difficult to facilitate incoming transfers due to local customers. As an interim short-term measure, some MTSPs utilised 'float' money from parent companies to pay out to customers and further limits were placed on the amount of money customers could send abroad.

3.2.3 Monetary easing, interest rates and risk perceptions- Impact of US monetary policy on Belize

The Federal Reserve took its first step toward monetary policy normalization at the end of 2015 by raising the Federal Funds Rate from 0.0%-0.25% to 0.25%-0.50% and following this up with a further increase of 25 basis points twelve months later.

A change in U.S. monetary policy potentially has both direct and

Chart 3.11: Relationship between US Monetary Policy and International Bank Deposit Holdings in the Belizean System, 2006 – 2015



indirect impacts on the domestic economy as investors seeking higher returns may be incentivized to shift their deposit holdings in the international banking sector. A reversal towards a contractionary policy stance in the United States sends signals of rising interest rates which in turn reduces foreign deposits in Belize.

The chart illustrates that the expansionary monetary policy in the United States from 2007 coincided with growth in deposit holdings in Belize's international banks. The only anomalous year was 2015 when the loss of correspondent banking relationships resulted in a significant drawdown in bank deposits from this sector. Going forward, the pace of US monetary policy implementation will be one of several factors which will impact the

growth of international banks and the direction of interest rates in the domestic banking system.

3.3 Regional Environment

(i) Regional Trends: Inter-regional trade

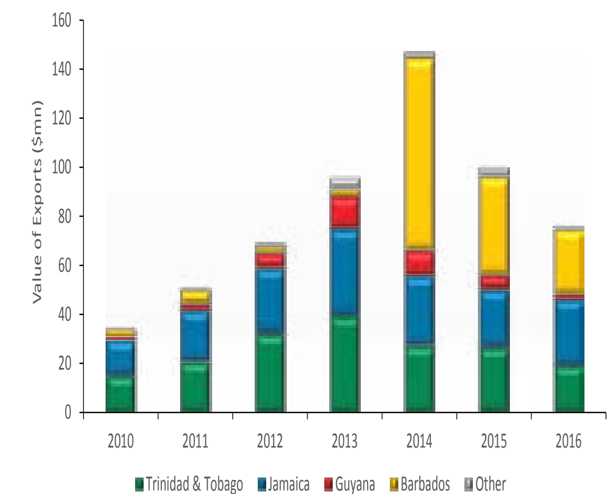
Belize's exports to the CARICOM region averaged $107.8mn or approximately 20.1% of its total merchandise exports during the past three years. Trinidad & Tobago, Jamaica and Barbados accounted for 92.6% of sales to this region. In 2016, the main products exported to these countries were citrus concentrates, beans, shrimp, sugar, corn and petroleum. Although the volume of trade with these countries averaged around 20% of total merchandise exports over the last three years, this was mostly due to a change in transhipment routes for petroleum away from the US to Barbados by an international firm. Hence, a slowdown in these economies would have a negligible impact on Belize's foreign exchange earnings, since excluding these shipments would have resulted in a reduction in earnings to $81.1mn over the past three years.

3.4 Domestic Environment

(i) Fiscal Imbalances and Sovereign Debt

The government's fiscal outturn deteriorated in 2015. While financing flows (particularly those provided under the Venezuela PetroCaribe Agreement)

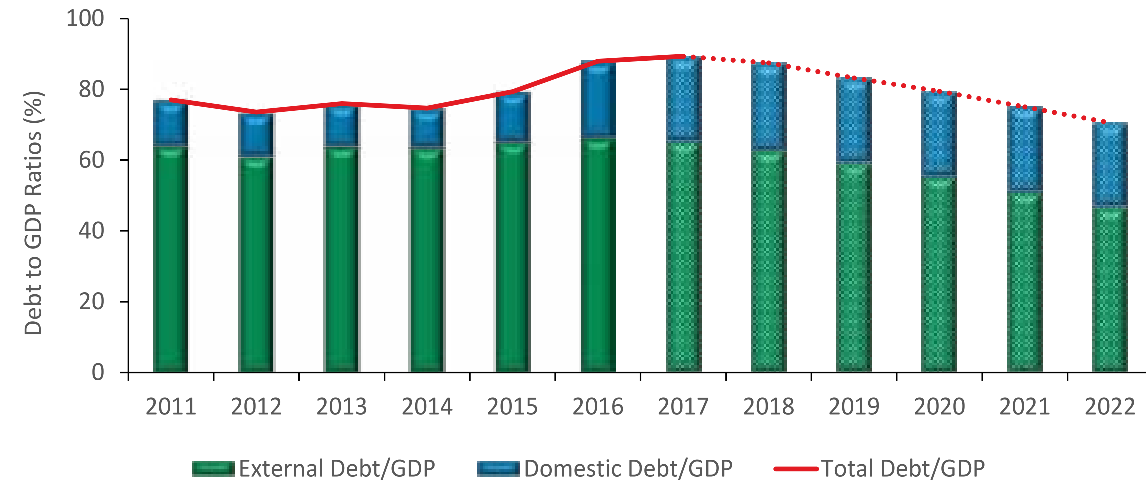
Chart 3.12: Value of Merchandise Exports to CARICOM Countries



were drying up, expenditure was ramped up on capital projects, net lending, and an expanded wage bill. Among the most notable outlays was a loan of $86.4mn to BTL to cover repayment of a British Caribbean Bank loan that had been in dispute for nine years. As a result, the government's primary deficit worsened from 0.3% of GDP in 2014 to 5.3% of GDP in 2015, while the overall deficit rose to 7.9% of GDP, its highest since 2003. In 2016, a scaling back in capital outlays and marginal increase in revenues and grants underpinned an improvement in the primary and overall deficits to 0.5% and 3.3% of GDP, respectively.

In the near term (2017 – 2018), growth in current revenue and cuts in capital expenditure are forecasted to offset increases in current expenditure, which should shrink the overall deficit to 1.3% and 0.7% of GDP in 2017 and

Chart 3.13: Debt Solvency Ratios



2018, respectively, while the primary balance should become positive at 1.8% and 2.4% of GDP in 2017 and 2018, respectively. The implementation of revenue enhancement measures is expected to improve collections of taxes on goods and services, international trade and non-tax revenue. Driving the growth in current expenditure in 2017 are wage increases of 5.5%, fees associated with debt restructuring and higher interest payments on domestic debt, although external interest payments will decline marginally.

Solvency and liquidity issues continue to be of concern as the ratio of Government debt to GDP increased from 74.7% to 88.0% in the two-year period under review. The ratio is expected to peak at 89.3% in 2017 and then gradually decline to 70.5% by 2022. The composition of debt is expected to change with a greater reliance on domestic borrowing pushing up its share to GDP while the ratio of the external debt to GDP trends downward. Meanwhile, after rising from 16.6% in 2015 to 18.1% in 2016, the share of the government's current revenues devoted to debt servicing is projected to average 19.6% in the next five years. The country's external debt servicing capacity relative to official foreign reserves is also projected to deteriorate in the medium term, shooting up from 16.9% in 2015 to 38.4% by 2020.

While annual fluctuations are expected, Central Government is relying on the domestic issuance of short and long term securities to finance its payment obligations of $393.2mn for settlement of the BTL nationalization, which will be undertaken in two equal installments in 2016 and 2017.

Chart 3.14: Debt Service Indicators

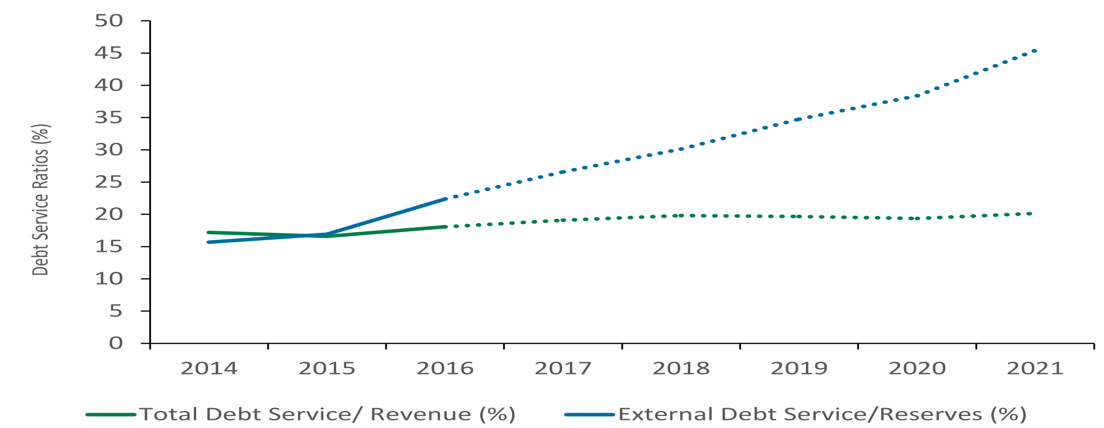


Chart 3.15: Distribution of Government Securities ($mn), 2010 - 2016

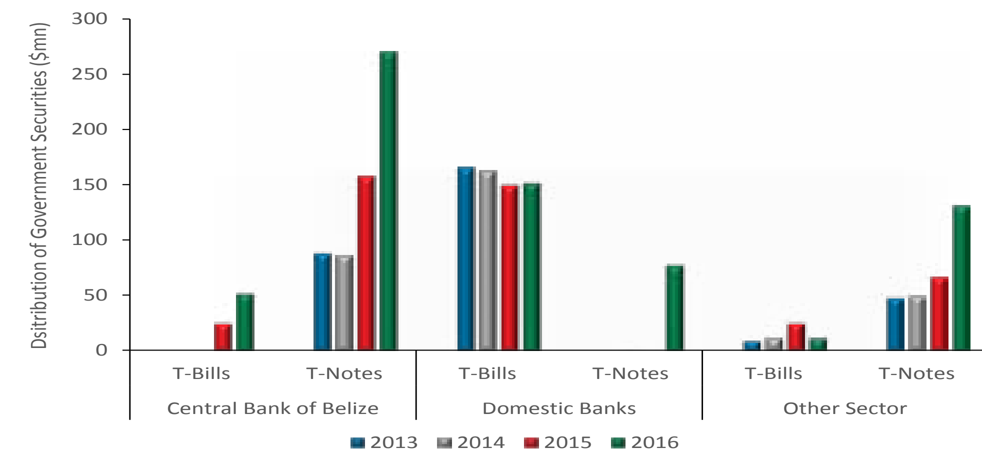
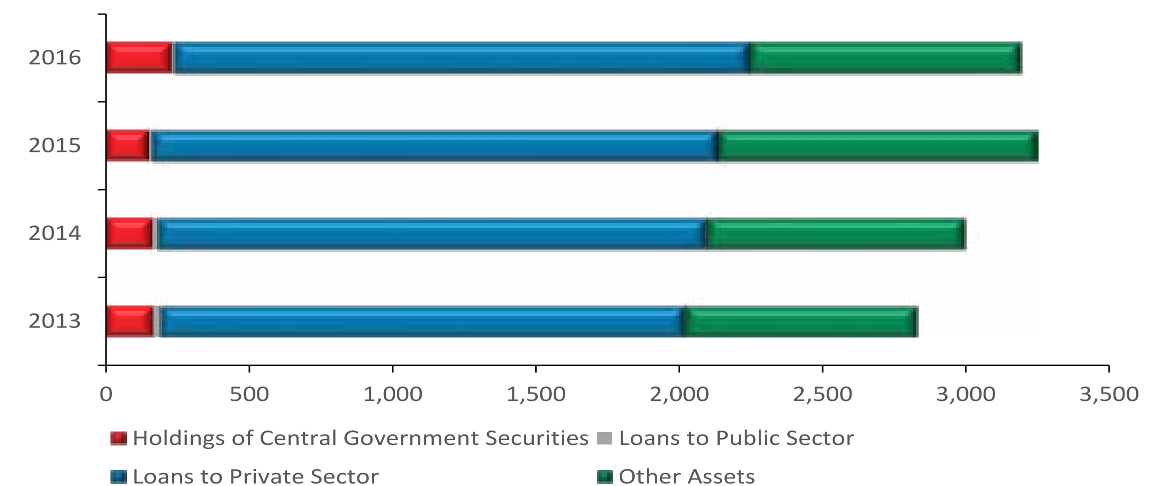


Chart 3.16: Domestic Banks Distribution of Assets ($mn), 2013 - 2016



(ii) Domestic Banking System - Exposure to Government Debt

During 2015 and 2016, the Central Bank held the bulk of the government's long term securities with an average share of 63.3%, while holdings by the other sector entities averaged 44.2%. Prior to 2014, the domestic banks had been holding approximately 95% of the outstanding Treasury bill issue. However, with the interest rate plummeting to 0.06%, their holdings fell to 75.0% in 2015, with the remainder being shared equally between the Central Bank and other financial institutions. There was a further decline in the Treasury bill rate to 0.03% at the end of the third quarter of 2016. As a result, the holdings of the domestic banks continued to decline. Their exposure to government debt is currently minimal with securities amounting to 7% of total assets and government loans accounting for less than 1%.

The government's issuance of securities is slated to increase substantially in 2017 with further increases thereafter. It is therefore conservatively estimated that the ratio of commercial banks' holdings of government securities to total assets will rise from 5% in 2015 to 9% in 2017.

(iii) External Sector Imbalances and Reserve Adequacy

Reserve adequacy is a key determinant of Belize's financial stability because the economy is very dependent on imports and domestic banks also need to facilitate other private sector outflows such as remittances and profit repatriation. If foreign exchange is insufficient to meet demands and must be rationed this reduces the efficiency of private sector operations.

After nine consecutive years of growth, the gross official reserves fell by approximately $100.0mn in 2015 to $873.8mn reflecting a widening current account deficit, compensation payments to the previous owners of BTL and BEL, and increased external debt servicing. Although the current account balance improved in 2016, reserves declined by a further $120.7mn to $753.1mn due to lower net loan disbursements to government, and outflows related to the BTL settlements. In the medium term, reserves are being projected to decline mainly due to lower loan disbursements and the finalization of the BTL settlement. Import coverage is consequently projected to shrink from 4.4 months in 2016 to 3.4 months by 2018.

Chapter 4

Financial Performance of Deposit Taking Institutions

4.1. Private Sector Credit

Lending by domestic deposit taking institutions (DTIs) decelerated to 3.7% in 2015 and slowed further to 2.8% by 2016. The deceleration reflected tepid credit demand, especially for large commercial credit from the banking sector, lower risk appetite on the part of domestic banks and the continuation of write-offs required to reduce the level of non-performing legacy loans held on banks' balance sheets.

(i) Credit to Household Sector

Loans have been split almost evenly between the household and commercial sectors over the past four years. The average growth of household debt was 5.9% in the five year period 2010-2014 with a deceleration to 3.4% during 2015 before picking up pace to grow by 5.0% in 2016. Meanwhile, the ratio of household debt to GDP has steadily increased from 33.7% in 2010 to 36.1% in 2015 and 38.3% by 2016. At the end of 2016, the domestic banks accounted for 69.4% of total lending to households.

(ii) Credit to Commercial Sector

A single large loan to the sugar industry accounted for much of the 6.2% increase in credit to the commercial sector in 2014. In the following year, net lending for commercial activities decelerated to 4.5% and slowed to a crawl in 2016 with an increase of only 0.5%. The slowdown was partly due to write-offs of non-performing legacy loans, which intensified in 2016. During 2015 and 2016, cumulative new loan disbursements were mainly for tourism, manufacturing and transport, and these were partly offset by repayments from entities involved

Chart 4.1: Composition of Lending, by Sector

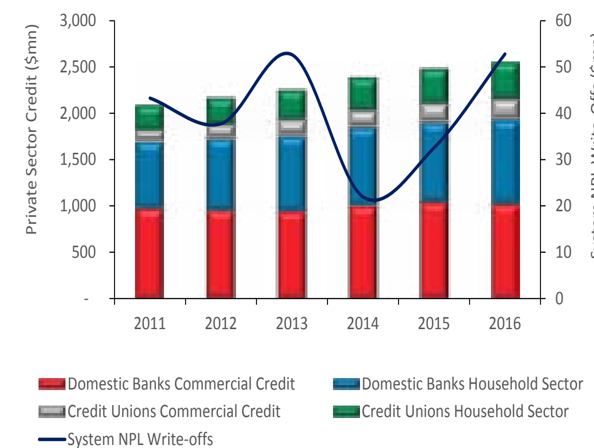


Chart 4.2: Credit Growth(%), by Sector

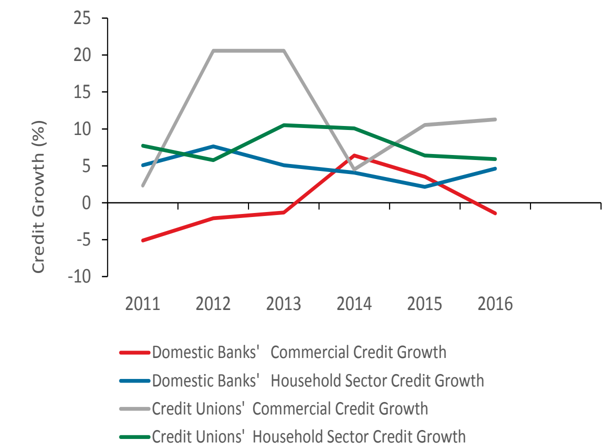
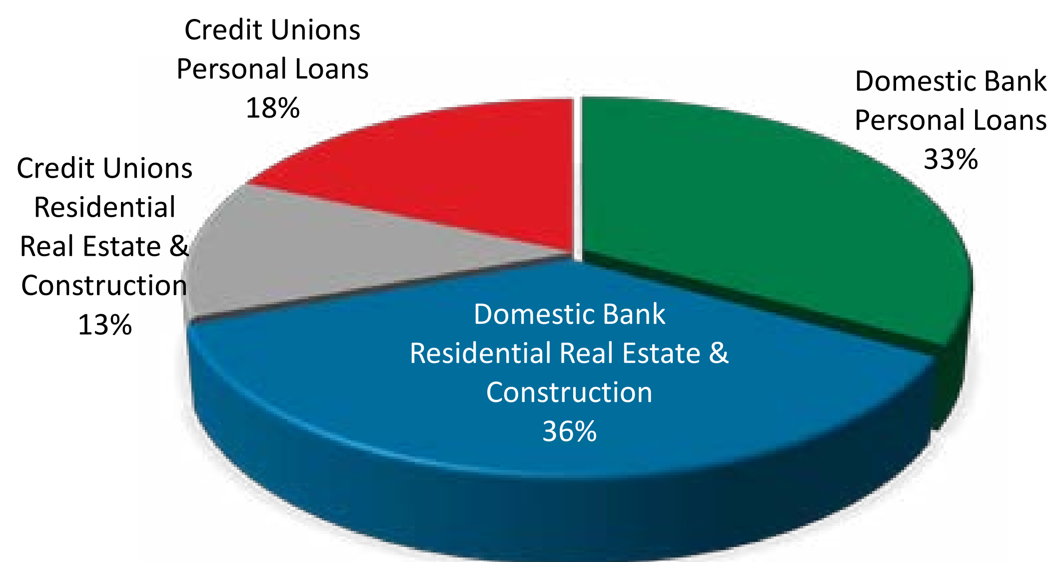
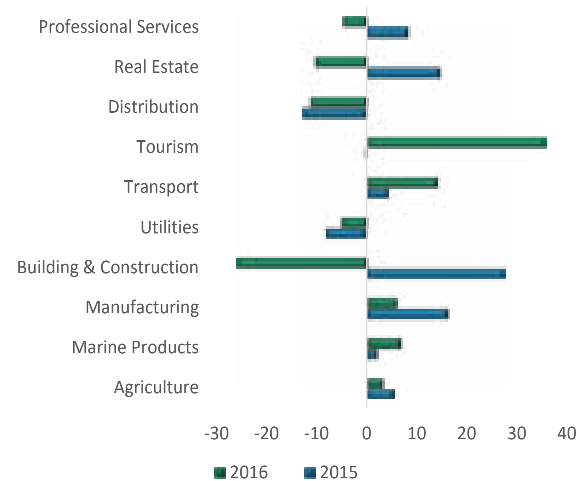


Chart 4.3: Composition of Household Debt from Domestic DTIs, 2016



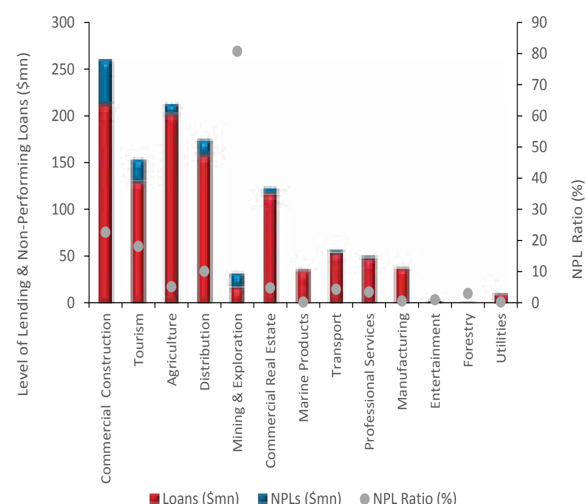
in merchandise trade and the utilities. Despite loan write-offs of some $32.5mn in 2015, the ratio of the domestic banks' non-performing loans to total loans (NPL ratio) edged up from 19.0% to 19.6% in 2015 as a result of a 6.9% growth in non-performing loans mainly concentrated in commercial real estate. In 2016, the NPL ratio dropped to 11.9% due to write-offs of $52.7mn and declassification of a sizeable

Chart 4.4: Sectoral Distribution of New Commercial Lending[1]



[1] Domestic Banks and Credit Unions

Chart 4.5: Performance of Lending to the Commercial Sector



[1] Available for domestic banks only

non-performing loan to current status. The categories with the most significant improvements in asset quality were commercial real estate (which saw a fall in NPL ratio from 36.4% in 2015 to 4.7% in 2016), marine products and distribution.

(i) <u>Credit to GDP Gap</u>

Movements in the credit to GDP ratio relative to its long term trend (credit to GDP gap) can be an indicator of possible systemic imbalance particularly in the case of a positive credit to GDP gap that points to the level of borrower indebtedness being in excess of the long term trend. In Belize, the credit to GDP gap remained relatively low indicative of a lack of buoyancy in the private sector during most of the period reviewed.

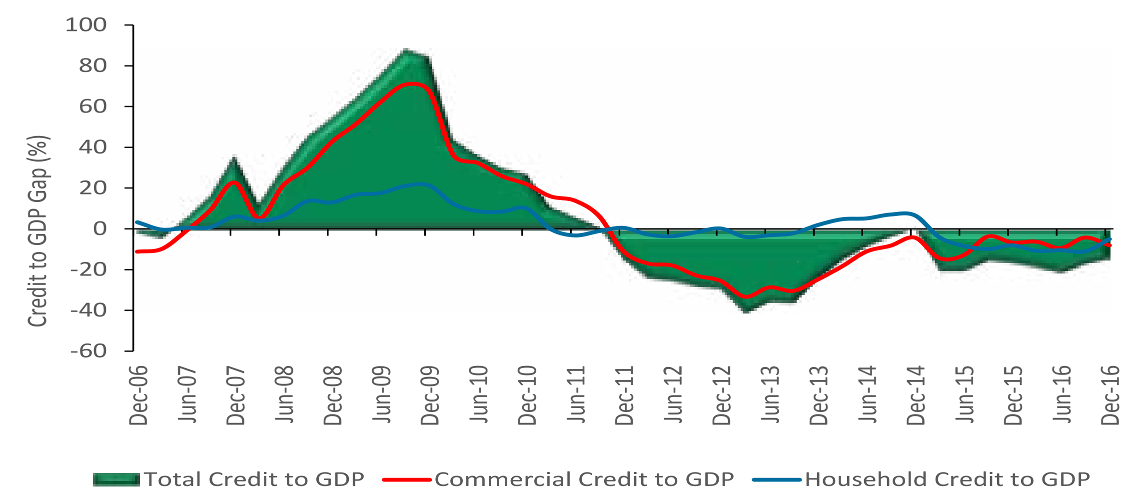
For both sectors, the indicator showed that the build-up in risk was negligible since growth in borrowing has not exceeded the long term trend for the household and commercial sectors.

4.2 Domestic Banks

(i) <u>Domestic Banking Stability Index</u>

The indicator of bank stability rose in the first quarter of 2015 due to improvements in all of the key areas, including in particular, capital & concentration risk and profitability. The profits of one domestic bank were significantly boosted after the sale of a valuable piece of property, and this made a sizeable contribution to the industry's turnaround in profitability whilst boosting capital levels. During the rest of the year, the Index declined by 27.3 basis points (33.2%) as the system's aggregate return on assets fell from 1.75% to 1.00%, while return on equity fell from 13.07% to 7.34%. The lowering of profits reflected reduced net income for two banks, one of which was in the process of winding down and the other being the bank that had earlier received the windfall from the sale of property and which subsequently saw a return to normalcy in the level of its non-interest income for the remaining period.

Chart 4.6: Domestic Banking Sectors' Credit to GDP Gap: Commercial Credit vs. Household Credit



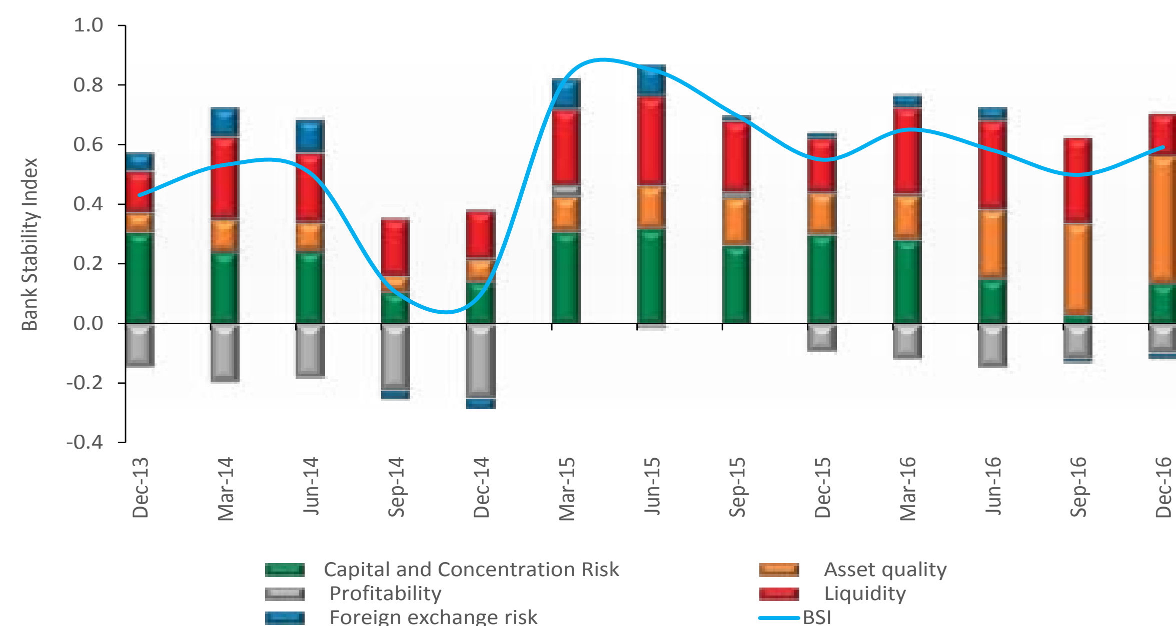
In 2016, the stability index rose by 4 basis points due to an improvement in asset quality that reflected a fall in the ratio of nonperforming loans to total loans from 14.02% to 10.45%, while the level of NPL (net of provisions) to capital was more than halved from 31.73% to 14.53%. Partly offsetting these improvements was an increase in capital and concentration risk as profit repatriations from one institution and losses generated by two others resulted in a decline in the indicator of capital adequacy. The ratio of large loans to regulatory capital fell from 134.51% in December 2015 to 129.98% in December 2016 reflecting a reduction in large loans and an increase in regulatory capital. The level of concentration risk for the system therefore declined.

(ii) Review of 2015

Despite a divestment in regulatory capital caused by the winding down of FCIB prior to its sale, the CAR of the domestic banking system rebounded from a decline of 1.0% in 2014, to increase by 1.5% to 24.9% during 2015. The impact of FCIB's divestment was neutralized by an increase in the capital buffers of the other banks via a combination of capital injections and earnings retention that boosted the system's total regulatory capital by $39.6mn.

The four-year period that the Central Bank had specified for the write-off of legacy NPLs concluded on 30 November 2015 and during that year some $32.5mn in NPLs were written off. The combination of write-offs, additional loan loss provisioning and loan growth facilitated a decline in the system's non-performing loan (less specific loan loss provisions) ratio from 7.02% in 2014 to 6.70% in 2015.

Chart 4.7: The Domestic Banking Stability Index



Registering 1.0% in 2015, earnings of the domestic banking system met the minimum ROA threshold for the first time in five years. ROE also improved from 0.03% to 7.34%, which is significantly above the 1.0% benchmark. The improvements reflected a turnaround in performance as after a small profit of $0.12mn in the previous year, the domestic banking system reported profits of $31.2mn in 2015. This was largely due to two banks: one which had received a substantial dividend payment from a subsidiary in early 2015, and another, which registered increases in interest and non-interest income of 8.3% and 13.0%, respectively, and an 18.3% reduction in non-operating expenses.

The banking system was very liquid, with holdings of liquid assets growing by 15.8% and crossing the $1.0bn threshold for the first time. As a result, the liquid assets to deposits ratio stood at 39.8% compared to the required level of 23.0% and the ratio of excess liquid assets to required reserves grew from 60.1% to 76.0%.

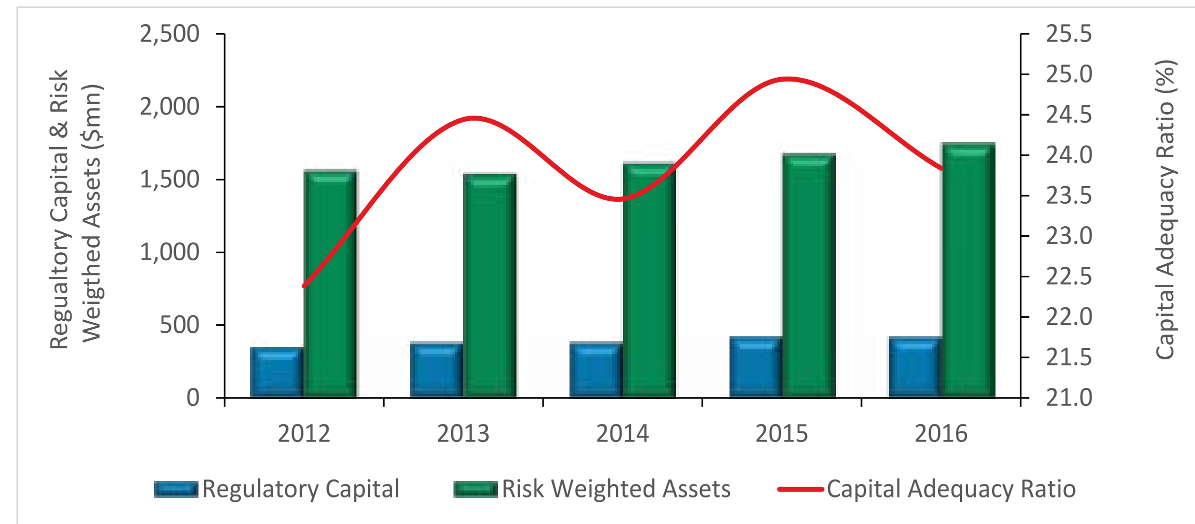
(iii) Review of 2016

In 2016, the system's regulatory capital underwent a marginal 0.4% contraction. The negligible decline coincided with a 3.7% rise in risk-weighted assets, the combination of which helped to reduce the system's CAR by 1.1% to 23.8%. All banks remained comfortably above the 9.0% minimum requirement with CARs ranging from 12.54% to 107.31%. There was further improvement in the NPL ratio (net of specific provisions) of the domestic banks (from 6.70% to 3.01%) with this being mainly due to $52.8mn in write-offs, with support coming from additional provisions, and further growth in loans. Since the implementation of the revised Loan Loss Provisions Requirements on 1 December 2011, NPLs have fallen by $129.3mn. 2016 also proved to be another profitable year for the domestic banking system with $20.3mn in profits being reported, which reflected the improvement in loan portfolios following several years of provisioning and write-offs. The slight dip in profits relative to 2015 was primarily due to the expensing of additional loan loss provisions. The latter contributed to declines in ROA from 1.00% to 0.63% and ROE from 7.34% to 4.80%. High levels of liquidity continued to be the order of the day with liquid assets growing by an additional 1.1% to $1.1bn and the ratio of excess liquid assets to deposits remaining stable at 39.65%.

4.3 International Banks

Regulatory capital in the international banking sector surged by 30.6% in 2015 aided by capital injections and profit retention that coincided with a 5.1% reduction in risk weighted assets.

Chart 4.8: Commercial Banks Capital Adequacy



The latter reflected a contraction in the level of deposits due to the loss of some correspondent banking relationships. The system's CAR consequently jumped from 19.26% to 26.50%, the highest it has been in the last five years. While total NPLs increased by 6.4%, the NPL ratio of these institutions continued on a downward trend, reducing from 8.28% to 7.66% in 2015, due to the allocation of additional specific loan loss reserves and write-offs. The non-recurrence of a sizable one-off transaction that boosted income in the previous year resulted in profits shrinking significantly to US$5.5mn during 2015. Consequently, ROA fell from 4.56% to 0.77% while ROE plunged from 50.07% to 6.21%. With deposits down by 28.1%

Chart 4.9: Domestic Banks' Asset Quality

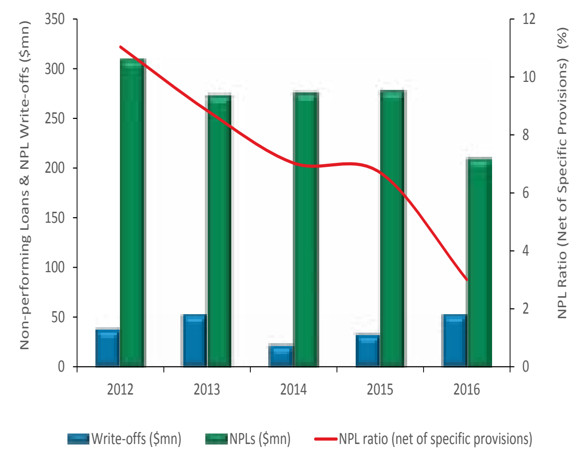


Chart 4.10: Domestic Banks' Profitability

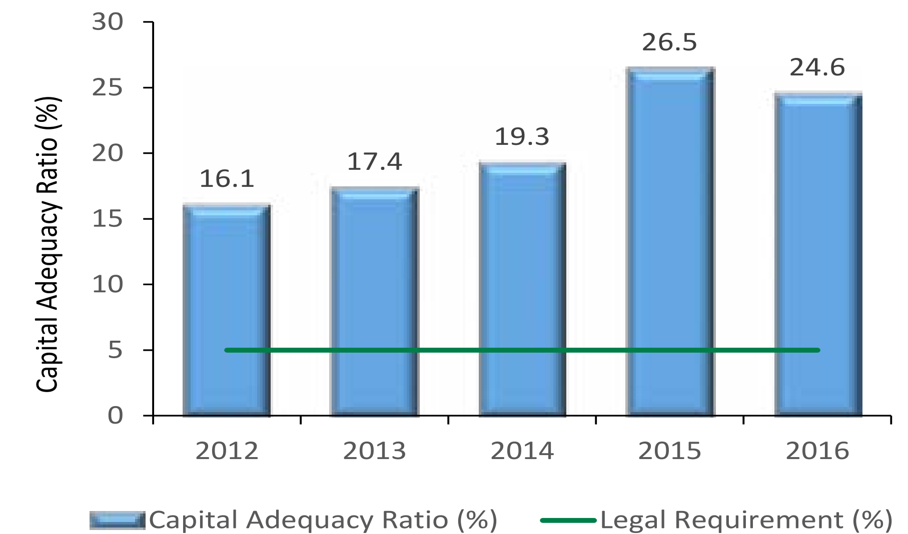
due to the loss of correspondent banking relationships, the sector's liquidity was negatively impacted. At the end of the year, total holdings of excess liquid assets were 41.1% lower than the prior period's position.

During 2016, there was a marginal reduction in the CAR as a 9.82% expansion in risk-weighted assets outpaced a 4.7% increase in regulatory capital. The expansion in risk-weighted assets was driven by one bank which registered a 128.2% increase after it re-classified some of its holdings and assigned a risk weight of 100% compared to the zero risk weight that had been assigned earlier. Notwithstanding this, at 24.60% the sector's capital adequacy ratio continued to be significantly above the 10% legal requirement. Similarly, by December 2016, an additional decline of 14.3% in deposits led to a further reduction in the system's holding of excess liquid assets to US$179.8mn. One bank's liquidity position deteriorated and fell below the 24.0% statutory requirement but as a whole, the sector's liquid assets to deposits ratio stood at 45.0% in 2015 and 45.13% in 2016.

4.4 Credit Unions

Credit union assets grew by a robust 8.6% in both 2015 and 2016 with lending up by 7.4% and 8.9% in each of these years. Due to the expensing of provisions for NPLs, the sector's net profits dropped by 14.6% in 2015, but this was followed by a recovery in 2016 when a 10.2% increase in net profits was recorded. All the credit unions exceeded the 1.0% benchmark for ROA and ROE, which, for the sector as a whole, stood at 4.3% and 24.5%, respectively, in 2016.

Chart 4.11: International Banks' Profitability



The ratio of non-performing loans (net of specific loan loss provisions) remained below the 5.0% threshold for the entire period under review with only one credit union in 2015 and two credit unions in 2016 reporting NPL ratios that exceeded 5.0%. Meanwhile, underpinned by buoyancy in member deposits, the sector maintained high levels of liquidity with excess liquid asset holdings expanding by 14.3% over the two-year period. This was mostly held in the form of deposits with domestic banks, which stood at $272.8mn (equivalent to 10.2% of domestic banks' deposit liabilities) by the end of 2016. There was however a notable deceleration in the growth of these holdings from 11.4% in 2015 to 2.9% in 2016 as credit

Chart 4.12: International Banks' Asset Quality

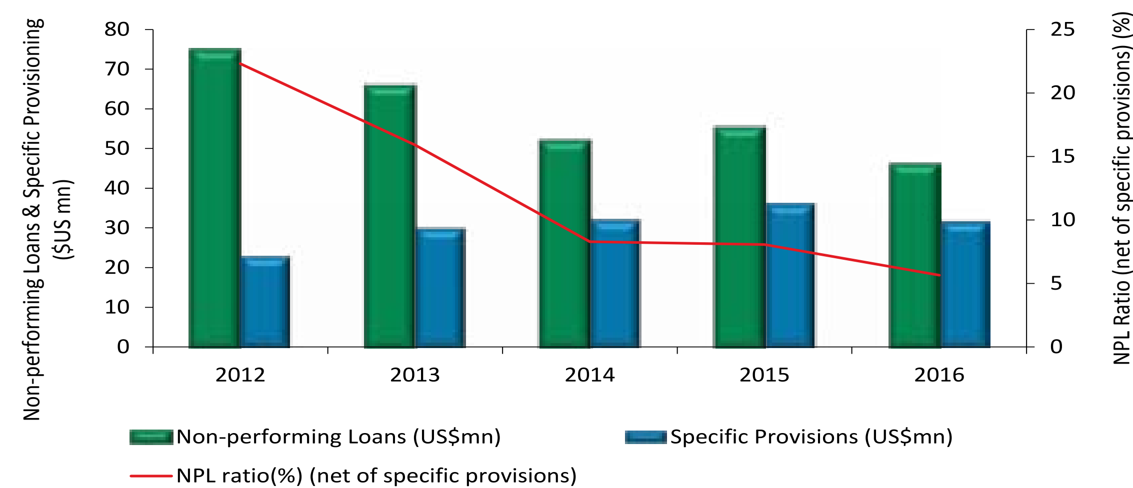
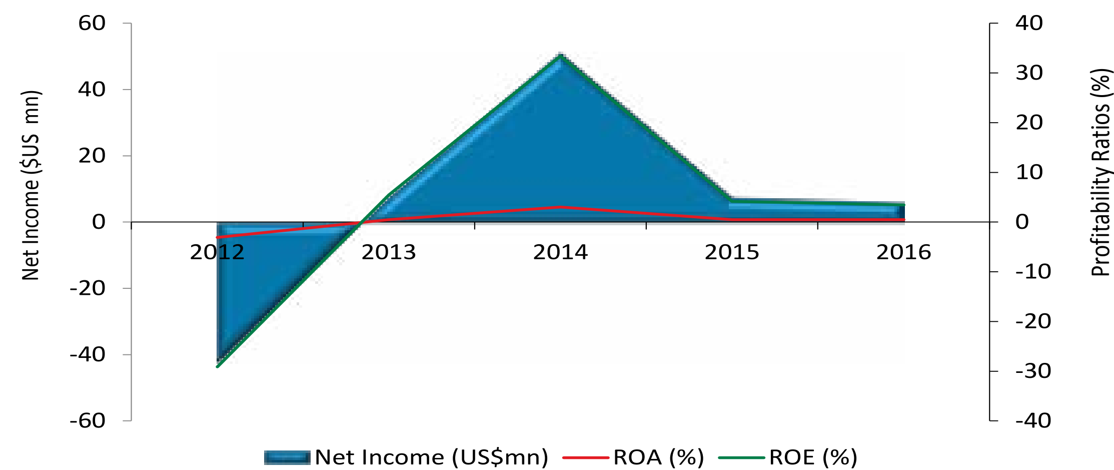


Chart 4.13: International Banks Profitability



unions began to diversify their investment portfolios by purchasing government securities. The credit unions are required to maintain a net institutional capital to assets ratio of 10%, and during the period under review, small increases were recorded bringing the ratio for the sector to 10.61% at the end of 2016. The steady improvement was partly due to the Central Bank's direction to the credit unions that did not meet the requirement to appropriate more than the legally required 10.0% of their net profits to legal reserves. The number of credit unions that fell short of the requirement was reduced from five to three. However, two of the largest credit unions were still below the benchmark and will need to continue building up institutional capital.

Chart 4.14: Assets of the Credit Union Sector

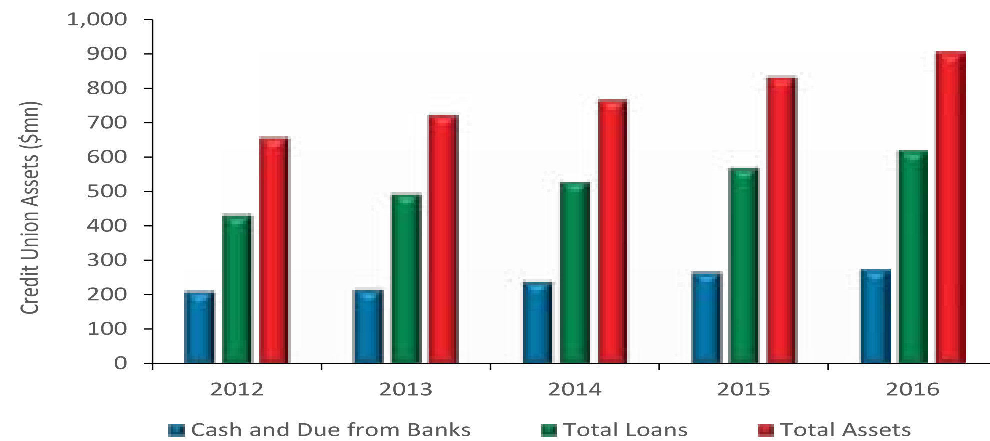


Chart 4.15: Credit Unions Non Performing Loans

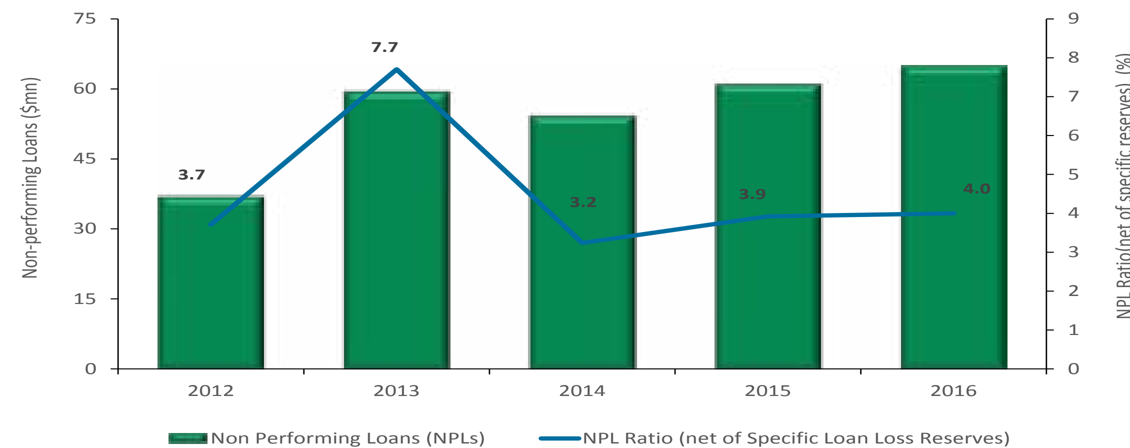
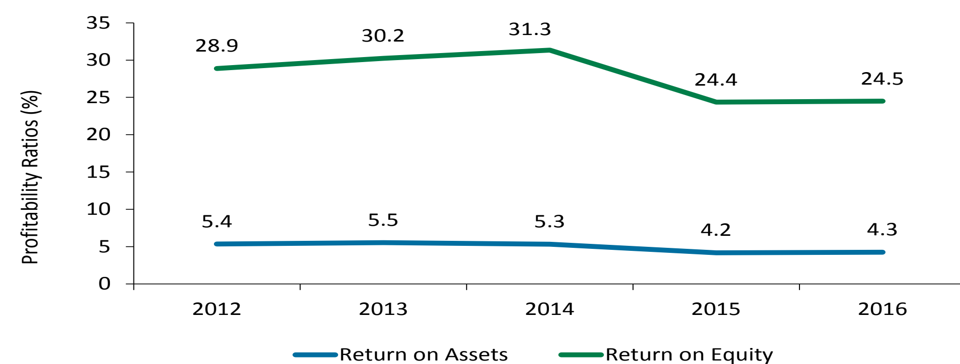


Chart 4.16: Credit Unions Profitability



Chapter 5

Evaluating the Resilience of Deposit Taking Institutions

The resilience of the banking sector was gauged by applying several single factor and forward-looking macroeconomic shocks[1]. The results of the static tests for three periods were compared, but FCIB was excluded from tests for December 2015 and onward as it was in the process of divesting its operations. In the case of the macroeconomic stress test, the National Bank of Belize was excluded from the model due to its small size and minimal impact on the banking system.

5.1 Domestic Banks

The static stress test results indicate that the domestic banking system is somewhat vulnerable to deteriorations in loan portfolios, related party transactions and loan concentration. The impact of the sector-specific shocks was only significant under the high stress scenario in 2015. The system's response to liquidity shocks was stable in both 2015 and 2016.

(i) Loan Portfolio Deterioration

Although the CAR for the system as a whole remained above the 9% minimum requirement under all stress scenarios for this particular shock, some banks would need capital injections under the medium and high shock scenarios. Even so, the system has notably gained resilience since the capital injections needed to restore undercapitalized banks subjected to medium and high stress shocks fell from $58.9mn in December 2014 to $17.2mn in December 2016.

(ii) Related Party Transactions

Because of the high capitalization of one bank[2] throughout the period, the system also remained above the 9% minimum capital adequacy requirement when related party transactions were stressed. However, vulnerability to related party shocks has increased over the period reviewed, as there was a worsening of the CAR under all scenarios in 2015 and 2016 with capital injections required to bring the system back into compliance rising from $17.8mn in 2014 to $40.9mn by 2016. This was due to the performance of one bank which fell below the requirement for each stress scenario.

(iii) Loan Concentration

At the end of 2016, all banks were able to meet the minimum requirements under the low stress scenario for the large loan concentration shock where the assumption was that the three largest borrowers of each bank ceased to service their loans. In the case of the medium and

[1] The model applied for the macroeconomic stress test was developed during Belize 2011 Financial Sector Assessment Program and for this analysis was applied only to the domestic banking system..

[2] This bank had a pre-shock CAR of 47.48% in Dec 2016.

high stress[3] shocks, however, three banks would be unable to meet the 9% minimum CAR. In the medium shock scenario where the seven largest loans cease to perform, $12.1mn in capital injections would be needed to bring the banks back into compliance, and $25.2mn is needed under the high stress scenario where the ten largest borrowers in excess of 10% of capital cease to make loan repayments.

The system nevertheless displays an increased resilience for all stress scenarios, as capital injections required to bring the system in compliance has declined from $69.1mn in 2014 to $37.3mn in 2016.

[3] The top seven and ten largest borrowers in excess of 10% of capital are assumed to become non-performing under the medium and high shocks.

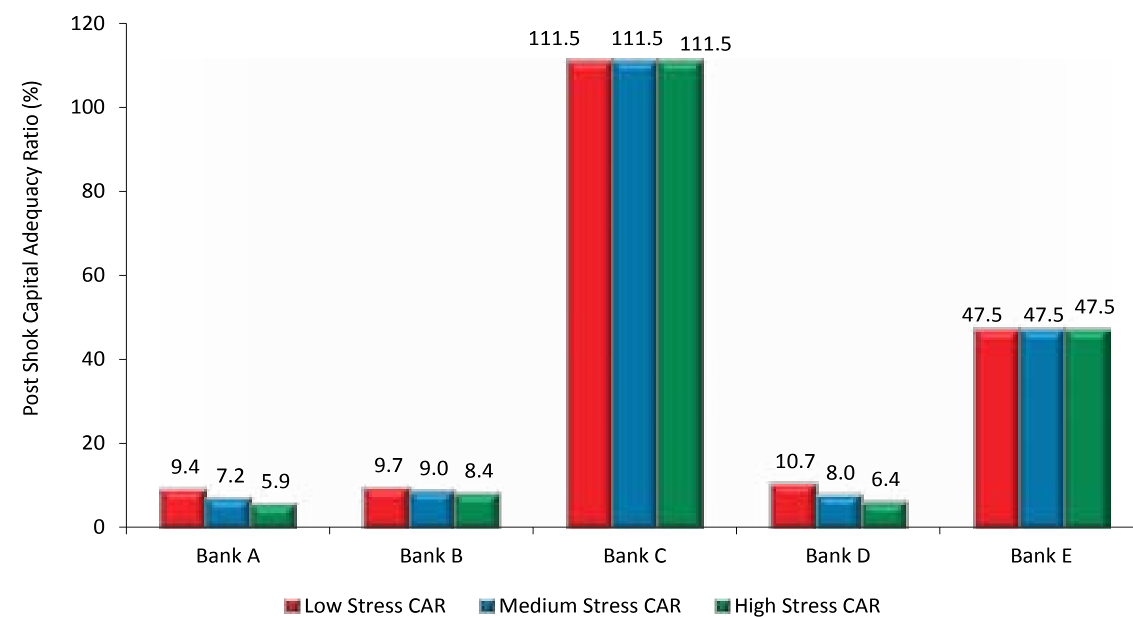
5.2 International Banks

The static stress tests applied to the international banks reveal a high level of vulnerability when shocks are applied to liquidity and loan portfolios. On the other hand, the system maintains high resilience to shocks that impact related party transactions and large loans due to increased loan loss provisioning.

(i) Liquidity

The low through high stress 'Liquidity' shock scenarios assumes that a run on the international banks would cause demand deposit outflows at the rate of 5%, 10% and 15% per day and time deposit outflows of 1%, 2%, and 3% per day, respectively. In 2014, the international banking system would have become illiquid after 41, 21 and 14 days for the low to high stress scenarios

Chart 5.1: Impact of Large Loan Default on Domestic Banks Capital Adequacy



and would breach the legal requirement after 19, 10 and 7 days. In 2015, there was a deterioration due to the impact of the de-risking phenomena which spurred significant outflows from the banks and negatively affected their liquidity. The situation at the end of September 2016 was that the system would become illiquid after 25, 13 and 9 days for the low to high stress scenarios and would breach the legal requirement after 13, 7 and 5 days, respectively.

Chart 5.2: Impact of Liquidity Shock showing no. of days till illiquid

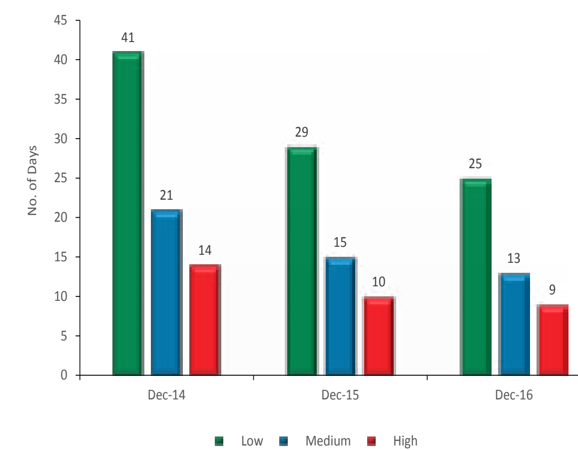
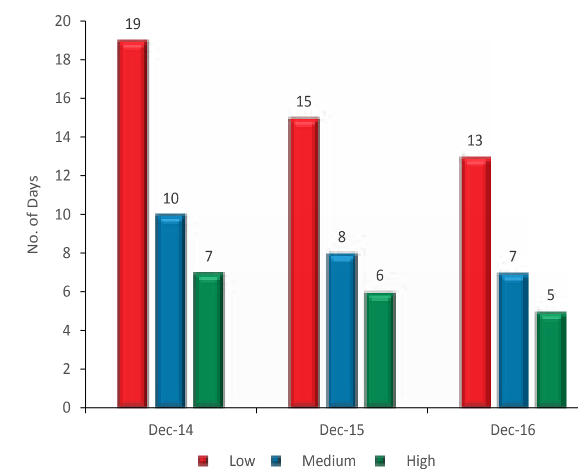


Chart 5.3: No. of Days until Liquidity Shock breaches system's legal requirement



(ii) Loan Portfolio Deterioration

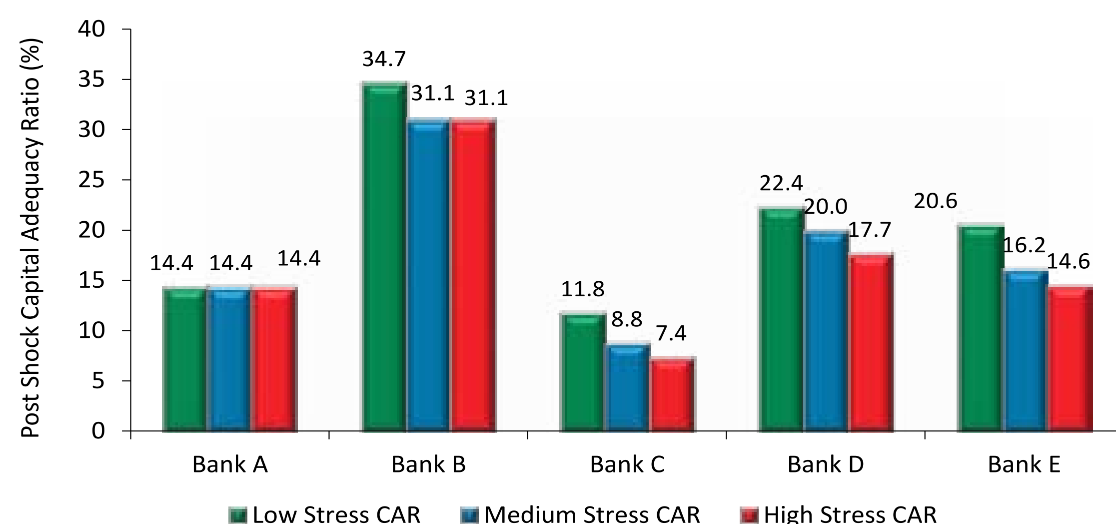
The banks have improved in resiliency to loan portfolio shocks relative to 2014 when the CAR for the system remained above the 10% minimum requirement only under the low stress scenario. At the end of 2016, the system exceeded the minimum requirement under both the low and medium stress scenarios while the injections needed to restore undercapitalized banks under the high shock scenario fell from $30.1mn in December 2014 to $16.9mn in December 2016.

(iii) Other Credit Shocks

There was also an increase in resiliency to shocks applied to large loans. At the end of 2015, one bank fell below the requirement for all shock scenarios. At the end of 2016, however, only the medium and high stress scenario triggered a bank to fall below the requirement. Also, the level of capital injections required under the high stress scenario to regain compliance declined from $3.6mn in 2015 to $2.8mn at the end of 2016.

In both 2015 and 2016, the CAR for the international banking system showed strong resiliency against shocks to related party transactions under the three scenarios with system CAR remaining firmly above the minimum requirement and no individual bank falling below the threshold.

Chart 5.4: Impact of Large Loan Default on International Banks Capital Adequacy



5.3 Macro-stress tests (2017-2012)

Using a forward looking model, the banking system's strength in the event of a decline in economic activity was evaluated over a forecast period ranging from 2017 to 2021. The economic shocks are transmitted via reductions in return on assets and NPL growth and the model assumes that the level of non-performing loans is related to export performance and changes in the cash reserve ratio. In all scenarios, risk weighted assets increased in line with loan growth, while changes in capital in the current period reflect the sum of retained profits and capital from the previous period. The results of the analysis show that the domestic banking system is able to maintain the 9% minimum capital adequacy requirement at all levels of stress. However, one bank is highly vulnerable to macroeconomic shocks as its level of capitalization is severely impacted under all three scenarios.

Baseline Scenario

After adjustments to ensure that the minimum provisioning requirements are met, the entire domestic system remains adequately capitalized at an aggregate level, averaging 23.5% during the forecast period. However, without additional capital injections, one bank would be unable to meet the minimum 9% CAR after 2018 if conditions are adverse. Capital adequacy for the other three banks are in excess of 13% under the baseline scenario throughout the entire forecast period.

Low Stress

The principal assumptions under the low stress scenario are reductions in export growth and return on assets of one standard deviation. This results in declines in the system's CAR from 22.9% in 2016 to 18.5% by 2021. At the disaggregated level, capitalization of one bank remains extremely high, averaging 48.1% during the forecast period. On the other hand, the weakest bank in the system was unable to withstand low stress shocks as its CAR fell below the requirement from 14.5% in 2016 to 9.9% in 2017 and its capital levels turned negative from 2020.

High Stress

Reductions in export growth and return on assets of two standard deviations were assumed in the high stress scenario. At the aggregate level, the system remains resilient with CAR declining from 22.9% in 2016 to 11.8% by 2021. As in the case of the low stress scenario, one bank remains highly capitalized, however, capital for two weaker banks diminishes to precarious levels with their respective CARs averaging 10.0% and -5.8% during the forecast period.

Chart 5.5: Macro-stress Tests: Baseline Scenario

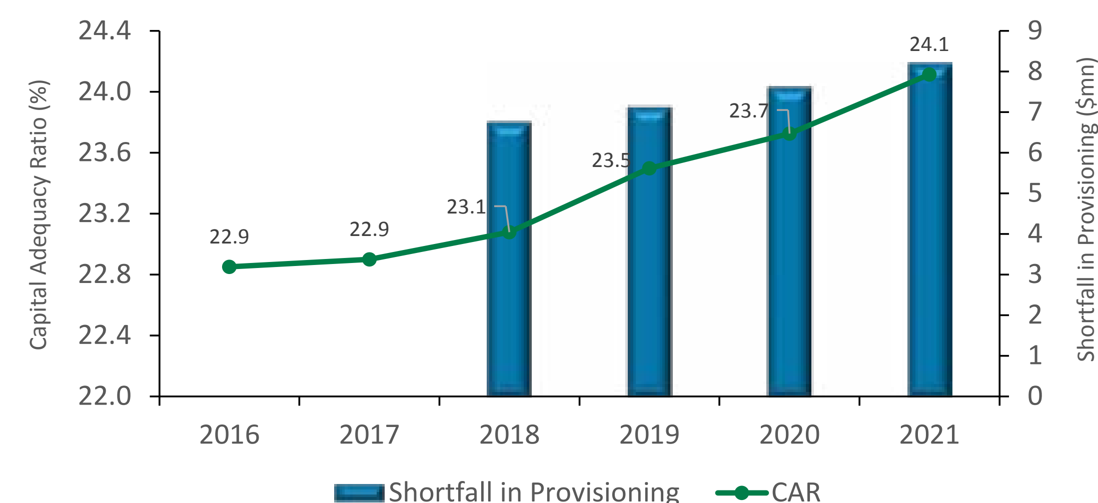


Chart 5.6: Macro-stress Tests: Low Stress Scenario

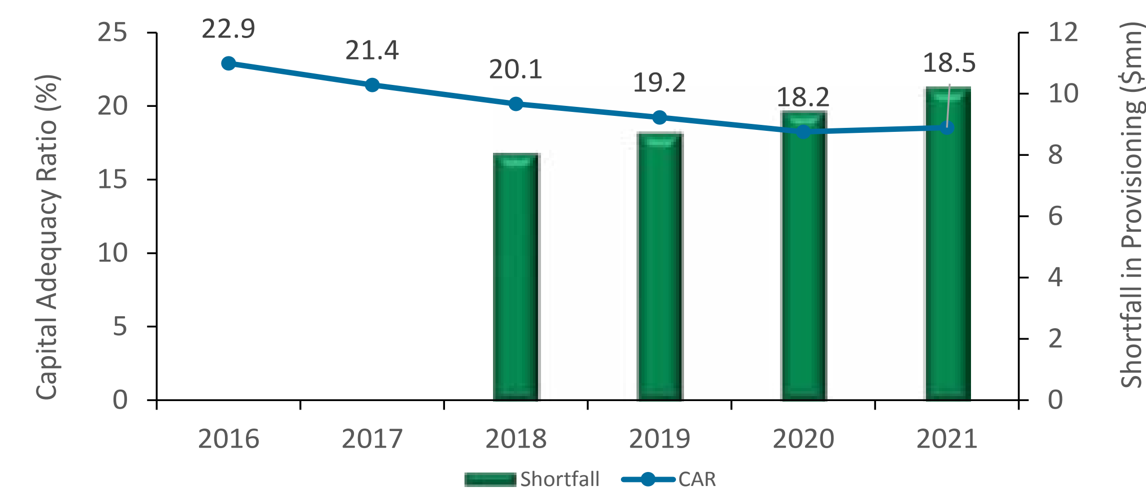
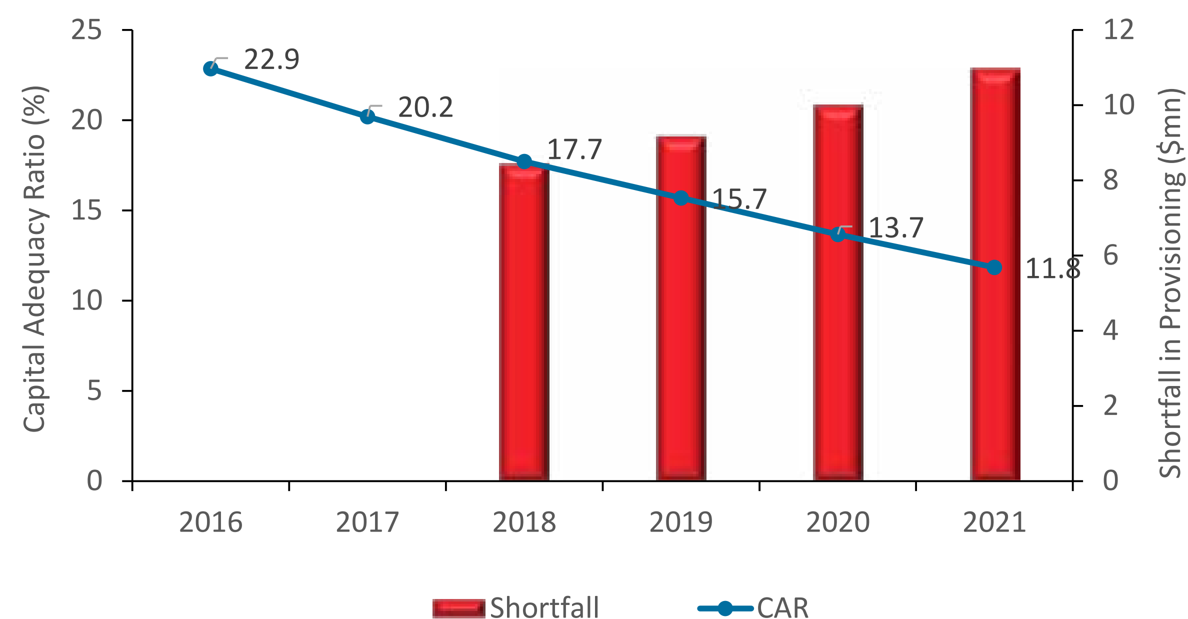


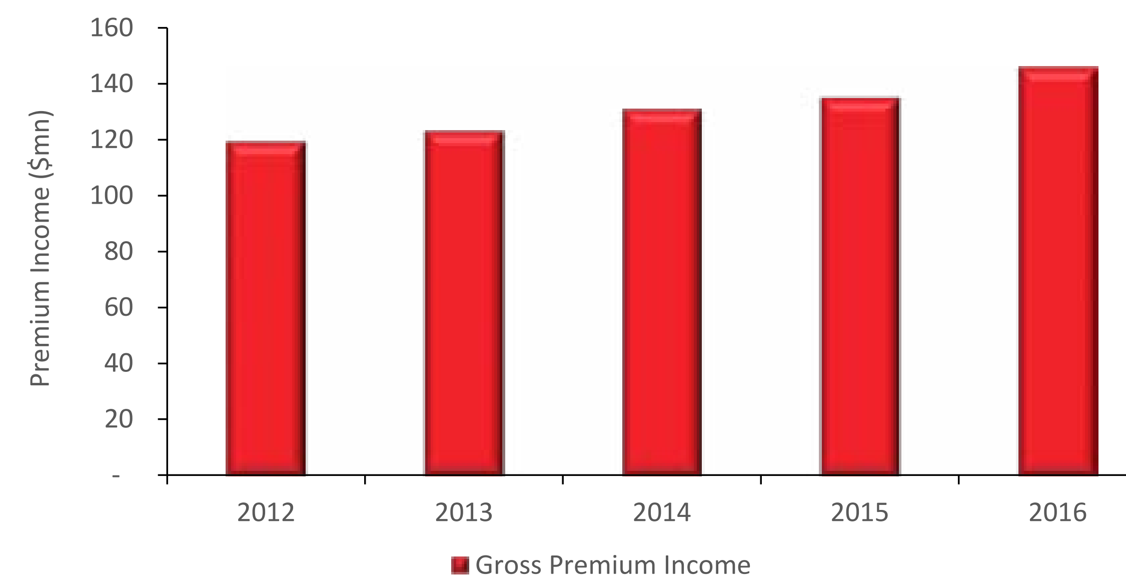
Chart 5.7: Macro-stress Tests: High Stress Scenario



Chapter 6

Performance of the Insurance Sector

Chart 6.1: Premium Income for Domestic Insurance Sector



6.1 Sectoral Performance

(i) Gross Premium Income

Gross premium income continued its upward trend for the domestic insurance industry with a 3.1% increase in 2015 that accelerated to 8.0% in 2016 partly due to higher rates for certain classes of insurance, more aggressive marketing and relaxed payment arrangements that supported increased access to insurance coverage. Property, motor, health and ordinary insurance continue to be the largest sectors, accounting for an average of 81% of total GPI over the last five years.

Health and motor insurance posted robust growth rates averaging 8.9% and 8.1%, respectively. In the case of the former, this was partly due to a heightening in the premium due to rising medical costs. GPI from property insurance experienced an upward surge of 6.3% in 2016 primarily due to transactions involving two large corporate clients. In comparison, there was a 2.3% increase in 2015 and an annual average increase of only 1.5% since 2012. The notable exception to the steady expansion was the ordinary life insurance sector which experienced a sharp increase in 2014 and 2015 due to an increase in premium rates and more aggressive marketing tactics.

Chart 6.2: Growth in Gross Premium Income for Major Classes of Insurance, 2013-2016

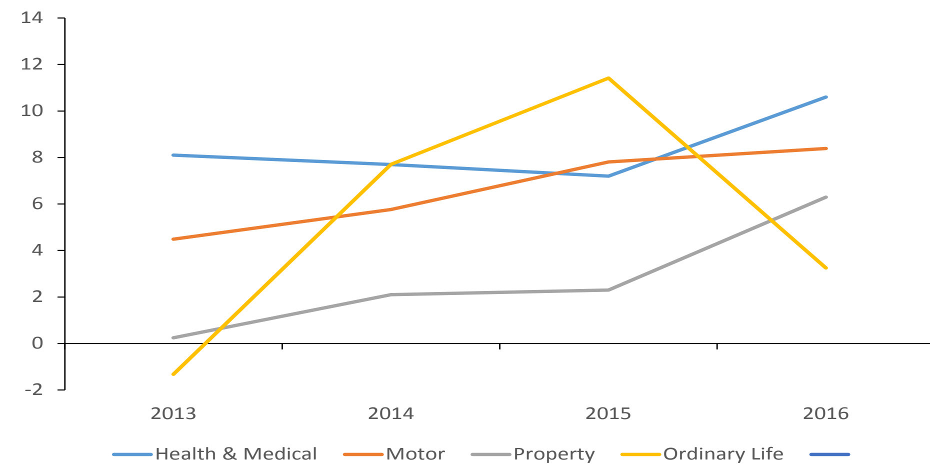


Table 6.1: Percentage Change in Gross Premium Income, 2013-2016

	Health & Medical	Motor	Property	Ordinary Life
2013	8.1	4.5	0.2	-1.3
2014	7.7	5.8	2.1	7.7
2015	7.2	7.8	2.3	11.4
2016	10.6	8.4	6.3	3.2

Source: Office of the Supervisor of Insurance and Private Pensions

Chart 6.3: Insurance Sector Investment Mix, 2014

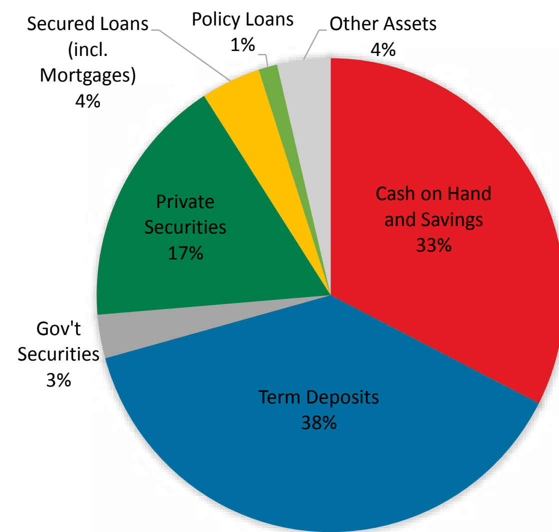


Chart 6.4: Insurance Sector Investment Mix, 2016

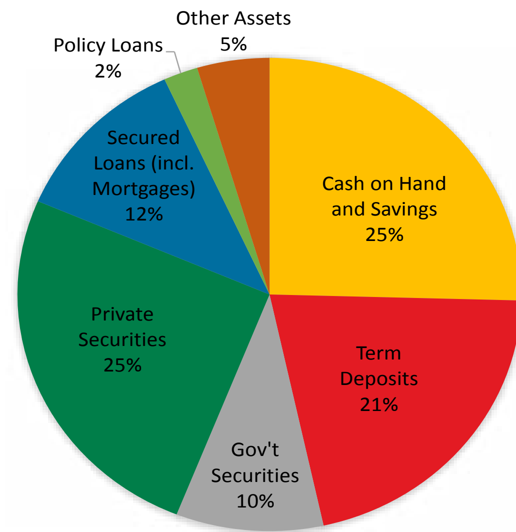


Table 6.2: Holdings of Certificates of Deposits and Cash

	2012	2013	2014	2015	2016 Unaudited
CD's	90	80	76	73	43
Cash and Bank Deposits	40	53	65	46	51
Total CD's and Cash/Bank Deposits	130	133	141	120	94

Source: Office of the Supervisor of Insurance and Private Pensions

(ii) Investment Asset Mix

There was a significant shift in the composition of the industry's aggregate investments away from holdings with commercial banks due to high bank liquidity and low deposit rates. The share of investments held with domestic banks dropped from 70.7% to 46.0% in the two years under review with the amount held as term deposits plunging by 17 percentage points (from 38.2% to 21.0%). While the share comprised of government securities and company bonds rose by 14.8% percentage points to 35.0%, the value of investments being held in banks nevertheless continued to be significant, exceeding $93mn or some 34.6% of total assets at the end of 2016.

The insufficiency of long term securities and excessive liquidity in the domestic banking system constituted significant market risk for the insurance companies. In particular, life insurance companies were faced with asset-liability mismatches due to declining rates on fixed deposits and the occasional refusal of banks to roll over their CD's.

(iii) Claims and Claims Provisions

In 2016, Hurricane Earl negatively affected the profitability of the insurance sector due to sizeable increases in gross claims and pay-outs. The negative impact was isolated to the non-life insurance sector, which experienced a tripling in gross claims due to the severe damages inflicted on properties and motor vehicles. In the case of the life sector, the impact of Hurricane Earl was negligible with no reported loss of life or other casualties. The sector's loss ratio was fairly low with the level of claims paid and gross claims remaining stable over the two year period.

Chart 6.5: Life Insurance Sector Claims

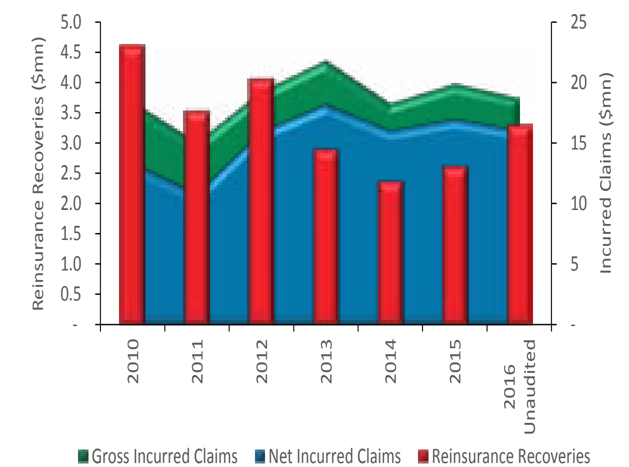


Chart 6.6: Breakdown of General Insurance Sector Claims (Smn)

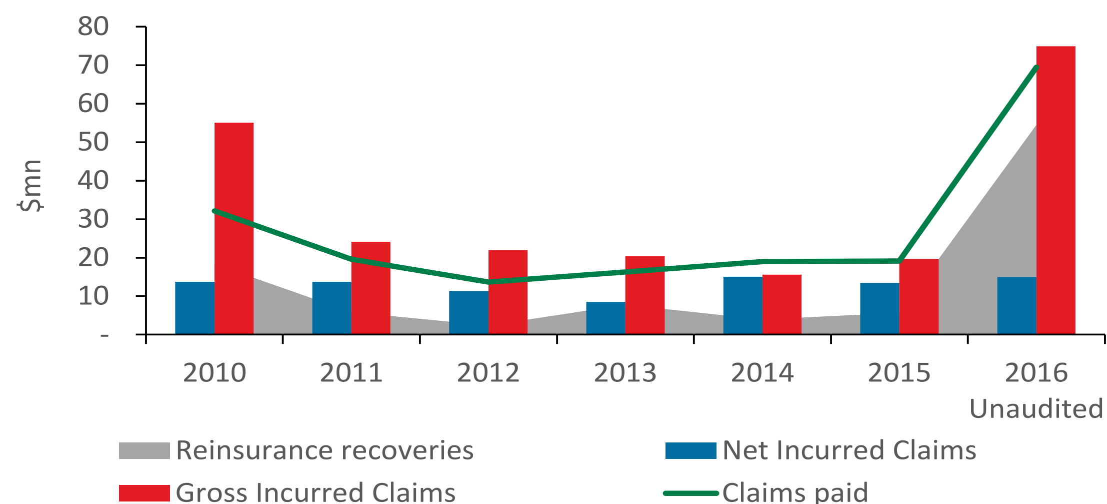


Table 6.3: Statutory Fund Requirements ($mn), 2014 - 2016

	Dec 2014	Dec 2015	Dec 2016
Statutory Fund Requirements	$75.9	$75.6	$73.0
Statutory Fund Asset Holdings	$82.4	$90.3	$84.3
Statutory Fund Surplus/(Deficit)	$6.5	$14.7	$11.3
Statutory Fund Holdings/Requirements	1.09	1.19	1.15

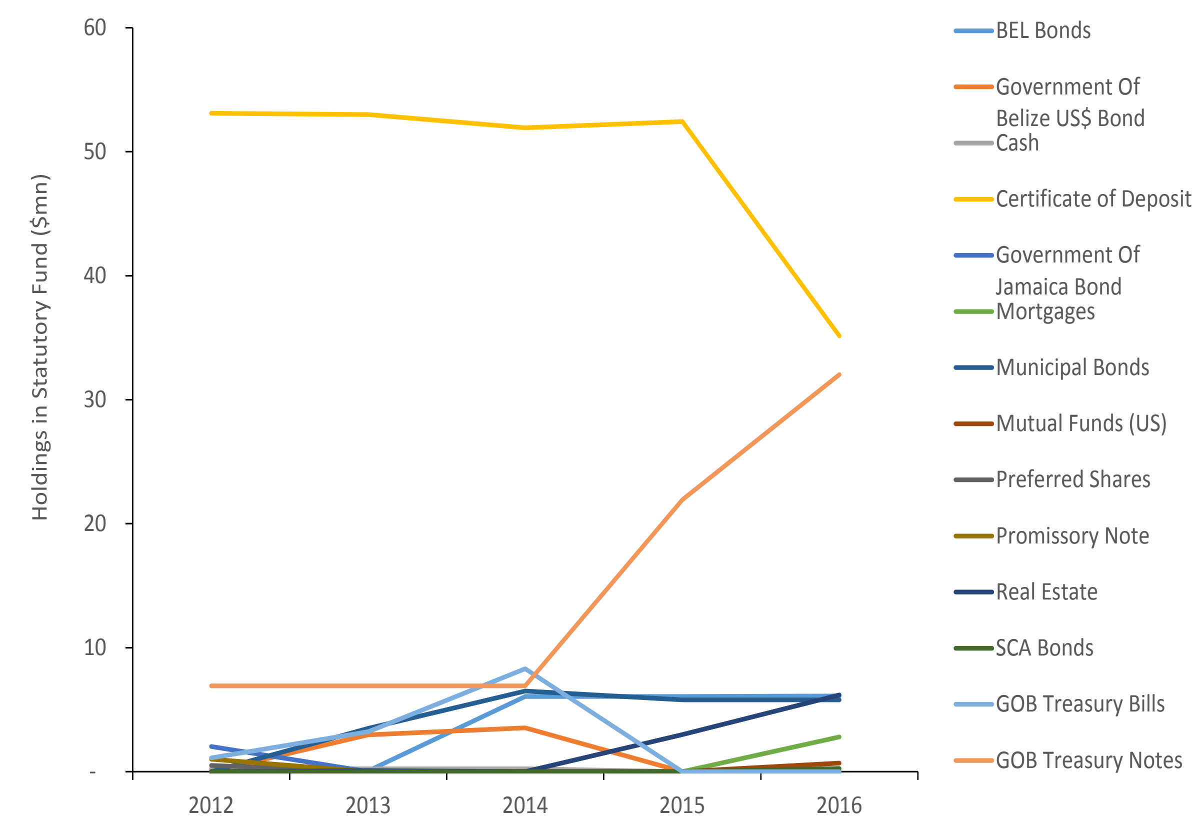
(iv) Statutory Fund

The Insurance Act requires domestic underwriters to establish statutory funds for each class of insurance business in order to assure solvency and partial protection against investment losses. It is stipulated that 80% of the fund must be held in local assets denominated in Belizean currency and that the statutory fund can only be applied for the settlement of contracts for domestic policy holders. The fund must include a statutory deposit equal to 15% of net premium income. In 2015 and 2016, statutory fund holdings exceeded requirements by 19.4% and 15.5%, respectively.

While holdings exceed requirements, the industry has been experiencing problems in satisfying the requirement for liabilities at the longer end of the maturity spectrum due to the limited availability of domestic securities and low interest rates. New commercial bonds and Treasury notes were put on the market in 2016 that enabled life insurance companies to diversify their investment portfolio, although in some cases maturities were limited to 2 years instead of 5 to 10 years which would have been more ideal. Since 2007, the statutory funds have been mainly comprised of commercial bank certificates of deposits (CDs). While the share of the latter has declined from 81.7% in 2012 to 39.5% in 2016, CDs continue to account for a sizeable portion of the statutory funds. Notably, the level of interconnectedness between domestic banks and insurers is high and the concentration risk is significant with one bank accounting for 60.5% of total fixed deposits held by insurance companies in 2016. This poses a risk for both the domestic banking sector as well as the insurance sector. Government Treasury notes comprise approximately 36.0% of the total fund with commercial bonds occupying third place. In order to diversify, insurance companies have been investing in mortgages and have also resorted to pledging real estate, though there are limitations on the quantity and period of time these can be held in the statutory funds.

The low interest rates are a particular challenge for the life insurance sector since any growth in underwriting currently requires additional injections by the industry to maintain the statutory funds at the legally required level.

Chart 6.7: Composition of Statutory Fund (Smn)



6.2 Life Insurance Sector: Financial Soundness Indicators

(i) Capital Adequacy

A locally owned insurance company was required to inject capital when it took over the branches of two foreign insurance companies in 2015 and this drove the ratio of capital to total assets upward from 35.62% in 2015 to 55.77% in 2016. Technical provisions (comprised of the statutory funds and other reserves, which actuaries determine should be set aside for contingencies) also increased. The level of technical reserves typically grows in line with the aging of policies, however, the actuarial assessment determined that higher technical provisions were required as a result of the acquisition mentioned above. The growth in technical provisions consequently outpaced capital, so that the ratio of capital to technical provisions fell from 185.50% in 2015 to 173.57% in 2016.

The industry fully satisfied the statutory capital requirements, however, it is duly noted that in assessing prudential compliance, insurance regulators in Belize place the highest priority on the level of holdings and performance of the statutory funds. As has been pointed out, statutory fund holdings were well above the requirements in 2015 and 2016, with the ratio of holdings to requirements registering 119% in 2015 and 115% in 2016.

Chart 6.8: Capital Adequacy: Life Insurance Sector

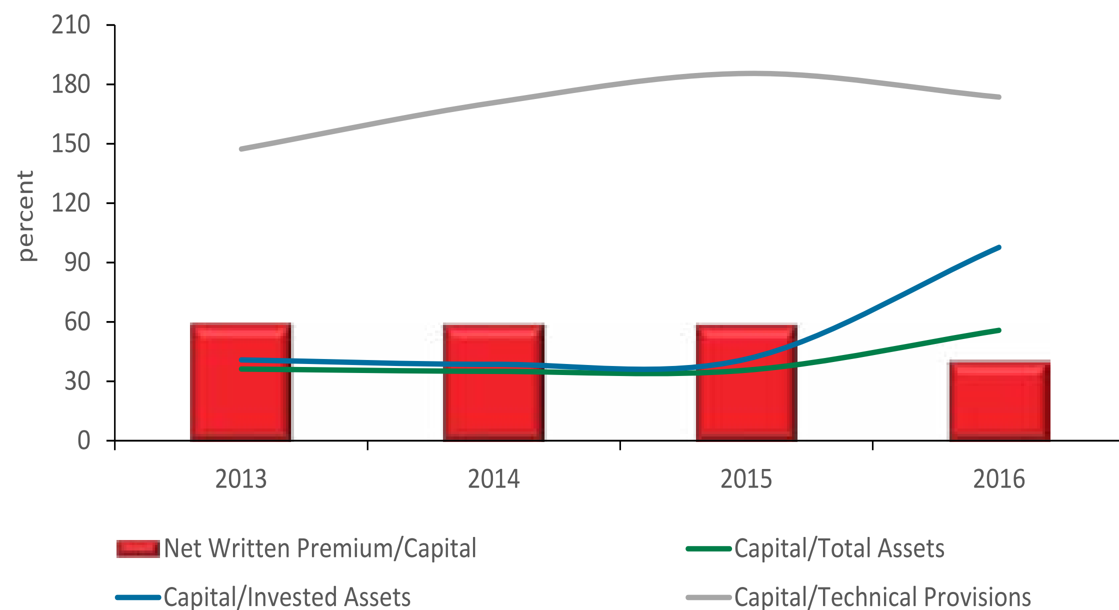


Chart 6.9: Asset Quality for Life Insurance Sector

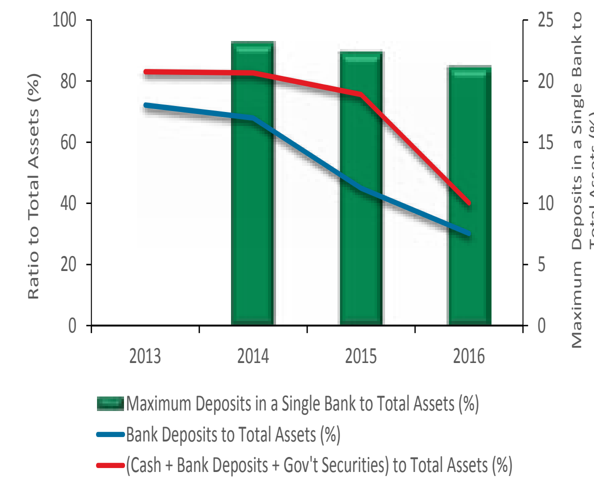
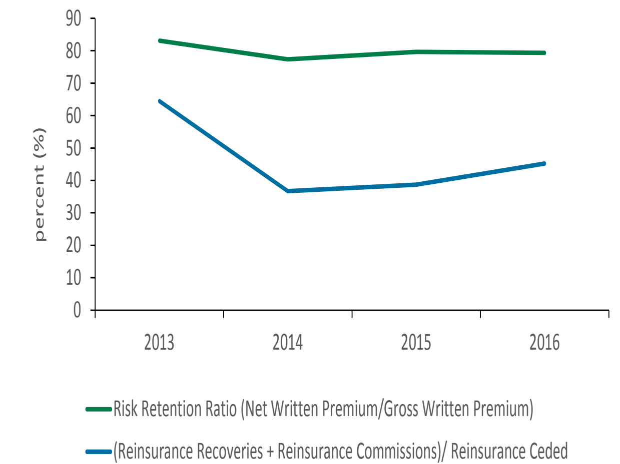


Chart 6.10: Reinsurance for Life Insurance Sector



(ii) Asset Quality

The share of industry assets being held with the commercial banks more than halved from 67.9% to 30.2% over the two-year review period. Concentration risk is considered moderate with the ratio of deposits in a single bank to total assets amounting to 22.5% in 2015 and 21.3% in 2016 compared to the maximum threshold of 55.0%.

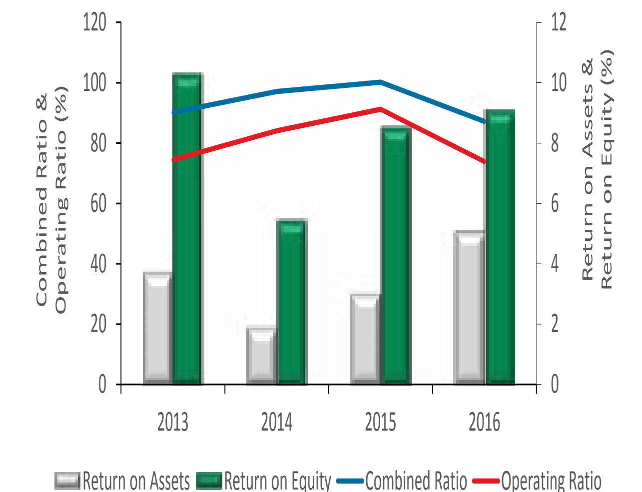
(iii) Reinsurance Risk

The ratio of net to gross premium income (an indicator of risk retention) has remained high and stable over the past four years and is forecasted to range between 77.0% and 80.0% in the near term. In 2016, the ratio stood at 79.31% as $10.3mn was ceded to reinsurers abroad. Because of the long term nature of their products, retention levels for the life insurance sector are typically higher than that for the non-life sector. In 2016, 45.2% of the amount ceded to reinsurers was recovered which is above the average of 37.7% for the previous two years.

(iv) Earnings & Profitability

The combined ratio is an indicator of capacity to cover claims and expenses from gross premium income. In 2016, the ratio for the life insurance sector stood at 87.2% and it has remained below the 100% threshold for all the years except 2015 when growth in claims

Chart 6.11: Profitability for Life insurance Sector



and administrative expenses exceeded the growth in gross premium income. When investment income is included, the ratio (operating) falls to 73.8. Due to the low level of claims in 2016, the sector's profits received an additional boost from reinsurance discounts.

6.3 Non-Life Insurance Sector: Financial Soundness Indicators

(i) Capital Adequacy
After a robust 13.9% increase in 2015, total capital for the general insurance sector declined by 6.4% with retained earnings shrinking as a result of the losses sustained from Hurricane Earl. While the ratio of capital to total assets consequently declined from 47.3% to 42.7%, it remained within the international benchmark range of 40% to 50%.

(ii) Asset Quality
Although the ratio of bank deposits to total assets has declined, concentration risk remains high as the maximum deposits in a single bank accounted for 45.45% of total asset holdings in 2016, slightly higher than the 45.06% registered in 2015.

(iii) Reinsurance Risk
Because their products have a higher probability of being impacted by catastrophic events, general insurance companies tend to cede more of their risk via payments to foreign reinsurers as compared to the local life insurance companies. Although on a slight upward trend, the level of the sector's risk retention was fairly low at 42.2% in 2015 and 43.28% in 2016. However, while the level of risk retention was stable in the case of the larger insurance companies, it was noted that the smaller companies were retaining more risk in order to boost net earnings. For the sector as a whole, while less of the premium income was being ceded to international reinsurers in the period reviewed, there was a notable jump in the reinsurance recoveries ratio from 27.9% in 2015 to 113.67% in 2016 mainly due to the settlement of the claims made after Hurricane Earl struck the country.

Chart 6.12: Capital Adequacy for Non-Life Insurance Sector

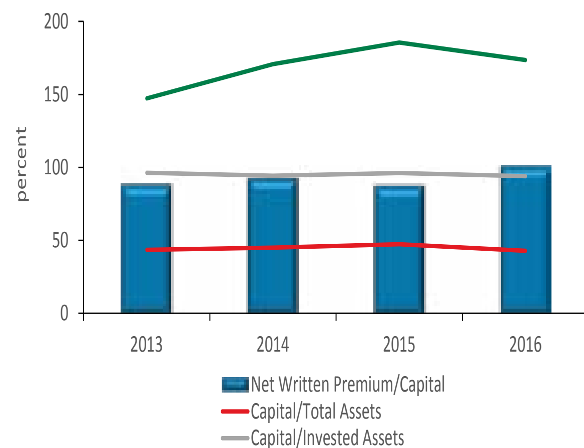
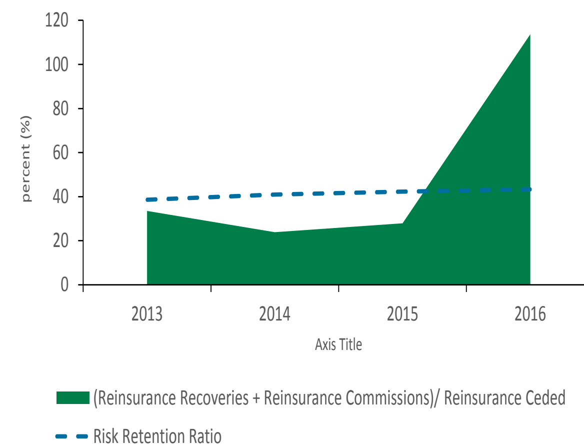


Chart 6.13: Reinsurance for Non-Life Insurance Sector



(iv) Earnings & Profitability
Despite relatively high levels of underwriting and gross premium receipts, the general insurance sector suffered a loss for the first time in seven years due to sizeable claims incurred as a result of Hurricane Earl and the timing difference for processing of reinsurance recoveries. In 2016, the sector's ROE and ROA turned negative at -5.24% and -2.24% and the combined ratio exceeded 100%, which means that net premiums were insufficient to cover claims as well as underwriting, administrative and operational expenses over that period. However, when investment earnings were factored in, the operating ratio stood at 97.8% indicating that all expenses could be covered. The

Chart 6.14: Profitability Indicators for Non-Life insurance Sector

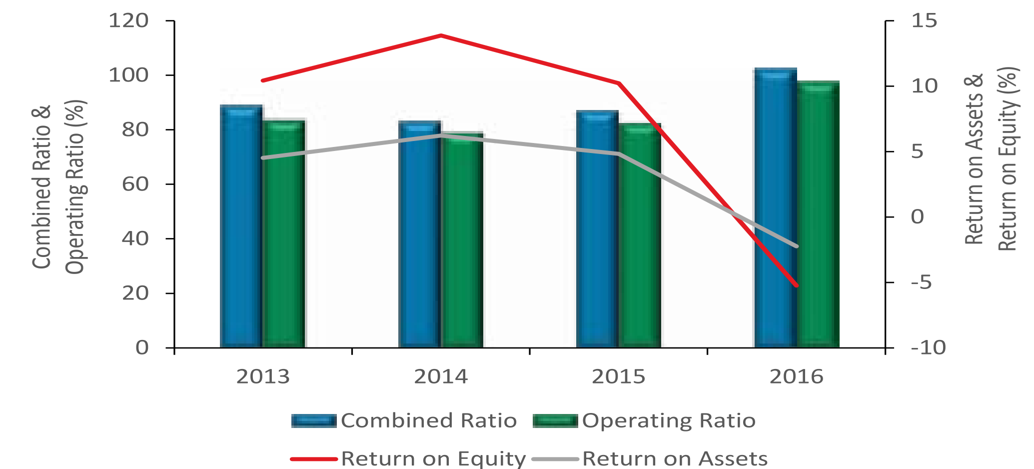


Table 6.2: Liquidity Indicators for Non-Life Sector

	2013	2014	2015	2016
Liquid Assets/Current Liabilities (%)	223.31	221.56	227.28	249.98
Liquid Assets/Total Liabilities (%)	93.04	96.95	101.69	90.45
Liquid Assets/Total Assets (%)	52.66	53.39	53.64	51.82
Current Liabilities/Total Liabilities (%)	41.66	43.76	44.74	39.80
Due to related parties/Total Assets (%)	6.40	6.89	6.36	6.53

industry's losses in 2016 were typical for a period marked by catastrophe and are expected to be offset in 2017 when reinsurance inflows are fully realized.

(v) Liquidity

Due to the short term span of the sector's underwriting and claims, companies, which provide general insurance are expected to maintain a 2 to 1 ratio for liquid assets relative to their current liabilities. As a group, the sector has been fully compliant in this regard. In 2015 and 2016, the liquid asset holdings exceeded requirements by 27.3% and approximately 50.0% respectively.

ANNEX

A1: Financial System Structure

	Number of Financial Institutions			Asset Size ($mn)			Share of Total Assets (%)		
	Dec 2014	**Dec 2015**	**Dec 2016**	**Dec 2014**	**Dec 2015**	**Dec 2016**	**Dec 2014**	**Dec 2015**	**Dec 2016**
Depository Institutions									
Domestic Banks	6	6	5	2,967	3,249	3,228	52.5	57.6	58.0
International Banks	5	5	5	1,573	1,204	1,061	27.9	21.4	19.1
Credit Unions	12	12	12	768	831	903	13.6	14.7	16.2
Non-depository FIs									
Development Financing	1	1	1	90	104	105	1.6	1.8	1.9
Insurance Companies									
Life (Long Term)	6	3	3	162	164	176	2.9	2.9	3.2
Nonlife (General)	4	4	5	60	62	67	1.1	1.1	1.2
Composite	2	2	2	26	27	29	0.5	0.5	0.5

Source: Central Bank of Belize & Supervisor of Insurance and Private Pension

A2: Financial Soundness Indicators - Domestic Banks

	2013	2014	2015	2016_Q1	2016_Q2	2016_Q3	2016_Q4
Capital Adequacy							
Regulatory Capital to Risk-Weighted Assets (%)[1]	24.44	23.46	24.94	24.89	23.88	23.00	23.84
Regulatory Tier I Capital to Risk-Weighted Assets (%)	23.26	22.28	23.77	23.74	22.87	21.98	22.82
Non-performing Loans (net of provisions) to Regulatory Capital (%)	43.47	35.75	31.73	28.14	23.96	13.39	14.53
Large Exposures to Regulatory Capital (%)[2]	138.52	146.80	134.51	136.53	131.51	137.01	129.98
Asset Quality							
Non-performing Loans to Total Gross Loans (%)[3]	14.77	14.31	14.02	13.85	12.33	10.49	10.45
Non-performing Loans (net of specific provisions) to Total Gross Loans (%)	8.84	7.02	6.70	5.94	4.87	2.67	3.01
Provisions/NPLs (%)	45.99	57.96	61.95	67.02	67.73	83.09	79.84
Profitability/Efficiency							
Return on Equity (net income to average capital [equity]) (%)[4]	-0.31	0.03	7.34	4.69	2.96	4.15	4.80
Return on Assets (net income to average total assets) (%)[4]	-0.04	0.00	1.00	0.68	0.42	0.54	0.63
Interest Margin to Gross Income (%)	56.03	57.73	52.18	54.58	57.04	60.37	60.37
Non-interest expense to Gross Income (%)	48.86	50.41	52.27	46.88	44.25	50.41	56.74
Liquidity							
Liquid Assets to Total Assets (%)	28.51	30.13	32.18	35.67	35.69	35.33	32.77
Liquid Assets to Short-term Liabilities (%)	50.11	50.67	52.43	56.74	56.60	53.66	49.43
Customer Deposits to Total (non-interbank) Loans (%)	124.28	128.09	132.36	136.51	138.19	139.31	132.40

[1] Domestic banks are legally mandated to hold a minimum ratio of 9% for regulatory capital to risk weighted assets.

[2] Domestic banks' large exposure loans cannot exceed six times its holdings of regulatory capital.

[3] The maximum benchmark for non-performing loans to total gross loans is 5%.

[4] The minimum benchmark for ROA and ROE is 1%.

A3: Financial Soundness Indicators - International Banks

	2013	2014	2015	2016 Qtr 1	2016 Qtr 2	2016 Qtr 3	2016 Qtr 4
Capital Adequacy							
Regulatory Capital to Risk-Weighted Assets (%)[1]	17.37	19.26	26.50	26.64	23.79	22.46	24.60
Regulatory Tier I Capital to Risk-Weighted Assets (%)	16.83	18.66	25.82	25.95	23.11	22.77	23.86
Non-performing Loans (net of provisions) to Regulatory Capital (%)	64.13	31.92	23.72	23.89	20.67	24.72	17.54
Asset Quality							
Non-performing Loans to Total Loans(%)[2]	29.20	21.63	23.12	23.58	19.68	19.19	16.64
Non-performing Loans (net of specific provisions) to Total Loans (%)	15.88	8.28	7.66	8.00	6.60	7.01	5.93
Profitability/Efficiency							
Return on Equity (net income to average capital [equity]) (%)[3]	8.15	50.07	6.21	-1.04	2.57	5.86	5.19
Return on Assets (net income to average total assets) (%)[3]	0.78	4.56	0.77	-0.14	0.35	0.83	0.75
Interest Margin to Gross Income (%)	38.94	21.12	38.99	45.14	44.78	44.22	47.05
Liquidity							
Liquid Assets to Total Assets (%)	46.13	45.11	34.73	26.67	30.59	29.02	33.52
Liquid Assets to Short-term Liabilities (%)	51.35	51.19	43.10	31.31	36.78	35.24	51.05
Customer Deposits to Total (non-interbank) Loans (%)	252.30	267.99	193.59	168.85	172.45	156.74	157.74

[1] International banks are legally mandated to hold a minimum ratio of 10% for regulatory capital to risk weighted assets.

[2] The maximum benchmark for non-performing loans to total gross loans is 5%.

[3] The minimum benchmark for ROA and ROE is 1%.

A4: Financial Soundness Indicators - Credit Unions

	2013	2014	2015	2016 Qtr 1	2016 Qtr 2	2016 Qtr 3	2016 Qtr 4
Capital Adequacy							
Net Institutional Capital (Members' Capital Reserves)/Assets (%)	8.68%	9.99%	10.30%	10.34%	10.83%	10.69%	10.61%
Total Capital/Deposits (%)	22.17%	20.14%	20.11%	21.84%	18.36%	19.49%	20.70%
Total Capital/Total Assets (%)	17.89%	16.60%	16.62%	17.76%	15.15%	15.76%	16.90%
Asset Quality							
Non-Performing Loans/Total Loans (%)	12.04%	10.26%	10.74%	8.89%	9.57%	10.50%	10.48%
NPLs (Net of Specific Provisions) to Total Loans (%)	7.70%	3.24%	3.92%	2.48%	3.20%	3.84%	4.00%
Profitability/Efficiency							
Return on Assets (%)	5.53%	5.32%	4.18%	4.69%	4.72%	4.12%	4.26%
Return on Equity (%)	30.23%	31.33%	24.36%	26.32%	28.36%	24.20%	24.50%
Liquidity							
Excess Liquid Assets to Liquid Assets Requirement (%)	281.31%	283.06%	280.47%	303.79%	289.23%	281.49%	261.68%
Liquid Assets to Deposits (%)	36.49%	36.77%	38.69%	41.12%	39.37%	38.75%	37.29%
Loans to Deposits (%)	84.63%	83.69%	82.53%	81.16%	79.90%	82.00%	83.84%

A5: Financial Soundness Indicators - Life Insurance Companies

	2013	2014	2015	2016
Capital adequacy				
Net written premium/capital	88.89	93.46	88.10	101.45
Capital/total assets	43.40	44.93	47.25	42.71
Capital/invested assets	96.20	94.33	96.16	93.99
Capital/technical provisions	147.33	170.74	185.50	173.57
Growth in capital	4.91	4.20	13.87	-6.43
Asset quality				
(Real estate + unquoted equities + debtors)/total assets	3.59	2.22	2.13	2.11
Debtors/(gross written premium + reinsurance recoveries)	1.99	1.98	2.01	3.27
Bank deposits/total assets	43.09	45.94	47.57	42.70
Maximum deposits in a single bank/total assets	0.00	50.62	45.06	45.45
(Real estate + mortgages)/total assets	0.00	0.00	0.00	0.00
(Cash + bank deposits + government securities)/total assets	45.12	47.63	49.14	43.96
(Other debt securities + policy loans)/total assets	8.05	6.42	5.12	7.99
Total Investments (Includes Cash & Bank Savings)/Total Assets	53.16	54.06	54.25	51.96
Fixed assets/total assets	19.59	22.69	21.06	20.42
Receivables/total assets	2.22	2.13	2.11	5.13
All other assets/total assets	3.79	4.74	5.29	4.09
Reinsurance				
Risk retention ratio (net written premium/gross written premium)	38.63	40.89	42.24	43.28
(Reinsurance recoveries + reinsurance commissions)/reinsurance ceded	33.51	23.86	27.90	113.67
Management soundness				
Personnel expenses/gross written premium	11.82	12.40	12.83	12.20
Growth in gross written premium	100.00	3.39	3.76	4.91
Growth in net written premium	100.00	8.73	6.85	7.19
Growth in total assets	11.19	0.65	7.65	3.39
Earnings and Profitability				
Loss ratio (net incurred claims/net earned premium)	34.27	31.78	38.58	51.38
Expense ratio (Exp + net commission/net earned premium)	54.85	51.53	48.61	51.18
Combined ratio = loss ratio + expense ratio	89.11	83.31	87.19	102.56
Investment income ratio (investment income/net earned premium)	5.32	4.20	4.55	4.77
Operating ratio = combined ratio - investment income ratio	83.80	79.11	82.65	97.78
Return on equity (ROE) (net income after tax/capital)	10.42	13.88	10.22	-5.24
Return on assets (ROA) (net income after tax/total assets)	4.52	6.23	4.83	-2.24
Ceding Discount/ Net Earned Premium	23.44	23.66	23.32	18.09
Liquidity Position				
Liquid assets/current liabilities	223.31	221.56	227.28	249.98
Liquid assets/total liabilities	93.04	96.95	101.69	90.45
Liquid assets/total assets	52.66	53.39	53.64	51.82
Current liabilities/total liabilities	41.66	43.76	44.74	39.80
Due to related parties/total assets	6.40	6.89	6.36	6.53

A6: Financial Soundness Indicators - Non-Life Insurance Companies

	2013	2014	2015	2016
Capital Adequacy				
Net written premium/capital	59.28	58.93	58.73	40.54
Capital/total assets	36.20	35.05	35.62	55.77
Capital/invested assets	40.81	38.59	41.25	97.69
Capital/technical provisions	147.33	170.74	185.50	173.57
Growth in capital	-0.01	5.30	5.89	62.78
Asset quality				
(Real estate + unquoted equities + debtors)/total assets	1.42	1.13	2.15	2.08
Debtors/(gross written premium + reinsurance recoveries)	0.91	2.19	4.52	16.79
Bank deposits/total assets	72.13	67.89	44.94	30.15
Maximum deposits in a single bank/total assets	0.00	23.23	22.46	21.27
(Cash + bank deposits + government securities)/total assets	83.06	82.63	75.59	40.31
(Other debt securities + policy loans)/total assets	6.13	5.50	3.18	28.83
Total Investments (Includes Cash & Bank Savings)/Total Assets	93.22	94.73	87.91	86.39
Fixed assets/total assets	2.03	1.16	3.68	3.67
Receivables/total assets	0.26	0.62	1.25	5.10
All other assets/total assets	0.49	0.36	3.71	3.33
Reinsurance				
Risk retention ratio (net written premium/gross written premium)	83.09	77.34	79.68	79.31
(Reinsurance recoveries + reinsurance commissions)/reinsurance ceded	64.47	36.70	38.70	45.23
Management soundness				
Personnel expenses/gross written premium	8.02	8.17	6.06	5.37
Growth in gross written premium	98.97	11.08	2.36	11.43
Growth in net written premium	98.83	4.47	5.23	11.01
Growth in total assets	11.19	0.65	7.65	3.39
Earnings and Profitability				
Loss ratio (net incurred claims/net earned premium)	51.88	49.23	51.73	42.28
Expense ratio (expenses+ Net Commissions Expense/net earned premium)	38.27	47.81	48.40	44.86
Combined ratio = loss ratio + expense ratio	90.15	97.05	100.13	87.15
Investment income ratio (investment income/net earned premium)	15.77	12.98	8.91	13.30
Operating ratio = combined ratio - investment income ratio	74.38	84.07	91.22	73.84
Return on equity (ROE) (net income after tax/capital)	10.32	5.49	8.57	9.13
Return on assets (ROA) (net income after tax/total assets)	3.74	1.92	3.05	5.09
Ceding Discount/ Net Earned Premium	23.44	23.66	23.32	18.09

Source: Office of the Supervisor of Insurance and Private Pensions

A7: Foreign Exchange Exposure[1], By Region

	Domestic Banks ($'000)			International Banks ($'000)		
	Dec 2014	**Dec 2015**	**Sept 2016**	**Dec 2014**	**Dec 2015**	**Sept 2016**
Total Foreign Country Exposure of which:						
North America						
Deposits	114,792	123,425	73,582	395,128	175,006	157,810
Investments	1,214	7,035	28,995	160,744	190,458	126,224
Europe						
Deposits	16,853	7,548	6,141	87,130	92,081	74,147
Investments	2,466	1,221	3,784	4,032	6,020	2,684
CARICOM						
Deposits	10,476	3,004	0	20,764	28,944	32,854
Investments	30,833	21,944	16,799	10,696	0	0
LATIN AMERICA						
Deposits	146	206	1,170	23,451	34,308	19,535
Investments	22,992	15,139	785	7,826	0	0
OTHER						
Deposits	4,500	0	9,229	20,876	10,080	16,280
Investments	3,028	0	3,021	0	4,018	2,000
TOTAL						
Deposits	146,767	134,182	90,122	547,349	340,419	300,625
Investments	60,533	45,338	53,384	183,298	200,496	130,908
Total Foreign Country Exposure as a percent of Foreign Currency Assets						
North America	56.0	72.7	71.5	76.1	67.6	65.8
Europe	9.3	4.9	6.9	12.5	18.1	17.8
CARICOM	19.9	13.9	11.7	4.3	5.4	7.6
Latin America	11.2	8.5	1.4	4.3	6.3	4.5
OTHER	3.6	0.0	8.5	2.9	2.6	4.2

[1] Does not include non-resident loans from international banks.

A8: Liquid Asset Holdings - Domestic Banks

	2012	2013	2014	2015	2016
Actual Average Liquid Assets(Bz$mn)	815.8	815.3	903.0	1,045.60	1,057.30
Statutory Requirement (Bz$mn)	505.7	521.7	564.2	594	613.7
Excess/(Deficit) Avg. Liquid Assets (Bz$mn)	310.1	293.6	338.8	451.6	443.7
Excess Liquid Assets to Liquid Assets Requirement (%)	61.3	56.3	60.1	76	72.3
Liquid Assets to Deposits (%)	35.6	35.4	36.5	39.8	39.7
Loans to Deposits (%)	85.1	80.5	78.1	75.6	75.5

A9: Liquid Asset Holdings - International Banks

	2012	2013	2014	2015	2016
Actual Average Liquid Assets(US$mn)	285.0	308.8	354.9	209.2	179.8
Statutory Requirement (US$mn)	125.5	136.8	155.1	109.2	95.6
Excess/(Deficit) Average Liquid Assets (US$mn)	159.5	172	199.8	100	84.2
Excess Liquid Assets to Liquid Assets Requirement (%)	127.0	125.7	128.8	91.6	88.1
Liquid Assets to Deposits (%)	54.5	54.2	54.9	45.0	45.1
Loans to Deposits (%)	44.1	39.6	37.3	51.7	64.5

A10: Capital Adequacy - Credit Unions

	Dec 2012	Dec 2013	Dec 2014	Dec 2015	Dec-2016
Net Institutional Capital/Total Assets (%)	10.70	8.70	9.99	10.30	10.60
Total Capital/Deposits (%)	22.00	22.20	20.10	19.90	20.70
Total Capital/Total Assets (%)	17.90	17.90	16.60	16.40	16.90
Total Capital ($mn)	118.00	129.70	127.60	137.30	153.10

A11: Liquid Asset Holdings - Credit Unions

	2012	2013	2014	2015	2016
Actual Average Liquid Assets(Bz$mn)	214.1	219	238.9	266.9	275.8
Statutory Requirement (Bz$mn)	53.9	59.2	64.3	70.2	76.3
Excess/(Deficit) Avg. Liquid Assets (Bz$mn)	160.1	159.8	174.6	196.8	199.6
Excess Liquid Assets to Liquid Assets Requirement (%)	296.90	270.20	271.60	280.50	261.70
Liquid Assets to Deposits (%)	40.00	37.40	37.70	38.70	37.30
Loans to Deposits (%)	80.99	84.63	83.69	82.53	83.80

A12: Stress Tests - Domestic Banks

		Dec 2014	Dec 2015	Dec 2016
	Current CAR (%)	23.1	24.75	23.89
Loan Portfolio Deterioration	CAR Under Selected Shocks (%)			
	Low (5%)	21.33	23.78	23.74
	Medium (15%)	17.84	20.87	20.5
	High (25%)	14.35	17.96	17.27
	Level of stress at which system's CAR falls below 9%	40.37	55.9	50.57
	No. of Banks Below Requirement & Capital Injection Needed			
	Low (5%)	0	0	0
	Medium (15%)	3 banks -$12.6mn	1 bank-$10.1mn	0
	High (25%)	3 banks -$46.3mn	1 bank-$25.7mn	2 banks - $17.22mn
Sector Specific Loan Shocks	CAR Under Selected Shocks (%)			
	Low (10%)	21.93	23.54	22.67
	Medium (15%)	21.34	22.94	22.06
	High (25%)	20.17	21.74	20.84
	Level of stress at which system's CAR fall below 9%	At 100% shock, the system CAR is still above requirement.		
	No. of Banks Below Requirement/Capital Injection Needed			
	Low (10%)	0	0	0
	Medium (15%)	1 bank-$0.6mn	0	0
	High (25%)	1 bank-$7.9mn	1 bank-$7.2mn	1 bank-$1.7mn
Related Party Transactions	CAR Under Selected Shocks (%)			
	Low (50%)	22.09	23.07	21.45
	Medium (75%)	21.59	22.24	20.23
	High (100%)	21.09	21.4	19.01
	Level of stress at which system's CAR fall below 9%	At 100% shock, the system CAR remains above the 9% requirement.		
	No. of Banks Below Requirement & Capital Injection Needed			
	Low (50%)	1 bank-$1.8mn	0	1 bank-$4.83mn
	Medium (75%)	1 bank-$5.1mn	0	1 bank-$13.63mn
	High (100%)	2 banks-$10.9mn	0	1 bank-$22.43mn
Liquidity Shocks	Number of days till illiquid			
	Low (demand deposits of 5%, time deposits of 1%)	20	20	20
	Medium (demand deposits of 10%, time deposits of 2%)	10	10	10
	High (demand deposits of 15%, time deposits of 3%)	7	7	7
	Number of days till breach of legal requirement			
	Low (demand deposits of 5%, time deposits of 1%)	8	9	9
	Medium (demand deposits of 10%, time deposits of 2%)	5	5	5
	High (demand deposits of 15%, time deposits of 3%)	3	3	3

A13: Stress Tests - International Banks

Shock		Dec 2014	Dec 2015	Dec 2016
	Current CAR (%)	19.60	27.17	21.7
Generic/Migration Shock	CAR Under Selected Shocks (%)			
	Low (15%)	10.1	21.64	16.00
	Medium (25%)	6.29	18.15	12.11
	High (35%)	2.48	14.66	8.22
	Breakpoint (level of stress at which system's CAR fall below 10%)	15.3	48.4	30.45
	No. of Banks Below Requirement & Capital Injection Needed			
	Low (15%)	3 banks-$6.13mn	1 bank-$3.89mn	2 banks-$2.89mn
	Medium (25%)	4 banks-$17.67mn	1 bank-$7.69mn	2 banks-$9.87mn
	High (35%)	4 banks-$30.06mn	1 bank-$11.51mn	2 banks-$16.85mn
Related Party Shock	CAR Under Selected Shocks (%)			
	Low (50%)	18.19	25.55	20.34
	Medium (75%)	17.49	24.74	19.66
	High (100%)	17.22	23.93	18.98
	Breakpoint (level of stress at which system's CAR fall below 10%)	At 100% shock, the system CAR is still above the requirement.		
	No. of Banks Below Requirement & Capital Injection Needed			
	Low (50%)	0	0	0
	Medium (75%)	0	0	0
	High (100%)	0	0	0
Liquidity Shock	Number of days till illiquid			
	Low (demand deposits of 5%, time deposits of 1%)	41	29	25
	Medium (demand deposits of 10%, time deposits of 2%)	21	15	13
	High (demand deposits of 15%, time deposits of 3%)	14	10	9
	Number of days till breach of legal requirement			
	Low (demand deposits of 5%, time deposits of 1%)	19	15	13
	Medium (demand deposits of 10%, time deposits of 2%)	10	8	7
	High (demand deposits of 15%, time deposits of 3%)	7	6	5

A14: Results of Multi-Period Macro-Linked Stress Test - Domestic Banks

	2016	2017	2018	2019	2020	2021
Pre-Shock ($'000)						
Assets	3,180,319	3,414,640	3,572,346	3,763,692	3,994,918	3,558,125
Loans	1,976,397	2,122,015	2,220,021	2,338,932	2,482,626	2,315,120
NPLs	159,346	236,238	247,362	262,829	282,221	252,242
Regulatory Capital	395,210	425,241	456,660	489,761	524,895	501,592
RWA	1,729,564	1,856,996	1,942,762	2,046,822	2,172,570	2,037,540
CAR (%)	22.9	22.9	23.5	23.9	24.2	24.6
Baseline						
Excess/(Shortfall)	-	-	(6,762)	(7,140)	(7,627)	(8,203)
CAR	22.9	22.9	23.1	23.5	23.7	24.1
Change CAR	0.0	0.0	-0.4	-0.4	-0.4	-0.5
Low Stress						
Excess/(Shortfall)	-	-	(8,086)	(8,736)	(9,447)	(10,212)
CAR	22.9	21.4	20.1	19.2	18.2	18.5
Change CAR	0.0	-1.5	-3.4	-4.7	-5.9	-6.1
High Stress						
Excess/(Shortfall)	-	-	(8,452)	(9,192)	(10,016)	(10,976)
CAR	22.9	20.2	17.7	15.7	13.7	11.8
Change CAR	0.0	-2.7	-5.8	-8.2	-10.5	-12.8

A15: Insurance Sector: Composition of Statutory Fund

Type of Securities	2012	2013	2014	2015	2016
BEL Bonds	55,000	55,000	6,055,000	6,055,000	6,105,000
Government Of Belize US$ Bond	-	2,964,459	3,543,356	-	-
Cash	238,895	239,008	239,151	-	-
Certificate of Deposit	53,106,921	53,005,185	51,926,477	52,430,551	35,133,783
Government Of Jamaica Bond	2,031,353	-	-	-	-
Mortgages	-	-	-	-	2,808,750
Municipal Bonds	-	3,500,000	6,500,000	5,800,000	5,800,000
Mutual Funds (US)	-	-	-	-	691,412
Preferred Shares	500,000	-	-	-	-
Promissory Note	1,000,000	-	-	-	-
Real Estate	-	88,887	8,887	2,988,887	6,198,809
SCA Bonds	-	-	-	-	250,000
GOB Treasury Bills	1,112,600	3,212,600	8,308,200	-	-
GOB Treasury Notes	6,926,000	6,926,000	6,926,000	21,926,000	32,026,000
TOTAL	64,970,769	69,991,139	83,507,070	89,200,437	89,013,754

Source: Office of the Supervisor of Insurance and Private Pensions

A16: Insurance Sector: Gross Premium Income

	2012	2013	2014	2015	2016 Unaudited
Gross Premium Income	119,458,400	123,355,782	131,138,623	135,231,496	146,067,539
Reinsurance	57,064,447	58,545,195	61,697,086	61,663,270	64,772,589
Net Premium Income	62,393,953	64,810,587	69,441,537	73,568,226	81,294,950
Reserve for Unearned Premium B/F	16,324,531	39,482,838	37,434,818	36,524,982	136,317,269
Reserve for Unearned Premium C/F	16,848,954	36,253,571	38,982,965	40,157,836	140,883,062
Earned Premium Income	61,869,530	68,039,855	67,893,390	69,935,372	76,729,157

Source: Office of the Supervisor of Insurance and Private Pensions

A17: Non-Life Insurance Sector: Gross Premium Income, By Class

	Accident Sickness	Aviation	Bond and Fidelity	Health and Medical	Liability and Miscellaneous	Marine	Motor	Property	Title
2012	682,010	680,429	1,473,264	15,079,444	7,577,638	3,290,566	22,883,177	43,483,281	922,124
2013	544,307	957,540	1,355,913	16,302,379	9,940,910	2,202,472	23,909,009	43,588,302	92,500
2014	795,386	1,192,430	1,421,071	17,562,474	10,074,184	2,095,478	25,286,950	44,503,324	47,269
2015	875,238	967,038	1,671,219	18,829,911	10,175,675	2,163,929	27,262,173	45,525,866	4,870
2016	902,852	1,183,650	5,942,814	20,754,947	4,754,490	2,787,392	29,547,872	48,391,527	3,765

Source: Office of the Supervisor of Insurance and Private Pensions

A18: Life Insurance Sector: Gross Premium Income, By Class

	Annuities and Pensions	Creditor Life	Industrial Life	Ordinary Life
2016	1,073,190	11,162,255	208,715	19,354,072
2015	1,462,321	7,267,483	280,313	18,745,461
2014	1,104,085	7,662,167	279,450	19,114,354
2013	1,491,276	7,105,148	245,650	15,620,376
2012	1,002,189	6,329,555	225,005	15,829,718

Source: Office of the Supervisor of Insurance and Private Pensions

A19: Insurance Sector: Investment Mix

	2012	2013	2014	2015	2016 Unaudited
Cash on Hand and Savings	39,972,953	53,123,237	65,104,668	46,447,507	51,273,414
Term Deposits	90,035,846	80,080,643	76,383,164	73,392,429	42,691,567
Government Securities	4,768,568	5,124,569	5,944,822	53,334,549	19,084,912
Company Bonds, Debentures and Other Company Securities	20,986,866	31,467,733	34,464,648	3,248,452	51,341,651
Secured Loans (Including Mortgages)	5,315,532	4,717,177	8,237,424	14,071,343	23,628,589
Investments in Real Estate	608,300	669,840	1,834,840	1,900,828	2,787,328
Shares (Preferred or Ordinary Shares)	1,407,355	1,449,895	1,484,270	1,484,270	1,484,270
Equities (stock)	631,506	641,618	652,354	124,611	124,611
Investments in Related Parties	7,328,118	4,769,612	3,402,536	2,000,000	1,157,663
Policy Loans	2,184,012	2,414,506	2,592,952	2,762,362	4,421,063
Other Investments	-	-	-		3,835,354
Total Loans and Investments	173,239,056	184,458,830	200,101,678	198,766,351	201,830,422

Source: Office of the Supervisor of Insurance and Private Pensions

A20: Life Insurance Sector: Claims Paid and Incurred

	2010	2011	2012	2013	2014	2015	2016 Unaudited
Claims paid	18,140,089	14,478,095	20,145,303	21,210,068	18,521,272	19,687,801	19,484,047
Claims Outstanding B/F	606,532	955,070	246,142	553,683	564,714	41,275	3,557,693
Claims Outstanding C/F	955,071	1,596,035	(605,700)	1,203,754	346,489	288,329	2,793,533
Claims IBNR B/F	313,882	227,560	2,041,505	49,955	28,871	628,832	306,324
Claims IBNR C/F	227,560	74,370	1,903,982	447,241	18,100	644,785	91,583
Incurred Claims (Gross)	18,488,628	15,119,060	19,293,461	21,860,139	18,303,047	19,934,855	18,719,887
Reinsurance Recoveries	4,625,879	3,550,547	4,082,639	2,912,712	2,385,649	2,635,647	3,320,836
Net Incurred Claims	13,514,210	10,927,548	16,062,664	18,297,356	16,135,623	17,052,154	16,163,211

Source: Office of the Supervisor of Insurance and Private Pensions

A21: Non-Life Insurance Sector: Claims Paid and Incurred

	2010	2011	2012	2013	2014	2015	2016 Unaudited
Claims paid	32,088,615	19,562,431	13,682,350	16,252,743	18,976,131	19,092,793	69,469,474
Claims Outstanding B/F	5,707,432	10,884,368	5,913,073	6,414,891	10,183,476	5,536,412	70,113,644
Claims Outstanding C/F	28,673,233	15,479,315	14,206,951	10,536,471	6,774,391	6,136,555	75,590,533
Claims IBNR B/F	584,731	824,860	707,247	605,149	1,027,112	626,893	4,494,601
Claims IBNR C/F	695,016	679,730	661,529	1,025,735	721,780	754,430	4,878,759
Incurred Claims (Gross)	55,054,416	24,157,378	21,976,228	20,374,323	15,567,045	19,692,936	74,946,363
Reinsurance recoveries	18,350,316	5,858,227	2,369,362	7,754,186	3,951,784	5,674,735	54,477,188
Net Incurred Claims	13,738,299	13,704,204	11,312,988	8,498,557	15,024,347	13,418,058	14,992,286

Source: Office of the Supervisor of Insurance and Private Pensions

GLOSSARY

Capital Adequacy Ratio
A measure of a bank's level of capital relative to its risk. It is calculated by adding tier 1 capital to tier 2 capital and dividing by risk-weighted assets. It is the measure of solvency of a bank indicating the level of buffers available to absorb potential losses. In Belize, domestic banks are legally required to maintain a minimum ratio of 9%.

Concentration Risk
The risk associated with the possibility that any single exposure produces losses large enough to adversely affect an institution's ability to carry out their core operations.

Contagion
A situation whereby instability in a specific market or institution is transmitted to one or several other markets or institutions.

Corporate risk
A category of risk management that looks at ensuring an organization meets its corporate governance responsibilities takes appropriate actions and identifies and manages emerging risks.

Correspondent Banks
A correspondent banking arrangement involves one bank (the correspondent) providing a deposit account or other liability accounts, and related services, to another bank (the respondent), often including its affiliates.

Credit Risk
The risk that a counterparty will be unable to settle payment of all obligations when due or in the future.

Credit spreads
The spread between benchmark securities and other debt securities that are comparable in all respects except for credit quality.

Credit to GDP Gap
A measure of the risk associated with the credit extended to households and businesses in a country. It is calcualted by taking the difference between the credit-to-GDP ratio and its long-run trend. A positive and increasing gap signals a build up in credit risk in the financial system, while a decrease in the gap suggests a reduction in risk.

Deleveraging
A process consisting of the reduction of leverage, i.e. the reduction of indebtedness, which decreases the profitability of economic agents, but also the degree of risk associated with them.

De-risking
The phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk.

Domestic Bank Stability Index
An aggregate measure of financial stability for the domestic banking system, which combines the following financial soundness indicators: asset quality, capital adequacy, profitability, liquidity and foreign exchange stability. An increase in the ratio indicates an improvement in the banking system's stability, while a reduction in the ratio indicates a heightening of risk in the system.

Fiscal solvency
The ability for the public sector to satisfy the intertemporal budget constraint.

Foreign Exchange Risk
The risk of potential losses which arise from adverse movements in the exchange rate incurred by an institution holding foreign currency denominated instruments.

General Provisions
Provision for future non-apparent (unrevealed) losses of assets

Hedging
Strategy designed to reduce investment risk or financial risk. For example, taking positions that offset each other in case of market price movements.

Institutional Capital
Capital in the form of retained earnings and reserves.

Interest Margin
The dollar amount of interest earned on assets (interest income) minus the dollar amount of interest paid on liabilities (interest expense).

Liquidity Risk
The risk that a counterparty will be unable to settle payment of all obligations when due.

Market Risk
Market risk is the risk that movements in market prices will adversely affect the value of on or off-balance sheet positions.

Non-Performing Loans
Loans whose payments of interest and principal are past due by 90 days or more.

Operational Risk
The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Payment System
A payment system consist of the mechanisms - including payment instruments, institutions, procedures, and technologies - used to communicate information from payer to payee to settle payment obligations.

Provisioning
When a loan loss becomes likely, a bank will make a charge to the profit and loss statement ("provision") to create a loan loss reserve that is shown on the balance sheet. When the full amount of principal and interest on the loan becomes uncollectible, the loan balance is reduced through a charge to the loan loss reserve.

Regulatory Capital
Consists of tier 1 and tier 2 capital and is the total amount of capital a bank or other financial institution has to hold as required by its financial regulator. The CBB requires every bank to maintain a minimum ratio of total regulatory capital to total risk weighted assets plus weighted off-balance sheet items of 9% for domestic bank and 10% for international banks. The Central Bank may at any time require any particular bank to maintain a ratio higher if it considers such higher percentage appropriate with regard to the financial condition of the licensee.

Resilience
Ability of a market to function in an efficient, liquid and orderly manner at times of great price uncertainty and market stress.

Risk Weighted Assets
Assets are weighted by factors representing their riskiness and potential for default, based on capital adequacy concepts.

Specific Provisions
Provision for apparent (revealed) losses of problematic assets

Statutory Funds
Funds within each insurer to which policies and related premiums and expenses are allocated.

Stress Test
A quantitative test to determine the loss exposure of an institution using assumptions of abnormal but plausible shocks to market conditions.

Systemic Risk
The risk that the inability of one or more participants to perform as expected will cause other participants to be unable to meet their obligations when due.

Tier 1 Capital
The core capital supporting the lending and deposit activities of a bank. It consists primarily of common stock, retained earnings, and perpetual preferred stock.