



DOMESTIC BANKS AND FINANCIAL INSTITUTIONS ACT

DBFIA Practice Direction No. 1

Requirements for Treatment of Interest on Savings Deposits

Authority

This Practice Direction is made in exercise of the authority conferred on the Central Bank of Belize (CBB) by Section 9 of the Domestic Banks and Financial Institutions Act (DBFIA), 2012 and replaces the previously issued Banks and Financial Institutions Act Circular #1/2011.

Summary

This Practice Direction prescribes requirements for the calculation of interest payments on savings deposits held by licensees.

Definitions

1. **Savings deposit:** - interest bearing deposit account without a stated maturity to which funds can be deposited or withdrawn readily.
2. **Licensee:** - a company licensed or required to be licensed as a bank under the Domestic Banks and Financial Institutions Act.
3. **Inactive:** - an account with no customer initiated activity within a period of six months or more.

REQUIREMENTS

A. Requirements for the Calculation of Interest on Savings Deposits

1. Interest should be calculated on the closing available daily balance of the savings deposit.
2. The daily interest should be calculated as such:

[Closing available Daily Balance in Account X Annual Rate of Interest]/365
3. The daily interest earned during the interest payment period (for example, monthly or quarterly) should be summed and paid into the depositor's account at the end of the payment period.
4. Interest on savings deposits should also be credited to inactivate accounts.
5. If an account is opened between the licensee's interest payment period, the daily interest earned on the deposit should be summed and paid into the account at the end of the payment period.
6. If an account is closed before the end of the licensee's interest payment period, the daily interest earned on the deposit up to the day prior to the closure of the account should be summed and paid to the depositor.

B. Exclusions

1. For the avoidance of doubt, United States dollar denominated accounts are excluded from the interest rate calculation provisions in this circular.

C. Disclosure on Interest Rates

1. Each advertisement, announcement or solicitation initiated by any licensee relating to a savings account offered by a licensee which includes any reference to a specific rate of interest payable on amounts deposited in such an account, shall state the annual nominal interest rate (ANIR) and the annual effective interest rate (AEIR) in a clear and conspicuous manner.
2. A licensee must disclose to a customer the ANIR and AEIR before the savings deposit is opened.

3. The AEIR is to be calculated as follow:

$$AEIR = [1 + R/P]^P - 1$$

Where R is the ANIR and P is the number of the interest payment periods.

For example, a savings deposit balance of \$1000.00 paying an annual nominal interest rate of 5.0% held for a year (365 days), with interest paid quarterly would be calculated as follows:

$$\begin{aligned} AEIR &= [1+0.05/4]^4 - 1 \\ &= [1.0125]^4 - 1 \\ &= 1.05095 - 1 \end{aligned}$$

$$AEIR = 0.05095 \text{ or } 5.095\%$$

$$\text{Annual interest earned on } \$1000.00 = \$50.95$$