CENTRAL BANK OF BELIZE

INTERNATIONAL BANKING ACT (IBA)

Calculation of Capital Requirements

IBA Circular #4/1999 is in accordance with Section 45(1) of the IBA. It prescribes the methodology for the calculation of the capital to risk assets ratio.

I. Capital Requirements

A. Every licensee shall be required to maintain a minimum ratio of total capital to total risk weighted assets plus weighted off balance sheet items of 10 percent. The Central Bank may at any time require any particular licensee to maintain a ratio higher than 10 percent if it considers such higher percentage appropriate having regard to the financial condition of the licensee.

B. Any licensee which fails to meet the prescribed ratio under Section 4 of this Circular shall be guilty of an offence and may be liable to the penalties prescribed under Section 21 the Act. Failure to meet the prescribed ratio may also result in a licensee being subject to the provisions of Section 27 of the IBA.

II. Frequency and Reporting

The computation of the capital requirements should be submitted to the Central Bank on a quarterly basis on the International Bank Return 3.

III. Definitions

Capital Components

A. "**Primary Capital**" includes:-

1. allotted, called upon and fully paid and outstanding common share capital or assigned capital, as the case may be including any amounts which may be paid in excess of the par or stated value of the shares;

2. fully paid perpetual non-cumulative preference shares and related surplus. These are preferred shares which:-

   (i) do not have maturity dates;

   (ii) can be converted at the issuing bank's option into common shares;

   (iii) cannot be redeemed at the option of the shareholders;

   (iv) give the issuer the legal right to eliminate preferred dividends; and

   (v) have no other provisions that will require future redemption of the issue.

3. any reserve created or increased by appropriation of retained earnings and which are not ascribed to specific assets or potential loss;

4. published retained earnings of prior years less any dividends paid; and

5. any other capital element or portion thereof as the Central Bank may declare by notice in the Gazette to be eligible for inclusion for purposes of computing the required minimum proportions.

Less:

6. goodwill and any other intangible assets, except such intangible assets which are readily marketable and have identifiable and consistent streams of cash flows which, in the determination of the Central Bank, may be included in capital under such terms and conditions as the Central Bank may specify; and

7. all losses irrespective of whether or not they have been published.

B. "**Secondary Capital**" includes:-

1. general provisions for losses on loans or other assets, which are not ascribed to specific loans, or other assets, subject to a limit of 1.25% of the aggregate of risk weighted assets. Provisions for losses on specific loans or other assets, or for any specific purposes are not eligible for inclusion in secondary capital;

2. fixed asset revaluation reserves arising from a formal independent revaluation of the financial institution's real estate property but limited to one revaluation every five year period and to not more than 25% of primary capital;

3. hybrid debt capital instruments, that is, instruments that combine characteristics of equity capital and of debt such as perpetual cumulative preference shares, long-term preference shares maturing in not less than ten years, perpetual subordinated debt and mandatory convertible debt instruments. They should meet the following requirements:-

   (i) they should be fully paid, unsecured, unencumbered, and subordinated to the claims of depositors and general creditors;

   (ii) they should not be redeemable at the discretion of the holder;

   (iii) they should be available to absorb losses;

   (iv) service obligations attached to the instrument should be deferrable; and

   (v) they should not be used as security for any loan granted by an International bank.

4. conventional unsecured subordinated debt instruments with a minimum remaining term to maturity of not less than ten years, and limited life preference shares redeemable in not less than ten years at the discretion of the issuer. Such instruments are limited to a maximum of 50% of primary capital and should meet the following requirements:-

   (i) they should be subordinated to the claims of both depositors and general creditors;

   (ii) early repayment of such instruments should be at the option of the borrower only; and

(iii) such instruments should have a specific waiver of the right to offset against any amount owing to the offshore bank by the holders.

IV. Capital Requirements

A. All licensees shall be required to maintain total capital (**primary capital** plus **secondary capital**) as follows:-

Total capital shall not be less than ten percent (**10%**) of total risk-weighted assets of which not less than five percent (**5%**) must be primary capital.

B. The risk-weighting classifications shall be as follows:

1. **0%**

   i. cash (domestic and foreign) owned and held in the offices of the offshore bank or in transit;

   ii. gold and silver bullion owned and held in office of the offshore bank;

   iii. claims that are secured by cash held on deposit with the reporting offshore bank or the portions of such claims that are secured by cash on deposit with the reporting offshore bank;

   iv. direct claims on Central Banks; and

   v. direct claims on Central Governments, securities issued or unconditionally guaranteed by Central Government such as treasury bills, notes and debentures.

2. **20%**

   i. claims on banks and other deposit-taking financial institutions;

   ii. cash items in process of collection; and

   iii. claims on, or claims guaranteed by, public sector entities. Commercial entities or companies (other than banks) owned by the public sector, including public utilities, should be included under the 100% risk-weight category.

3. **50%**

   i. Include in this category all loans to individuals secured on residential properties (both freehold and leasehold) which are or will be occupied by the borrower or owner, where such loans are ***fully secured by a first priority charge.*** Portions of those loans which are secured on residential properties which are or will be occupied by the borrower or owner can also be included in this category.

4. **100%**

   i. Claims on the private sector;

   ii. Premises, plant and equipment and other fixed assets;

   iii. Other investments; and

   iv. All other assets.

C. The value of off-balanced sheet items shall be multiplied by the applicable credit conversion factors with the result to be multiplied by the applicable risk weights under section IV above. The credit conversion factors shall be as follows:

   1. **0%** credit conversion factor:

      - commitments and contingencies with an original maturity of up to one year, or which can be unconditionally cancelled at any time.

   2. **20%** credit conversion factor:

      - short-term, self-liquidating, trade-related contingencies (such as documentary letters of credits collateralized by the underlying shipments).

   3. **50%** credit conversion factor:

      - transaction-related contingencies (e.g., performance bonds, bid bonds, warranties and standby letters of credit related to particular transaction);

- other commitments (e.g. formal standby facilities and credit lines) with an original maturity of over one year.

4. **100%** credit conversion factor:

    - direct credit substitutes, including general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities);

    - sale and repurchase agreements, and asset sales with recourse, where the credit risks remains with the International bank;

    - forward asset purchase, forward deposits, uncalled partly paid shares and securities, including commitments with certain drawdown.

V. Every licensee shall submit to the Central Bank a report in such a form as may be specified by the Central Bank from time to time showing the calculation of the risk-weighted capital ratio.

VI. Every licensee shall submit to the Central Bank on the specified report no later than fifteen working days after the end of the quarter to which it relates, information relating to its risk-weighted capital ratio. Such information shall be as at the end of the quarter of a bank's own financial year.

VII. Licensees who do not fully meet the prescribed ratios under Section 4 of this Circular shall be considered as "**under-capitalized**".

Any licensee which fails to meet the prescribed ratios under Section 4 of this Circular shall be subject to supervisory or other regulatory action as determined by the Central Bank in accordance with Section 21 of the Act or any other authority provided thereunder.

VIII. <u>Commencement</u>

This Circular comes into effect October 1999.