



CENTRAL BANK

of BELIZE

FINANCIAL STABILITY REPORT 2014

Acronyms

Acronyms:

AML/CFT	Anti Money Laundering/Combating the Financing of Terrorism
ATM	Automated Teller Machines
BEL	Belize Electricity Limited
BTL	Belize Telecommunications Limited
CAR	Capital Adequacy Ratio
CARTAC	Caribbean Regional Technical Assistance Centre
CBB	Central Bank of Belize
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
FDI	Foreign Direct Investment
FSIs	Financial Soundness Indicators
GDP	Gross Domestic Product
GPI	Gross Premium Income
ICRG	International Cooperation Review Group
IMF	International Monetary Fund
MLTPA	Money Laundering and Terrorism (Prevention) Act
NPL	Non performing loan
RBA	Risk Based Approach
ROA	Return on assets
ROE	Return on equity
US	United States
VPCA	Venezuelan Petrocaribe Agreement

Abbreviations and Conventions:

\$	refers to the Belize dollar unless otherwise stated
bn	denotes billion
mn	denotes 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.
INTRODUCTION	1
Chapter 1 Overview of Belize’s Financial System	3
1.0 Institutional Composition of Financial System	3
Chapter 2 Macro-Financial Environment and Key Risks Impacting Belize	8
2.0 Overview	8
2.1 Global and Regional Environment	9
2.2 Foreign Reserve Management and Correspondent Banking Relations	9
2.3 Impact of US Monetary Policy	10
2.4 Fiscal Imbalances and Sovereign Debt	11
2.5 External Sector Imbalances	12
Chapter 3 Financial Performance and Soundness of Deposit-Taking Institutions: Banking and Credit Union Sectors	13
3.1 Financial Performance of Domestic Banking Sector	13
3.1.1 Deposits	15
3.1.2 Private Sector Credit	15
3.1.3 Capital Adequacy	17
3.1.4 Asset Quality	17
3.1.5 Earnings	18
3.1.6 Liquidity	19
3.2 Financial Performance of International Banking Sector	20
3.2.1 Deposits	20
3.2.2 Loans	20
3.2.3 Capital Adequacy	21
3.2.4 Asset Quality	21
3.2.5 Earnings	21
3.2.6 Liquidity	22
3.3 Financial Performance of Credit Union Sector	23
3.3.1 Assets	23
3.3.2 Credit Union Deposits	23
3.3.3 Capital Adequacy and Asset Quality	23
3.3.4 Earnings	25
3.3.5 Liquidity	25
Chapter 4 Evaluating the Resilience of the DTI Sector: Stress Testing Results	26
4.1 Domestic Banks Stress Tests	26
4.1.1 Liquidity Shock	27
4.1.2 Credit Shocks	28
4.1.3 Related Party Shock	30
4.1.4 International Banks Stress Tests	31
4.1.5 Generic/Migration Shock	33
4.1.6 Related Party Shock	34

Table of Contents *continued*

	Page No.
Chapter 5	
Financial Performance and Soundness of Non-Deposit-Taking Institutions: Insurance	36
5.1 Gross Premium Income	36
5.2 Investment Assets	37
5.3 Claims and Claim Provisions	38
5.4 Statutory Fund	39
5.4.1 Insurance Liability Structure and Composition of the Statutory Fund	39
5.4.2 Statutory Fund: Performance and Composition	39
5.5 Interconnectedness, Concentration Risk and Sustainability Issues	41
5.6 Key Financial Soundness Indicators	41
5.6.1 Life Insurance Sector	41
5.6.2 General Insurance	43
Chapter 6	
Regulatory Developments	45

INTRODUCTION

This financial stability report is intended to provide economic and financial decision makers with a comprehensive assessment of the performance of Belize's financial system, as well as some understanding of its capacity to withstand financial shocks.

A key part of the Central Bank's mandate is the monitoring and management of systemic risk and the maintenance of overall financial stability by ensuring that (a) the major institutions it supervises are stable and in a position to meet their contractual and statutory obligations, (b) economic and financial agents can confidently transact business with minimal disruption, (c) a sound, effective and efficient payments infrastructure is in place and (d) the financial system is in a position to absorb and contain various shocks that have the potential to damage economic and financial activity.

Since the eruption of the global financial crisis, the Central Bank of Belize has found it necessary to upgrade its internal arrangements. A new financial stability unit has been created with overall responsibility for monitoring macro-prudential and financial soundness indicators and for preparing financial stability reports. This unit reports to the Bank's Financial Stability Committee, which comprises the Deputy Governor (Research) and the Directors of the Research and Financial Sector Supervision Departments. The Financial Stability Committee has overall responsibility for preparing the financial stability report and for helping to steer macro-prudential and financial stability policy formulation. Its work is facilitated by the Office of the Supervisor of Insurance, which plays a critical role by providing updates on the developments in the Insurance Sector and its implications for the health of the financial system.

Chapter 1 of the report sets out the broad overview of the financial system and provides an appropriate institutional context for what follows by outlining the institutional composition, ownership structure and interconnectedness of the financial system in Belize. Chapter 2 identifies the macro-financial risks arising at the global, regional and national levels and analyses their consequences for the Belizean economy and financial system. Chapter 3 assesses the financial performance, risks and soundness of the deposit-taking segment of the financial sector in Belize, with specific focus on domestic and foreign banks and the credit union sector, and Chapter 4 provides a similar analysis for the insurance industry.

To account for forward-looking risks, Chapter 5 discusses the results from a stress-testing exercise performed on the banking system in 2014. This exercise examined a number of single-factor stress-testing scenarios, such as liquidity, credit default shocks

and related party shocks to determine the extent to which capital adequacy ratios in individual banks and the banking system remained adequate and to gauge the overall resilience of the banking sector. Chapter 6, the final chapter, discusses the initiatives (including legislative, regulatory and supervisory developments) that are being pursued by the Central Bank of Belize and other financial sector regulators to mitigate risks and vulnerabilities and to enhance financial stability in Belize. The statistical appendix of the report provides readers with up-to-date information on the evolution of the financial soundness indicators in the deposit taking institution (DTI) and non-DTI segments of Belize's financial system.

Chapter 1

Overview of Belize's Financial System

1.0 Institutional Composition of Financial System

In 2014, Belize financial system comprised six domestic banks, six international (offshore) banks, 12 credit unions, 14 domestic insurance companies and a state-owned financial institution. Fifty-four (54) money lenders were operating under licenses granted by the Ministry of Finance with a network of 77 branches spread across Belize. Except for these money lenders and the insurance companies, all other financial institutions fell under the regulatory ambit of the Central Bank of Belize.

Domestic banks continued to dominate the financial system, with credit unions ranking second and offering similar services such as checking account facilities, access to Automated Teller Machines (ATMs) and other electronic services. The Development Finance Corporation (DFC), one of two state-owned financial institutions, is primarily focused on development financing for the domestic market and other underserved markets, such as education loans. These three sectors represent the sources of formal credit in the Belizean economy.

The six locally licensed international banks can only conduct banking transactions with non-residents, the Government of Belize (GOB), domestic banks, public corporations wholly-owned by GOB, export processing zone and commercial free zone companies. They are primarily engaged in traditional banking activities and, in recent years, have become significant intermediaries for the financing of non-resident investments into the tourism and real estate sectors of Belize.

Insurance companies that serve the domestic market are subject to the regulatory oversight of the Supervisor of Insurance. Although small, with assets accounting for 4.4% of the financial sector's total holdings, the insurance sector has been steadily growing. At the end of 2014, there were seven life insurers, five that provided general insurance coverage and two composite insurers in operation. The international insurance sector, which comprised 20 registered providers that offered a range of services, including life, general and captive insurance, as well as reinsurance services to non-residents, fell under the ambit of the International Financial Services Commission.

Over a period of 10 years (2004 to 2014), the assets of the financial system rose by 88.7% to BZ\$5.7 billion. At 52.8%, the domestic banks represented a little more than

half of the financial system's assets, accounting for \$3.0 billion or 88.2% of GDP, while asset holdings of international banks amounted to \$1.6 billion or 27.7% of financial system assets (46.3% of GDP). With membership representing approximately 41% of the Belizean population, credit unions represented the third largest segment, accounting for 13.5% of financial sector assets.

The one development financing institution, DFC, accounts for a mere 1.6% of the financial market but, nevertheless, plays a pivotal role in meeting government's financial inclusion objectives.

Table 1.1: Institutional Composition of Belizean Financial Sector

	No. of Institutions		Asset Size (BZ\$MN)		% of Total Assets		% of GDP	
	Dec 2013	Dec 2014	Dec 2013	Dec 2014	Dec 2013	Dec 2014	Dec 2013	Dec 2014
Depository Institutions								
Domestic Banks	6	6	2,830	2,997	53.7	52.8	87.1	88.2
International Banks	6	6	1,398	1,573	26.5	27.7	43.0	46.3
Credit Unions	12	12	717	765	13.6	13.5	22.1	22.5
Non-Depository FIs								
Development Financing	1	1	90	91	1.7	1.6	2.8	2.7
Microlending	1	0	2	0	0.0	0.0	0.1	0.0
Insurance Companies								
Domestic Insurance Companies	14	14	233	247	4.4	4.4	7.2	7.3
Life	6	7	149	162	2.8	2.9	4.6	4.8
Non-Life	6	5	58	59	1.1	1.0	1.8	1.7
Composite	2	2	26	26	0.5	0.5	0.8	0.8

(a) *Ownership Structure of Financial System*

There is significant foreign presence in the financial system, with several banks and insurers forming part of regional and international conglomerates. On the other hand, the very nature of credit unions and development financing lends itself to full local ownership.

For domestic banks, local ownership amounted to 28% of the sector, while North American, United Kingdom and Honduran entities controlled 45%, 12% and 15%, respectively. In the case of the international banks that serve the offshore sector, the United Kingdom accounted for 33% of share capital. The sector's ownership also included entities from the United States (24%), Belize (18%), CARICOM (9%) and other extra-regional territories (16%).

Chart 1.1: Ownership Distribution by Region, December 2014

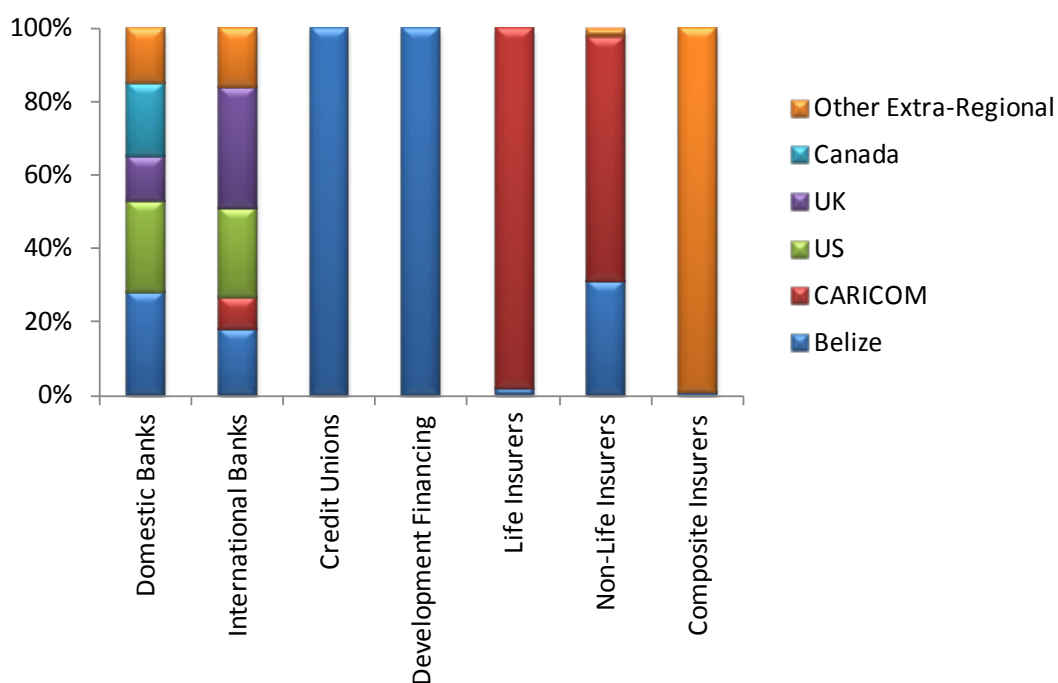


Table 1.2: Institutional Composition of Insurance Sector, December 2014

No. of Institutions	Life Insurance		General Insurance		Composite 2	Association of Underwriters 1
	Local 1	Foreign 6	Local 2	Foreign 2		
Jurisdiction of Incorporation	Belize	Jamaica Barbados USA	Belize	Trinidad Barbados	Belize	UK Worldwide
Origin of Capital	Belize	Jamaica Barbados USA Canada Trinidad	Belize	Trinidad Barbados	Belize Honduras	UK Worldwide

(b) *Interconnectedness of Belize's Financial System*

The global financial landscape has become increasingly more interconnected in the past decade as institutions have sought to improve risk diversification, increase market share and search for higher yields. Belize's domestic and international banks have traditionally held the lion's share of their foreign deposits with US banks, since healthy correspondent banking relationships with institutions in that country, which is its major trading partner, are needed to maintain external trade and investment flows.

CARICOM is the second largest market for domestic banks, and evidence indicates that this market has benefited from some movement of deposits away from low-yielding accounts held in the US. For international banks, the composition of assets has not changed significantly, with placements in the European market accounting for less than 15% of total foreign assets holdings.

Table 1.3: Foreign Country Exposure by Region⁽¹⁾

	Domestic Banks		International Banks	
	Dec 2013	Dec 2014	Dec 2013	Dec 2014
Total Foreign Country Exposure of which:				
USA				
Deposits	143,052	114,792	357,153	395,128
Investments	3,544	1,214	112,508	160,744
Europe				
Deposits	18,036	16,853	85,531	87,130
Investments	1,022	2,466	0	4,032
CARICOM				
Deposits	3,106	10,476	25,328	20,764
Investments	28,780	30,833	10,964	10,696
LATIN AMERICA				
Deposits	134	146	23,754	23,451
Investments	10,905	22,992	3,860	7,826
OTHER				
Deposits	20,898	4,500	20,876	22,065
Investments	2,008	3,028	0	2,194
TOTAL				
Deposits	185,226	146,767	512,642	548,537
Investments	46,260	60,533	127,332	185,492
Total Foreign Country Exposure as a per cent of Foreign Currency Assets				
USA	63	56	73	76
Europe	8	9	13	12
CARICOM	14	20	6	4
CENTRAL AMERICA	5	11	4	4
OTHER	10	4	3	3

⁽¹⁾ Does not include non-resident loans from international banks.

Chapter 2

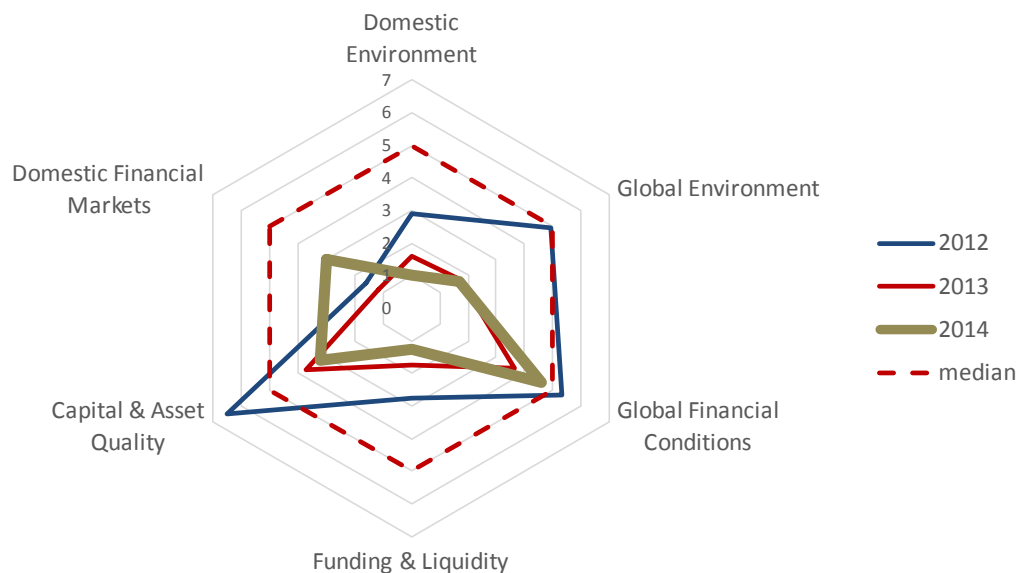
Macro-Financial Environment and Key Risks Impacting Belize

2.0 Overview

During 2014, there were slight improvements in the domestic environment, reflecting an uptick in economic activity and further expansion in bank liquidity, underpinned by increased foreign exchange inflows and sluggish credit growth. In this environment, domestic deposit rates fell faster than lending rates, causing spreads in the financial markets to widen though these spreads remained lower than the historical median.

On the global front, the external economic environment and financial conditions improved in 2014. Global GDP accelerated slightly by 3.4% with a general uptick in the growth of advanced economies, while performance of emerging markets were mixed. Financial conditions have also ameliorated over the last three years as accommodative monetary conditions have supported improvements in private balance sheets of advanced economies.

Chart 2.1: Financial Stability Cobweb



2.1 Global and Regional Environment

As 2014 drew to a close, global growth was projected to become stronger for advanced economies, as loose monetary policy continued to support the low-interest rate environment. At the same time, the build-up of international trade imbalances poses a major risk for low-income, export-dependent economies due to the increased likelihood of reduced consumption in high-income economies during economic downturns. The decline in oil prices exacerbated the shift in global dynamics, boosting economic activity in oil-importing countries but adversely impacting fiscal and external positions for large oil-exporters.

Average growth in the Caribbean was estimated at 1.3% in 2014, in comparison to 1.5% in 2013, due mostly to slower growth by the commodity-exporting countries. However, there were expectations of a future strengthening of activity due to lower fuel costs, the uptick in tourism and stronger growth in the region's major trading partners. While growth in commodity exporters slowed from 2.3% in 2013 to 1.6% in 2014, output for tourism-based economies rose from 0.5% to 0.8%, and whereas growth of commodity exporters was expected to maintain momentum, the outturn for the tourism-based economies continued to be linked to the strength of the recovery in the United States and Europe.

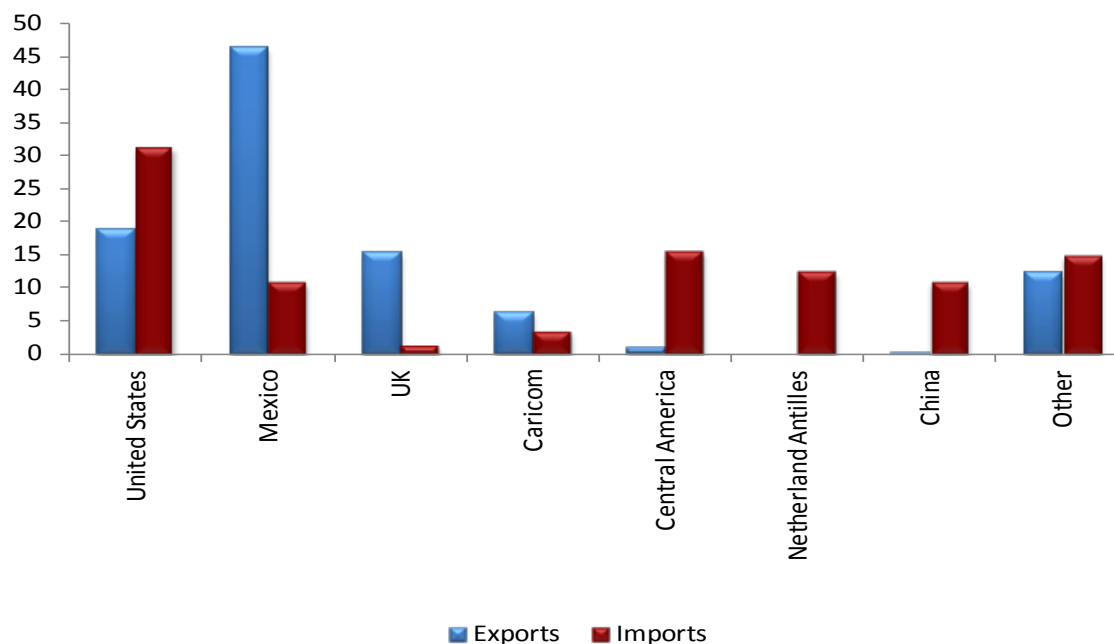
2.2 Foreign Reserve Management and Correspondent Banking Relations

The de-risking strategy adopted by major correspondent banks has resulted in heightened operational risk for banks around the world. After the global financial crisis, many financial institutions came under heightened regulatory pressure for non-compliance in areas such as loan foreclosure, lending practices, market manipulation, AML/CFT practices and issuance of mortgage-backed securities. Substantial fines were levied on such financial institutions, resulting in a rapid escalation of costs since 2012. Because of this cost surge, large correspondent banks have severed relationships with smaller institutions that are not a source of significant earnings, and these developments have negatively impacted the capacity of small commercial banks to manage their foreign reserve positions.

A loss of correspondent banking relations can jeopardize Belize's external trade and investment flows. However, efforts by the government and affected financial institutions to respond constructively and limited due to the failure of correspondent banks to elaborate on the nature of their concerns.

Belize's fixed exchange system has been predicated on the dominance of trading activities with the United States. If alternative correspondent banking arrangements cannot be made with US based entities, Belize may need to shift to arrangements with other countries that will facilitate its trade payments.

Chart 2.2: Distribution of Export and Imports by Country, 2014



2.3 Impact of US Monetary Policy

In September 2014, the Federal Reserve indicated that it intended to begin raising the Federal Funds Rate and reduce the pace of monetary expansion to minimize the risk of asset bubbles that can lead to instability in the financial markets. The Federal Reserve aimed to strike the right balance between the risk of reduced growth versus an increase in inflation in excess of the target level due to delayed policy action.

The growth outlook for 2015 was revised downward from 3.1% to 2.5% because of inclement weather conditions, the US dollar's appreciation and the collapse in oil-sector investment. The President of the IMF therefore cautioned the Federal Reserve to defer the rate lift-off until signs of wage and price inflation were more evident.

It was broadly expected that the Federal Reserve would increase policy rates, on the condition that the unemployment rate ranges between 5.0% to 5.2% and inflation rises

to 2%. As international rates rise, the concern domestically would be that as external investments appear more attractive, it would elicit increased pressure on the authorities to approve outflows of capital from the financial system.

2.4 Fiscal Imbalances and Sovereign Debt

Since 2011, the fiscal deficit has been widening as the growth in expenditure has outstripped increases in revenues and grants. Primary surpluses were recorded in 2011 and 2013, but these balances were on a downward trend, and a primary deficit was recorded in 2014. Central Government's total debt stock rose steadily over the period and accelerated in 2013 and 2014, reflecting interest capitalized for the super-bond in 2013 and loans under the VPCA, which averaged 55% of external disbursements for the two years. Despite the growth in debt stock, the average effective interest rate was lower in 2013 and 2014 because of the debt restructuring and the concessionary nature of the VPCA loans.

In 2015, the overall fiscal deficit is expected to widen further, as government has increased wages and salaries by 8% for the 2015/2016 fiscal year, whilst maintaining the pace of capital outlays. In the medium term, maintaining a sustainable primary surplus of 2% of GDP may be difficult in the face of the final year of the negotiated salary increase for government workers and the declining revenues from taxes and royalties from the petroleum industry.

Interest payments are projected to increase over the medium term due to the step-up in super-bond coupon rate from 5% to 6.67% scheduled to commence in August 2017, as well as the amounts due under the Petrocaribe Loan Agreement. Meanwhile, on the domestic front, compensation for the utilities' nationalization are currently under litigation with the expectation that payments to the previous owners will be resolved in the medium term. In the case of the latter, the impact on the fiscal position would be ameliorated by the Government's decision to set aside funds to settle the compensation by selling shares for BTL. Such sales generated \$69.7mn and the government also pledged future disbursements from the VPCA from the fiscal year 2015/2016 onwards.

Despite these downside risks, Central Government's debt to GDP ratio appeared likely to pursue a downward trajectory between 2015 to 2017 as the economy continues to expand. However, this trajectory will be reversed in 2018, when the debt stock rises to account for the nationalized utilities, and sustainability will be largely dependent on the methodology used by the courts to value the compensation.

2.5 External Sector Imbalances

Gross official reserves rose steadily over the previous two years. While the current account deficit expanded due to an increase in the trade deficit and profit repatriation, the gap was financed by foreign direct investment inflows and loan disbursements, mainly from the VPCA. In 2015, a further improvement in gross international reserves was expected due to a forecasted reduction in the trade deficit and higher tourism earnings. Over the medium term, however, a widening trade deficit, increased external debt payments, declining loan disbursements from external sources and the repatriation of funds paid in settlement of the utilities' nationalization are some of the main factors that threaten to erode foreign reserve holdings.

Chapter 3

Financial Performance and Soundness of Deposit-Taking Institutions: Banking and Credit Union Sectors

3.1 Financial Performance of Domestic Banking Sector

After improving in 2013, there was a gradual reduction in the Banking Stability Index in 2014, which indicated a heightening of risks to the stability of the system. This decline largely reflected a downward movement in the long term trend for profitability, as well as a heightening of capital and concentration risks associated with the reduction in the regulatory capital of one institution. The growth rate of the system's risk-weighted assets outstripped that of regulatory capital, causing a dip in its capital adequacy ratio. After peaking in June 2013, profitability pursued a quarterly downward trend with return on equity (ROE) and return on assets (ROA) turning negative in September 2014 mainly due to one institution's accumulated losses associated with provisioning and business tax expenses. The Financial Vulnerability Index also deteriorated due to a shift in the Government's primary balance from a surplus to a deficit and a reduction in the ratio of net foreign assets to total assets of the commercial banks.

Chart 3.1: Domestic Bank Stability Index

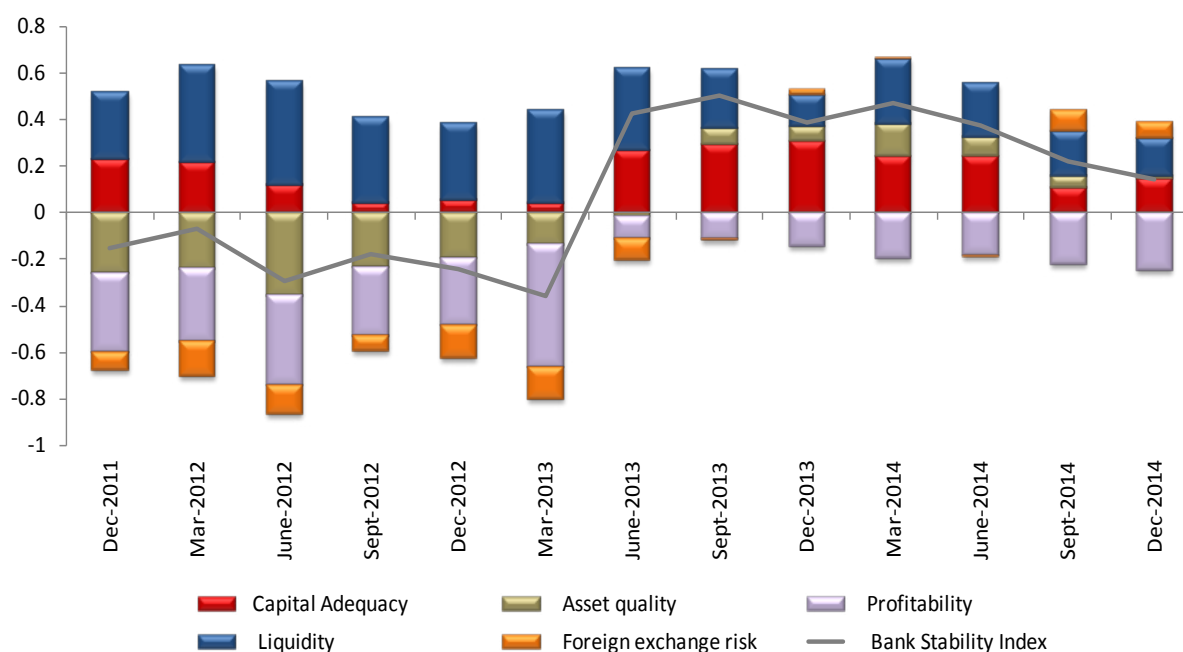
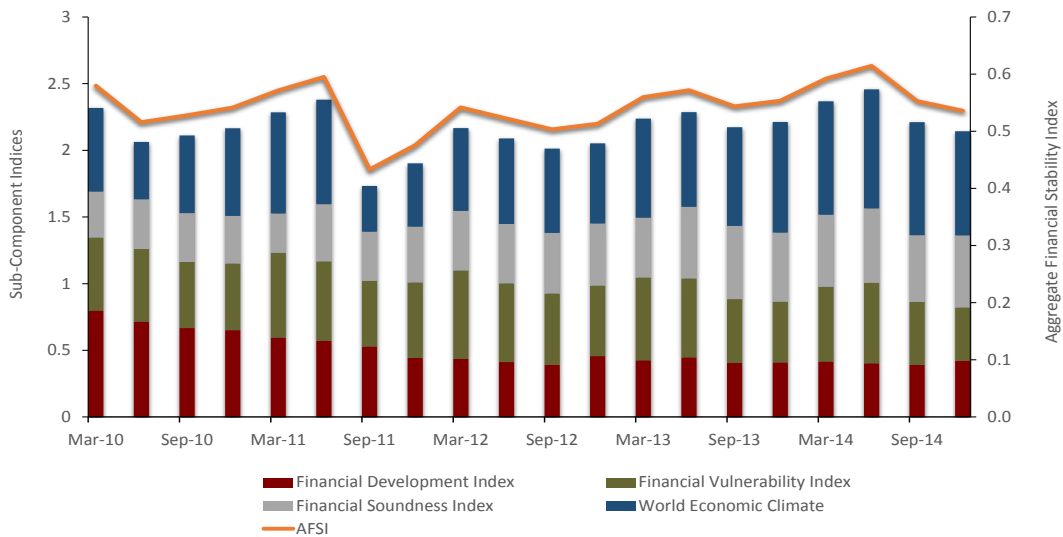
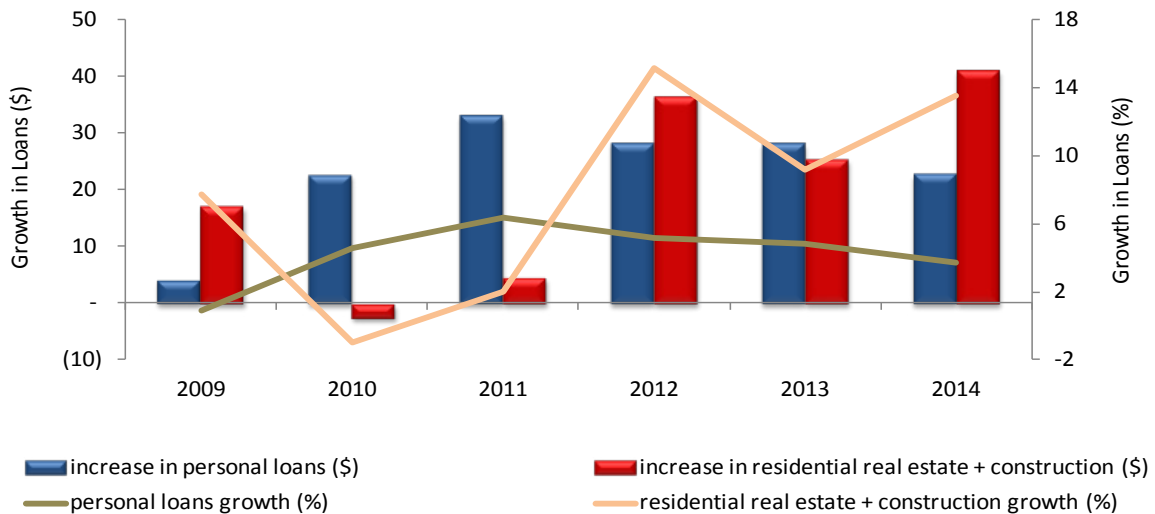


Chart 3.2: Aggregate Financial Stability Index



With no appreciable change in the indicators for financial soundness and financial development, the Aggregate Financial Stability Index (AFSI) fell by 3.13% in 2014 primarily due to deteriorations in world economic conditions and the Financial Vulnerability Index. The World Economic Climate Index fell from 98.6 points in December 2013 to 95 points, reflecting a marked decline in Europe and the Commonwealth of Independent States and weak signals from Japan and China. With the downward revision in projected growth of the US economy adding to the gloom, the CBOE Volatility Index (VIX) moved upward in the last quarter of the year.

Chart 3.3: Composition of Lending to the Household Sector 2009 - 2014



3.1.1 Deposits

Although there was a further decline in average deposit rates in 2014, the deposit liabilities of the domestic banks continued to expand in line with economic activity. The 7.5% growth in total deposits was concentrated in demand and savings deposits, which registered increases of 22.5% and 8.4%, respectively. In contrast, time deposits contracted by 3.3%, as commercial banks continued to pursue their strategy to minimize their cost of funds.

3.1.2 Private Sector Credit

Credit to the private sector increased by 4.7% in 2014, dominated by disbursements for the sugarcane industry and, to a lesser extent, funding for construction and real estate activity. Following the previous year's 6.3% increase, household borrowing rose by 7.0%, nudging household debt to GDP levels upwards from 28.0% to 28.6%. Almost two-thirds of this growth reflected loans for residential real estate and construction. With the ramping up of operations by the Government-owned National Bank of Belize Ltd, the weighted average interest rate on loans for residential construction was slashed by 289 basis points to 6.8%.

Credit extended for commercial purposes by domestic banks and credit unions was up by 5.9%, compared to the 1.3% increase in 2013. Over the period from 2011 to 2013, net loans designated for commercial activity had contracted by an average of -1.2% as sizeable loan write-offs (amounting to \$133.7mn) outweighed tepid increases in credit. The latter reflected heightened risk aversion on the part of the commercial banks and relatively high interest rates due to the legacy non-performing loans (NPLs) that banks continued to carry on their balance sheets.

Chart 3.4: Trends in Commercial Lending and Economic Growth 2010 - 2014

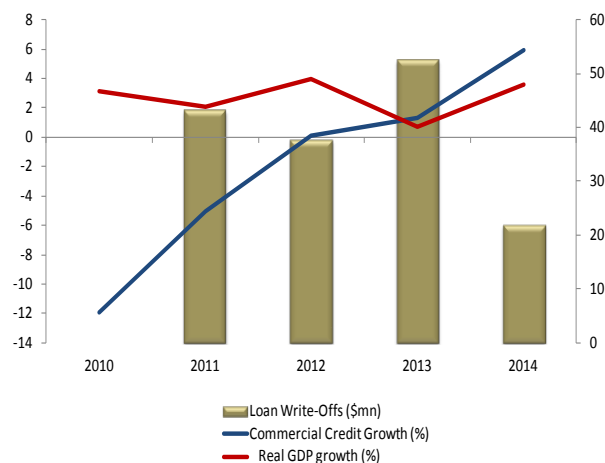


Chart 3.5: Sectoral Distribution of New Commercial Lending for 2014

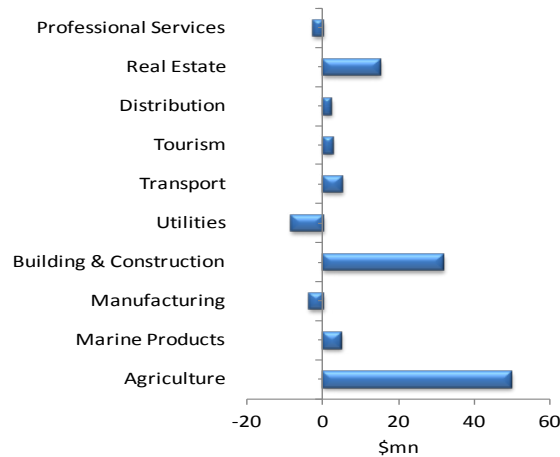
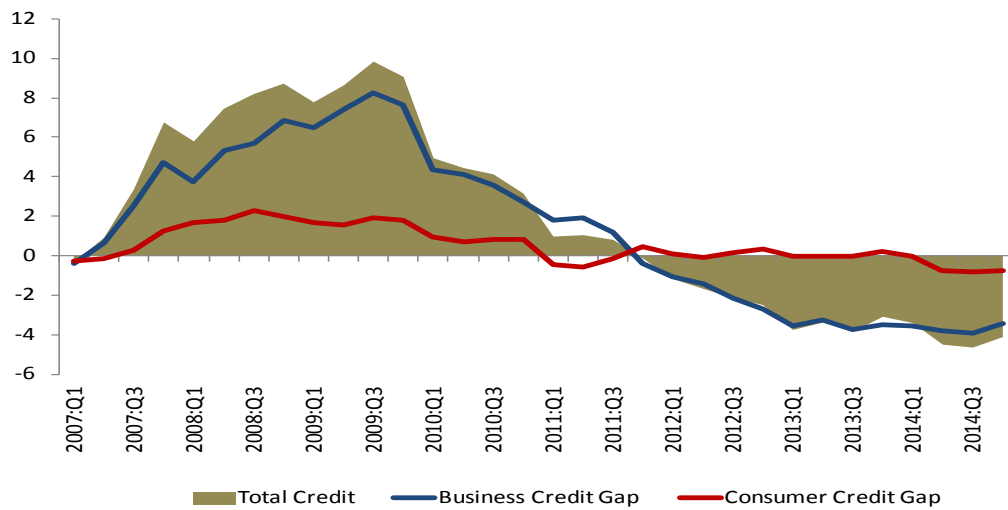


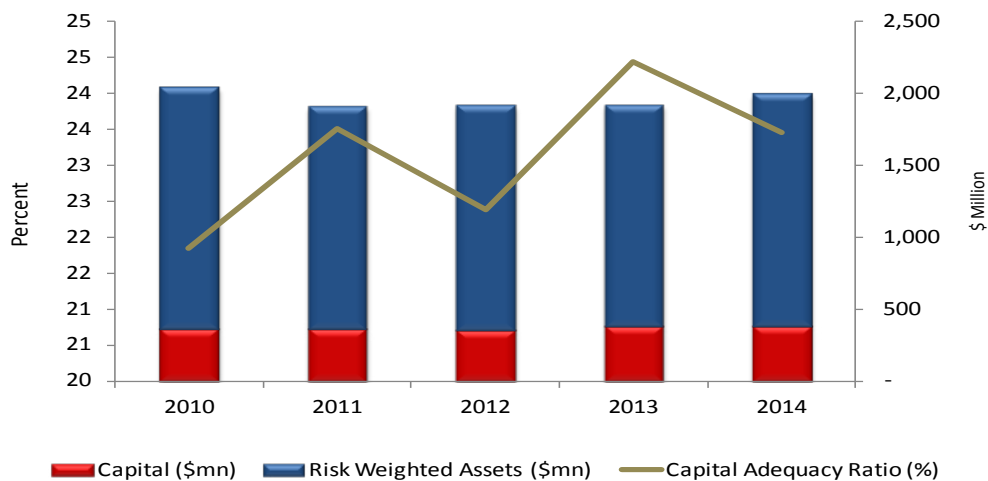
Chart 3.6: Credit to GDP Gap: Business versus Household Sector



One syndicated loan for land purchase and capital investment in sugar production accounted for 70% (\$50.0mn) of the new lending to the business sector in 2014, while investments in commercial real estate and construction continued to be buoyant for the third consecutive year, and borrowings were above average for entities in the marine production and transportation sectors.

An increasing disparity in the rate of growth in credit relative to GDP is an indicator of systemic imbalances. A widening gap is evidence of increased leveraging by the private sector, as borrowings relative to GDP are growing faster than the long term trend. In reverse, deleveraging in the system can be detected when the credit to GDP gap is contracting.

Chart 3.7: Domestic Banks Capital Adequacy



In the case of Belize, the ratio of total credit to GDP rose rapidly from early 2007 to mid-2009 and contracted sharply in the subsequent two quarters. Thereafter, the credit to GDP gap has steadily declined with negative gaps recorded for both business and consumer credit in 2014, indicating that the credit to GDP ratio has fallen below long-term trends. Although fluctuations in both business and consumer credit follow similar patterns, business borrowings tend to be more volatile than consumer credit.

3.1.3 Capital Adequacy

After an upward movement in the previous year, the capital adequacy ratio (CAR) of the domestic banking system dipped to 23.5%, as the resurgence in lending boosted the system's risk-weighted assets by 4.8% and more than offset a modest 0.6% increase in regulatory capital. In the case of the latter, capital injections by two banks were partially offset by sizable expense provisions (\$28.4mn) for loan losses posted by one bank. Although all domestic banks posted CARs above the minimum requirement, ranging from 11.08% to 158.18%, system vulnerabilities appear to be centered in pending litigation that has the potential to erode capital.

3.1.4 Asset Quality

The banking system's NPL ratio (non-performing loans less specific loan loss provisions /total loans) continued to improve steadily for the third consecutive year largely due to the Central Bank's introduction of more stringent requirements for specific loan loss provisions on 1 December 2011. In mid 2011, the NPL ratio stood at 15.3%, and it was thus necessary to take action to clean-up the balance sheets of the banks with a view

Chart 3.8: Domestic Banks Asset Quality

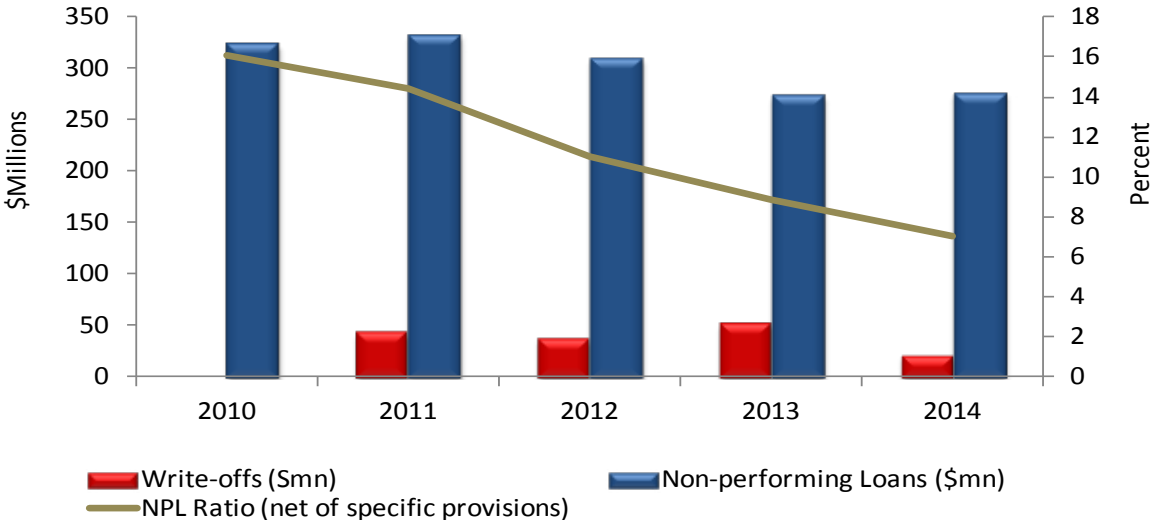
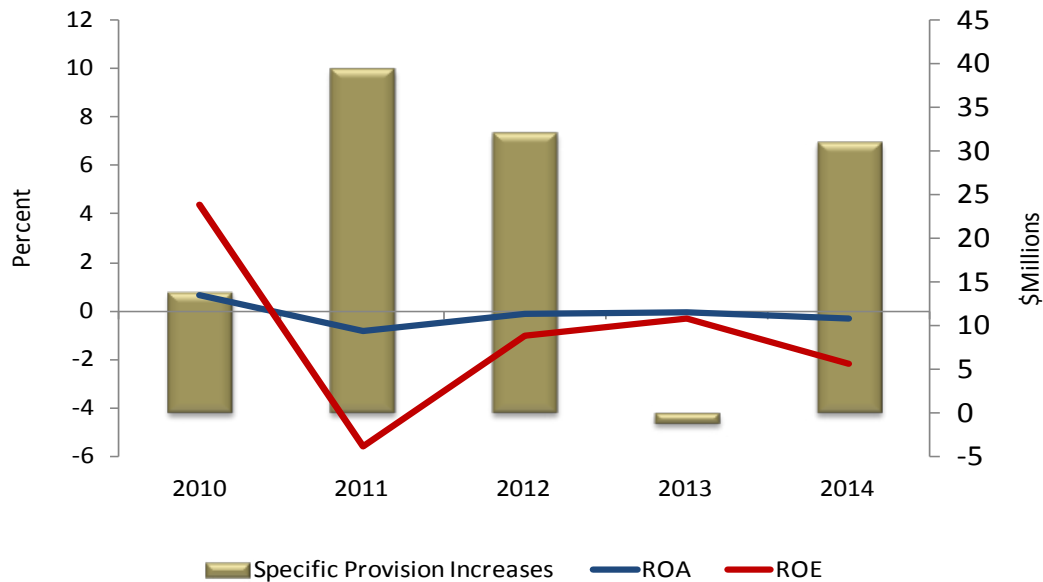


Chart 3.9: Domestic Banks Profitability



to putting them on a sounder footing. In 2014, the combination of sizeable write-offs (amounting to \$74.6mn) and an increase in loan loss provisions caused the sector's NPL ratio to fall from 8.84% to 7.02%, as it continued to progress closer to the recognized 5.0% international benchmark.

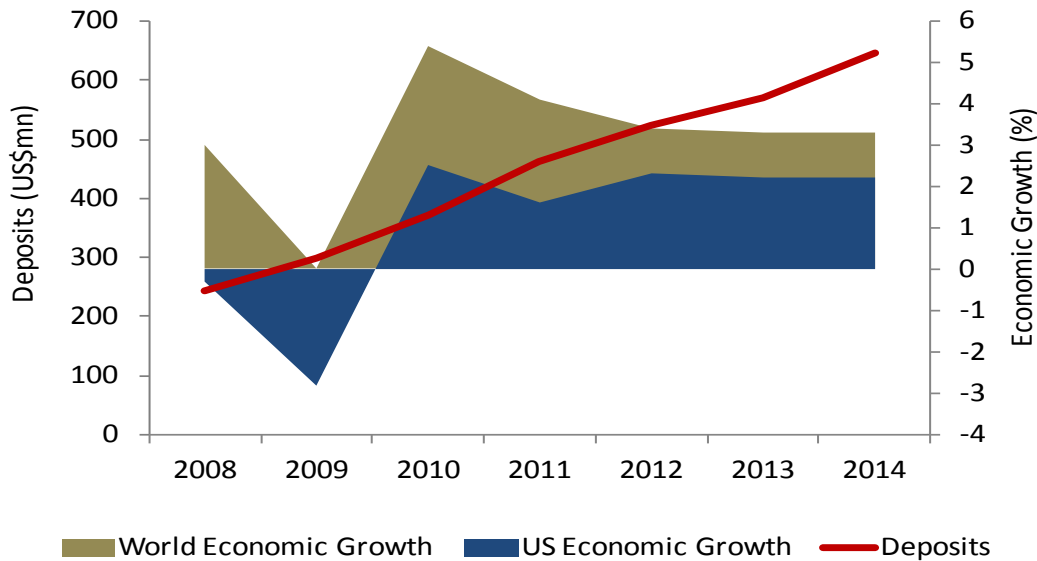
3.1.5 Earnings

The profitability of the domestic banks was below the benchmark of 1.0% for ROA and ROE for the fourth consecutive year. In 2013, ROA of -0.04% and ROE of -0.31% were recorded, which worsened in 2014 to -0.30% and -2.18%, respectively as increased losses of \$8.81mn were reported. In addition to setting aside provisions to address the legacy NPLs, the weakened outturn was dominated by an extraordinary expense item that significantly impacted the profitability of one bank. When combined with

Table 3.1: Domestic Banks Liquidity

	2010	2011	2012	2013	2014
Actual Average Liquid Assets (\$mn)	608.2	693.8	815.8	815.3	903.0
Statutory Requirement (\$mn)	448.1	472.7	505.7	521.7	564.2
Excess/(Deficit) Average Liquid Assets (\$mn)	160.1	221.1	310.1	293.6	338.8
Liquid Assets to Deposits (%)	31.0%	33.6%	35.6%	35.4%	36.5%
Loans to Deposits(%)	89.8%	85.1%	78.7%	80.5%	78.1%

Chart 3.10: Deposit Growth in International Banking System vis-a-vis World Economic Growth, 2008-2014



smaller negative outturns of two other banks, the result was an increase of \$7.6mn in the system's overall losses when compared to 2013. If not for this single extraordinary expense, the system as a whole would have realized a net profit of \$0.67mn, and ROA and ROE would have been positive at 0.02% and 0.16%, respectively.

3.1.6 Liquidity

After dipping by \$16.5mn in 2013, liquidity in the banking system resumed its upward climb with a \$45.2mn increase as deposit growth outpaced loans. At the end of December 2014, the system's ratio of liquid assets to total deposits stood at 36.5% with liquid assets exceeding requirements by \$338.8mn (60.0%), the highest amount reported over the last five years.

Table 3.2: Composition of International Banks Deposit Base, 2011 - 2014

	Resident Entities			Total
	Non-Residents	EPZ/ CFZ	Other Residents	
2011	459.00	2.66	0.00	461.66
2012	519.32	3.66	0.00	522.98
2013	560.46	9.25	0.19	569.90
2014	641.26	4.71	0.23	646.20

3.2 Financial Performance of International Banking Sector

3.2.1 Deposits

Deposit growth in the international banks continued its steady upward climb notwithstanding the sluggish growth of the world economy since 2010. There was minimal growth in EPZ and CFZ deposits with these accounting for less than 2% of total holdings annually.

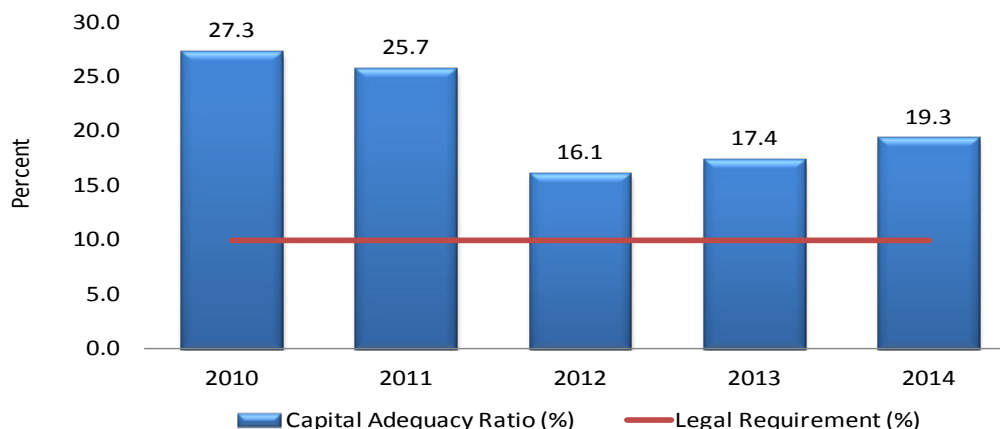
Table 3.3: Composition of International Banks' Loan Portfolio, 2011 - 2014

	Non-Residents	EPZ/CFZ
2011	238.1	2.7
2012	227.9	2.5
2013	223.4	2.5
2014	236.9	4.3

3.2.2 Loans

The international banks continued to facilitate non-residents who wished to invest in tourism and purchase domestic real estate, and focused their lending primarily on these sectors. After growing by an average of 18.7% over the 2006 to 2009 period, lending by the international banks slowed dramatically, as the fallout from the financial crisis manifested in a contraction in tourism expenditure and lower investments from abroad. However, after bottoming out with a contraction of 4.4% in 2012, there was a rebound in activity and, in 2014, an increase of 6.8% was recorded.

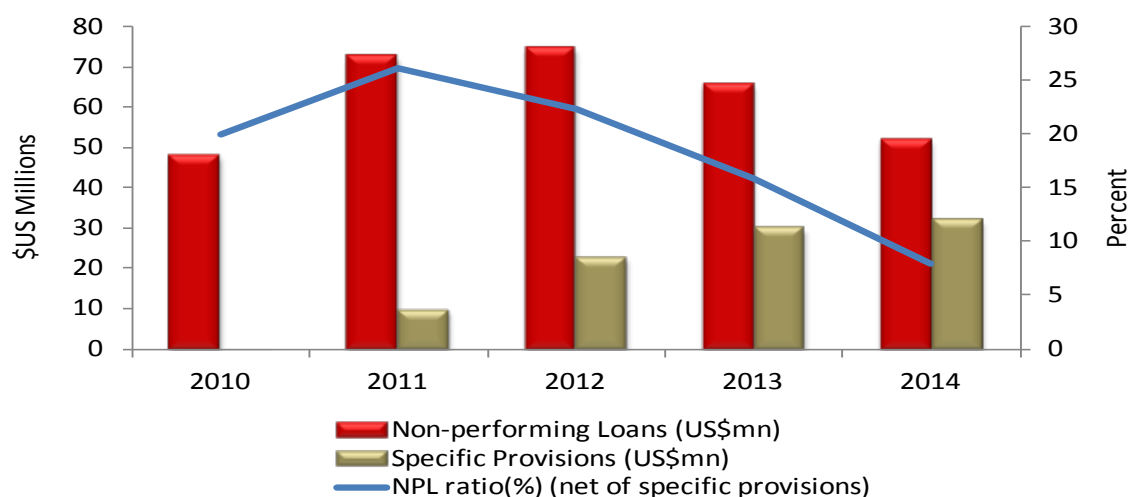
Chart 3.11: International Banks Capital Adequacy



3.2.3 Capital Adequacy

In 2014, the ratio of aggregate regulatory capital held against risk-weighted assets (CAR) strengthened by 1.9 percentage points to 19.3% mainly due to the injection of capital into one bank and an increase in the retained earnings of another. The combined increase in regulatory capital of the two banks (totaling US\$6.5mn) accounted for 96.7% of the growth in regulatory capital, which was up by 11.9% (\$6.67mn) to US\$62.6mn. The improvement in CAR built upon the 1.3 percentage point growth that occurred in 2013.

Chart 3.12: International Banks Asset Quality



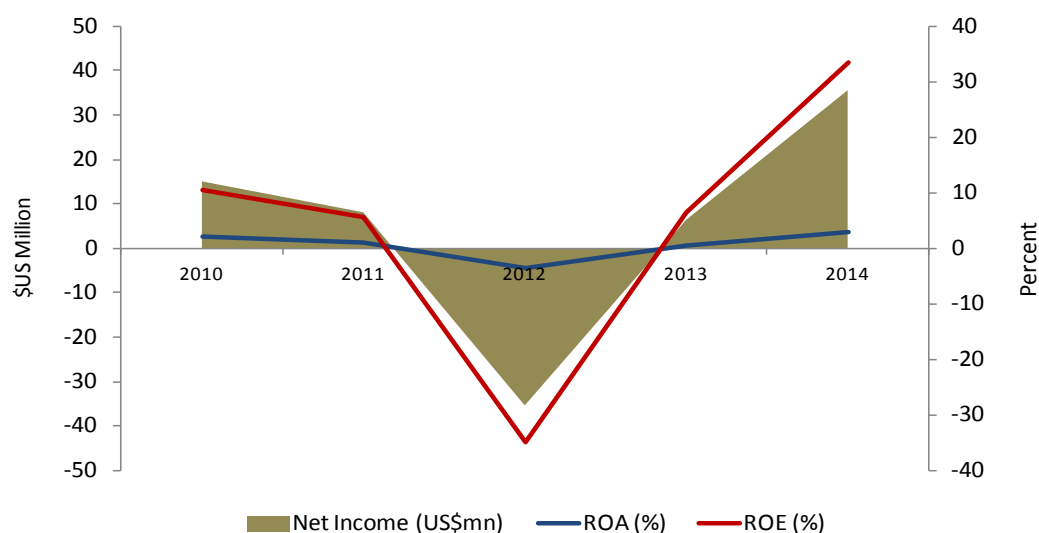
3.2.4 Asset Quality

The aggregate NPLs of the international banks shrank by 20.9% (from US\$66.0mn to US\$52.2mn) during the year. This decrease reflected write-offs valued at US\$6.4mn by one bank along with the liquidation of distressed assets by three banks that summed to US\$8.3mn. Specific loan loss provisions also increased by 7.0% and, as a result, the sector's NPL ratio (net of specific loan loss provisions) fell to 8.3% by the end of the year.

3.2.5 Earnings

Profitability ratios were enhanced by the sale of a sizable distressed asset that boosted the sector's net income from US\$5.2mn to US\$28.6mn. As a result, both ratios for the international banks exceeded the 1.0% international benchmark for the first time since 2011, with ROA improving from 0.8% to 3.8% and ROE expanding from 8.1% to 42.0%.

Chart 3.13: International Banks Profitability



Were it not for the sale of the large asset, the outturn would have been on par with the previous year with ROA and ROE holding fairly constant at 0.8% and 8.3%, respectively, and with net income recording a slight improvement from \$5.2mn to \$5.6mn.

3.2.6 Liquidity

As in the case of the domestic banks, the international banks have been recording substantial increases in liquidity with gross liquid assets rising by an annual average of \$46.4mn over the past five years. At the end of 2014, holdings of excess liquid assets were 16.2% (\$27.8mn) higher than the December 2013 position. Commensurate with the growth in liquidity, the loans/deposits ratio has been trending downwards, falling from 39.6% to 37.3%, which is significantly lower than the recognized benchmark of 80%. Much of this was attributed to one bank that had a business model focused primarily on prepaid-card services. Despite accounting for the largest share of deposits

Table 3.4: International Banks Liquidity

International Banks Holding of Liquid Assets	2010	2011	2012	2013	2014
Actual Average Liquid Assets(US\$m)	222.2	245.2	285.0	308.8	354.9
Statutory Requirement (US\$m)	141.9	124.0	125.5	136.8	155.1
Excess/(Deficit) Avg. Liquid Assets (US\$m)	80.3	121.1	159.5	172.0	199.8
Liquid Assets to Deposits (%)	59.6%	53.1%	54.5%	54.2%	54.9%
Loans to Deposits(%)	64.1%	52.2%	44.1%	39.6%	37.3%

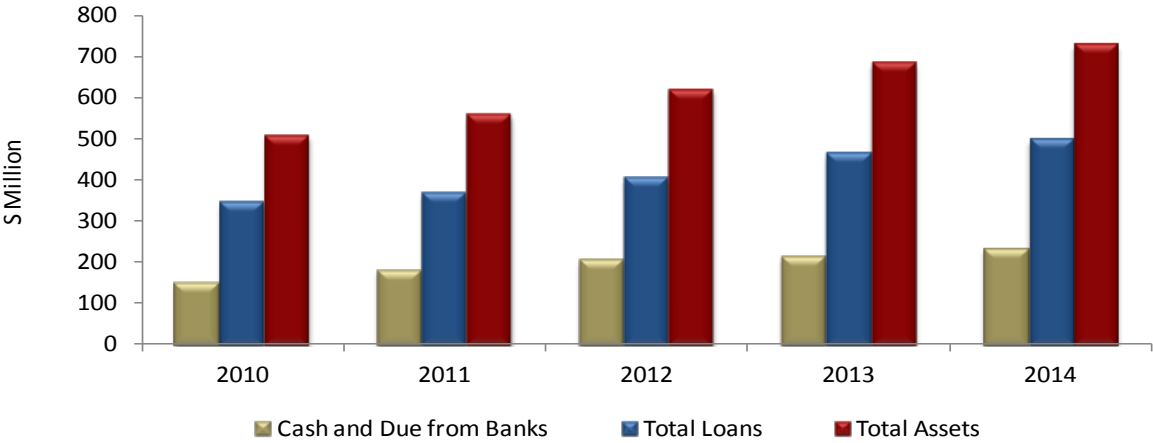
in the system, this bank was reporting a loans/deposits ratio of only 4.6%. The loans/deposits ratio rises to 52.5% when this bank is excluded from the calculation as an outlier.

3.3 Financial Performance of Credit Union Sector

3.3.1 Assets

Reflecting a reduction in the pace of lending from 14.6% to 7.6% due to increased competition in the residential mortgage sector, the assets of the five largest credit unions’

Chart 3.14: Assets of Five Largest Credit Unions



(the Group) grew by 6.4% (\$44.0mn) to \$728.1mn in 2014 in comparison to the 10.3% (\$64.1mn) increase in the previous year. The \$35.3mn increase in loans, nevertheless, yielded an increase in the latter's ratio of total assets from 67.5% to 68.3%.

3.3.2 Credit Union Deposits

The credit unions continued to hold substantial deposits in the domestic banks as the rather shallow financial system afforded limited alternative investment opportunities. At the end of 2014, the group's deposits totalled \$228.6mn, representing 9.23% of total deposits in the domestic banking system. The largest credit union accounted for 88.1% of the total and in assessing the concentration risk, it was observed that the latter was holding 48.3% and 29.2% of its deposits at two domestic banks, resulting in both banks combining to hold 77.4% of the Group’s deposits.

3.3.3 Capital Adequacy and Asset Quality

After falling from 11.1% to 8.9% in 2013 due to heightened NPLs reported at one credit union, the Group’s ratio of net institutional capital to assets rebounded to 10.3%,

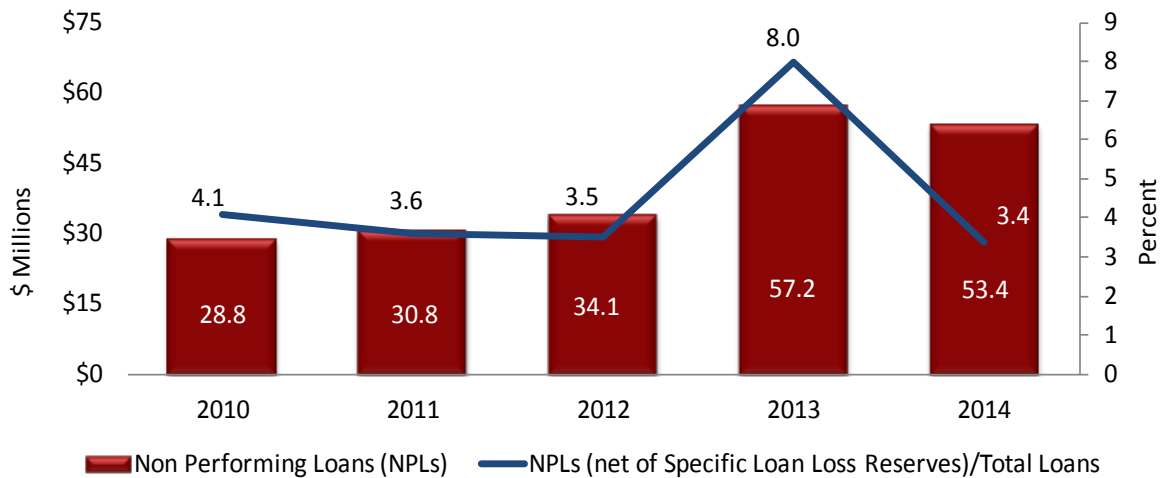
Table 3.5: Credit Unions Capital Adequacy

CAPITAL ADEQUACY	Dec 2010	Dec 2011	Dec 2012	Dec 2013	Dec 2014
Total Capital/Deposits	24.2%	23.5%	23.1%	23.1%	20.9%
Total Capital/Total Assets	19.4%	19.0%	18.7%	18.6%	17.1%
Net Institutional Capital/Total Assets	10.3%	10.6%	11.1%	8.9%	10.3%
Total Capital (\$mn)	\$98.8	\$106.2	\$115.8	\$127.0	\$124.7

which is just above the 10% benchmark. The improvement occurred as the credit union responded to the spike in NPLs by transferring \$14.6 million from its capital reserves to its specific loan loss reserves in compliance with the Central Bank's loan loss provisional requirements. The latter contributed to the improvement of the Group's NPL ratio from 8.0% to 3.4%. At the end of 2014, all credit unions in the group were satisfactorily below the 5.0% benchmark.

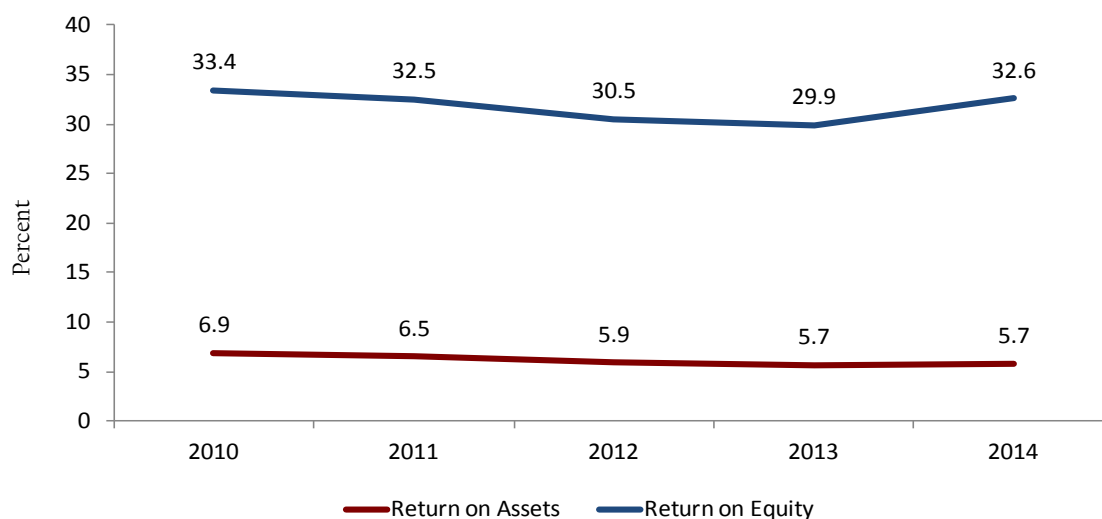
In the case of the CAR, even though the Group's ratio exceeded the benchmark, the individual ratios of four out of the five credit unions were below 10%. Consequently,

Chart 3.15: Credit Unions Non Performing Loans



the credit unions that were not in compliance with the 10% net institutional capital requirement were formally notified of the need to build their legal reserves and that there would be a need for written proposals to be submitted to the Registrar for dividend and/or rebate payments for approval prior to holding annual general meetings. Following this, it is anticipated that all credit unions will be in compliance with the requirement by March 2016.

Chart 3.16: Credit Unions Return on Assets and Return on Equity



3.3.4 Earnings

In tandem with the 7.6% rise in lending the annualized income of the Group increased by 7.4% during the year. Both ROA and ROE were significantly above the 1.0% international benchmark although, notably, the steady growth in annualized income was due to the dominant performance of one credit union that posted a ROA of 6.1% and also accounted for 72.4% of the group's annualized income. All members of the group exceeded the benchmark with none posting an ROA less than 3.8%.

3.3.5 Liquidity

At December 2014, the Group was holding \$232.9mn in liquid assets, and its liquidity ratio of 39.0% was on par with the 40.0% that was averaged over the previous four years and significantly above the 10.0% legal requirement.

Table 3.6: Credit Unions Liquidity

Five Largest Credit Unions Holding of Liquid Assets	2010	2011	2012	2013	2014
Actual Average Liquid Assets (\$mn)	158.5	188.8	207.5	213.4	232.9
Statutory Requirement (\$mn)	41.5	45.6	51.1	56.0	60.8
Excess/(Deficit) Average Liquid Assets (\$mn)	117.0	143.3	156.4	157.5	172.1
Liquid Assets to Deposits (%)	38.8%	41.8%	41.4%	38.8%	39.0%
Loans to Deposits (%)	84.8%	81.2%	80.4%	84.1%	83.3%

Chapter 4:

Evaluating the Resilience of the DTI Sector: Stress-Testing Results

This section provides an overview of single factor stress tests that were applied in December 2014 to assess the impact on bank capital of various shocks that simulate adverse events. The aim was to gauge the overall resilience of individual banks and the overall banking sector in Belize.

4.1 Domestic Banks Stress Tests

Table 4.1: Domestic Banks Stress Testing Shocks and Assumptions

Shocks and Scenarios	Assumptions
Liquidity	Assuming runs on demand and time deposits of 10% and 2%, respectively, a calculation is made of the number of days that a bank would have convertible assets to pay depositors and also be able to meet the legal liquidity requirement.
Generic Shock/Migration Shock	5% of performing loans are assumed to become non-performing. Out of the existing stock of non-performing loans, 5% are assumed to deteriorate further.
Current and NPL's by Sector	Performing loans in the primary and tertiary sectors are reduced by 10% and non-performing loans in these sectors are simultaneously increased by 10%.
Large Exposures	The top ten largest borrowers in excess of 10% of capital that are performing are assumed to become non-performing.
Deposits with and Loans to Related Parties	The assumption is that related parties will withdraw all deposits and fail to pay their debts in the event of a bank crisis.

Instead of applying the tests with one scenario or assumption, each test incorporated a low, medium and high stress scenario. Prior to the administration of the stress tests, the domestic banking system could be characterized as adequately capitalized with CAR of 23.5%, which is significantly above the 9.0% legal requirement.

The tests revealed that the domestic banking system was most susceptible to the liquidity shocks as under the low stress scenario, the system would fall below the 30 days to illiquid benchmark and become illiquid after 20 days. As the intensity of the test increased, the system's performance deteriorated, becoming illiquid after 10 days and seven days under the medium and high stress scenarios. In the case of the credit

shocks, the system was least resilient to the large exposure shock with two banks falling below the nine percent CAR requirement under the low stress scenario and worsening to three banks under the high stress scenario.

4.1.1 Liquidity Shock

Table 4.2: Liquidity Shock December 2014

Scenario	Assumptions	Days until Illiquid	Days until Breach of Legal Requirement
Low Stress	A run on demand deposits of 5% and time deposits of 1%.	20	8
Medium Stress	A run on demand deposits of 10% and time deposits of 2%.	10	5
High Stress	A run on demand deposits of 15% and time deposits of 3%.	7	3

The liquidity stress test normally assesses the impact of a run on the banks via outflows of demand deposits at the rate of 10% per day and time deposits at 2% per day (Medium Stress Scenario). This analysis was, however, expanded to include a lower stress and a higher stress scenario. The lower stress scenario simulated a run on demand deposits of 5% and time deposits of 1%, while the higher stress scenario increased the run on deposits to 15% for demand and 3% for time deposits.

Under the medium stress scenario, the stress tests showed the banking system would become illiquid after 10 days and would breach the legal requirement after five days. Individually, two banks would become illiquid within 15 to 20 days and breach the legal requirement in seven to 10 days, while two others would become illiquid in less than 10 days and breach the legal requirement in three days. Overall, despite the high liquid asset to short term liabilities ratio for the system (51.5%), the system and individual banks fell short of the 30-days to illiquid threshold.

Under low stress, the banking system would become illiquid after 20 days and would breach the legal requirement after eight days, with two banks becoming illiquid within 30 to 40 days and breaching the legal requirement in 12 to 20 days, while two other banks would become illiquid in less than 15 days and breach the legal requirement in seven days. With the intensity of the stress increasing under the high stress scenario, the banking system would become illiquid after seven days and breach the legal requirement after three days. The most liquid bank would become illiquid within 15 days and breach the legal requirement in seven days.

4.1.2 Credit Shocks

Three sets of tests were applied to gauge vulnerability to credit risks in the domestic banking system.

Hitherto, the Generic/Migration Shock specified the migration of 5% of performing loans to non-performing status and assumed that out of the existing stock of non-performing loans, 5% would deteriorate further (Low Stress Scenario). To this have been added medium and high stress scenarios that involve an increase in the migration to 15% and 25%, respectively.

Table 4.3: Generic/Migration Shock December 2014

Scenario	Original Assumptions	Pre-shock CAR	Post-shock CAR
Low Stress	5% of performing loans are assumed to become non-performing. Out of the existing stock of non-performing loans, 5% are assumed to deteriorate further.	23.1	21.3
Medium Stress	15% of performing loans are assumed to become non-performing. Out of the existing stock of non-performing loans, 15% are assumed to deteriorate further.	23.1	17.8
High Stress	25% of performing loans are assumed to become non-performing. Out of the existing stock of non-performing loans, 25% are assumed to deteriorate further.	23.1	14.4

The typical low stress shock lowered the domestic banking system's CAR by 1.8% to 21.3%, with CAR consequently remaining significantly above the 9.0% minimum requirement. The system displayed resiliency, as no bank would fall below the minimum.

When the medium stress shock was introduced, the system's CAR declined by 5.3% to 17.8%, which is still significantly above the 9.0% minimum. However, three banks would breach the 9.0% minimum requirement and would require capital injections totaling \$12.6mn to regain compliance.

Under the high stress scenario, the system's CAR reduced by 8.8% to 14.4%, still above the minimum requirement. The same three banks would fall below the minimum requirement with a significant worsening of their performance as the level of capital injections required to regain compliance would rise by \$33.7mn to \$46.3mn. The

Current/NPL Sectoral Shock focuses on loans in the primary and tertiary sectors with an assumption that performing loans in these sectors are reduced by 10% and non-performing loans, simultaneously, increased by 10%. This test was also varied by treating the latter as a low stress scenario and by adding medium and high stress scenarios that involve a reduction in performing loans in the primary and tertiary sectors and increases in non-performing loans of 15% and 20%, respectively.

Table 4.4: Current/NPL Sectoral Shock December 2014

Scenario	Assumptions	Pre-shock CAR	Post-shock CAR
Low Stress	Good loans in the primary and tertiary sectors are reduced by 10% and, simultaneously, non-performing loans in those same sectors are increased by 10%.	23.1	21.9
Medium Stress	Good loans in the primary and tertiary sectors are reduced by 15% and, simultaneously, non-performing loans in those same sectors are increased by 10%.	23.1	21.3
High Stress	Good loans in the primary and tertiary sectors are reduced by 20% and, simultaneously, non-performing loans in those same sectors are increased by 10%.	23.1	20.8

The low stress scenario yielded a marginal impact on system CAR, which declined by 1.2% to 21.9%. No domestic bank fell below the minimum 9.0% legal requirement; however, one bank reported a CAR just over the minimum at 9.6%. The medium stress scenario resulted in a 1.8% reduction in system CAR to 21.3%. One bank fell slightly below the minimum requirement and would require a small capital injection of \$0.6mn to regain compliance. The high stress scenario reduced system CAR by 2.3% to 20.8% and further impacted the bank that breached the requirement under the medium stress scenario. This bank now required a capital injection of \$4.3mn to regain compliance. No other bank fell below the minimum requirement.

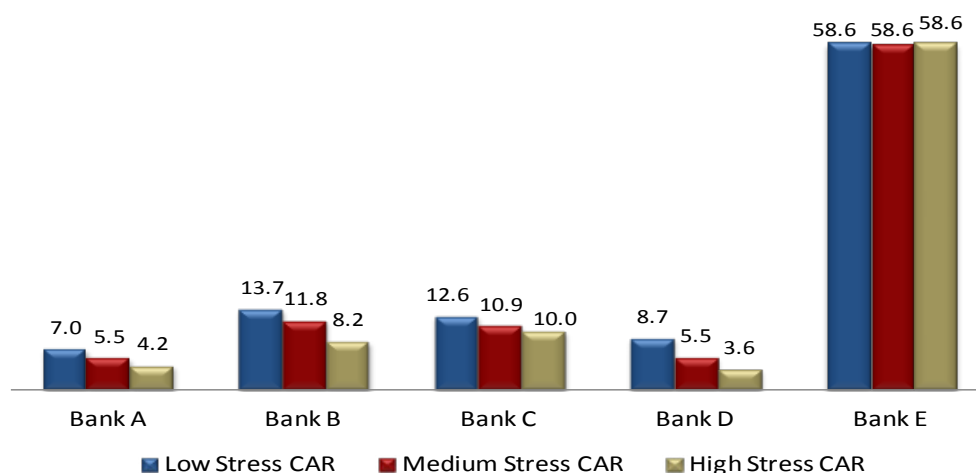
The third credit shock, the Large Exposures Shock, assumes that the largest borrowers in excess of 10% of capital that are performing would become non-performing.

Table 4.5: Large Exposure Shock December 2014

Scenario	Assumptions
Low Stress	The top 4 largest borrowers in excess of 10% of capital that are performing would become non-performing.
Medium Stress	The top 7 largest borrowers in excess of 10% of capital that are performing would become non-performing.
High Stress	The top 10 largest borrowers in excess of 10% of capital that are performing would become non-performing.

The low stress scenario, which assumed that the four largest borrowers would default, led to two banks falling below the minimum requirement. These banks would need to inject capital totalling \$10.1mn and \$0.3mn, respectively, to regain compliance. The medium stress scenario, which assumed that the seven largest borrowers would default, also led to the same two banks falling further below the minimum requirement, as they would need to inject capital totaling \$17.6mn and \$3.7mn, respectively, to regain compliance. Under the original assumption which is now regarded as the high stress scenario, an additional bank would fall below the minimum requirement. Altogether, the three banks would need to inject capital totaling \$23.6mn, \$5.8mn and \$4.3mn, respectively, to regain compliance with the capital requirement.

Chart 4.1: Large Loan Default Shock



4.1.3 Related Party Shock

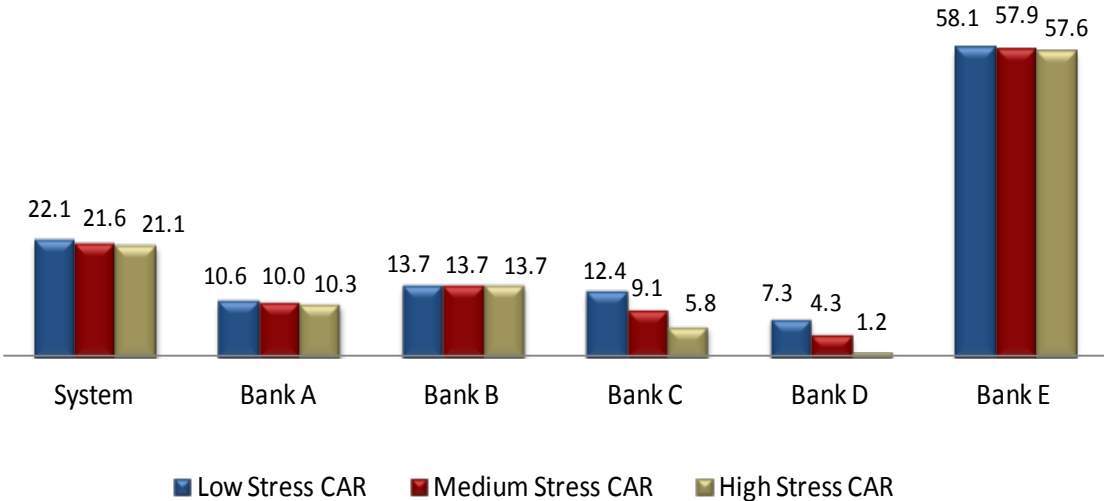
A Related Party Shock was also performed to assess the banking system’s exposure to related parties. The assumption was that related parties will withdraw their deposits and fail to pay their debts in the event of a bank crisis. In the low, medium and high stress scenarios, related parties would fail to pay 50%, 75% and 100%, respectively, of their debts and obligations.

Table 4.6: Related Party Shock December 2014

Scenario	Assumptions
Low Stress	The assumption is that related parties will withdraw 50% of deposits and fail to pay 50% of their debts in the event of a bank crisis.
Medium Stress	The assumption is that related parties will withdraw 75% of deposits and fail to pay 75% of their debts in the event of a bank crisis.
High Stress	The assumption is that related parties will withdraw 100% of deposits and fail to pay 100% of their debts in the event of a bank crisis.

The low stress scenario showed that the system's CAR would not be severely impacted, reducing by 1.0% and remaining comfortably above the minimum requirement at 21.1%. However, at 7.3%, one bank's CAR would fall below the minimum requirement and would require a capital injection of \$1.8mn to regain compliance. As the strength of the test escalated under the medium stress scenario, the system's CAR fell by 1.5% to 21.6%. The affected bank's CAR would fall further below the minimum requirement to 4.3% and would require a capital injection of \$5.1mn to regain compliance. Under the worse-case or high stress scenario, the system's CAR would reduce by 2.0% to 21.1% when related parties defaulted on all their debts but would remain firmly above the minimum requirement. With CARs of 5.8% and 1.2 %, two banks would breach the minimum requirement and would require capital injections of \$2.6mn and \$8.3mn, respectively, to regain compliance.

Chart 4.2: Related Party Shock



4.1.4 International Banks Stress Tests

Shocks to the international banking system were also varied to incorporate low, medium and high stress scenarios in order to test the resilience of international banks' institutional capital to credit (migration, concentration and related party exposure) and liquidity shocks.

Prior to the administration of the stress tests, the international banking system's CAR stood at 19.6%, relative to the 10.0% legal requirement. The tests revealed that the international banking system was resilient under the low stress scenarios for all

Table 4.7: International Banks Stress Testing Shocks and Assumptions

Shocks and Scenarios	Original Assumptions
Liquidity	A run on demand deposits of 5% & time deposits of 1% is assumed. Based on this, a calculation is made of the number of days that a bank would have convertible assets to pay depositors and also be able to meet the legal liquidity requirement.
Generic Shock/Migration Shock	25% of performing loans are assumed to become non-performing. Out of the existing stock of non-performing loans, 5% are assumed to deteriorate further.
Large Exposures	Top ten largest borrowers in excess of 10% of capital that are performing are assumed to become non-performing.
Deposits With and Loans to Related Parties	The assumption is that related parties will withdraw all deposits and fail to pay their debts in the event of a bank crisis.

shocks, as both the system's CAR and that of the individual banks remained above the minimum requirement. There was more susceptibility to the liquidity shock as the system's performance faltered under both the medium and high stress scenarios. The system was also vulnerable under the high stress scenario of the large exposure shock, which caused several individual banks to fall below the minimum requirement.

Table 4.8: International Banks Liquidity Stress Tests December 2014

Scenario	Assumptions	Days until Illiquid	Days until Breach of Legal Requirement
Low Stress	A run on demand deposits of 5% and time deposits of 1%.	41	19
Medium Stress	A run on demand deposits of 10% and time deposits of 2%.	21	10
High Stress	A run on demand deposits of 15% and time deposits of 3%.	14	7

The low stress liquidity shock scenario assumed that a run on the international banks would cause outflows in demand deposits at the rate of 5% per day and time deposits at 1% per day. At this rate, the international banking system would become illiquid after 41 days, which is comfortably above the 30-day threshold and would breach the legal requirement after 19 days. Individually, at 26 days, only one bank fell below the threshold and would breach the minimum legal requirement in less than 15 days. The largest bank took 69 days to become illiquid.

Under the medium stress scenario, the international banking system would fall below the benchmark, becoming illiquid after 21 days and breaching the legal requirement after 10 days. Only one bank would remain above the threshold becoming illiquid after 34 days, and two banks would become illiquid in less than 10 days.

The high stress scenario would lead to a worsening of the system's performance with illiquidity arriving in 14 days and the legal requirement being breached in seven days. Only one bank would take more than 20 days to become illiquid, while all banks would breach the minimum requirement in less than 10 days.

4.1.5 Generic/Migration Shock

In the Generic/Migration Shock a predetermined percentage of performing loans are migrated to non-performing status and out of the existing stock of non-performing loans, 5% are assumed to deteriorate further. The shock was varied to incorporate low, medium and high stress scenarios. Due to the increase in the level of specific loan loss provisioning, the international banking system displayed adequate resiliency, as under all three scenarios, the system registered a CAR above 17.0%, and no bank fell below the minimum requirement after the shocks were administered.

Table 4.9: Generic/Migration Shock for International Banks December 2014

Scenario	Assumptions	Pre-shock CAR	Post-shock CAR
Low Stress	15% of performing loans are assumed to become non-performing. Out of the existing stock of non-performing loans, 5% are assumed to deteriorate further.	18.2	17.1
Medium Stress	25% of performing loans are assumed to become non-performing. Out of the existing stock of non-performing loans, 5% are assumed to deteriorate further.	18.2	17.1
High Stress	35% of performing loans are assumed to become non-performing. Out of the existing stock of non-performing loans, 5% are assumed to deteriorate further.	18.2	17.2

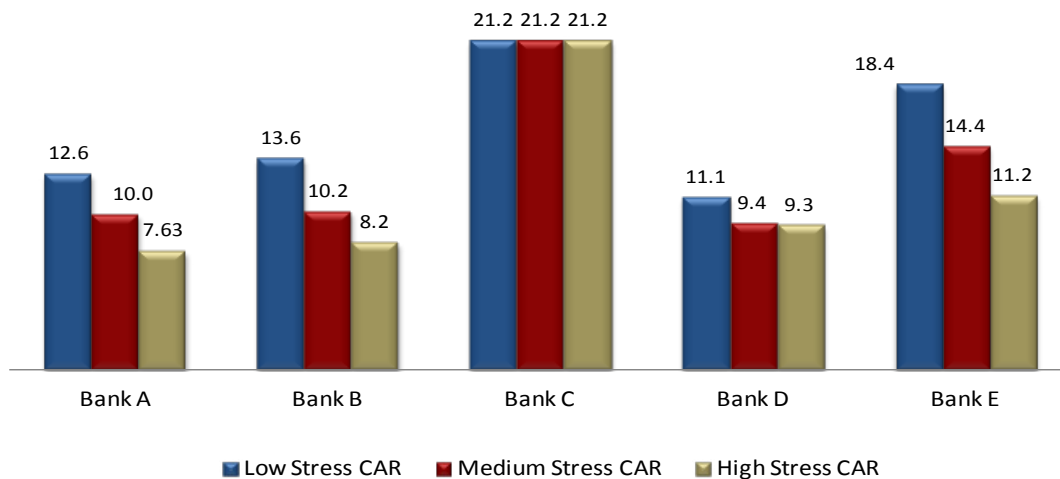
Table 4.10: International Banks Large Exposure Shock December 2014

Scenario	Assumptions
Low Stress	The top 4 largest borrowers in excess of 10% of capital that are performing would become non-performing.
Medium Stress	The top 7 largest borrowers in excess of 10% of capital that are performing would become non-performing.
High Stress	The top 10 largest borrowers in excess of 10% of capital that are performing would become non-performing.

The international banking system proved to be resilient under the low stress scenario since no individual bank fell below the minimum requirement when their four largest borrowers defaulted. Under the medium stress scenario, however, when seven large borrowers defaulted, one bank failed to meet the minimum requirement and would need to inject capital of US\$0.2mn to regain compliance with the minimum requirement.

Under the high stress scenario, test results showed that default by the 10 largest borrowers of each bank would result in three banks failing to meet the minimum requirement and requiring their injection of capital totaling US\$1.6mn, US\$1.5mn and US\$0.2mn, respectively, to regain compliance.

Chart 4.3: Impact of International Banks' Large Loan Default Shock (%), December 2014



4.1.6 Related Party Shock

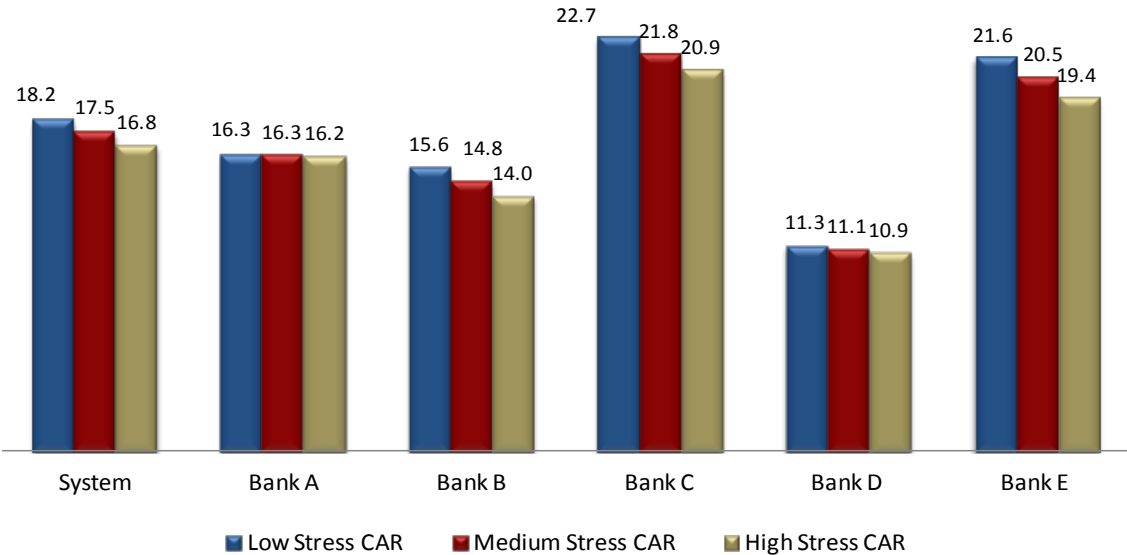
In this shock, three scenarios involving related parties are considered. The assumption is that related parties will withdraw their deposits and fail to pay their debts to varying percentages in the event of a bank crisis. The scenarios are outlined below:

Table 4.11: International Banks Related Party Shock December 2014

Scenario	Assumptions
Low Stress	The assumption is that related parties will withdraw 50% of deposits and fail to pay 50% of their debts in the event of a bank crisis.
Medium Stress	The assumption is that related parties will withdraw 75% of deposits and fail to pay 75% of their debts in the event of a bank crisis.
High Stress	The assumption is that related parties will withdraw 100% of deposits and fail to pay 100% of their debts in the event of a bank crisis.

The CAR for the international banking system showed strong resiliency to the related party shocks under all three scenarios. System CAR remained firmly above the minimum requirement, and no individual bank fell below the threshold.

Chart 4.4: Impact of International Banks' Related Party Shock(%), December 2014



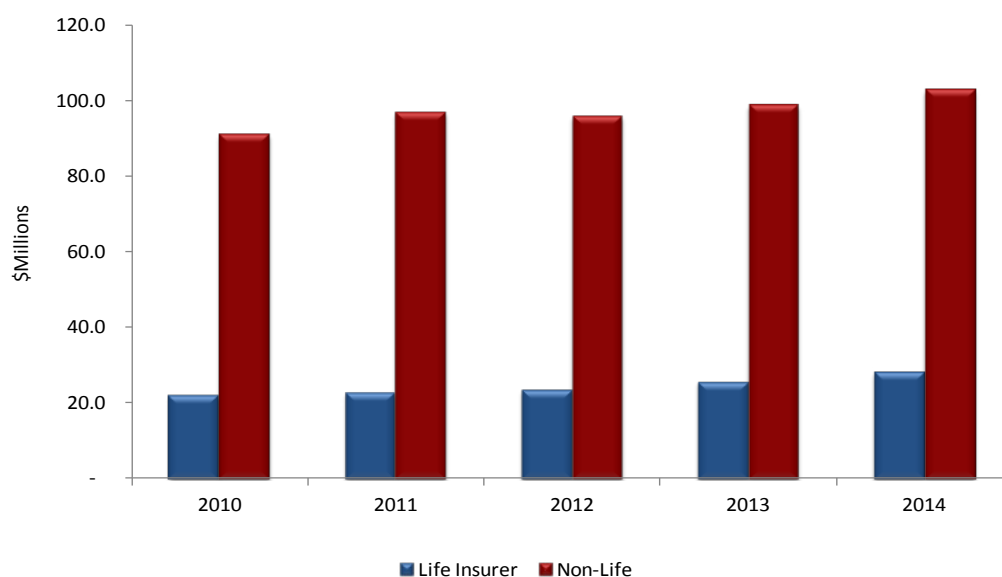
Chapter 5

Financial Performance and Soundness of Non-Deposit-Taking Institutions: Insurance

5.1 Gross Premium Income

Aggressive marketing and an expansion in the sales force and the product range yielded a 4.9% rise in gross premium income in 2014. The growth was similar to that of the previous year and was in consonance with the expansion of activity in the economy, which grew by 3.6% in real terms.

Chart 5.1: Gross Premium Income by Type of Insurer 2010 - 2014



On average, property, motor, health and ordinary life insurance account for 83% of the industry's annual gross premium income (GPI). Property and motor insurance accounted for approximately 55% of total GPI over the past five years, with earnings from the motor class sector maintaining steady growth since insuring for third party risk is mandatory. In the case of property insurance, fluctuations reflected the number of new developments financed by borrowings from institutions, which require insurance coverage and their perception of risk relative to perils, such as hurricanes, theft and fire, among others.

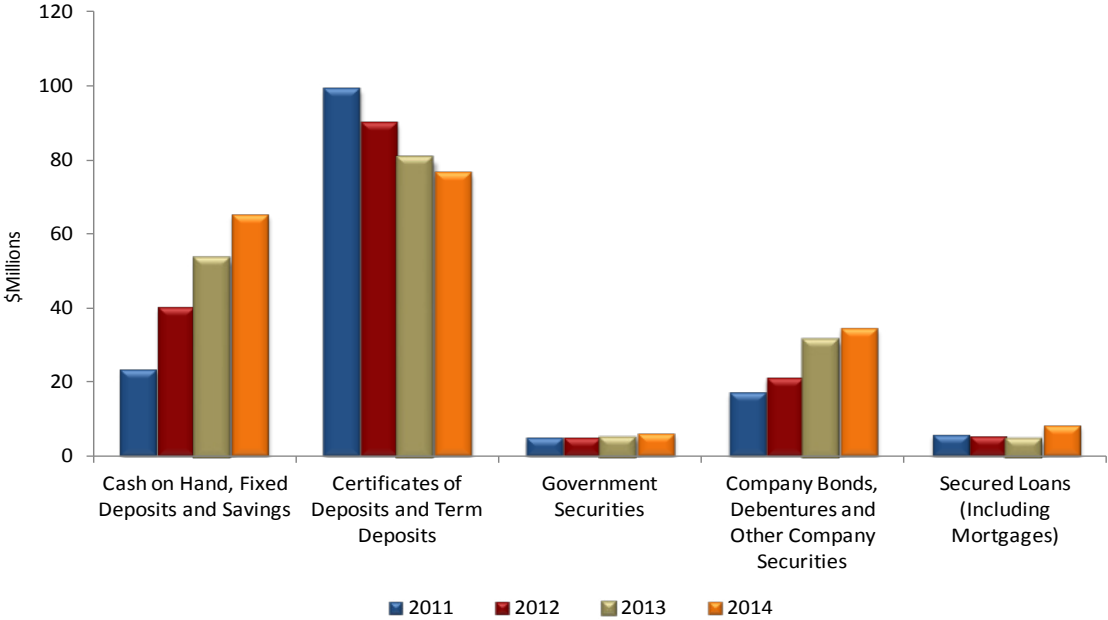
In 2014, income from the health and ordinary life classes of insurance business grew by 7.7% and 3.2%, respectively, with some of the key factors underlying the growth,

including aggressive marketing campaigns targeting clients via individual and corporate intermediaries, expansion of product lines with more attractive features and a pickup in lending by banks and other financial institutions that required potential borrowers to purchase different types of life insurance products in order to qualify for a loan.

5.2 Investment Assets

Term deposits with domestic banks accounted for half of total funds invested. The excess liquidity of the domestic banks continued to expand, which led to a reduction in interest rates and the banks' refusal to roll over existing time deposits. Consequently, the share of term deposits in the insurance sector's portfolio shrank, while holdings of other deposits in current accounts rose by 42.1%. Holdings of bonds and debentures issued by statutory bodies doubled over the period and accounted for as much as 17.2% of the portfolio of investment assets in 2014. The growth in other assets was minimal.

Chart 5.2: Insurance Companies Holdings of Selected Investment Assets 2011 - 2014



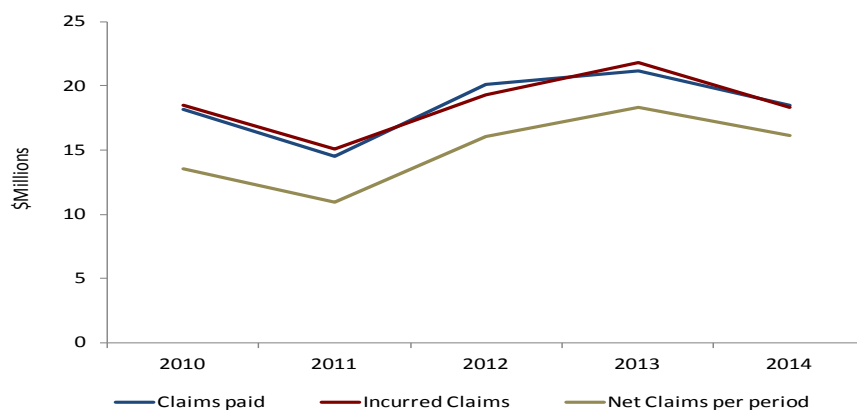
The desire of the life insurance companies for long-term investments that offer higher returns continued to be unmet in the domestic system. In one particular case, one institution was allowed to invest small volumes internationally in mutual funds and equities. These companies subsequently continue to cast their eyes abroad at the possibility of investing in equities and mutual funds, in addition to expanding the number of policyholders' loans and mortgages in the domestic market. For general insurers, their demand for shorter term investments was partially satisfied by increased

holdings of government securities, such as treasury bills, company shares and sovereign and municipal bonds.

5.3 Claims and Claim Provisions

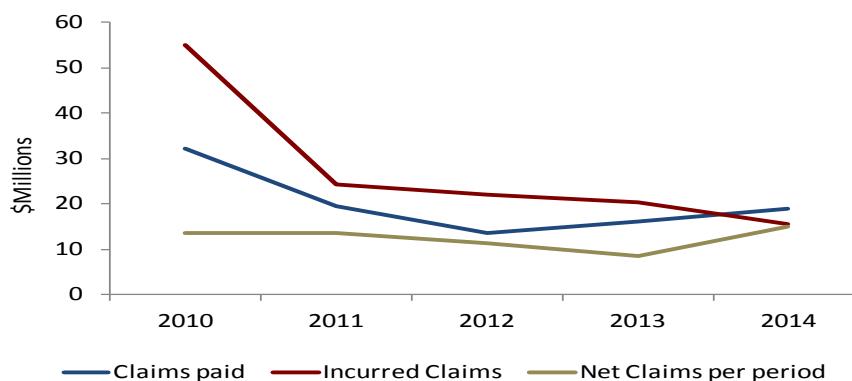
In comparison to 2010, a year that had been impacted by the damages associated with Hurricane Richard, claims paid by the general insurers in 2014 amounted to \$18.8mn, a decline of 41.4%. In the three-year period (2012-2014), the growth in claims from motor insurance and liability classes of insurance exceeded other sectors. The growth in insurance recoveries also increased almost five-fold from \$2.4mn in 2012 to \$10.4mn in 2014, thereby widening the gap between claims paid and net claims over the period.

Chart 5.3: Insurance Claims Breakdown for Life Insurance Sector 2010 - 2014



In the case of the life insurance sector, even with higher incurred claims in 2012 and 2013 due to withdrawals from an administered pension scheme by a life insurer, the level of claims and payments remained stable resulting in a fairly low loss ratio over the period reviewed.

Chart 5.3: Insurance Claims Breakdown for General Insurance Sector 2010 - 2014



5.4 Statutory Fund

5.4.1 Insurance Liability Structure and Composition of the Statutory Fund

The Insurance Act requires that insurance companies set up statutory funds for each class of insurance business that includes a statutory deposit equal to 15% of net premium income. The association of underwriters is also required to set up a statutory deposit. To ensure there is no lien on the assets, the Supervisor of Insurance acts as a trustee for the statutory fund, which can only be applied for the settlement of contracts for domestic policy holders.

The Second and Third Schedules of the Insurance Act list the type of investment assets that are eligible for the statutory fund. While the list provides for asset diversification, there is a shortage of the particular type of assets allowed under the law. Insurers are limited to a local asset ratio of 80-20%, with the Insurance Act defining “assets in Belize” as those which:

- (i) originate in Belize;
- (ii) are denominated in Belize dollars; and
- (iii) are physically held in Belize.

5.4.2 Statutory Fund: Performance and Composition

In 2014, insurers were required to hold \$76.2mn in statutory funds and actual holdings stood at \$83.6mn at the end of the year (an annual increase of 19.4%), resulting in a surplus of \$7.4mn. Notwithstanding this, two insurers (one life and the other general) were in substantial deficit positions in 2013 and 2014. In the case of the life insurer, excess statutory fund holdings by another life insurer masked their shortfall and largely accounted for the overall surplus for this sector.

In the general insurer class, Lloyds provides both reinsurance and general insurance services but is licensed under Part IV of the Insurance Act, which exempts it from the obligation to establish a statutory fund despite its direct provision of general insurance services. This loophole in the legal framework has left a gap of \$8.58mn in statutory funds that would have otherwise been required to be set aside by Lloyds. The impact on the statutory fund for general insurers is a deficit of \$5.59mn and an overall shortfall for the insurance industry of \$1.21mn, thereby reducing the effectiveness of this fund for risk mitigation purposes.

The share of the industry's statutory fund that is held in certificates of deposits (CDs) has been steadily declining from 80.4% in 2011 to 62.1% in 2014, as commercial banks have slashed deposit rates and refused to roll over existing CDs. With demand growing

Table 5.1: Statutory Fund By Type of Insurer

Section 24, 26 and 79 Applied			
	Established (\$mn)	Required (\$mn)	Surplus/Deficit (\$mn)
Life	59.7	57.1	2.6
General	14.8	11.8	3.0
Composite	9.0	7.2	1.8
Total	83.6	76.2	7.4

Section 24, 26 and 79 + Section 26 Applied to Lloyds			
	Established (\$mn)	Required (\$mn)	Surplus/Deficit (\$mn)
Life	59.7	57.1	2.6
General	14.8	20.4	-5.6
Composite	9.0	7.2	1.8
Total	83.6	84.7	-1.2

for alternative investments, insurance companies have increased their holdings of Treasury bills, Municipal Bonds and BEL Bonds, which now account for as much as one-quarter of the fund (compared to 2.6% in 2012).

Due to the long-term nature of the products offered, the life insurance sector accounts for the bulk of the assets in the industry's statutory fund. This sector faces additional challenges from depressed interest rates, which has led to an increase in the statutory fund requirement and a consequent need to re-price life policies. The impact of low interest rates became notably evident in 2012 and was exacerbated in 2014 when many policies were repriced. Asset-liability mismatches continue to be a notable concern.

Conditions have also not been favourable for general insurers. While they have been successful in obtaining securities that are short-term in nature, low interest rates and difficulties in renewing CDs have negatively impacted their investment rate of return.

There are two composite insurers, which offer life insurance products that are either short-term in nature (creditor life) or have small sums insured (industrial life). They hold most of their statutory funds in domestic banks and also face similar difficulties in getting expired CDs to be renewed. Both entities have ties with domestic banks, with one holding preferential and common shares in a bank, while the other is owned by the same holding company that also owns a domestic bank.

5.5 Interconnectedness, Concentration Risk and Sustainability Issues

The paucity of investment instruments has constrained the diversification of statutory fund assets and has heightened the mutual exposure of banks and insurance companies. While the insurance industry invests in all of the domestic banks, funds were concentrated in two of the latter that accounted for 28.29% and 37.43%, respectively, of the total CDs assigned to the statutory fund.

In 2014, insurers were advised that domestic banks would not be renewing CDs upon their expiry and, in some cases, would not be accepting deposits due to their excess liquidity position. In some instances, insurers were forced to amalgamate several CDs into a single instrument. The steep decline in interest rates also presented a distinct threat to the viability of insurers.

Over the 2010 to 2014 period, the interest rates offered on certificates of deposits (CDs) fell rapidly. In 2010, most banks offered interest rates ranging between 7% and 8.5%; however, by 2014 the interest rate range was between 0.96% and 2.5%. Only one bank in the system offered an interest rate on insurance deposits significantly above the average, and this offer appears to be a special arrangement influenced by the interrelated ownership structure of the particular entities.

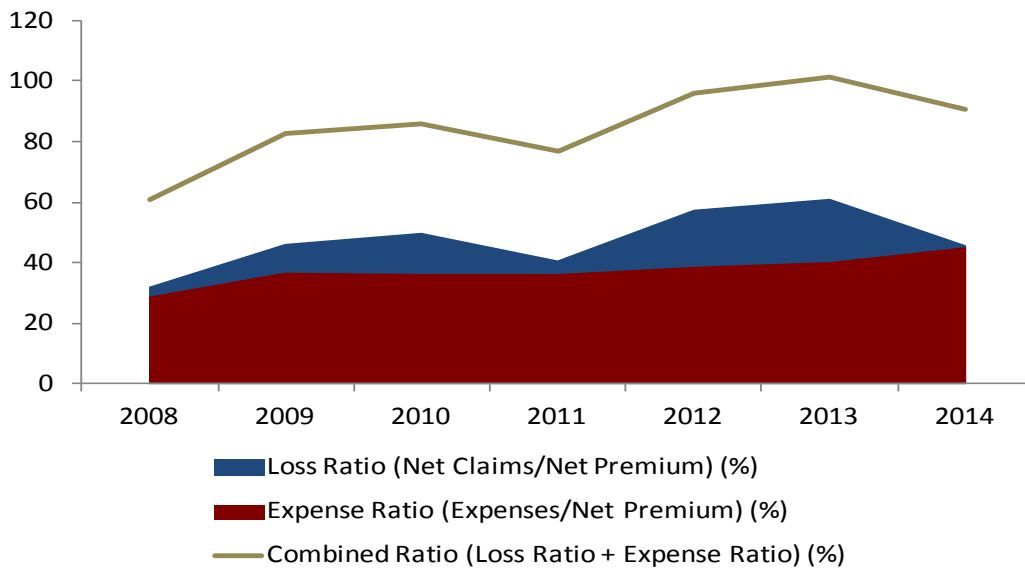
5.6 Key Financial Soundness Indicators

5.6.1 Life Insurance Sector

The sustainability of the life insurance sector continues to be challenged by limited investment options, which negatively affects profitability. To compensate for the loss in earnings due to declining yields on commercial banks' time deposits, insurers have been required to set aside increased technical reserves. These changes in the domestic financial environment and higher operating costs pushed the expense ratio of the sector up from 40.3% in 2013 to 45.2% in 2014 and led to the re-pricing of insurance products. The industry continues to maintain a combined ratio below 100%, indicating that net premium income has been adequate to cover losses and expenses. At the same time, the ratio of investment income to investment assets improved in 2013 and 2014, reflecting portfolio diversification into higher-yielding assets, such as Belize City municipal bonds and BEL debentures, while the portion of CDs held in the statutory fund fell to 51.3%.

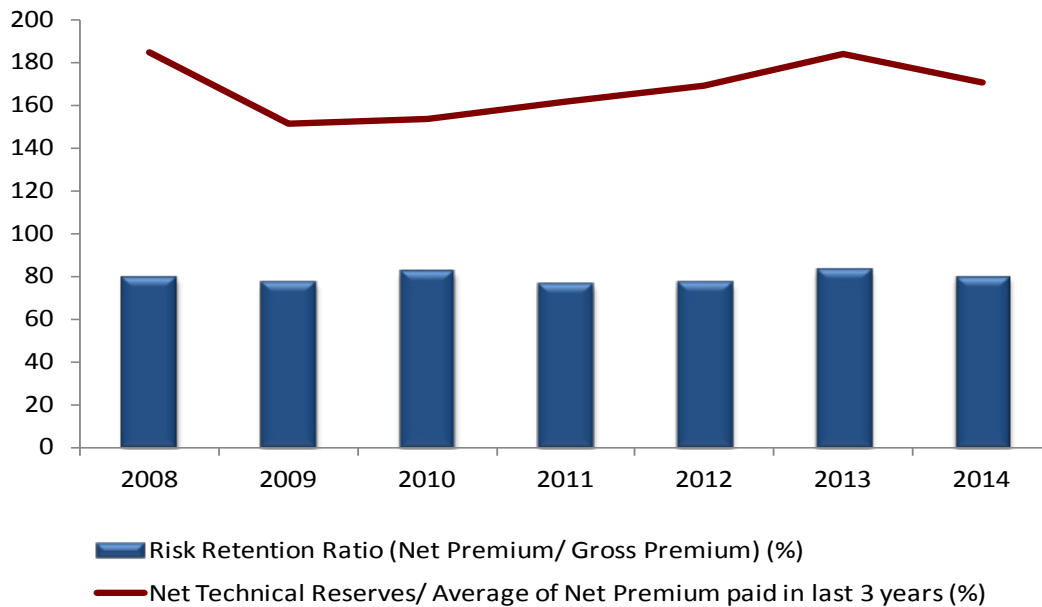
While the industry as a whole met and exceeded the statutory fund requirements during the period under review, shortfalls by one life insurer were masked by the excess holdings of another. Life insurers typically have high retention ratios and the risks of cash surrenders and death are normally mitigated by the establishment of reserves

Chart 5.4: Loss, Expense and Combined Ratios for Life Insurance Sector



that are actuarially calculated. In 2014, the risk retention ratio of 79.54% was within the acceptable range. It is noted that balances in the statutory fund dipped in 2011 because of the CLICO debacle but rose, subsequently, due to strict enforcement. Thus, the Net Technical Reserves/Average of Net Premium Paid rose to 169.5% in 2012 and to 184.1% in 2013 and continues to be maintained at a high level.

Chart 5.5: Reinsurance and Actuarial Risk Ratios for Life Insurance Sector



The capital/asset ratio of the industry dipped from 35.4% to 29.5% in 2014, as a portion of the system's retained earnings was reinvested in operations and a portion was extracted and remitted as profits to head offices. After peaking at 40.9% in 2010, this ratio trended downwards as only the local insurers hold paid-up capital in Belize, while foreign insurers limit their holdings to retained earnings and statutory reserves. This trend represents an additional challenge for risk mitigation in the foreign-dominated life insurance sector, as the local regulator is not able to access capital buffers if foreign insurers were to become insolvent.

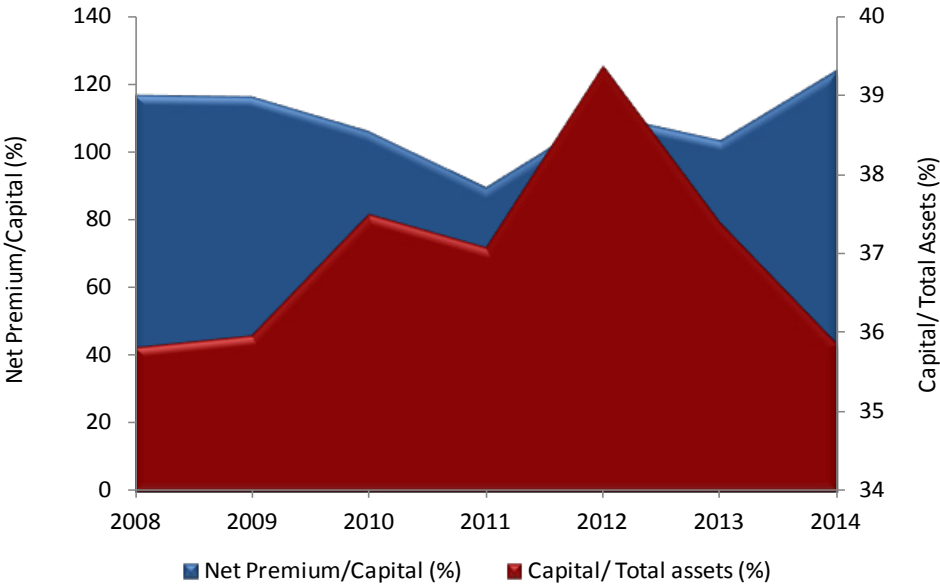
The overall level of receivables in the industry remains manageable due to the slow growth in policy holder loans and reinsurance recoverables. Receivables, equity investments and real estate holdings represent a relatively small component of total assets. This indicator peaked in 2010 at 6.48% and slid to an average of 4.59% in the following four years, with a slight increase in the ratio to 4.64% being recorded in 2014.

In 2011, the ratio of liquid assets to current liabilities bottomed out at 53.3% due to the impact of the CLICO crisis. Since 2012, the liquidity ratio of the life insurance sector has steadily increased, rising from 69.1% to 94.6% in 2014.

5.6.2 General Insurance

Apart from Lloyd's which is Belize's sole reinsurer and provider of niche general insurance services, the general insurance sector exceeded the minimum statutory fund

Chart 5.6: Capital Adequacy Ratios for General Insurance Sector



requirements for 2014. The system's capital/total asset ratio declined from 37.4% in 2013 to 35.9% in 2014, which was near the acceptable range that lies between 30% to 35%. The upward trend in the net premium/capital ratio from 89.6% in 2011 to 124.3% in 2015 was associated with declines in capital levels due to reductions in retained earnings and moderate increases in net premium income over the period.

While there were variations in performance indicators, the non-life insurance sector as a whole reported profits over the period. Since 2010, the loss ratio (net claims/net premiums) has been steadily declining, and at 20.5% in 2014, reflects a result that is normal for the industry when major threats do not materialize. The expense ratio (expenses/net premiums) has been fluctuating over the period and registered a low of 65.5% in 2014. Although for recent years the combined ratio (net claims and expenses/net premiums) exceeded 100%, only one insurer faced mild liquidity problems. This outcome resulted from low retention levels caused by a high level of ceding. Nevertheless, the heavy reinsurance activity enables some general insurers to earn greater inflows in the form of ceding commissions and reinsurance recoveries, which offsets the combined ratio and bolsters profitability.

Chapter 6

Regulatory Developments

In 2014, additional measures were taken to strengthen the country's legal and regulatory architecture. These measures included several amendments to the Money Laundering and Terrorism (Prevention) Act, with a view to bringing Belize's legal framework further in line with international standards. As a result of these amendments, and those that were enacted in 2013, the Caribbean Financial Action Task Force (CFATF) issued a public statement in May 2014 identifying Belize as a jurisdiction that had made significant progress in addressing previously cited deficiencies. Belize subsequently applied to the CFATF to exit the International Cooperation Review Group (ICRG) follow-up process, which required improvements based on an agreed action plan and updates on the country's position every six months. At the CFATF Plenary Meeting in the latter part of the year, it was noted that Belize had satisfied the criteria and could therefore apply for exit from the 3rd Round Follow-up Process in the following year, which would enable the country to focus fully on the requirements for the 4th Round of mutual evaluations that would commence in 2015.

The Central Bank continued to place a high priority on minimizing reputational risks and other threats to the system that

may arise from money laundering. Its anti-money laundering unit is staffed by a senior bank examiner, who is a Certified Anti Money Laundering Specialist, and two examiners. On-site AML examinations were undertaken using a Risk Based Approach (RBA) tool that was promoted by the IMF. As a result, all financial institutions were required to prepare and submit Financial Risk Assessment Return 1 (FRA R1) during the year.

Focus was maintained on the adoption of international best practices to enhance the domestic regulatory and supervisory framework. The Domestic Banks & Financial Institutions Act (DBFIA) introduced a number of new legislative arrangements. In particular, it underpinned improvement of the resolution structure by allowing for a Statutory Administrator with sufficient legal powers to undertake restructuring transactions and implement a mechanism for an orderly liquidation. On that basis, the Central Bank drafted a detailed bank resolution policy in 2014, a tool or framework for responding to a bank in distress. The latter contains a plan of action that allows for a distressed bank to remain fully or partly operational, whilst an appropriate long-term solution to the bank's failure is identified.

As provided for under Section 9 of the DBFIA, a new practice direction was issued in 2014 that was aimed at protecting the interests of small borrowers. The practice direction requires all domestic banks to provide full disclosure to customers as regards to the treatment of interest and other charges on consumer loans. The Central Bank also took decisive action to enhance the consolidated supervision of banks affiliated with institutions involved in cross-border activity so as to better contain and minimise contagion risks. However, effective progress on cross-border supervision continued to be severely hampered by an on-going dispute with the Turks and Caicos Islands, which the existing regional supervisory arrangements failed to adequately address.

Assisted by CARTAC, the Central Bank completed a draft consolidated supervision framework for Belize in April 2014 that is in line with global international standards, particularly the Basel Committee of Banking Supervision Core Principles for Effective Banking supervision. The framework was aimed at empowering the Central Bank to practice consolidated supervision in a manner that enables the effective monitoring of group risk, group capital adequacy, group governance and regulatory arbitrage. The draft consolidated supervision framework was subjected to a comprehensive review, and implementation was put on hold

pending the receipt of further comments from the consultant advisors.

Given the significant negative repercussions of the global financial crisis and the CL Financial/CLICO affair at the regional level, the Central Bank has been taking steps to prepare an appropriate contingency framework to strengthen the resilience of the Belizean financial sector to unanticipated shocks. The Draft Crisis Management Plan for Banks and Financial Institutions (the Plan) that had been prepared in 2012 was further enhanced prior to the commencement of formal consultations with stakeholders, including banks and financial institutions, the Ministry of Finance and the Office of the Supervisor of Insurance.

In response to the significant growth in adversely classified loans between June 2008 and November 2011, the Central Bank had issued circulars to all banking institutions mandating an improvement in loan classification procedures and an increase in the level of loan loss reserves on 1 December 2011. Based on the results of recent stress tests, restrictions have also been placed on the business activity of two banks. The two institutions were instructed to increase their loan loss reserves and inject additional capital and, as of the end of 2014, one bank had complied, and restrictions remained in effect for the other.

Annex A: Ownership Distribution⁽¹⁾ by Region, December 2014

	Local	Regional	Extra-Regional			Other
	Belize	CARICOM	US	UK	Canada	Extra-Regional
Domestic Banks	28%	0%	25%	12%	20%	15%
International Banks	18%	9%	24%	33%	0%	16%
Credit Unions	100%	0%	0%	0%	0%	0%
Development Financing	100%	0%	0%	0%	0%	0%
Life Insurers	2%	98%	0%	0%	0%	0%
Non-Life Insurers	31%	67%	0%	0%	0%	2%
Composite Insurers	1%	0%	0%	0%	0%	99%

⁽¹⁾Based on paid-up share capital of financial institutions.

Annex B: Key Financial Soundness Indicators for Domestic Banks

	2011	2012	2013	2014
Capital Adequacy				
Regulatory Capital to Risk-Weighted Assets	23.5%	22.4%	24.4%	23.5%
Regulatory Tier I Capital to Risk-Weighted Assets	22.5%	21.3%	23.3%	22.3%
Non-performing Loans (net of provisions) to Regulatory Capital	69.7%	56.8%	43.5%	35.8%
Asset Quality				
Non-performing Loans to Total Gross Loans	18.9%	17.2%	14.8%	14.3%
Non-performing Loans (net of specific provisions) to Total Gross Loans	14.4%	11.0%	8.8%	7.0%
Profitability/Efficiency				
Return on Equity (net income to average capital [equity])	-5.6%	-1.0%	-0.3%	-2.2%
Return on Assets (net income to average total assets)	-0.8%	-0.1%	-0.0%	-0.3%
Interest Margin to Gross Income	51.2%	59.5%	56.0%	57.7%
Liquidity				
Liquid Assets to Total Assets	27.0%	29.7%	28.5%	30.1%
Liquid Assets to Short-term Liabilities	53.5%	56.5%	50.1%	51.5%
Customer Deposits to Total (non-interbank) Loans	117.5%	127.1%	124.3%	128.1%

Annex C: Key Financial Soundness Indicators for International Banks

	2011	2012	2013	2014
Capital Adequacy				
Regulatory Capital to Risk-Weighted Assets	25.7%	16.1%	17.4%	19.3%
Regulatory Tier I Capital to Risk-Weighted Assets	25.1%	15.6%	16.8%	18.7%
Non-performing Loans (net of provisions) to Regulatory Capital	72.7%	98.5%	64.1%	31.9%
Asset Quality				
Non-performing Loans to Total Gross Loans	30.2%	32.6%	29.2%	21.6%
Non-performing Loans (net of specific provisions) to Total Gross Loans	26.1%	22.6%	15.9%	8.3%
Profitability/Efficiency				
Return on Equity (net income to average capital [equity])	1.2%	-4.5%	0.8%	3.8%
Return on Assets (net income to average total assets)	7.0%	-43.7%	8.1%	42.0%
Interest Margin to Gross Income	46.5%	33.5%	38.9%	21.1%
Liquidity				
Liquid Assets to Total Assets	39.1%	43.6%	46.1%	45.1%
Liquid Assets to Short-term Liabilities	47.0%	48.6%	51.4%	51.2%
Customer Deposits to Total (non-interbank) Loans	191.7%	227.0%	252.3%	268.0%

Annex D: Key Financial Soundness Indicators for Credit Unions

	2011	2012	2013	2014
Capital Adequacy				
Net Institutional (Members' Capital Reserves) Capital/ Assets	10.55%	11.09%	8.92%	10.33%
Asset Quality				
Non-Performing Loans/Total Loans	8.52%	8.46%	12.39%	10.75%
NPLs (Net of Specific Provisions) to Total Loans	3.69%	3.50%	8.00%	3.43%
Profitability/Efficiency				
Rate of Return on Assets	6.46%	5.90%	5.68%	5.71%
Rate of Return on Equity	32.54%	30.52%	29.93%	32.55%

Annex E: Composition of Insurance Sector's Investment Assets 2011 - 2014

	2011	2012	2013	2014	Average Holdings	Average Growth (%)
Cash on Hand, Fixed Deposits and Savings	23.3	40.0	53.1	65.1	45.4	42.3%
Certificates of Deposits and Term Deposits	99.1	90.0	80.1	76.4	86.4	-8.3%
Government Securities	4.8	4.8	5.1	5.9	5.2	7.8%
Company Bonds, Debentures and Other Company Securities	17.1	21.0	31.5	34.5	26.0	27.5%
Secured Loans (Including Mortgages)	5.7	5.3	4.7	8.2	6.0	18.9%
Investments in Real Estate	0.6	0.6	0.7	1.8	0.9	63.6%
Shares (Preferred or Ordinary Shares)	1.4	1.4	1.4	1.5	1.5	0.8%
Equities (stock)	0.6	0.6	0.6	0.7	0.6	1.9%
Investments in Related Parties	6.8	7.3	4.8	3.4	5.6	-18.4%
Policy Loans	2.5	2.2	2.4	2.6	2.4	1.3%
Total Investment Assets	161.9	173.3	184.5	200.1	179.9	0.0
Other Assets	48.8	41.8	49.7	47.8	47.0	0.2%
Total Assets	210.7	215.1	234.1	247.9	227.0	0.0

Annex F: Life Insurance Sector Insurance Claim Breakdown

	2010	2011	2012	2013	2014
Claims Paid	18,140,089	14,478,095	20,145,303	21,210,068	18,521,272
Claims Outstanding B/F	606,532	955,070	246,142	553,683	564,714
Claims Outstanding C/F	955,071	1,596,035	(605,700)	1,203,754	346,489
Claims IBNR B/F	313,882	227,560	2,041,505	49,955	28,871
Claims IBNR C/F	227,560	74,370	1,903,982	447,241	18,100
Incurred Claims	18,488,628	15,119,060	19,293,461	21,860,139	18,303,047
Reinsurance Recoveries	4,625,879	3,550,547	4,082,639	2,912,712	2,385,649
Net Claims Per Period	13,514,210	10,927,548	16,062,664	18,297,356	16,135,623

Annex G: General Insurance Sector Insurance Claim Breakdown

	2010	2011	2012	2013	2014
Claims Paid	32,088,615	19,562,431	13,682,350	16,252,743	18,976,131
Claims Outstanding B/F	5,707,432	10,884,368	5,913,073	6,414,891	10,183,476
Claims Outstanding C/F	28,673,233	15,479,315	14,206,951	10,536,471	6,774,391
Claims IBNR B/F	584,731	824,860	707,247	605,149	1,027,112
Claims IBNR C/F	695,016	679,730	661,529	1,025,735	721,780
Incurred Claims	55,054,416	24,157,378	21,976,228	20,374,323	15,567,045
Reinsurance Recoveries	18,350,316	5,858,227	2,369,362	7,754,186	3,951,784
Net Claims Per Period	13,738,299	13,704,204	11,312,988	8,498,557	15,024,347

Annex H: Core Financial Soundness Indicators for Life Insurance Sector

	2008	2009	2010	2011	2012	2013	2014
Capital Adequacy	Capital/ Total Assets (%)	33.52	40.68	40.89	39.59	37.85	29.51
	Capital/ Technical Reserves (%)	68.72	119.85	112.45	117.86	111.49	91.12
Asset Quality	(Real Estate + Unquoted Equities +Debtors)/Total Assets (%)	6.85	5.77	6.48	4.91	4.08	4.73
Reinsurance and Actuarial Risk	Risk Retention Ratio (Net Premium/Gross Premium) (%)	79.01	76.81	82.04	76.32	76.77	82.86
	Net Technical Reserves/ Average of Net Premium paid in last 3 years (%)	185.09	151.58	153.63	161.42	169.5	184.09
Earnings and Profitability	Loss Ratio (Net Claims/Net Premium) (%)	32.02	46.13	49.78	40.69	57.37	60.97
	Expense Ratio (Expenses/Net Premium) (%)	28.85	36.77	36.3	36.3	38.66	40.25
	Combined Ratio (Loss Ratio + Expense Ratio) (%)	60.87	82.9	86.08	77.05	96.03	101.22
	Return on Equity (%)	26.88	31.05	23.22	19.37	6.67	16.37
	Investment Income/ Investment Assets (%)	7.85	7.4	6.77	6.44	4.72	5.4
Liquidity	Liquid Assets/Current Liabilities (%)	115.1	132.92	132.63	53.33	69.05	75.97

Annex I: Core Financial Soundness Indicators for Life Insurance Sector

		2008	2009	2010	2011	2012	2013	2014
Capital Adequacy	Net Premium/Capital (%)	116.77	116.31	106.11	89.59	111.04	103.42	124.29
	Capital/ Total assets (%)	35.82	35.97	37.5	37.08	39.37	37.39	35.86
Asset Quality	(Real Estate + Unquoted Equities +Debtors)/ Total Assets (%)	31.62	39.00	42.89	36.81	34.38	30.17	34.82
Reinsurance and Actuarial Risk	Risk Retention Ratio (Net Premium/ Gross Premium) (%)	37.44	39.51	39.38	32.39	39.88	38.63	41.85
	Net Technical Reserves/ Average of Net Premium paid in last 3 years (%)	126.48	208.55	172.36	148.49	142.74	223.75	232.26
Earnings and Profitability	Loss Ratio (Net Claims/Net Premium) (%)	53.69	36.07	60.05	51.13	34.02	28.35	20.47
	Expense Ratio (Expenses/Net Premium) (%)	70.95	65.99	66.77	81.55	69.73	79.69	65.47
	Combined Ratio (Loss Ratio + Expense Ratio) (%)	124.64	102.06	126.82	132.68	103.75	108.04	85.94
	Investment Income/ Investment Assets (%)	7.59	8.8	8.76	7.46	6.32	5.46	3.94
Liquidity	Liquid Assets/Current Liabilities (%)	107.25	102.83	101.66	114.21	132.1	113.25	84.15