

CREDIT RATING REPORT

The Belize Bank Limited

CariCRIS

Caribbean Information &
Credit Rating Services Limited

December 2019

TYPE OF RATING	RATING ASSIGNED			OUTLOOK
	Foreign Currency	Local Currency	National Scale	
Issuer/Corporate Credit Rating	CariBBB-	CariBBB-	bzAA+	Stable

RATING HISTORY			
Date	Foreign Currency	Local Currency	National Scale
December 12, 2019*	CariBBB-	CariBBB-	bzAA+

* Initial Rating Assigned

RATING DRIVERS

Supporting Factors:

- Strong presence in the Belizean commercial banking industry with a wide distribution network
- Robust risk management framework
- Strong asset quality characterized by a reducing NPL ratio, highly favourable compared to that of the local and regional banking industries
- Deposit base underpins stable funding costs and improved liquidity
- Comfortable capitalisation reflected in good coverage of assets by tangible net worth and strong capital adequacy ratios
- Improved asset quality will drive profitable operations in the years ahead

Constraining Factors:

- High reliance on the performance of the heavily indebted Belizean economy
- Financial system impacted by the loss of correspondent relationships with major international banks

Rating Sensitivity Factors:

Factors that can lead to an improvement in the ratings and/or outlook include:

- Uplift in the ratings of the Government of Belize
- Increase in profitability to the order of 10% per annum over the next 2 years

Factors that can lead to a lowering of the ratings and/or outlook include:

- Lowering in the ratings of the Government of Belize
- Decrease in profitability to the order of 10% per annum over the next 2 years
- Increase in non-performing loans by 5% over the next 2 years

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COMPANY BACKGROUND

The Belize Bank Limited (BBL) was incorporated in Belize in July 1985 and is registered under the Domestic Banks and Financial Institutions Act, 2012. The Bank commenced its operations as Bank of British Honduras in 1903. In 1912, the Bank was purchased by the Royal Bank of Canada who eventually sold its shareholding in 1987 to a group of local investors. The Bank was rebranded as 'The Belize Bank Limited' in April 1987.

The Bank's ultimate parent company is Caribbean Investment Holdings Limited (CIHL), a company incorporated and registered in Belize under the International Business Companies Act, 1990 of Belize as amended by the International Business Companies (Amendment) Act, 1995 of Belize. Under this Act, CIHL has the status of a Public Investment Company (PIC) which allows it to do business in Belize while simultaneously enjoying the benefits of complete exemption from taxes and duties for a period of up to 30 years.

BBL currently has one subsidiary, Belize Bank International Limited (BBIL). Together BBL and its subsidiary offer an extensive range of banking and financial products and services to both local and international customers.

As at March 2019, BBL's total assets stood at BZ \$994 million ranking it as the second largest bank in Belize by assets with a market share of 29.2%, marginally behind the largest bank with a 31.5% share. BBL has a wide branch network that comprises 11 branches across all districts in Belize, and a network of 28 ATM's, the only bank with a nationwide ATM network in the country.



1. Rating Rationale

Caribbean Information and Credit Rating Services Limited (CariCRIS) has assigned initial Issuer/Corporate Credit ratings of *CariBBB-* (Foreign and Local Currency) on the regional rating scale, and *bzAA+* on the Belize national scale to The Belize Bank Limited (BBL). The regional scale ratings indicate that the level of creditworthiness of this obligor, adjudged in relation to other obligors in the Caribbean is **adequate**. The national scale ratings indicate that the level of creditworthiness compared to other obligors in Belize is **high**.

CariCRIS also assigned a **stable** outlook on the ratings. The stable outlook is based on our expectation that BBL's financial performance will continue to be strong over the next 12-15 months, as the Bank continues its conservative strategy of growing its loan portfolio with only high-quality assets. We expect another year of profitability for the Bank with adequate capitalization, funding and liquidity.

The factors supporting the ratings are:

Strong presence in the Belizean commercial banking industry with a wide distribution network

BBL is a strong player in the Belizean commercial banking industry. With 29.2% of the industry's assets as at March 2019, the Bank is the second largest in Belize, though by regional standards, the Bank is small¹. Over the last 3 years the Bank accounted on average for 22.8% and 30.4% of the Belizean commercial banking industry's net loans and advances and deposits respectively. Notably, due to management's ongoing efforts to both rebalance the loan portfolio and divest itself of its large portfolio of legacy NPLs the Bank's market share of net loans and advances declined from around 25.1% as at March 2017 to around 20.9% as at March 2019. BBL's strong market position is underpinned by its wide branch network that comprises 11 branches across all 6 districts in Belize; BBL is the only commercial bank to have a branch in every district in Belize. The wide branch network is supported by the Bank's network of 28 ATMs; BBL has the only nationwide ATM network in the country.

Complementing the Bank's expansive distribution network is its wide variety of products and services, that include its arrangement with American Express as the exclusive processor of

¹ Of the 5 commercial banks that operate in Belize, Atlantic Bank Limited (ABL) is the largest by assets with a market share of 31.5% as at March 2019, marginally ahead of BBL (29.2%)



American Express merchant transactions in Belize, and the Bank's first mover advantage as the first to issue chip and pin cards in Belize. BBL is in the process of certifying all its point of sale machines and ATMs for chip and pin equipped cards; the process is 95% complete. BBL has also embarked on an aggressive card acquiring expansion initiative in partnership with MasterCard that is expected to result in increased processing fee income from its card business.

The Bank has also embarked on a digital strategy that is aimed at leveraging the capabilities of its new core banking and other software systems, as well as its mobile app², to offer more of its services electronically, and to automate as many of its processes and services as possible. The strategy will also involve the use of data mining and data analytics to develop and offer more targeted products and services to its existing and prospective clients. In this regard, the Bank is already using these techniques to identify individuals who may qualify for a credit card from its existing database. This process is also currently being tested for the approval of small loans. Going forward, BBL intends to make greater use of technology to expand its loan and credit card portfolios and to better reach clients in communities that are currently underserved.

CariCRIS expects BBL to maintain its strong market position over the medium term, underpinned by its wide distribution channels and ongoing initiatives to enhance its products and services through technology.

Robust risk management framework

BBL has implemented a robust risk management framework that is underpinned by the Committee of Sponsoring Organizations (COSO) three lines of defence model: - business and functional units, enterprise risk management and internal audit. The Board of Directors, whose members are well-known and highly respected financial service professionals in the Caribbean region, have overall responsibility for risk management. The Group Risk Committee has oversight of the operations of the group risk management unit and the Enterprise Risk Management Framework. The Board is ably supported by a highly qualified and experienced management team.

The Bank is in the process of upgrading and restructuring its operating and risk management systems and procedures to facilitate improved asset quality and more efficient operations overall. Underpinning this initiative is the recent introduction of a new core banking system from

² BBL launched its mobile app in 2017.

Finastra³. The new solution replaced the old COBOL- based system and enabled the Bank to fully automate the credit adjudication and administration processes. Coupled with the changes to its IT infrastructure, the Bank also updated its credit policies and procedures to ensure that lending decisions are based on comprehensive risk assessments. In addition, limits of authority were introduced to ensure that appropriate oversight is provided in the approval of loans, with Branch Managers having a limit of BZ \$50,000, the Head of Retail BZ \$250,000 and the Head of Risk BZ \$3.0 million. Loans above BZ \$3.0 million and up to BZ \$10 million go to the Group Risk Committee, with loans above BZ \$10 million going to the Board for approval. To minimize the threat of fraud and to ensure that all requirements, including the perfection of collateral, are met before a loan is disbursed, the Bank created a Loan Disbursement Unit to manage this process. The Bank has also implemented Docuware, a document management system, to electronically manage all its collateral security, regulatory compliance, legal and policy documents.

The ERM model ensures risk identification, risk assessment and risk response in a timely manner, whereby heat maps by risk and watchlist accounts are generated on a real time basis to effectively monitor risks at any given point in time. The ERM framework resides on the Workiva Enterprise Risk Management platform.

The Bank has been in the process of enhancing its regulatory compliance policies and procedures to ensure that it meets all Foreign Account Tax Compliance Act (FATCA), Caribbean Financial Action Task Force (CFATF) and Common Reporting Standards (CRS) requirements. In this regard BBL recruited the services of an international auditor, Kaufman Rosin, to conduct annual AML/CFT compliance audits using both US standards and Belize law; BBL is the only bank in Belize to procure the services of an international expert to audit its regulatory compliance controls. Moreover, by policy, BBL will not onboard any recalcitrant account holders and has implemented an electronic interface to automatically screen and risk-rate all clients being considered for onboarding. As a result of these changes, the Bank, in 2016, managed to re-establish correspondent banking relationships with two institutions⁴, following the loss of its correspondent banking relationships with Bank of America and Commerce Bank in 2014 due to de-risking by the US banks. BBL's new correspondent banks conduct independent annual audits of BBL's compliance systems. Over the last two years the Bank has made further improvements to its correspondent banking procedures including the centralization of its international wire transfer process and the installation of software to screen all uploaded information as well as all wire transfer documents to manage the quality and integrity of the information being sent. To

³ The Bank has replaced the old platform with the Finastra Fusion Essence Suite

⁴ BBL now has correspondent banking relationships with Crown Agents, a UK based International Development Company and AndCapital Bank International Corp, a commercial bank based in Puerto Rico.

mitigate against the threat of cybersecurity, BBL has also separated its payment and screening software systems. These systems have online encrypted features and processing limits for transfers.

Over the next year, BBL will continue to strengthen its risk management systems with the establishment of a new disaster recovery center which will house all mission critical systems. Preparation of the facility is completed and deployment and testing of all systems has already commenced. Guided by the latest Kaufman Rosin recommendations, the Bank is also making enhancements to its ERM framework. Testing of the additional data being captured by the automated screening and monitoring software following these recommendations has already been completed and recommended changes to the ERM reporting framework are being implemented. BBL also intends to enhance its AML/CFT training by offering targeted training that would be based on each employee’s specific function. The Bank also intends to strengthen its surveillance of high-risk customers by introducing annual reviews of all high-risk relationships. Once implemented, we expect these initiatives to further improve the rigour and resilience of the Bank’s risk management systems and procedures.

Strong asset quality characterized by a reducing NPL ratio, highly favourable compared to that of the local and regional banking industries

BBL has reported consistently improving asset quality over the last 5 years to 2.5% as at March 2019, from a high of 28.5% as at March 2016 (Table 1). The Bank’s NPL ratio as at March 2019 was the lowest in CariCRIS’ sample of Belizean commercial banks and compared favourably with CariCRIS’ regional peer sample average of 3%. The improvement in asset quality has been led by ongoing efforts to improve the Bank’s overall credit underwriting and administration processes, while at the same time making significant write-offs of non-performing loans; in the last 5 years, BBL wrote off approximately BZ \$134.3 million of non-performing loans.

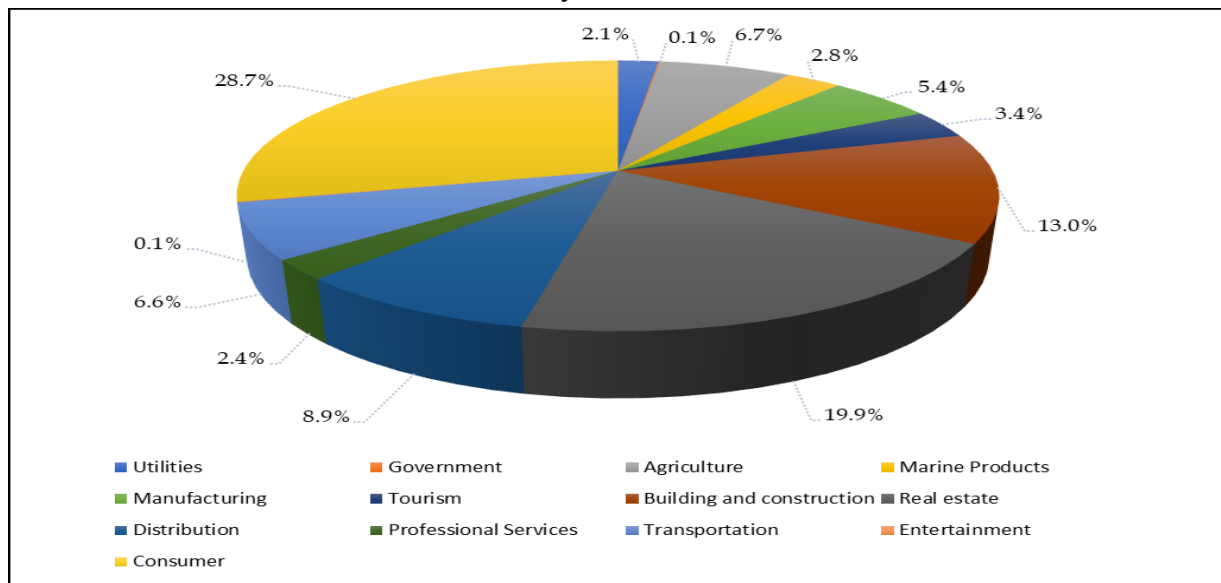
Table 1
Asset Quality Metrics for the past 5 years

Bank of Belize Ltd	March 31 2019	March 31 2018	March 31 2017	March 31 2016	March 31 2015
BZ \$'000					
Gross NPLs	11,333	25,093	32,828	159,119	135,243
Loan Loss Provisions	20,784	23,325	33,595	80,947	76,241
Gross Loans	438,600	421,357	472,472	400,037	456,495
Loans Written Off	6,396	27,701	78,322	15,829	6,097
Gross NPLs/Gross Loans	2.5%	5.6%	6.5%	28.5%	22.9%
Loan Loss Provisions/NPLs	183.0%	93.0%	102.0%	51.0%	56.0%

The ongoing efforts at improving the portfolio commenced in FY2009 with the hiring of the current CEO, when the Bank embarked on a project to transform its credit operations from a largely unstructured environment with poor lending practices to an information-driven and technology-led credit decision-making infrastructure. These efforts included the restructuring of the organization, the recruitment of more specialized and experienced staff and the restructuring of the risk management and credit units of the Bank. The transformation process also included the implementation of new credit policies and procedures that placed greater emphasis on credit risk analysis, as well as a stronger credit selection and adjudication process that included the introduction of limits of authority, the centralization of the approval process and the creation of an executive committee to review loans above BZ \$3 million. In addition to these initiatives, the Bank also took a strategic decision to reduce its exposure to the higher risk sectors of the economy such as agriculture and tourism and focus on the residential mortgage, consumer loan and credit card markets. In addition to maintaining a highly collateralised portfolio, BBL also maintained a high and increasing level of provision that averaged 97% of NPLs over the last 5 years and stood at 183% of NPLs as at March 2019.

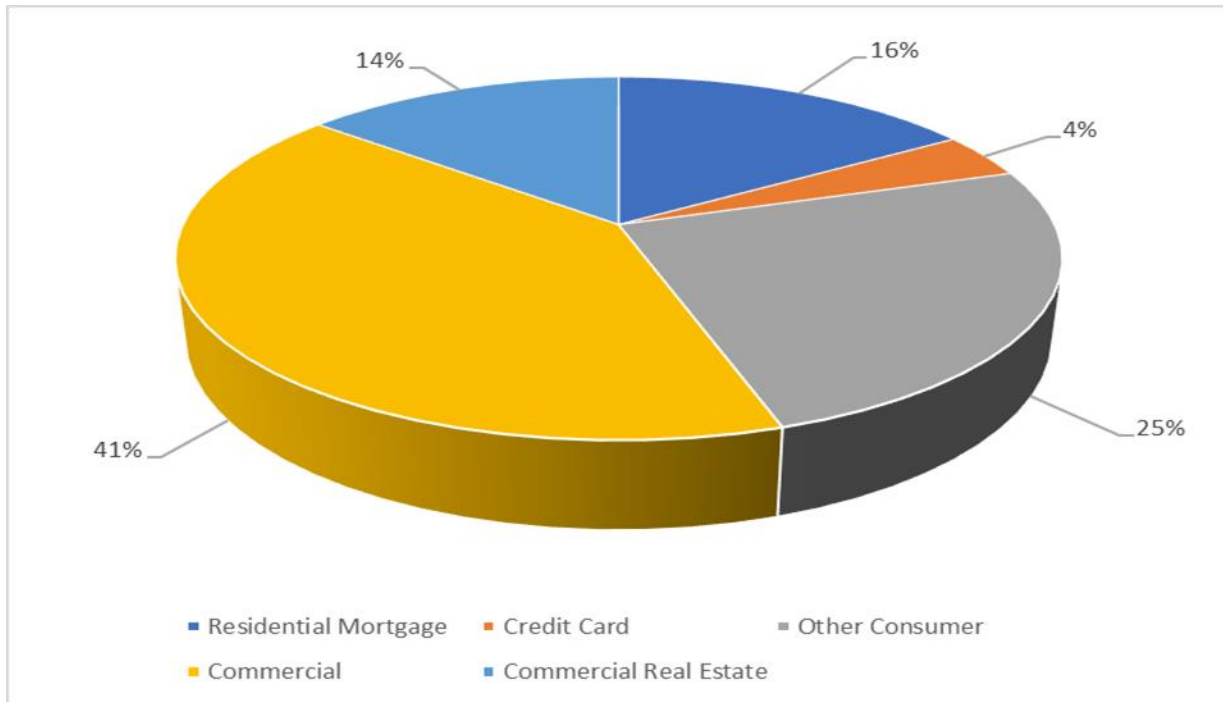
BBL’s earning asset base as at March 2019 comprised net loans and advances (49.8%), cash and cash equivalents (21.1%) and investments (29.1%). The loan portfolio is well diversified by sector (Chart 1) and by type (Chart 2).

Chart 1
Loan Portfolio by Sector as at March 2019



Source: BBL

Chart 2
Loan Portfolio by Type as at March 2019



Source: BBL

Though commercial loans dominate the overall loan portfolio, the portfolio is moderately diverse. The top 10 commercial clients represent around 29% of the overall loan portfolio, with the largest exposure representing approximately 8% of the portfolio. As such, these loans present a moderate concentration risk. Notably, the loans are all performing as arranged, with the Group Risk Unit closely monitoring these clients to ensure timely debt repayment.

The securities portfolio, which is mainly (99.1%) comprised of Treasury Notes and Bills issued by the Government of Belize, is in line with the Bank’s Investment Policy Statement (IPS). These securities are classified as ‘held at amortized cost’ and there are no impairments.

We expect the overall asset quality of the loan and investment portfolios to remain high as the Bank continues to tighten its credit processes and reduce its portfolio exposure to high risk market sectors.

Deposit base underpins stable funding costs and improved liquidity

BBL’s funding costs have been well controlled and remained unchanged at 1.3% in FY2019 compared to the prior year; funding cost in FY2019 was below the 5-year average of 1.5% and compared favourably with CariCRIS’ regional peer average of 1.2% and domestic peer average of 1.0% respectively. The tight control over funding cost has facilitated healthy net interest spreads that averaged 5.6% over the last 5 years and rose by 10 basis points to 5.9% in FY2019 relative to the prior year; net interest spread in FY2019 compared favourably to CariCRIS’ regional sample average of 5.3%.

The Bank is primarily funded by deposits which comprised around 98% of total interest-bearing liabilities over the last 5 years. Deposits, in line with the ongoing efforts by the Bank to de-risk its loan portfolio and reduce its NPL portfolio, have also been declining; over the last 5 years, the deposit base fell by an average of 2.2% per annum. In FY2019, total deposits fell slightly, by 0.05%, to BZ \$822.9 million as at March 2019, from BZ \$823.3 million as at March 2018. The deposit base is relatively diverse and highly stable (Table 2).

Table 2
Deposits by Type

Deposits	Mar-19	Mar-18	Mar-17
Demand	37%	36%	35%
Savings	20%	19%	17%
Term Deposits	43%	45%	48%
Total Deposits	100%	100%	100%

Source: BBL

Over the next 12 – 15 months, CariCRIS expects BBL’s funding to grow slightly, in line with its ongoing efforts to selectively grow its loan portfolio.

The Bank’s liquidity position improved over the last 3 years, as evidenced by its liquidity coverage ratio (LCR) which improved to 32.9 times as at March 2019 compared to 5.1 times and 4.2 times in March 2018 and 2017 respectively. Leading the improvement in the LCR was a decline in the Term Deposits maturing within 30 days together with consistent growth in the high-quality liquid assets’ portfolio to BZ \$559.8 million as at March 2019 from BZ \$509.2 million a year earlier. Though the Bank reported a slight increase in the cumulative liquidity gap in the 0 – 30-day

maturity bucket of -29% as at March 2019 from -25% a year earlier, liquidity is still considered to be adequate.

Comfortable capitalisation reflected in good coverage of assets by tangible net worth and strong capital adequacy ratios

BBL is well capitalized as evidenced by a healthy tangible net worth (TNW) which averaged BZ \$107.7 million over the last 5 years (FY2015 – FY2019) and stood at BZ \$160.2 million as at March 2019, up 16.6% from the prior year. Following 3 years of decline, TNW returned to growth in FY2018 following a significant BZ \$60.4 million increase in comprehensive income as a result of the Bank recording BZ \$55.1 million in interest receivable from the Government of Belize. This balance represented accrued interest on the outstanding balance of a loan to the Universal Healthcare Services Hospital (UHS) in 2004 that was guaranteed by the Government of Belize⁵. TNW as at March 2019 is the second largest in the Belizean commercial banking industry, though it is among the smallest in CariCRIS' sample of regional banks. Nevertheless, coverage provided by TNW of total assets, which averaged 11% over the last 5 years and improved to 16.1% as at March 2019 from 14% a year earlier, was good and compared favourably to CariCRIS sample average of 14.3% for regional commercial banks.

Over the last 4 years (2015 – 2018) the Bank has reported strong capital adequacy ratios (CAR) that have averaged 18.2% and stood at 28.4% as at March 2019, compared to 16.7% a year earlier. The reported CAR remained well above the regulatory minimum of 9% and compared favourably to CariCRIS' regional peer sample average of 14.4% and CariCRIS' sample average for Belizean banks of 14.1%. CariCRIS expects BBL to remain well capitalized over the next 12 – 15 months.

⁵ In 2007, BBL had initially granted a loan note under a deed of settlement to the Government of Belize in order to satisfy the Government's liability of BZ \$36.9 million to the Bank under the terms of the guarantee. In 2009 the Government sought to renege on the loan which resulted in 10 years of litigation that spanned the Belize Supreme Court, The Caribbean Court of Justice (CCJ), the London Council of International Arbitration, the Privy Council and US Supreme Court. In all jurisdictions the courts ruled in favour of the Belize Bank and, in accordance with a Certificate of Order issued by the CCJ in January 2018, additional interest income receivable of BZ \$55.1 million was recorded as at March 2018.



Improved asset quality will drive profitable operations in the years ahead

Table 3
BBL's Summary Financial Performance (FY2015-FY2019)

	FY2019	% Chg	FY2018	% Chg	FY2017	% Chg	FY2016	% Chg	FY2015	% Chg	5-Yr CAGR
	BZ \$'millions										
Total Interest Income	61.4	(46.8)	115.4	77.6	65.0	14.1	57.0	(22.1)	73.1	0.0	(3.4)
Interest Expense	(10.9)	(0.2)	(10.9)	(16.4)	(13.0)	(15.7)	(15.5)	(9.1)	(17.0)	(18.0)	(12.1)
Net Interest Income (NII)	50.5	(51.7)	104.5	101.2	52.0	25.2	41.5	(26.0)	56.1	7.1	(0.7)
Non-Interest Income	18.3	34.1	13.7	(3.1)	14.1	(12.7)	16.1	(60.1)	40.4	126.6	0.5
Total Fee-based Income	3.5	6.9	3.3	23.1	2.7	(12.1)	3.1	(12.2)	3.5	6.5	1.6
Total Income	68.8	(41.8)	118.2	78.9	66.0	14.6	57.7	(40.3)	96.5	37.5	(0.4)
Total Operating Expenses	(37.2)	13.0	(32.9)	(2.7)	(33.8)	2.6	(33.0)	(44.1)	(59.0)	75.0	2.0
Profit After Tax (PAT)	26.8	(55.7)	60.4	(1,601.4)	(4.0)	271.2	(1.1)	(79.8)	(5.4)	(226.6)	44.6
Investments	250.7	31.2	191.1	73.8	110.0	53.0	71.9	(1.1)	72.7	(29.2)	19.5
Net Loans and Advances	429.1	1.4	423.1	(10.3)	471.7	(1.4)	478.2	(7.2)	515.5	(3.4)	(4.3)
NPLs	11.3	(54.8)	25.1	(23.6)	32.8	(79.4)	159.1	17.7	135.2	(3.1)	(39.5)
Provisions for Losses	(20.8)	(10.9)	(23.3)	(30.6)	(33.6)	(58.5)	(80.9)	6.2	(76.2)	31.2	(18.6)
Total Interest Earning Assets (TIEA)	862.0	2.0	845.2	(2.4)	865.9	(3.7)	899.4	(3.4)	930.8	6.5	(0.3)
Total Assets ^a	994.3	1.4	980.8	3.9	943.5	(3.1)	973.6	(2.6)	999.8	4.6	0.8
Total Interest Bearing Liabilities (TIBL)	822.9	(0.0)	823.3	(3.7)	854.7	(2.4)	876.1	(2.8)	901.3	3.6	(1.1)
Total Liabilities	994.3	1.4	980.8	3.9	943.5	(3.1)	973.6	(2.6)	999.8	4.6	0.8
Tangible Net Worth (TNW) ^a	160.2	16.6	137.4	78.5	77.0	(5.2)	81.2	(2.0)	82.8	(0.9)	13.9
	%										
Total Asset Yield ^b	7.2		13.5		7.4		6.2		8.1		8.5
Cost of Funds ^c	1.3		1.3		1.5		1.7		1.9		1.6
Net Interest Spread ^b	5.9		12.2		5.9		4.5		6.2		6.9
NII/Average Earning Assets	5.9		12.2		5.9		4.5		6.2		7.0
ROA	2.7		6.3		(0.4)		(0.1)		(0.5)		1.6
ROE	18.0		56.4		(5.1)		(1.3)		(6.4)		12.3
Cost/Income ratio	54.0		24.6		46.8		52.0		57.8		47.1
Total Loans/Customer Deposits	52.1		51.4		55.2		54.6		57.2		54.1
TNW/Assets ^a	16.1		14.0		8.2		8.3		8.3		11.0
Tier I Capital Adequacy ratio	27.5		15.8		14.0		14.5		-		18.0
NPL ratio	2.5		5.6		6.5		28.5		22.9		13.2
TNW/ Net NPL	(16.9)		77.7		(100.2)		1.0		1.4		(7.4)
	Times										
Loan Loss Provision/NPL	1.8		0.9		1.0		0.5		0.6		1.0

Source: The Belize Bank Limited Audited Financials

^a Financial year runs from April 1 to March 31

^b Total Assets and Tangible Net Worth have been adjusted to exclude Intangible Assets and Revaluation Reserves.

^c Calculated as Total Interest Income/ Average Earning Assets; Net Interest Rate Spread based on Total Investment Yield

^d Calculated as Interest Expense/ Average Interest-Bearing Liabilities

For the financial year ended March 2019, BBL reported a profit after tax (PAT) of BZ \$26.8 million, with return on assets (ROA) and return on equity (ROE) at 2.7% and 18% respectively (Table 3). ROA and ROE in FY2019 compared favourably with CariCRIS' regional sample averages of 2.1% and 15.1% respectively for commercial banks. The Bank recorded small losses prior to FY2018 as it sought to clean-up its large portfolio of legacy non-performing loans. In 2008, the new Chief Executive Officer recruited, began the process of restructuring the operations and management team, recruited more skilled staff, particularly in the functions of credit, risk management, compliance and internal audit, implemented more stringent credit and risk management policies,

and restructured the loan portfolio. This in the main has allowed the Bank to return to profitability in FY2018. Also impacting profitability in the prior years was the outstanding balance owed by the Government of Belize on a guarantee it issued for a loan to the UHS. Following a protracted legal battle, the courts ordered the Government to honour its obligation under the guarantee and BBL was awarded additional penalty interest income of BZ \$55.1 million in March 2018 on the outstanding balance of BZ \$36.9 million. The award of penalty interest, together with the successful reduction in NPLs by the Bank, resulted in a return to profitability in FY2018, with PAT rising to BZ \$60.5 million⁶. Net of the one off BZ \$55.1 million increase in interest income, the Bank would have still reported a profit of BZ \$5.4 million.

The Bank's income sources are diverse and include net interest income (NII) from its core operations, fee income and foreign exchange trading income which accounted for 72%, 18% and 10% of total income respectively over the last 5 years (FY2015 – FY2019). These diverse income sources contribute to the overall stability of earnings.

Adjusting for the one-off Government of Belize receivable of BZ \$55 million in FY2018, NII in FY2019 grew by 2.2% to BZ \$50.5 million from BZ \$49.4 million in the prior year. The growth in NII reflected a 1.7% increase total interest income which was largely in line with the 2% rise in total interest earning assets and thus led to a slight increase in the yield on assets to 7.2% in FY2019 relative to 7.1% in the previous financial year. The growth in NII, together with a 34.1% increase in non-interest income resulted in a 9.1% increase in total income to BZ \$68.8 million. The growth in total income was tempered by a 13% expansion in total operating expenses to BZ \$37.2 million and resulted in a 4.8% increase in pre-provision profits to BZ \$31.6 million in FY2019. Operating efficiency, as measured by the cost to income ratio, slipped to 54% in FY2019 as a result of the rise in operating expenses; the cost/income ratio in FY2019 was in line with the 5-year average of 55.1% and CariCRIS' local peer sample average of 59.6%. The deterioration in the cost/income ratio reflected the expenses incurred for the Bank's ongoing efforts to improve its risk management and IT systems.

BBL continued to report improved financial performance for the half-year ended September 2019 with PAT up by BZ \$11.1 million year-on-year (y-o-y) to BZ \$22.2 million, compared to the corresponding prior year period. The strong growth in PAT was led by a 140.9% increase in non-interest income that arose from the receipt of a BZ \$10 million dividend payment from its subsidiary, Belize Bank International Ltd (BBIL). Net of this one-off item, BBL would have reported a 9.9% improvement in PAT to BZ \$12.2 million for the period. As a result of the

⁶ Going forward, the court has granted BBL the permission to offset the amounts owed by the Government of Belize against its annual corporation taxes to recover the amounts outstanding.



improvement in PAT, BBL reported an improved ROA of 2.3% compared to the prior year; ROA remains as one of the strongest in the region.

The Bank's asset quality as measured by the ratio of gross NPLs to gross loans, improved considerably y-o-y to 2.5% as at September 2019 as a result of the continued efforts by the Bank to reduce NPLs and reduce the Bank's exposure to higher risk sectors of the economy. CariCRIS expects BBL to report a PAT of BZ \$27.3 million in FY 2020, led by an 8.7% increase in NII and 5.4% increase in interest income.

Table 4
BBL's Interim Summary Financial Performance

	2019 Sept	% Chg	2018 Sept
	<i>BZ \$'millions</i>		
Total Interest Income	30,151.4	(0.1)	30,191.7
Interest Expense	(4,960.1)	(11.2)	(5,587.5)
Net Interest Income (NII)	25,191.3	2.4	24,604.2
Non-Interest Income	16,780.3	140.9	6,965.1
Total Fee-based Income	1,862.8	7.4	1,734.4
Total Income	41,971.6	33.0	31,569.3
Total Operating Expenses	(17,606.6)	1.7	(17,310.1)
Profit After Tax (PAT)	22,183.9	100.0	11,089.7
Investments	260,911.2	0.6	259,285.9
Net Loans and Advances	442,093.2	2.9	429,754.7
Provisions for Losses	(19,773.0)	(26.3)	(26,828.1)
Total Interest Earning Assets (TIEA)	867,050.1	3.8	835,475.0
Total Assets ^a	996,234.7	2.9	967,953.4
Total Interest Bearing Liabilities (TIBL)	824,651.6	2.0	808,532.4
Total Liabilities	996,234.7	2.9	967,953.4
Tangible Net Worth (TNW) ^a	160,376.7	8.0	148,484.1
	%		
Total Asset Yield ^b	3.6		7.1
Cost of Funds ^c	0.6		1.4
Net Interest Spread	2.9		5.8
ROA	2.3		1.1
ROE	14.4		16.1
Cost/Income ratio	36.5		47.9
Total Loans/ Customer Deposits	53.6		53.2
TNW/ Assets ^a	16.1		15.3
Tier I Capital Adequacy ratio	28.6		28.1
NPL ratio	2.5		5.0
TNW/Net NPL	(19.0)		(36.6)
	Times		
Loan Loss Provision/NPL	1.7		1.2

Source: The Belize Bank Limited Audited Financials

** Financial year runs from April 1 to March 31*

^a Total Assets and Tangible Net Worth have been adjusted to exclude Intangible Assets and Revaluation Reserves.

^b Calculated as Total Interest Income/ Average Earning Assets; Net Interest Rate Spread based on Total Investment Yield

^c Calculated as Interest Expense/ Average Interest-Bearing Liabilities

Source: BBL

These rating strengths are tempered by:

High reliance on the performance of the heavily indebted Belizean economy

BBL is subject to a high level of Belize' economic and financial system risk as a result of its significant exposure to the Belizean economy, given that the majority of BBL's earnings, assets and funding are derived from Belize. This exposes the Bank to a greater degree of risk relative to many of its regional peers who operate in stronger economies. However, latest available data indicates that the Belizean economy realized strong and improved growth of approximately 5.2% for the quarter ended March 2019 compared to 1.1% for the corresponding prior-year quarter. Though the sovereign ranks among the most indebted in the region with a debt/GDP ratio of 94.7% as at March 2019, slightly down from 95.8% as at March 2018, debt service requirements as a percentage of recurrent revenue are relatively low at 11.5%. Nevertheless, the high debt burden limits the sovereign's financial flexibility.

Credit growth in the country is strong though lending by the 5 largest credit unions contracted for the first 6 months of 2019. Liquidity in the commercial banking system remained high, with the loan/deposit ratio averaging around 74% over the last 5 years (March 2015 – March 2019). Notably, excess statutory liquidity and excess cash reserves at 44.5% and 80.3% respectively were well above regulatory minimum levels.

Financial system impacted by the loss of correspondent relationships with major international banks

In 2015, the Belize Banking sector was significantly impacted by the withdrawal of major international banks providing correspondent bank services. The loss of these relationships impacted all banks including the Central Bank of Belize. The loss of these relationships curtailed banks' ability to conduct cross border transactions including foreign exchange trading and credit card merchant acquiring services. All banks affected by the loss of correspondent banking relationships have since found replacement correspondent relationships, however, the institutions with which new relationships have been established are smaller US and international institutions that may not be well capitalized or with as wide a network as the major international banks. This has reduced the volume and size of transactions and the cost of cross border services for all banks including BBL.



Rating Sensitivity Factors:

Factors that could lead to an improvement of the ratings and/ or Outlook include:

- Uplift in the ratings of the Government of Belize
- Increase in profitability to the order of 10% per annum over the next 2 years

Factors that could lead to a lowering of the ratings and/ or Outlook include:

- Lowering in the ratings of the Government of Belize
- Decrease in profitability to the order of 10% per annum over the next 2 years
- Increase in non-performing loans by 5% over the next 2 years

December 12, 2019