

CREDIT RATING REPORT

Belize Bank Limited (BBL)



Caribbean Information &
Credit Rating Services Limited

December 8, 2021

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

RATING HISTORY			
Date	Foreign Currency	Local Currency	National Scale
December 8, 2021	CariBB	CariBB	bzAA+
December 9, 2020	CariB+	CariB+	bzAA+
December 12, 2019*	CariBBB-	CariBBB-	bzAA+

*Initial Rating

RATING DRIVERS

Supporting Factors

- Strong presence in the Belizean commercial banking industry with a wide distribution network
- Robust Risk Management framework supported by digital initiatives
- Deposit base underpins stable funding costs and liquidity position
- Comfortable capitalization reflected in good coverage of total assets
- Continued profitable operations
- Improved asset quality

Constraining Factors

- High exposure to the heavily indebted Belize Government
- Financial system impacted by the loss of correspondent relationships with major international banks

Factors that could, individually or collectively, lead to an improvement in the ratings and/or outlook include:

- Improvement in the ratings of the Government of Belize
- Increase in profitability to the order of 10% per annum over the next 2 years
- Improvement in asset quality with a NPL ratio of 2.5% over the next 2 years

Factors that could, individually or collectively, lead to a lowering of the ratings and/or outlook include:

- Lowering of the ratings of the Government of Belize
- The occurrence of any factors that may contribute to the deterioration of the CAR below the 9% minimum requirement for the Bank sovereign risk profile

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COMPANY BACKGROUND

The Belize Bank Limited (BBL or the Bank) 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 and was subsequently rebranded as 'The Belize Bank Limited' in April 1987.

The Bank's ultimate parent company, Caribbean Investment Holdings Limited (CIHL or the Company), was 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. The Company is currently listed on the Bermuda Stock Exchange.

In March 2021, CIHL acquired the operations of Scotiabank Belize Limited (SBL) following approval from the Central Bank of Belize. SBL was subsequently rebranded as Belize Bank Corporation Limited (BBCL) and will remain a subsidiary of CIHL until BBL and BBCL are merged to form a single entity, which is expected to happen in the first quarter of 2022.

As at June 2021, BBL held the position of the second-largest bank in Belize by assets with a market share of 26.2%, behind the largest bank with a 37.9% share¹. BBL has a wide branch network that comprises 11 branches across all districts in Belize and a network of 28 ATMs.

¹ *Atlantic Bank Limited (ABL) is the largest bank in Belize by assets, which stood at BZ \$1.6 billion as at June 2021*

RATIONALE

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

Our decision to upgrade BBL's regional scale ratings is a direct result of improved fiscal conditions and projected economic improvement in Belize. The credit profile of the Government of Belize improved following the successful completion of its debt restructuring/replacement in November 2021 resulting in a 45% reduction in the face value of the superbond debt and decreased external debt by approximately US \$250 million. General government debt is projected to improve to 101% of GDP in 2021 from 110% of GDP in 2020. Furthermore, while real GDP fell 14% in 2020, the International Monetary Fund (IMF) expects a moderate rebound of 8.5% in 2021 and 5.4% in 2022, largely based on a return of tourism, though there is significant downside risk to these projections.

CariCRIS has also assigned a **stable** outlook on the ratings. The stable outlook is based on our expectation that BBL will continue to be profitable and maintain comfortable capital buffers despite the ongoing economic challenges facing the Belizean economy.

The factors supporting the ratings are:

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

BBL is the second-largest commercial bank in Belize by assets, with a market share of 26.2% of the Belize industry assets and shares of industry net loans and advances and deposits of 18.6% and 23.7% respectively as at June 2021. The Bank's strong market position is supported by its wide distribution network dispersed across 6 districts in Belize, with services being offered through 11 branches and 28 automated teller machines (ATMs). Currently, BBL has the only nationwide ATM network in the country serving over 50,000 customers.

The Bank continues to pursue its digitalization strategies aimed at leveraging the capabilities of its online banking system and its mobile application. Over the last 2 years, these channels have

been modified to support additional transactions. The Bank also continues to leverage its existing digital channels to offer more targeted products and services to its current clients and prospective customers through the use of data mining and analytics. BBL actively utilizes these capabilities to expand its loan and credit card portfolios and reach clients in communities that are currently underserved. To support this, the Bank was successful in completing a data warehouse, a project which started in the last financial year. BBL also introduced a document management system to assist with client onboarding, as well as loan origination and transaction processing. Furthermore, as part of BBL's Mobile 1st strategy, the Bank launched its digital wallet, E-Kyash in August 2021. E-Kyash, which is accessed via a mobile application, has been made accessible to BBL's customers and the wider Belizean population including customers of other banks and the unbanked segment (migrant workers and children). The wallet allows users to pay merchants, remit transfers to banks and receive transfers from banks. BBL was able to acquire 30 thousand E-Kyash customers during the first week following the launch and this product will serve as an additional source of fee income to the Bank.

CariCRIS expects BBL to maintain its strong market position over the medium term, underpinned by its wide distribution channels as well as its ongoing expansion strategy and initiatives to enhance its products and services through technology. In March 2021, CIHL (BBL's parent company) acquired the operations of Scotiabank Belize Limited (SBL) following approval from the Central Bank of Belize. SBL was subsequently rebranded as Belize Bank Corporate Limited (BBCL) and will remain a subsidiary of CIHL until BBL and BBCL are merged to form a single entity, which is expected to happen in the first quarter of 2022. At the time of acquisition, SBL was the third-largest commercial bank in Belize by total assets, with 9 branches and 21 ATMs across Belize, offering a full range of retail and commercial banking services. Once the acquired SBL operations are merged into by BBL further strengthening its market position in the Belizean commercial banking industry, the Bank's market share is expected to increase to around 40%.

Robust Risk Management framework supported by digital initiatives

BBL continues to maintain a robust enterprise risk management (ERM) framework and has continued to improve its risk management infrastructure in line with its overall strategic goals. To support its digitization efforts, the Bank has upgraded its risk management software to WDesk². This new software has improved the effectiveness and efficiency of the Bank's risk

² Resolver's risk management software is a cloud-based solution for midsize to larger enterprises that serves customers across a variety of industries and business needs. The software enables users to manage their risk aversion and mitigation plans, budgets, and forecasts all from a single solution.

management and governance functions. Additionally, WDesk supports the Risk, Compliance, and Audit functions, enabling users to produce real-time risk reports and manage compliance gaps with the use of visualization tools. The updates to the Bank's risk management systems are consistent with the Bank's adoption of the ISO 31000 ERM Standard, the global standard for enterprise risk management.

The Bank has placed a strong focus on the management of information and cybersecurity risks, and has implemented all relevant protocols, policies and procedures for these risks, supported by continuous communication and training of staff. Furthermore, the Bank continues to enhance and upgrade its core banking system to ensure stability during and after the migration of financial information from BBCL. BBL has successfully deployed its disaster recovery center with all internal testing and testing from the regulators completed successfully. Over the last 12 months, the Bank has improved its credit adjudication process through digitization which has improved its efficiency by reducing loan processing time.

The Bank maintains its regulatory compliance policies and procedures to ensure adherence with all Foreign Account Tax Compliance Act (FATCA), Caribbean Financial Action Task Force (CFATF), and Common Reporting Standards (CRS) requirements. BBL utilizes the services of an international auditor, Kaufman Rosin, to conduct annual AML/CFT compliance audits using both United States standards and Belize law. Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) frameworks remain satisfactory and are compliant with international standards. This allows BBL to maintain good working relationships with correspondent banks³. CariCRIS expects that the Bank's ERM framework will continue to allow BBL to proactively identify and manage all key strategic risks that could impact the achievement of its key objectives on an ongoing basis. We further expect that the ongoing efforts to enhance the IT infrastructure, risk management, and compliance policies and procedures to further improve the rigor and resilience of the Bank's risk management systems and procedures.

³ BBL continues to maintain correspondent banking relationships with Crown Agents and Capital Bank International Corp

Deposit base underpins stable funding costs and liquidity position

BBL’s funding costs remained low and declined slightly by 20 basis points (bps) to 1% for the year ended March 2021 from 1.2% a year earlier. The Bank’s funding cost compares favourably with CariCRIS’ regional peer average of 1% and domestic peer average of 1.2%. BBL’s low funding cost has facilitated healthy net interest spreads that averaged 5.9% over the last 3 years, notwithstanding a deterioration by 40 bps to 5.7% in FY2021 from 6.1% previously, and also compared favourably to CariCRIS’ regional peer average of 4.9%. For the 6 months ended September 2021, funding costs remained low at 0.5% (1% annualized) which is unchanged from the corresponding prior year. Additionally, the Bank’s net interest spread improved slightly to 2.8% (5.6% annualized) from 2.6% (5.2% annualized) in the corresponding prior year period. The lower cost of funds realised by BBL in 2021 largely reflects significant excess liquidity in the Belize banking system which has pushed interest rates to the lowest they have been in the last 5 years.

The Bank continues to be primarily funded by deposits which comprised 100% of total interest-bearing liabilities and stood at BZ \$820.5 million as at March 2021, up 3.9% from BZ \$789.3 million a year earlier. Nevertheless, BBL’s funding base is relatively diverse and highly stable, comprising of a good mix of demand deposits and term deposits (Table 1). The decline in term deposits over the past 3 years reflects the Bank’s deliberate strategy of reducing its reliance on these higher cost funding instruments. Notwithstanding the higher proportion of demand deposits, these are well diversified by number and type of client. We therefore expect BBL to continue to benefit from stable funding in the medium term.

Table 1
Deposits by Type

Deposits	Mar-21	Mar-20	Mar-19
Demand	45%	40%	37%
Savings	23%	23%	20%
Term Deposits	31%	37%	43%
Total Deposits	100%	100%	100%

Source: BBL

As at March 2021, the Bank’s liquidity position remained strong, as evidenced by its liquid assets to total assets ratio, improving to 37.3%, up from 32.8% a year earlier, which was well above the regulatory minimum of 23%⁴ and the domestic peer average of 29.8% (Table 2).

⁴ The CBB mandates that 23.0% of average deposit liabilities must be held in approved liquid assets, of which 6.5% must be held in reserve balances at the CBB

Table 2
Liquidity Metrics for Domestic Banks in Belize

	Mar -21	Mar-20	Mar-19
Liquidity	%		
Liquid Assets to Total Assets	29.8	24.9	26.4

Source: Central Bank of Belize

Comfortable capitalization reflected in good coverage of total assets

BBL remains well capitalized as evidenced by a healthy tangible net worth (TNW) which averaged BZ \$145.5 million over the last 3 years (FY2019 – FY2021) and stood at BZ \$136.1 million as at March 2021, though down 3% from BZ \$140.4 million one year earlier. BBL’s TNW is the second largest in the Belizean commercial banking industry⁵ but remains among the smallest in CariCRIS’ sample of regional banks. Coverage provided by TNW of total assets averaged 15% over the last 3 years, deteriorated slightly to 14.1% as at March 2021 from 14.9% a year earlier. BBL’s TNW to total assets ratio compared favourably to CariCRIS’ sample average of 12.2% for regional commercial banks and 10.6% for banks in Belize.

The Bank continues to report strong capital adequacy ratios (CAR) that averaged 28.2% over the last three years and stood at 31.2% as at March 2021. The reported CAR remained well above the regulatory minimum of 9% and compared favourably to the domestic peer average of 22.5% as at March 2021 (Table 3). Additionally, BBL remained well-capitalized as at September 2021, with the Bank reporting a CAR of 28.8%. CariCRIS expects BBL to remain well-capitalized post completion of the merger in 2022.

Table 3
Capital Adequacy Metrics for Domestic Banks in Belize

	Mar-21	Mar-20	Mar-19
Capital Adequacy	%		
Regulatory Capital to Risk Weighted Assets	20.2	22.6	24.7

Source: Central Bank of Belize - Domestic Banks Financial Soundness Indicators

Continued profitable operations

⁵ SBL recorded the largest TNW of BZ \$162.7 million as at March 2020

Table 4
BBL's Summary Financial Performance (FY2019-FY2021)

	FY2021*	% Chg	FY2020	% Chg	FY2019	% Chg	FY2018	% Chg	3-Yr CAGR
<i>BZ \$'millions</i>									
Total Interest Income	56.0	(8.6)	61.3	(0.2)	61.4	(46.8)	115.4	77.6	(21.4)
Interest Expense	(8.4)	(11.9)	(9.5)	(12.4)	(10.9)	(0.2)	(10.9)	(16.4)	(8.3)
Net Interest Income (NII)	47.6	(8.0)	51.7	2.4	50.5	(51.7)	104.5	101.2	(23.1)
Non-Interest Income	9.0	(63.8)	24.9	34.3	18.5	35.8	13.7	(3.1)	(12.9)
Total Fee-based Income	3.5	(9.3)	3.8	8.0	3.5	6.9	3.3	23.1	1.6
Total Income	56.6	(26.1)	76.6	11.0	69.1	(41.6)	118.2	78.9	(21.7)
Total Operating Expenses	(30.0)	(12.7)	(34.4)	(8.1)	(37.4)	13.7	(32.9)	(2.7)	(3.0)
Profit After Tax (PAT)	5.8	(81.0)	30.4	13.6	26.8	(55.7)	60.4	(1,601.4)	(54.3)
Investments	240.8	16.0	207.6	(17.2)	250.7	31.2	191.1	73.8	8.0
Net Loans and Advances	419.2	(4.2)	437.6	2.0	429.1	1.4	423.1	(10.3)	(0.3)
NPLs	30.2	259.7	8.4	(26.0)	11.3	(54.8)	25.1	(23.6)	6.3
Provisions for Losses	(34.4)	49.5	(23.0)	39.9	(16.5)	(29.4)	(23.3)	(30.6)	13.9
Total Interest Earning Assets (TIEA)	853.3	4.0	820.2	(4.9)	862.0	2.0	845.2	(2.4)	0.3
Total Assets ^a	967.5	2.9	940.3	(5.4)	994.3	1.4	980.8	3.9	(0.5)
Total Interest Bearing Liabilities (TIBL)	820.5	3.9	789.3	(4.1)	822.9	(0.0)	823.3	(3.7)	(0.1)
Total Liabilities	967.5	2.9	940.3	(5.4)	994.3	1.4	980.8	3.9	(0.5)
Tangible Net Worth (TNW) ^a	136.1	(3.0)	140.3	(12.4)	160.2	16.6	137.4	78.5	(0.3)
	%								3-Yr Avg
Yield from Interest Earning Assets ^b	6.7		7.3		7.2		13.5		7.1
Cost of Funds ^c	1.0		1.2		1.3		1.3		1.2
Net Interest Spread ^b	5.7		6.1		5.9		12.2		5.9
ROA	0.6		3.1		2.7		6.3		2.2
ROE	4.2		20.3		18.0		56.4		14.2
Cost/Income ratio	44.3		38.5		47.7		24.6		43.5
Total Loans/Customer Deposits	51.1		55.4		52.1		51.4		52.9
TNW/Assets ^a	14.1		14.9		16.1		14.0		15.0
Tier I Capital Adequacy ratio	27.5		27.5		27.5		15.8		27.5
NPL ratio	6.7		1.8		2.5		5.6		3.7
	Times								3-Yr Avg
Loan Loss Provision/NPL	1.1		2.7		1.5		0.9		1.8

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

In FY2021⁶, BBL reported an 81% decline in profit after tax (PAT) to BZ \$5.8 million from BZ \$30.4 million in the prior financial year. The significant fall in PAT reflected a material reduction in total income, as well as a higher effective tax rate and an increase in impairment allowances. The reduction in PAT resulted in declines in the Bank's return metrics, with return on assets (ROA) falling to 0.6% compared to 3.1% in the prior period and return on equity (ROE) falling to 4.2% from 20.3% in the prior period. BBL's ROA and ROE in FY2021 were below CariCRIS' regional sample averages of 1.2% and 9.4% respectively for commercial banks.

⁶ FY refers to the period April 1, 2020 to March 31, 2021

In FY2021, BBL reported a 26.1% decline in total income to BZ \$56.6 million from BZ \$76.6 million previously. The reduction in total income for the year was led by a 63.8% (BZ \$16 million) reduction in non-interest income, due to a 48.2% (BZ \$3.4 million) reduction in foreign exchange trading income, coupled with a 52.9% (BZ \$1.8 million) reduction in credit card income. These revenue lines were directly impacted by travel restrictions put in place in Belize in 2020 due to the COVID-19 pandemic which severely constrained foreign exchange flows and credit card transactions. Additionally, the discontinuation of dividend income from Belize Bank International Limited (BBIL)⁷, which was BZ \$10 million in FY2020, contributed to the decline in revenue for the period. Net interest income (NII) which represents 84.1% of total income for the year, fell by 8% to BZ \$48.4 million from BZ \$51.7 million previously. The fall in NII was led by an 8.6% or BZ \$5.3 million fall in interest income reflecting a 4.2% decline in the Bank's loans and advances portfolio given a deliberate decision by BBL to be conservative in its lending decisions during the pandemic. Additionally, the Bank offered moratoriums to its customers negatively impacted by the economic consequences of COVID-19 which contributed to the reduced interest income for the period. There was a resultant 60 basis point (bps) reduction in yields from interest earning asset to 6.7% from 7.3% previously, which when combined with a 20 bps fall in funding costs to 1%, resulted in a 40 bps deterioration in the Bank's net interest spread to 5.7% for FY2021, which was slightly lower than the 3-year average of 5.9%.

The impact of the fall in total income on profitability for the period was tempered somewhat by a fall in operating expenses to BZ \$30 million in FY 2021 from BZ \$34.4 million in FY2020. The fall in operating expenses largely reflected several cost-cutting measures implemented by the Bank to offset the negative financial impact of COVID-19. These measures included reductions in staff-related expenses, non-payment of management fees for the year and the general containment of other non-interest expenses. The fall in total income, which exceeded the fall in expenses led to a deterioration in the cost to income ratio to 44.3% in FY2021, from 38.5% previously, was still better than CariCRIS' regional sample average of 53.1%. For the period, BBL's pre-provision profits fell 37% to BZ \$26.6 million from BZ \$42.3 million previously. Additionally, BBL's impairment charges on loans to customers increased to BZ \$12.5 million from BZ \$3.6 million previously, given the impact of the pandemic on overall asset quality. This, along with an increase in the Bank's effective tax rate to 59% from 21.3% contributed to the lower PAT⁸.

⁷ On 24 October 2019, the shares held in BBIL were transferred to the Bank's parent company, B.B. International Limited in the form of non-cash dividends. BBIL is no longer a subsidiary of BBL.

⁸ In Belize, business tax is based on net interest income and non-interest income and does not consider operating expenses. The tax rate increased from 12% to 15% on April 1, 2021, which resulted in BBL's income being subject to a higher tax rate.



For the six months ended September 2021, BBL reported a 58.1% increase in PAT to BZ \$9.1 million from BZ \$5.8 million in the prior year period. The increase in PAT was driven by a 6.1% increase in total income to BZ \$31.3 million from BZ \$26.5 million. This increase was supported by a 6.9% increase in NII for the period moving to BZ \$23.9 million from BZ \$22.3 million in the prior period. The increase in NII reflected a 6.1% increase in interest income, led by a BZ \$1.4 million improvement in interest income from loans despite a 4.6% reduction in loans and advances. There was a 12.6% increase in interest-bearing liabilities which grew to BZ \$883.7 million, which led to a slight increase of 1.6% in interest expenses. Additionally, BBL reported a 156.9% (BZ \$3.7 million) and a 42% (BZ \$1.3 million) increase in foreign exchange trading income and credit card income respectively as a result of the resumption of tourism activity in Belize.

Operating expenses increased by 9.2% period on period (p-o-p), moving from BZ \$15.2 million to BZ \$16.6 million. The increase in expenses was due to the reinstatement of previous salary cuts put in place during the last financial year by the Bank to offset the financial impact of COVID-19. Notwithstanding the increase in operating expenses for the period, there was a resultant improvement of BBL's cost to income ratio to 45% from 48.1% in the corresponding prior period. The increase in PAT resulted in an improvement in ROA and ROE to 1.0% (2.0% annualized) and 6.6% (13.2% annualized) respectively from 0.6% (1.2% annualized) and 3.8% (7.2% annualized) in the corresponding period of 2020. CariCRIS expects that BBL will continue to report profitable operations in FY2022, above FY2021's outturn, supported by the continued recovery of interest income and fee income.

Table 5
BBL's Interim Summary Financial Performance (FY2019-FY2021)

	Sep-21	% Chg	Sep-20	% Chg	Sep-19
	<i>BZ \$'millions</i>				
Total Interest Income	28.2	6.1	26.6	(11.9)	30.2
Interest Expense	(4.3)	1.4	(4.2)	(15.2)	(5.0)
Net Interest Income (NII)	23.9	6.9	22.3	(11.3)	25.2
Non-Interest Income	7.4	78.9	4.1	(75.5)	16.8
Total Fee-based Income	2.3	40.9	1.6	(12.0)	1.9
Total Income	31.3	18.1	26.5	(37.0)	42.0
Total Operating Expenses	(16.6)	9.2	(15.2)	(13.9)	(17.6)
Profit After Tax (PAT)	9.1	58.1	5.8	(73.9)	22.2
Investments	268.0	18.8	225.6	(13.6)	260.9
Net Loans and Advances	421.3	(4.6)	441.4	(0.2)	442.1
Provisions for Losses	(29.1)	21.1	(24.0)	21.6	(19.8)
Total Interest Earning Assets (TIEA)	977.7	19.3	819.8	(5.4)	867.1
Total Assets ^a	1,086.5	16.2	935.4	(6.1)	996.2
Total Interest Bearing Liabilities (TIBL)	883.7	12.6	784.6	(4.9)	824.7
Total Liabilities	1,086.5	16.2	935.4	(6.1)	996.2
Tangible Net Worth (TNW) ^a	149.5	6.3	140.6	(12.3)	160.4
	<i>%</i>				
Total Asset Yield ^b	3.4		3.1		3.6
Cost of Funds ^c	0.5		0.5		0.6
Net Interest Spread	2.8		2.6		2.9
ROA	1.0		0.6		2.3
ROE	6.6		3.9		14.4
Cost/Income ratio	45.0		48.1		36.5
Total Loans/Customer Deposits	47.7		56.3		53.6
TNW/Assets ^a	13.8		15.0		16.1
Tier I Capital Adequacy ratio	28.6		28.6		28.6
NPL ratio	4.6		10.5		2.0
	<i>Times</i>				
Loan Loss Provision/NPL	1.4		0.5		2.1

Source: The Belize Bank Limited Management accounts

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

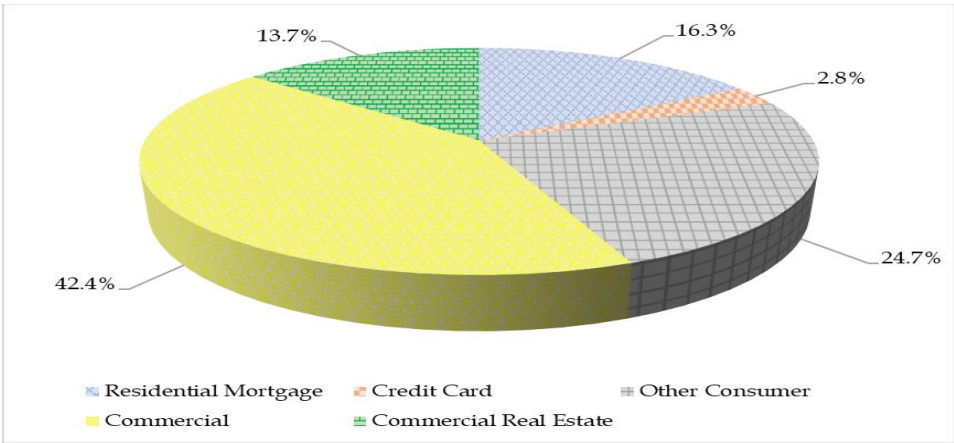
^b Calculated as Total Interest Income/ Average Earning Assets; Net Interest Rate Spread based on Total Investment Yield

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

Improved asset quality

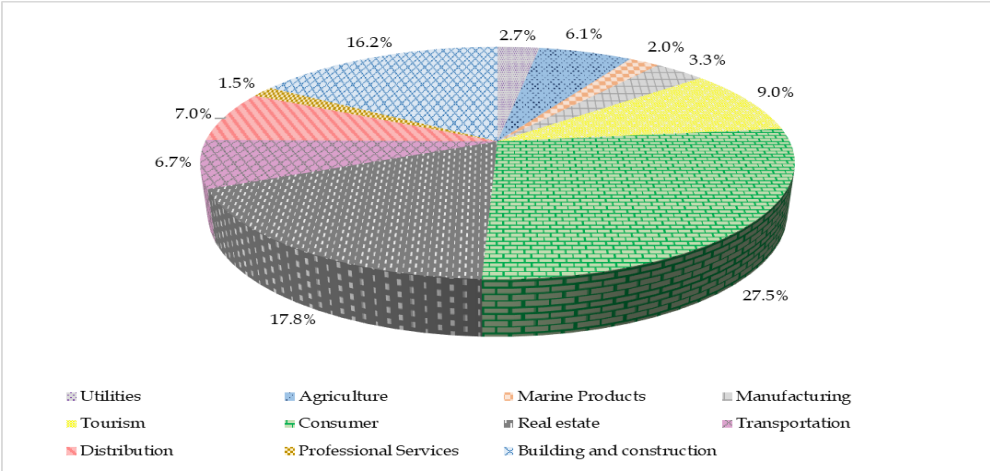
Over the last 3 years, BBL’s asset base has grown at a rate of 3.9% annually, with interest-earning assets which account for 88.2% of total assets growing at 5.4% per annum. BBL’s earning asset base as of September 2021 comprised of net loans and advances (43.1%), cash and cash equivalents (29.5%), and investments (27.4%). The Bank’s loan portfolio, though heavily exposed to the Belizean economy, is well diversified by type (Chart 1) and by sector (Chart 2). The top 10 commercial clients represent approximately 30.2% of the overall loan portfolio, with the largest exposure representing approximately 10.9% of the portfolio.

Chart 1
Loan Portfolio by Type as of September 2021



Source: BBL

Chart 2
Loan Portfolio by Sector as of September 2021



Source: BBL

For the 6 months ended September 2021, BBL’s asset quality as measured by its non-performing loans (NPL) to gross loans ratio improved to 4.6% from 10.5% in the corresponding period of the

prior year. This was marginally above CariCRIS' regional peer average of 3.4%, but better than the local average of 5.2%. The improvement in the NPL ratio was the combined result of a 57.5% decrease in BBL's NPL portfolio to BZ \$20.8 million from BZ \$48.9 million alongside a 3.1% increase in gross loans to BZ \$421.3 million from BZ \$416.6 million. This improved NPL position was mainly driven by economic recovery in Belize, particularly in the tourism sector. Notably, BBL maintained high provisioning for loan losses at 4.9% of total loans and 140% of NPLs, which was higher than the industry average of 4.2% and 73.3% respectively⁹.

The Bank's investment portfolio comprises largely of Treasury Notes and Bills (97.6%) issued by the Government of Belize in line with its investment policy statement, and stood at BZ \$261.6 million one year earlier, at the end of September 2021 from BZ \$219.6 million one year earlier, with no impaired securities.

These rating strengths are tempered by:

High exposure to the heavily indebted Belize Government

BBL is subject to a high level of exposure to Belize's economic and financial system risk given that all of BBL's earnings, assets and funding are derived from Belize. Furthermore, approximately 32% of BBL's total assets are directly linked to the Government of Belize through its holdings of Government securities and receivables. This exposes the Bank to a greater degree of risk relative to many of its regional peers who operate in stronger economies, which constrains its ratings.

The COVID-19 pandemic had a significant negative impact on the Belizean economy in 2020, leading to a contraction by 14.1%. Tourism, which accounts for around 40% of the Country's gross domestic product (GDP) and around 60% of foreign exchange earnings fell precipitously, with tourist arrivals falling by 72% in 2020. However, the International Monetary Fund (IMF) predicts an increase in real GDP of 8.5% and 5.4% in 2021 and 2022 respectively. The recovery in 2021 is expected to reflect reduced travel restrictions to support the promotion of increased tourism activity. Additionally, improving agricultural production and exports are also expected to further support economic recovery. While CariCRIS expects economic conditions to continue to improve in 2021 and 2022, we anticipate that growth to overall pre-pandemic tourism numbers may not be recorded until 2024.

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

⁹ Source: Central Bank of Belize

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. Additionally, the ability of banks to conduct cross-border transactions including foreign exchange trading and credit card merchant acquiring services was significantly reduced. All banks affected by the loss of correspondent banking relationships have since found replacements, however, the institutions with which new relationships have been established are smaller US and international institutions. This has reduced the volume and size of transactions and increased the cost of cross-border services for all banks including BBL¹⁰.

December 8, 2021

¹⁰ BBL is currently seeking to add a new correspondent banking relationship with JPMorgan, although this is still in its preliminary stage