Eastern Caribbean Central Bank

Financial Stability Report
December 2016

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List of Acronyms and Abbreviations

CBI	-	Citizenship by Investment
ECACH	-	Eastern Caribbean Automated Clearing House
ECCB	-	Eastern Caribbean Central Bank
ECCU	-	Eastern Caribbean Currency Union
ECFSRC		Eastern Caribbean Financial Services Regulatory Commission
ECSE	-	Eastern Caribbean Securities Exchange
ECHMB	-	Eastern Caribbean Home Mortgage Bank
FDI	-	Foreign Direct Investment
GDP	-	Gross Domestic Product
GFA	-	Gross Foreign Assets
IBM	-	Interbank Market
IMF	-	International Monetary Fund
NBA	-	National Bank of Anguilla Ltd
CCB	-	Caribbean Commercial Bank
NFA	-	Net Foreign Assets
NPL	-	Non-Performing Loans
OECS	-	Organisation of Eastern Caribbean States
REER	-	Real Effective Exchange Rate
RGSM	-	Regional Government Securities Market
SEDU	-	Small Enterprise Development Unit
SRU		Single Regulatory Unit
T-bill	-	Treasury Bills
UK	-	United Kingdom
US/USA	-	United States of America
VAT	-	Value Added Tax

Preface – From the Governor

It gives me great pleasure, as Governor of the Eastern Caribbean Central Bank, to present to you our inaugural Financial Stability Report, which is mainly based on developments in the year 2016. With the publication of this report, the ECCB joins other regional and international central banks and financial stability authorities of various forms, in the necessary efforts to improve financial sector oversight, risk identification, monitoring and management, as well as increasing transparency and communication with stakeholders.

Given the current structure of financial sector oversight in the ECCU, with multiple regulatory authorities operating at both the domestic and regional levels, compilation of this report represents an elaborate collaborative effort, requiring extensive input from those entities, particularly the SRUs in the various territories. For their cooperation we are eternally grateful and certainly hope that we have done justice to the data and information provided. All errors and omissions remain ours. Still the product is incomplete, as explained in the Introductory Chapter, and we look forward to the continued collaboration of our regulatory partners in improving the coverage and analysis in subsequent reports. However, we remain confident that this report provides a reasonable and reliable assessment of the current state of financial stability in the ECCU, as well as data and information which may be useful in evaluating the state of affairs in the regional financial system.

This report assesses the state of financial stability in the ECCU and identifies the major threats to the stability of the ECCU financial system. The commercial banking sector remains the dominant one and is a central focus. At the time of writing, complete data for the insurance and credit union sectors were not available, thus limiting the scope of coverage in the report. The ECCB will continue to promote new modalities and frameworks that will allow for the enhanced data gathering and sharing that are required to make this endeavour successful.

The goal of macroprudential policy is to limit the build-up and mitigate the impact of systemic risk[1], thereby safeguarding the functioning of the financial sector and the interactions with the real

[1] Systemic risk is defined as the risk of disruptions to the financial system which can have serious adverse effects on the functioning of the financial system and the real economy (IMF,2013).

sector. The analysis considers both the cyclical (build-up of risk over time) and the cross-sectional/structural (contagion between and among institutions and markets) dimensions of systemic risk. The operationalisation of a macro-prudential policy framework requires a determination of the intermediate objectives. At the international level there is an emerging consensus around five (5) such intermediate objectives:

1. to mitigate and prevent excessive credit growth and leverage;
2. to mitigate and prevent excessive maturity mismatch and market illiquidity;
3. to limit direct and indirect exposure concentrations;
4. to limit the systemic impact of misaligned incentives with a view to reducing moral hazard; and
5. to strengthen the resilience of the financial system.

As such, the assessment of financial stability in the ECCU is largely built around these tenets, with some generally accepted and encouraged indicators deployed in the process.

Overall, risks to financial stability are assessed to have diminished in 2016 and the financial sector is better positioned to withstand adverse shocks. However, the program for financial sector strengthening continues as we seek to address pockets of weakness, regulatory and legislative gaps and improve supervisory oversight.

Going forward, we hope to clarify and institutionalise arrangements for the preparation and publication of this report, within the context of a clearly defined and articulated framework for financial stability in the ECCU. It is our hope that you the reader find our report useful and informative.

Summary

The ECCU financial system was assessed as being stable during 2016 and the resilience of the financial system to potential adverse shocks strengthened throughout 2016. Supported by a strengthening economic recovery, bank resolutions, enhanced supervision, strengthening of the regulatory framework, risks to financial stability in the ECCU diminished during 2016. At the same time the resilience of the financial sector was enhanced due to an increase in capital adequacy, continued favourable liquidity developments, a reduction in credit risk as measured by non-performing loans (NPL's) and positive changes in risk management by financial institutions. As regards to potential sources of risks to financial stability in the future, cyclical risks are low and there is a modest increase in structural risks. The very modest rise in structural risks is due mainly to an increase in growing interconnectedness between financial institutions (commercial banks and NBFI's) which heightens the risk of contagion, growing concentration in the loan portfolio to household especially real estate loans.

Despite the broad-based improvement, the financial sector still faces a number of vulnerabilities characterised by the structure of the financial system. The high stock of legacy NPL's continues to impede profitability and credit growth. The evolution of income and credit risks and the ability to generate new capital and to maintain a stable capital position also depend on the banks' ability to generate income in the current economic environment. Smaller institutions in the financial system face the unique challenge as to how to compete effectively with larger institutions and reduce their vulnerability. Banks and insurance companies in the region are exposed to interest rate risk in their investment portfolios which could hamper their ability to generate and ultimately build capital to withstand negative shocks. On the external front, de-risking poses a particular challenge to the banking sector as discontinuation of correspondent bank services could hamper the smooth and efficient delivery of payments globally which could affect the real economy.

With respect to potential sources of risks to financial stability, cyclical risks are low and there was a modest increase in structural risks. The credit to GDP gap remained negative and declining, indicating a reduction in pressures from excessive leverage and cyclical factors **(Figure 1).** This assessment is consistent with the low credit growth environment and greater risk aversion on the part of credit granting institutions. The modest rise in structural risks was due mainly to an increase in interconnectedness between and among financial institutions (commercial banks and NBFI's) which heightens the risk of contagion.

The stability of the banking sector (the largest component of the financial sector) improved over the course of 2016. The Banking Stability Index (BSI)[2] rose to 0.5 as at the end of 2016 from 0.3 at the end of 2015 (**Figure 2**), suggesting a broad-based improvement in the stability of the banking sector during 2016. The improvement is attributed to several factors including the resolution of the CCB and NBA in Anguilla and a reduction in credit risk.

Figure 1: Credit to GDP Gap (measured in deviations)[3]

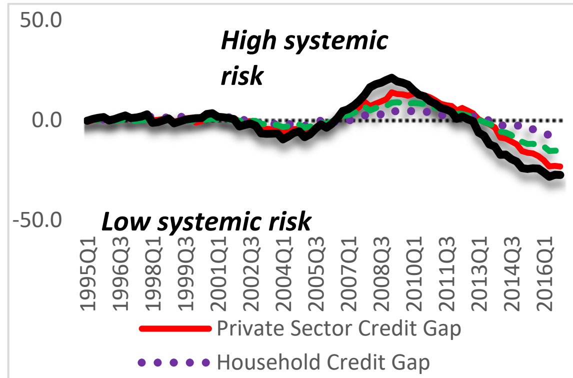
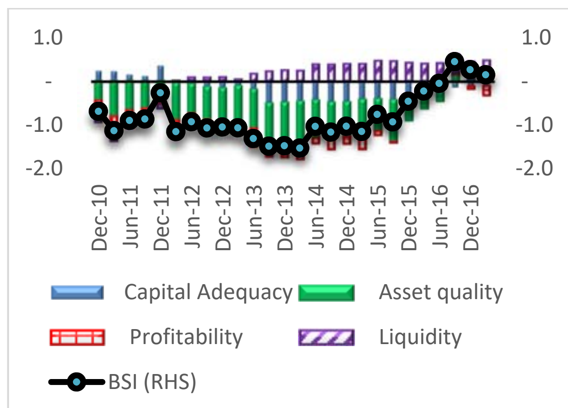


Figure 2: Banking Stability Index



Source ECCB Data and calculation

[2] The banking stability index is an aggregate indicator of the soundness of the banking sector. It is constructed as a weighted average of indicators of capital adequacy, profitability, asset quality, balance sheet liquidity, leverage risk. An increase in the index value shows greater stability. The index lies between zero (0) and one (1), the index is interpreted as: an increase signals greater banking stability and a decline indicates deterioration in banking stability.

[3] The gap between the credit-to-GDP ratio and an estimate of its long-term trend (credit-to- GDP gap) is very useful in identifying vulnerabilities and deploying macroprudential policies.

A. Risks Stemming from the Macroeconomic Environment

Macroeconomic risk to financial stability declined over the course of 2016; thus risk from the macroeconomic environment to financial stability is judged as moderate at this current juncture. This assessment is predicated on steadily improving domestic and global economic conditions. In its July 2017 World Economic Outlook (WEO) Update, the IMF indicated that the global economy expanded by 3.2 per cent in 2016 and is forecasted to expand by 3.5 per cent in 2017. At the ECCU level, while growth was divergent amongst ECCU economies, regional economic activity increased by 2.2 per cent and is forecast to grow by 2.9 per cent in 2017. Broad based fiscal reform measures have resulted in improved fiscal performance in the currency union; thus sovereign risk to the financial sector has reduced. The narrow domestic economic base gave rise to an elevated degree of concentration in the banks' lending portfolio, particularly towards construction and real estate. Although this vulnerability is structural in nature, banks should do more to reduce this vulnerability and diversify their risks. These positive economic developments have augured well for financial stability and are expected to carry over into 2017.

B. Risks Stemming from Domestic Household and Corporate Debt

Improving macroeconomic conditions are expected to translate into stabilising income and improved job prospects for households while improving the profitability of corporate firms. Thus, this should translate into lower risk for the financial sector. Nonetheless, with the uncertainties surrounding economic growth, awareness should be maintained over both household and corporate borrowing from the financial sector.

C. Risks Stemming from the Performance of the Banking Sector

Performance of the banking sector continues to improve as banks rebuild their balance sheets and optimise business model. Profitability and capital adequacy increased while the level of non-performing loans fell, bolstering the resilience of the banking sector. Nonetheless there are a number of areas of concern in the banking sector that warrants continued attention. Commercial banks loan portfolios remain highly concentrated and are increasingly exposed to the household sector in particular for residential real estate which has proved difficult to resolve once in default. Profits are being met through increasing fees and charges which challenge the sustainability of their profits. Other risks in the banking sector stems from the loss of correspondent banking relationships which commercial banks have handled well. Another risk that may be of concern is cyber security threats which can cause widespread outages in the banking sector.

D. Risks Stemming from the Performance of the Non-Bank Financial Sector

The non-bank financial institutions (NBFIs) remained relatively sound and do not pose systemic risks to the region's financial system at this current juncture. Growth of the assets of the NBFIs sector remained positive and is expected to continue going forward. Both credit unions and insurance companies recorded an increase in total assets. However, insurance companies remain susceptible to interest rate risks given the structure of their investment portfolio. Nonetheless the insurance sector remains well capitalised as judged by the ratio of capital to total assets and technical reserves ratios.

E. Risks Stemming from the Payment and Settlements System

The payment system and infrastructure operated effectively and efficiently throughout 2016, and did not pose a risk to financial stability. Consistent with the improvement in economic activity, there was an increase in value of payments processed during the review period. There was a notable increase in electronic payment activity for 2016 when compared with activity in previous years but cash remains the dominant form of payment. During 2016, transaction activity in the RTGS system increased by 11.6 per cent. Additionally, total volume of RTGS transactions for the period decreased to 102,790 transactions for 2016 relative to 102,826 transactions for 2015. The ECACH recorded an increase in transactional value and volume. There was continued growth in the value and usage of electronic payment instruments offered by commercial banks during 2016.

Introductory Chapter: Context of the Inaugural ECCU FSR

The purpose of the Financial Stability Report (FSR) is to identify risks and vulnerabilities in the Eastern Caribbean Currency Union (ECCU) financial system and assess the resilience of the financial system to domestic and external shocks. Thus, the goal of the FSR is not to assess the performance of individual institutions but rather to look at the financial system in its entirety and assess vulnerabilities and risks therein. The report is published to inform the reader on the soundness of the financial system, and various initiatives to mitigate risks to the ECCU financial system.

Financial stability is considered to be fundamental in sustaining an effective financial system, which is essential to economic development. The maintenance of financial stability is in keeping with Article IV of the ECCB Agreement 1983 which states the purposes of the Bank as:

a. to regulate the availability of money and credit;
b. to promote and maintain monetary stability;
c. to promote credit and exchange conditions and a sound financial structure conducive to the balanced growth and development of the economies of the territories of the Participating Governments; and
d. to actively promote through means consistent with its other objectives the economic development of the territories of the Participating Governments.

The ECCB defines financial stability as '***the state of the financial system that will facilitate and/or enhance economic processes, the absorption of shocks, characterised by orderly management of risks and underpinned by public confidence in the system***.' This definition is consistent with the emerging international consensus on systemic risk which is "the risk of a disruption to the provision of financial services, caused by an impairment of all or parts of the financial system, with serious negative consequences for the real economy."[4] It also highlights the fact that financial stability may be impacted both by processes/events within the financial sector and others which may arise from the external environment, domestic macroeconomic developments, or changes in the institutional environment.

[4] ESRB (2014)

Interactions between weak spots and shocks can result in the collapse of systemically important financial institutions and the disruption of the financial intermediation function.

This report is based on financial data (where available) for the calendar year ended 31 December 2016. Complete data for the insurance and credit union sectors were not available at the time of writing. In some cases, the available data were augmented with staff estimates. Major developments influencing the financial stability environment include the resolution of failed banks, ABI Bank Ltd (ABI Bank) in November 2015 and Caribbean Commercial Bank (CCB) and National Bank of Anguilla (NBA) in April 2016; the passage of the new Banking Act 2015, and the establishment of the Eastern Caribbean Asset Management Corporation (ECAMC).

The FSR is divided into seven (7) chapters:

- **Introductory Chapter;**
- **Chapter (1):** describes the general structure of the ECCU financial system;
- **Chapter (2):** outlines the regional and international macroeconomic environment within which the financial sector is operating, as well as an overview of key macro-financial risks.;
- **Chapters (3) and (4):** cover the performance of the various segments of the financial sector - commercial banks and non-bank financial institutions licenced under the Banking Act, insurance companies and credit unions. Major risks and vulnerabilities confronting these sectors are identified;
- **Chapter (5):** discusses the developments in the payments system and capital markets and;
- **Chapter (6):** highlights various policy initiatives to strengthen the resilience of the financial sector.

The report was prepared by ECCB staff with significant data and intelligence inputs from other regulatory agencies within the space, particularly the Single Regulatory Units in member states. Regional authorities are currently in the process of developing, articulating and institutionalising a robust and inclusive framework for both the preparation of the FSR and the identification, monitoring and management of systemic risk in the ECCU.

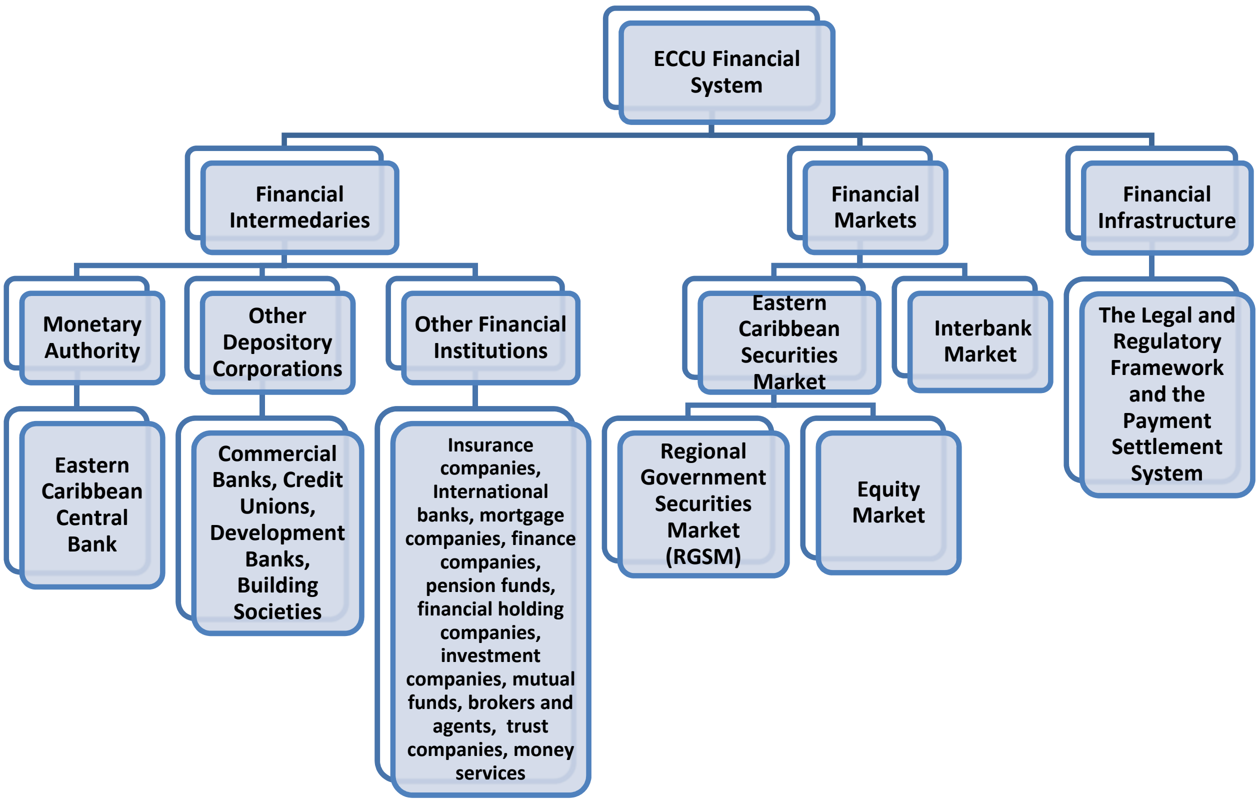
Chapter 1: Overview of ECCU Financial System

The Eastern Caribbean Currency Union (ECCU) comprises six (6) sovereign countries (Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines) and two (2) UK overseas territories (Anguilla and Montserrat) with an overall population of approximately 600,000 persons. As at end of December 2016, the financial sector in the currency union was organized around 20 licensed commercial banks, 12 of which were indigenous commercial banks owned by resident investors including governments, and eight (8) foreign owned entities (which in turn operated 23 subsidiaries or branches across the ECCU). Several of these subsidiaries are affiliates of Canadian banks. Besides commercial banks, the financial system also comprises around 160 insurance companies, 49 credit unions, 6 development banks/boards, offshore banking entities and a range of other non-bank financial institutions comprising investments and securities firms, building societies and money services business. For the immediate purposes of the report, focus is on institutions licensed under the Banking Act, Credit Unions and Insurance companies.

The financial markets are the interbank market, the Regional Government Securities Market (RGSM) and the Eastern Caribbean Securities Exchange (ECSE) which make up the money and capital markets.

The financial infrastructure incorporates the payment settlement system and the legal and regulatory framework that facilitates the effective operation of financial intermediation **(Figure 3)**.

Figure 3: Structure of the ECCU Financial System



1.1 Financial Intermediaries

Financial intermediaries operating in the ECCU include institutions licensed under the Banking Act (commercial banks and NBFIs), credit unions and insurance companies. The ECCU financial system is dominated by the commercial banking sector which as at December 2016, comprised of twenty (20) licenced commercial banks, 12 of which were locally owned and the remainder foreign owned.[5] The foreign owned entities operated branches throughout the Currency Union[6] **(Table 5, Appendix 1)**. The passage of the new Banking Act (Banking Act, 2015), inter-alia, facilitated the establishment of a single financial space in ECCU. As such, a licensed entity is equally licensed to operate across the union and pan-ECCU banks are no longer required to obtain a license for each subsidiary or

[5] One of the foreign owned banks, the Republic Bank of Grenada is a Trinidadian owned entity. The remainder are owned by international entities.

[6] Under the new Banking Act (Banking Act 2015) CIBC First-Caribbean, Bank of Nova Scotia and Royal Bank of Canada are licenced as single institutions operating branches throughout the ECCU.

branch. The number of licensed entities therefore fell from 40 in 2015 to 20 in 2016. The reduction in the number of commercial bank licenses also reflects the resolution of three failed banks and the consolidation of some RBTT/RBC operations. The dominance of the banking sector is evident in areas such as asset size, deposit base and credit to the private sector. At the end of 2016, total assets of the sector accounted for about 74.0 per cent of total domestic assets of the financial sector (Table 1).

Table 1: Institutional Composition of ECCU Financial Sector

	Commercial banks				Credit Unions				Non Bank Financial Institutions (licensed under the Banking Act				Totals			
	#	Total Assets (EC$M)	Total Deposits (EC$M)	Total Loans (EC$M)	#	Total Assets (EC$M)	Total Deposits (EC$M)	Total Loans (EC$M)	#	Total Assets (EC$M)	Total Deposits (EC$M)	Total Loans (EC$M)	#	Total Assets (EC$M)	Total Deposits (EC$M)	Total Loans (EC$M)
Anguilla	3	1,368.3	1,123.9	625.1									**3**	**1,368.3**	**1,123.9**	**625.1**
Antigua & Barbuda	6	5,911.8	3,477.8	2,428.6	6	252.6	216.9	197.5	3	488.4	402.1	358.2	**15**	**6,652.8**	**4,096.8**	**2,984.3**
Dominica	4	2,314.5	2,007.0	960.1	8	710.6	634.9	504.2					**12**	**3,025.1**	**2,642.0**	**1,464.3**
Grenada	5	2,314.5	2,779.8	1,634.7	10	670.0	574.6	497.7					**15**	**2,984.5**	**3,354.4**	**2,132.4**
Montserrat	2	451.5	356.6	93.5	1	52.4	50.8	44.5					**3**	**503.9**	**407.4**	**138.0**
St Kitts & Nevis	6	7,071.4	4,704.3	1,774.7	4	309.6	237.6	213.3	5	142.2	113.1	100.9	**15**	**7,523.3**	**5,055.0**	**2,088.8**
Saint Lucia	5	5,839.0	3,997.7	3,605.6	16	634.7	501.4	467.7	1	318.5	252.2	209.0	**22**	**6,792.3**	**4,751.4**	**4,282.4**
St Vincent& the Grenadines	4	2,192.8	1,780.4	1,200.3	4	600.0	459.2	415.9	2	217.8	192.3	113.7	**10**	**3,010.5**	**2,431.9**	**1,729.8**
ECCU	35	27,464.0	20,227.6	12,322.5	49	3,229.7	2,675.5	2,340.7	11	1167.0	959.7	781.8	**95**	**31,860.7**	**23,862.8**	**15,445.1**
Data as at: December31, 2016																
Source: ECCB, SRUs,																

In addition to commercial banks, there were 11 NBFIs licensed under the Banking Act, which include finance companies. The system also included 49 credit unions distributed among 7 member states and approximately 160 insurance entities.

1.2 Financial Markets

The financial markets in the ECCU are primarily the interbank market and the Eastern Caribbean Securities Market (ECSM) which comprise the Regional Government Securities Market (RGSM) and the Eastern Caribbean Stock Exchange (ECSE). An official ***Interbank Market was established in 1986 in an attempt to strengthen the infrastructure for liquidity management in the ECCU.*** The IBM was meant to provide a transparent platform for the lending and borrowing of funds between licensed commercial banks in the region. As at end of December 2016, the value of placements on the market was $195.6m, down from $255.2m at the end of 2015.

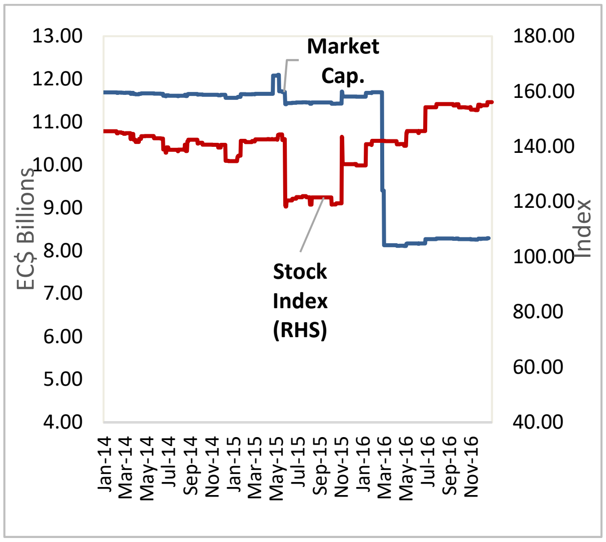
The ECSM was designed to provide an alternative mechanism for institutions to raise capital within the regional financial system. It facilitates primary and secondary market trading, thereby giving investors an opportunity to raise capital through new issues of securities as well as by trading in existing securities. The ECSM comprises the RGSM and the ECSE. The RGSM was established in November 2002 to facilitate and further the improvement of fiscal management in the ECCU. Data at the end of 2016 indicate that 5 member governments were active participants and $1.09b were raised in 2016. On the equity side, there are presently thirteen (13) corporate securities listed on the market (Table 2). In 2016, there were 1.5m trades valued at $17.8m compared to 0.8m trades valued at $1.6m in 2015. The market capitalization of the 12 listed equities on the exchange totalled EC$8.12b as at 31 December 2016, declining from its EC$11.5b value at the end of 2015 (**Figure 4**). This marked decline in overall market value stemmed from two major developments on the exchange. Firstly, the cross-listed Trinidad Cement Ltd (TCL) delisted from the exchange, owing to low trading activity. This combined with a decline in the share price of the CIBC FirstCaribbean International Bank (Barbados) Ltd (FCI) led to an overall lower market value. FCI accounts for 78.1 per cent of the total market value of the 13 equities listed on the exchange.

Table 2: Equities Listed on the ECSE with Share Prices - 31 December 2016

	Shares Outstanding	Share Price	Market Capitalization
	EC$		
Cable & Wireless (St Kitts & Nevis) Ltd	33,130,418	3.76	124,570,371.68
Dominica Electricity Services Ltd	10,417,328	4.10	42,711,044.80
East Caribbean Financial Holding Co. Ltd	23,965,589	5.44	130,372,804.16
CIBCFirstCaribbean International Bank Ltd	1,525,176,762	4.25	6,482,001,238.50
Grenada Electricity Services Ltd	19,000,000	10.00	190,000,000.00
General Property Corporation	7,662,598	5.40	41,378,029.20
Republic Bank (Grenada) Ltd	1,500,000	45.00	67,500,000.00
St Kitts-Nevis-Anguilla National Bank Ltd	135,000,000	2.48	334,800,000.00
St Lucia Electricity Services Ltd	22,400,000	24.00	537,600,000.00
S L Horsford & Company Ltd	30,148,430	1.83	55,171,626.90
St Kitts-Nevis-Anguilla Trading and Development Co. Ltd	52,000,000	1.44	74,880,000.00
The Bank of Nevis Ltd	9,347,687	4.15	38,792,901.05
Total Market Capitalization	**1,869,748,812**		**8,119,778,016**

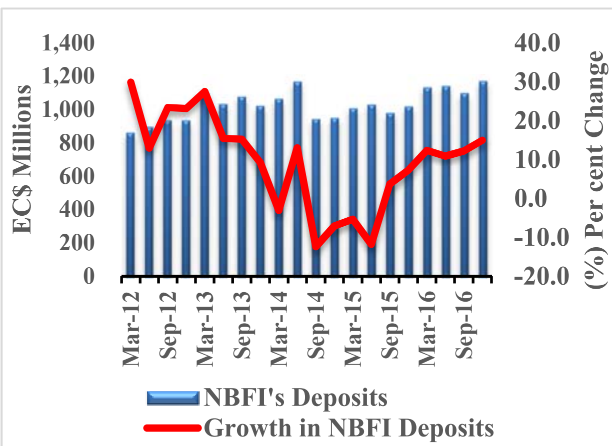
Source: ECSE

Figure 4: Figure Daily Stock Market Index and Market Capitalization of the ECSE



Source: 1: ECSE

Figure 5: NBFI Deposits at Commercial Banks



Source: ECCB

1.3 ECCU Financial System – Linkages and Interconnections

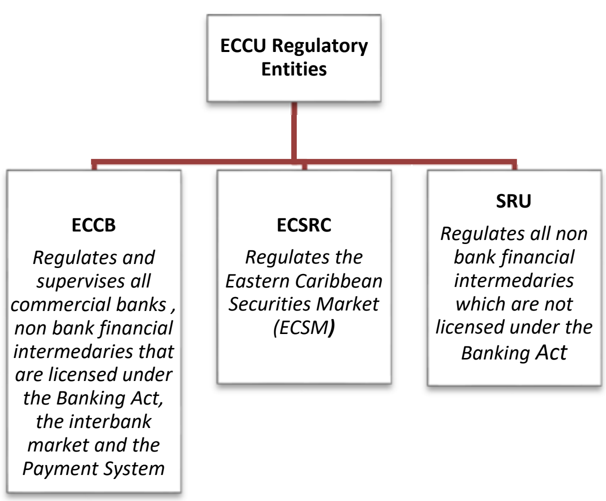
The evolution of financial assets and liabilities forming the links between institutions in the financial sector indicates growing interconnectedness. At the end of 2016 the total stock of deposits for NBFI's placed in the banking sector increased by $152.0m (14.9 per cent) to $1.12b (**Figure 5**). These deposits accounted for roughly 5.8 per cent of the total deposits of the commercial banking sector. At the same time, commercial banks have increased their exposure to the NBFI sector, commercial banks deposits held in NBFI's increased by $16.1m to $1.4b at the end of 2016. Judging by these movements there appears to be growing connection between the NBFI and commercial banking sector that needs to be carefully monitored. On a net basis, commercial banks have more deposits placed in the NBFI sector relative to the level of deposits which the NBFI sector has placed in the commercial banking system.

By contrast the interconnectedness within the banking sector decreased slightly; net flows between commercial banks in the ECCU (as measured by the due to and due from) fell during 2016. The reduction in net flows between commercial banks in the region is indicative of reduced exposures between the banks thus reducing the impact of contagion risk in the financial sector. Contagion risks are also being suppressed by the banking sector's large liquidity buffer.

1.4 The ECCU Financial Sector Regulatory Architecture

The regulation and supervision of financial system is conducted by three principal entities namely the Eastern Caribbean Central Bank (ECCB), the Eastern Caribbean Securities Regulatory Commission (ECSRC) and the Single Regulatory Units (SRU) of each member state ***(Figure 6)***.

Figure 6: ECCU Regulatory Framework



1.4.1. The Eastern Caribbean Central Bank

The Eastern Caribbean Central Bank (ECCB) is the monetary authority for the eight (8) participating member territories of the Eastern Caribbean Currency Union. The primary responsibility of the ECCB is to maintain the stability of the Eastern Caribbean currency and the integrity of the financial system. Article 3 of the Eastern Caribbean Central Bank Agreement Act (The Agreement) authorises the ECCB to regulate and supervise institutions engaging in banking business. The regulatory and supervisory functions of the ECCB are carried out through the Bank Supervision, and Banking and Monetary Operations Departments. The Banking Act governs the regulation and supervision of institutions engaging in banking business in the ECCU. In 2015, a new uniform Banking Act was passed in the member states, mainly to address revealed legislative and regulatory gaps and to allow regulators to undertake a more risk focused approach to supervision. The ECCB regulates and supervises all institutions licensed under the Banking Act i.e. the 20 licensed commercial banks and 11 NBFIs.

1.4.2. The Eastern Caribbean Securities Regulatory Commission

The Eastern Caribbean Securities Regulatory Commission (ECSRC) is responsible for licensing all individuals and companies who wish to engage in the securities business in the Eastern Caribbean Securities Market (ECSM). This directive, contained in Article

4 of the ECSRC Agreement, requires the Commission to "license any person engaged in securities business and to monitor and supervise the conduct of such business by a licensee." The primary functions of the ECSRC are:

a) To maintain the integrity of the ECSM;
b) To protect investors;
c) To promote market efficiency; and
d) To facilitate market development.

1.4.3. The Single Regulatory Units

The Single Regulatory Units (SRUs) in each territory regulate and supervise financial institutions which are not licensed under the Banking Act. These include international (offshore) banks, insurance companies, credit unions, cooperative societies, building societies and money services businesses. The main functions of the SRUs are to:

a) Provide more effective protection for consumers;
b) Assist with minimising systemic risk;
c) Promote market confidence; and
d) Contribute towards strengthening the performance of financial institutions.

1.5 Financial Infrastructure – The Payment System

The Payments and Settlement System which operates in all eight territories is centred on the commercial banking sector which is the direct provider of payment services in the ECCU, along with the ECCU governments. Non-banks such as the credit unions and building and loan societies also provide payment services with settlement through the commercial banks. Cheques and cash are the dominant payment instruments in the ECCU. Operations of the payment system are governed by The Payment System Act (2007), which designates the ECCB as the regulatory authority.

The ECCB operates a Real Time Gross Settlement (RTGS) system, on the basis of straight-through processing with the use of SWIFT messaging. The commercial banks, member governments, the Securities Registry and the Eastern Caribbean Automated Clearing House (ECACH) are participants in the Interbank Settlement System. Large value transactions (values above $150,000 XCD) are settled on a RTGS basis through the Interbank Settlement System while retail payments (payments below $150,000 XCD) are settled through the ECACH. The Automated Clearing House (ACH) provides clearance for cheque based transactions but settlement occurs through the Interbank Settlement System at the Central Bank.

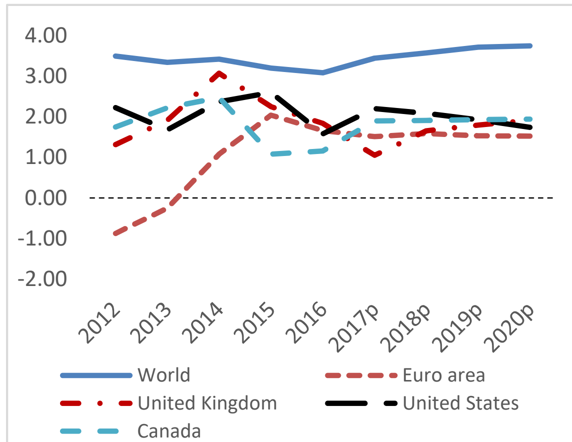
Securities, which include regional government and private sector securities are settled through the Securities Clearance and Settlement System; operated by the Eastern Caribbean Central Securities Depository (ECCSD).

CHAPTER 2: THE MACRO-FINANCIAL ENVIRONMENT AND KEY RISKS IMPACTING THE ECCU

2.1 Emerging Global Risks for the ECCU Region

Global risks to the ECCU financial system include mainly the slow and volatile pace of economic activity, falling oil prices and rising interest rates. Global growth is estimated to have slowed during 2016 on the back of subdued growth in advanced economies. According to the IMF's July 2017 World Economic Outlook (WEO), global growth is estimated at 3.1 per cent in 2016, which represents a marginal slowdown from 3.4 per cent in 2015 (**Figure 7**). Growth in economic activity in the advanced economies eased to 1.7 per cent in 2016, compared with 2.0 per cent in 2015. This was largely ascribed to weaker activity in the United Kingdom (UK), and slower than-expected growth in the US. GDP growth in emerging markets and developing economies (EMDE) was steady at 4.1 per cent for 2016, mainly supported by the above average pace of economic activity in China and India.

Figure 7: World and Major Economies Economic Growth



Source: 2: IMF, July 2017

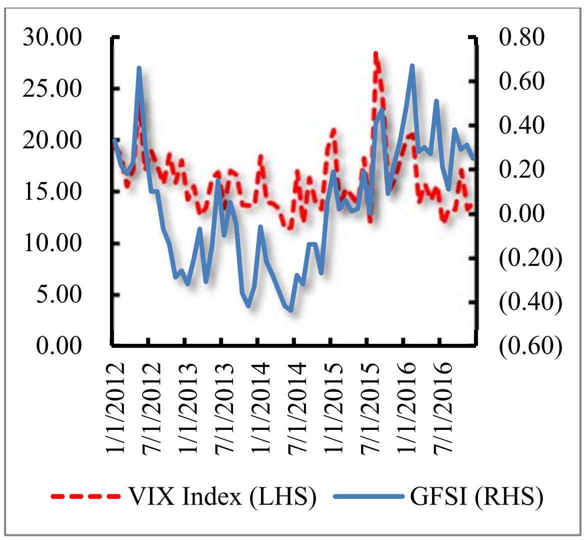
Global growth is expected to strengthen to 3.5 per cent in 2017 from the 3.1 per cent estimated for 2016. Advanced economies are expected to grow by 2.0 per cent in 2017 from 1.7 in 2016 while growth in the group of emerging markets and developing economies is estimated to increase to 4.5 per cent from the estimated outturn of 4.1 percent in 2016. However, the outlook is subject to downside risks emanating from greater uncertainty surrounding policy actions in the United States of America. Other important downside risks to the outlook, as noted by the IMF, are structural problems related to low productivity and growing income inequality which are likely to continue to restrain global economic growth. Another potential threat to the outlook is the possibility of a rapid increase in interest rates in the USA which could have negative spill overs to financial conditions elsewhere.

International commodity prices trended lower in 2016, although there was some pick up towards the latter half of 2016. Oil prices averaged US$42.80 in 2016 compared with US$50.75 in 2015.

According to IMF April 2017 Global Financial Stability Report (GFSR), risks to global financial stability diminished toward the latter half of 2016. The improvements in global financial stability were due to lower credit risk, strengthening macroeconomic conditions, a reduction in market and liquidity risk while there was an increase in risk appetite which contributed negatively to financial stability.

Financial markets were less volatile in 2016 compared to 2015, supported by improved investor sentiment and a reduction in financial stability risks. Two common measures of international market volatility is the Chicago Board Options Exchange (CBOE) Volatility Index, commonly called VIX, and the BAML Global Financial Stress Index (BAML-GFSI) [7], reflected this general reduction in the level of volatility. The VIX slowed to an average of 15.3 index points in 2016, from 16.4 index points in the preceding year and varied between 11.9 and 20.6 index points, a smaller range than the variation between 11.6 and 28.4 index points recorded in 2015 (**Figure 8**).

Figure 8: Volatility Index (VIX) and Global Financial Stress Index (GFSI)



Source: 3: Bloomberg

[7] The Chicago Board Options Exchange (CBOE) Volatility Index, commonly called VIX among practitioners, shows the market's expectation of 30-day volatility. It is compiled using a wide range of Standard and Poor's 500 (S&P 500) index options. The VIX reflects a market estimate of future volatility, based on the weighted average of the implied volatilities for a wide range of strikes. An increase in the VIX index indicates increased volatility. The BAML-GFSI is a calculated, cross market measure of risk, hedging demand and investor flows in the global financial system. Values greater than 0 indicate more financial market stress than normal while values less than 0 indicate less financial stress than normal.

2.2 ECCU Economic Environment

Economic activity continued to expand at the regional level albeit at a slower pace when compared with 2015. Real GDP in the Currency Union is estimated to have expanded for the fifth consecutive year at 2.6 per cent, compared with 2.8 per cent in 2015. Economic growth was supported by higher levels of activity in the tourism and construction sectors, but constrained by lower output from the manufacturing sector.

The combined outcomes of the fiscal operations of regional governments also improved as the overall surplus rose to 2.2 per cent of GDP; likewise, the primary balance yielded a higher surplus of 4.8 per cent of GDP from 2.9 per cent of GDP in 2015. As a result, the debt to GDP ratio declined to 75.7 per cent of GDP from 76.0 per cent at the end of 2015. The improvement in the fiscal position of the governments is reflective of continued action to ensure fiscal sustainability. Over the last several years, member governments have implemented a number of fiscal reforms which have led to a turnaround in fiscal performance across the region.

Economic growth in the ECCU is forecasted to accelerate 2.8 per cent in 2017, from the 2.6 per cent recorded in 2016. This growth outlook is supported by an improving external environment, an anticipated increase in construction sector activity especially as it relates to FDI and CBI funded projects. The outlook for tourism is also positive and is expected to help buoy economic growth. Inflationary pressures are expected to remain contained given the outlook for commodity prices and the improved fiscal performance of member Governments is expected to carry over in 2017. This outlook is expected to translate into improved performance in the financial sector while reducing risks to financial stability.

Largely predicated on favourable economic developments, the financial stability cobweb (**Figure 9**) indicates a general improvement in systemic risk indicators. The interpretation of the cobweb is that movements inward or toward the center, suggest an improvement in the particular dimension of systemic risk. Over the last few years there have been little risk to financial stability coming from liquidity and macroeconomic developments. Domestic liquidity conditions have been high and trending upward since the 2011; on the macroeconomic front, regional GDP has been improving since 2011; and risk from sovereigns have diminished. The greatest contribution to the improvement in financial stability risk for 2016 however, came from the profitability, capital and credit dimension of the cobweb (**Figure 10**). The improvement in this dimension is largely owing to the resolution of three banks in the region which helped to lower the of NPL's ratio and boost in capital adequacy.

There were lower common exposures across the domestic financial markets for 2016 as measured by the Composite Indicator of Systemic Stress (CISS). The index declined to a quarterly average of 0.23 for the review year relative to the 0.42 recoded for 2015 (**Figure 11**). The improvement in the CISS was attributable to an improvement in risk across all market segments to include credit, money, housing and stock market. The lower risk across these sectors is reflective of mainly cyclical causes as risk aversion still remains high across financial market segments.

Figure 9: Financial Stability Cobweb

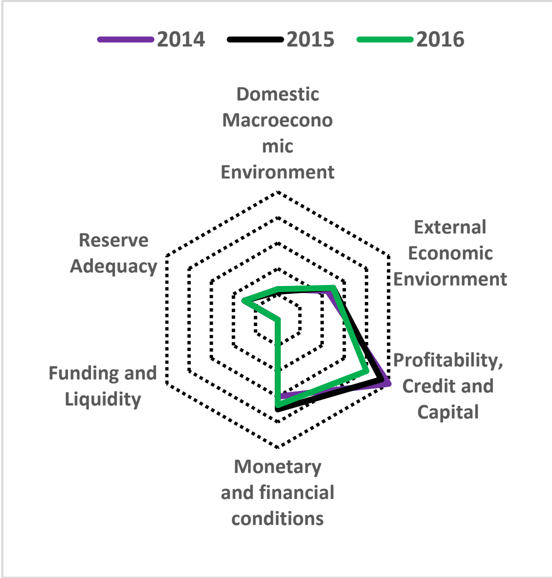
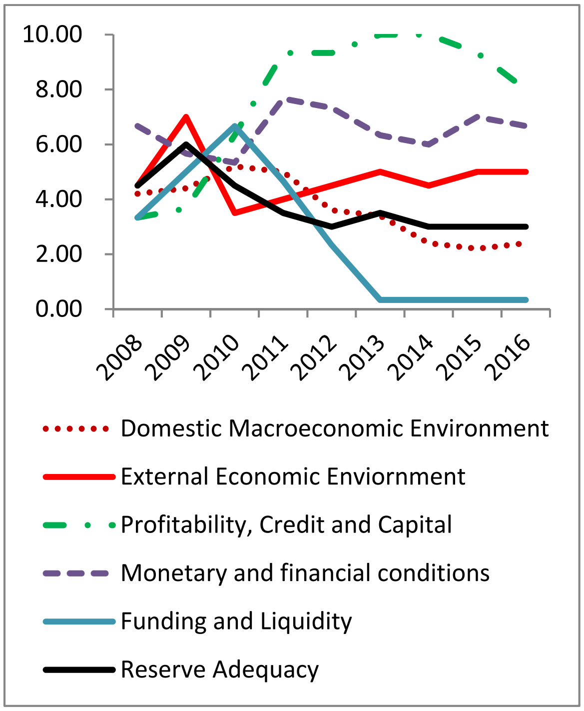


Figure 10: Dimensions of Financial Stability Cobweb



2.3 Measures of Excessive Credit Growth and Leverage

Excessive credit growth has been identified as a key driver of asset price bubbles and subsequent financial crises, with leverage acting as an amplifying channel. The most popular measure of excessive credit growth is the credit to GDP gap, which has become the cornerstone of financial stability analysis globally. These measures cover the cyclical(time) dimension of systemic risk.

Pressures from excessive credit and leverage remained low across the ECCU as evidenced by the negative credit to GDP gap (**see Figure 12**); none of the measures showed any upward reversion in the cycle indicating that leverage continue to fall across the region.

Consistent with the decline in the credit to GDP gap, domestic credit contracted by 5.9 per cent for 2016 compared with a contraction of 4.3 per cent in 2015 (**Figure 13**). This occurred against the background of favourable domestic credit conditions, high liquidity and a further expansion in economic growth.

Figure 11: Composite Indicator of Systemic Stress (CISS) ECCU

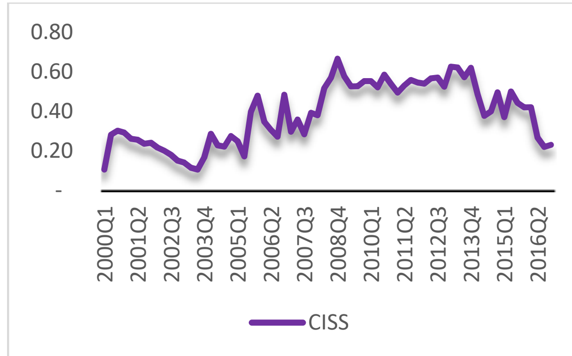


Figure 12: ECCU - Credit to GDP Gap

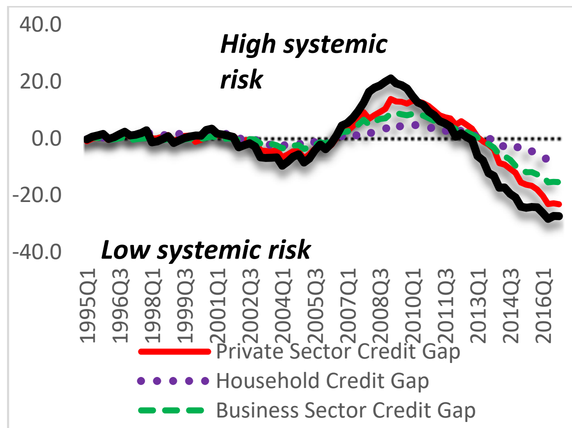
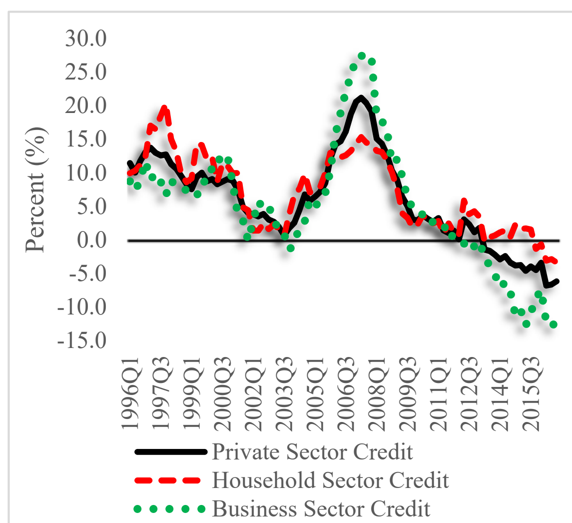


Figure 13: Credit Growth by Sector



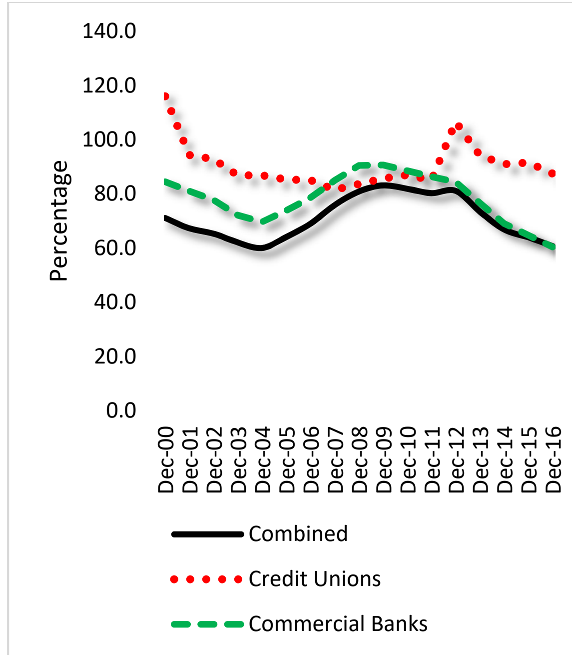
2.4 Measures of Excessive Maturity Mismatches and Market Illiquidity

Another intermediate target of macroprudential policy is excessive maturity mismatches and market illiquidity. Reliance on short-term and unstable funding may lead to fire sales, market illiquidity and contagion when the financial cycle turns, initiating or reinforcing systemic risk events. The measures of excessive maturity mismatches and market illiquidity can cover both the cyclical and structural dimension of systemic risk. Some of the popular measures include the loan-to-deposit ratio, excess liquidity of banks, and market rate spreads.

Market liquidity and risks appetite

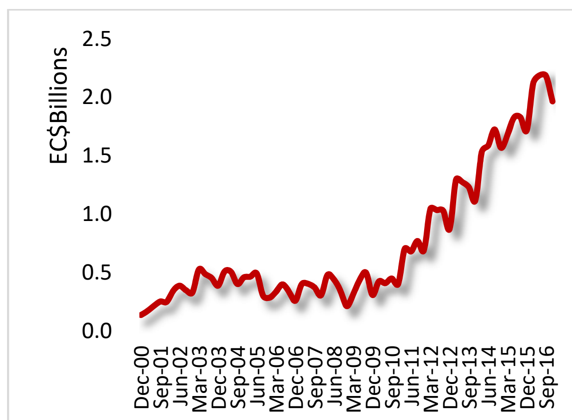
There was no evidence of negative strains on liquidity across the ECCU as measures of liquidity remained high. At the end of 2016 the loan to deposit ratio stood at 61.0 per cent, indicating that there exists an adequate amount of liquidity for any unexpected funding requirements. Moreover, commercial banks held $1.9b in excess reserves at the end of 2016, compared to $1.7b in the corresponding period of 2015, additional evidence of favourable liquidity conditions.

Figure 14: Loan to Deposit ECCU



Source: ECCB

Figure 15: Excess Reserves of the Commercial Banking Sector



Source: ECCB

2.5 Measures of Interconnectedness and Systemic Importance[8]

These include risks associated with systemically important financial institutions and the role of implicit government guarantees. These also cover the structural dimension of systemic risk as they look the financial sector for where risk lie at financial institutions and between them. Therefore, the analysis in this section will focus on systemically important financial institutions.

Systemic importance

Figures 16 to 19 are used to analysing systemically important institutions or those firms which are Too-Big-To-Fail. In examining the growth in assets amongst SIFI's, SIFI Groups and Non-Bank Financial Institutions, the performance of financial system assets (including NBFIs) should be included in the analysis. **Figure 16** illustrates that financial system assets have risen to approximately $28.5billion from $26.0billion in December 2012. A large portion of this growth in assets can be attributed to assets from the banking system, supported by growth in assets by NBFIs

Figure 16: Growth in Financial System Assets

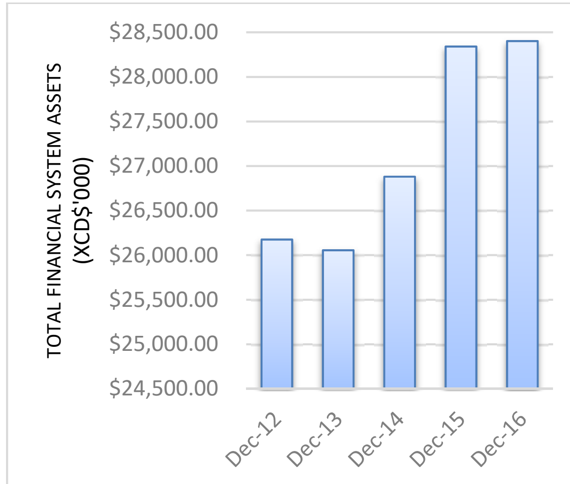
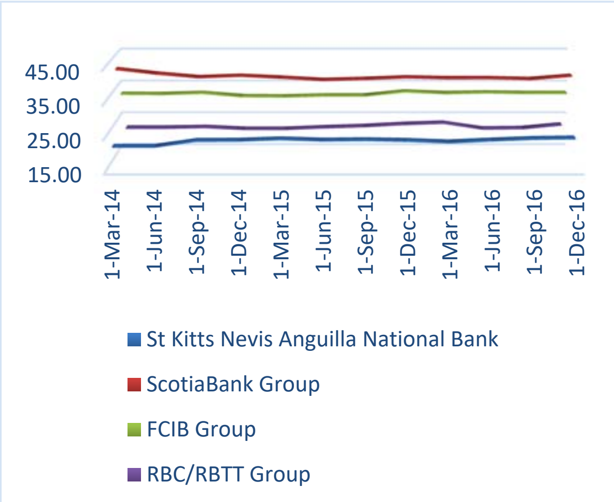


Figure 17, provides a slightly different context for analysing institutions which may be systemically important. As a share of Total Financial System Assets, SIFIs accounted initially for approximately 9.9 per cent of assets as at December 2012 and steadily rose to 64.9 per cent as at December 2016. As a share of total financial system assets, NBFIs are estimated to represent approximately 2.4 per cent at the end of 2016. This share of assets is little changed from the estimate of 2.1 per cent recorded as at December 2012. Extracting firms (specifically foreign branch banks) within this framework reveals that banking groups account for an estimated 51.7 per cent at the end of December 2016.

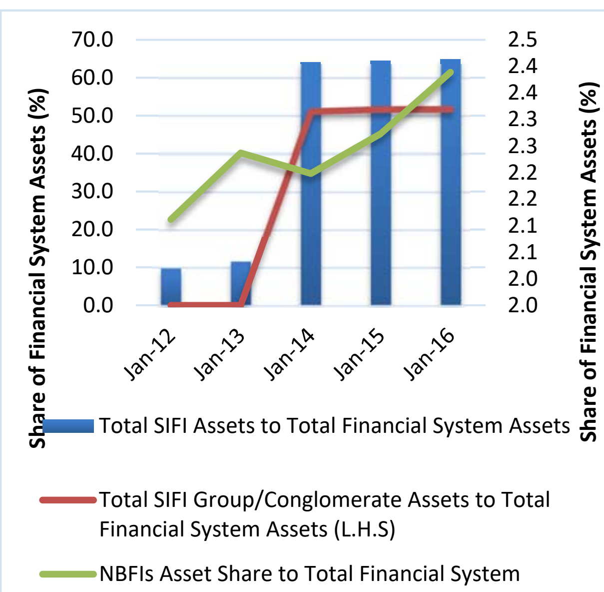
[8] Due to lack of complete data coverage an analysis of interconnections could not be performed for the financial sector.

Figure 17: Growth in Assets amongst SIFI's, SIFI Groups and NBFIs



Of this aforementioned value, the Bank of Nova Scotia accounted for approximately 41.2 per cent of assets as at December 2016, followed by First Caribbean International Bank (34.1 per cent), St Kitts Nevis Anguilla National Bank (24.8 per cent) and the RBC/RBTT Group (22.5 per cent).

Figure 18: Share of Financial System Assets by Systemically Important Financial Institution

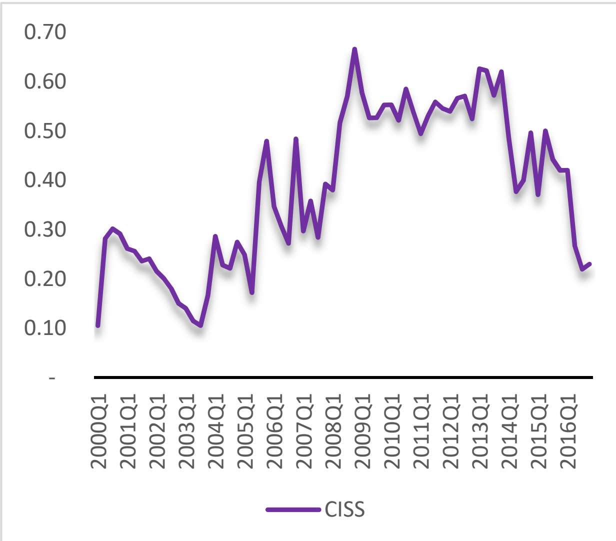


2.6 Measures of Direct and Indirect Exposure Concentration

Measures of direct and indirect exposure concentration in the financial sector cover the structural (cross sectional) dimension of systemic risk and can arise due to bilateral exposures between financial institutions and within the balance sheet of financial institutions such as exposure to a single borrower or economic sector. Exposure concentrations make a financial system (or part of it) vulnerable to common shocks, either directly through balance sheet exposures or indirectly through fire sales and contagion.

There were lower common exposures across the domestic financial markets for 2016, as measured by the Composite Indicator of Systemic Stress (CISS). The index declined to a quarterly average of 0.23 for the review year relative to a 0.42 recoded for 2015 (**see Figure 19**). The reduction in the CISS was attributable to an improvement in risk across all market segments to include credit, money, housing and stock. The lower risk across these sectors is reflective of mainly cyclical causes as risk aversion still remains high across financial market segments.

Figure 19: Composite Indicator of Systemic Stress (CISS) ECCU



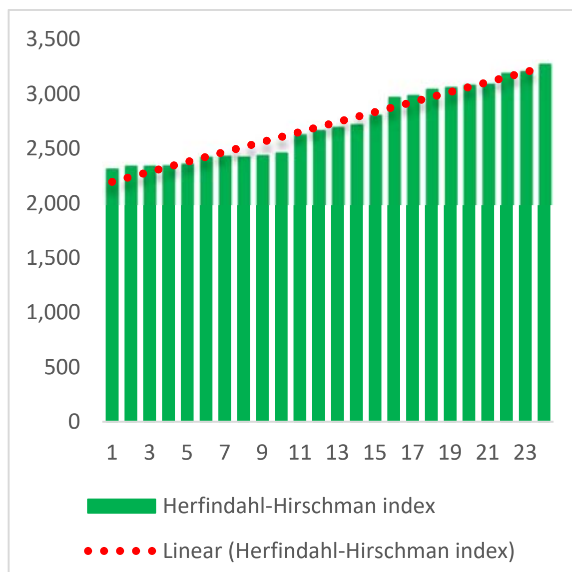
Source: ECCB

The increase in concentration risk was due to DTI's higher exposure to the personal/household sector. More specifically, household sector loans as a proportion of total loans increased by 2.1 percentage points to 54.5 per cent at end 2016.

Sectoral concentration

Despite the reduction in common exposures as measured by the CISS, sectoral concentration in the loan portfolio increased during 2016, as evidenced by the increase in the Herfindahl-Hirschman index [9] of concentration. The HHI increased to 3,271 at the end of 2016 from 3,058 at the end of 2015 (**see Figure 20**). The rise in the concentration in deposit taking institutions loan portfolios render them more vulnerable to shocks.

Figure 20: Herfindahl-Hirschman Index Loan Concentration



[9] The Herfindahl-Hirschman index (HHI) is a commonly accepted measure of market concentration. It is calculated by squaring the market share of each firm competing in a market, and then summing the resulting numbers, and can range from close to zero to 10,000. The U.S. Department of Justice uses the HHI for evaluating potential mergers issues. The closer a market is to being a monopoly, the higher the market's concentration (and the lower its competition).

Resilience of Financial System

Aggregate Financial Stability Index

Domestic financial conditions, as measured by the AFSI, displayed signs of continued stability for the review period. Specifically, the AFSI rose by 0.2 per cent to a quarterly average of 0.52 relative to 2015 (**Figure 21**). Growth in the index was mainly driven by improvements in the financial soundness, financial vulnerability and economic climate sub-components of the AFSI. Specifically, the favourable outturn in the financial soundness sub-index was attributed to the resolutions in Anguilla and Antigua and Barbuda. The financial vulnerability sub index also contributed positively, having benefited from improved fiscal outturns and positive developments in key macroeconomic variables, while strengthening global prospects led to an improvement in the world economic climate sub-component.

Banking Stability Index (BSI)

As in the case of the AFSI, the Banking Stability Index (BSI) for the ECCU region showed an improvement during 2016 when compared with 2015, rising to 0.2 from negative 0.2 at the end of 2015 (**Figure 22**).

Figure 21: Aggregate Financial Stability Index (AFSI)

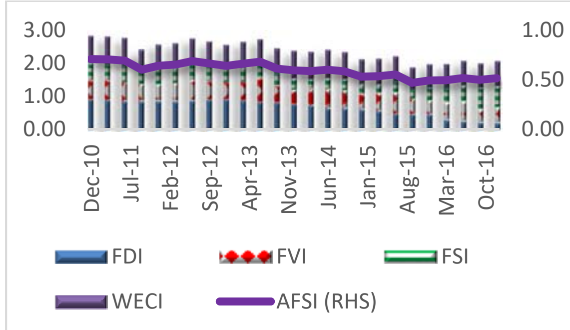
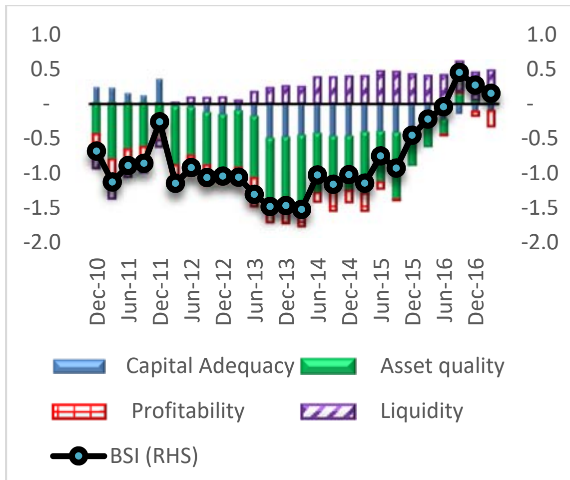


Figure 22: Banking Stability Index ECCU (BSI)



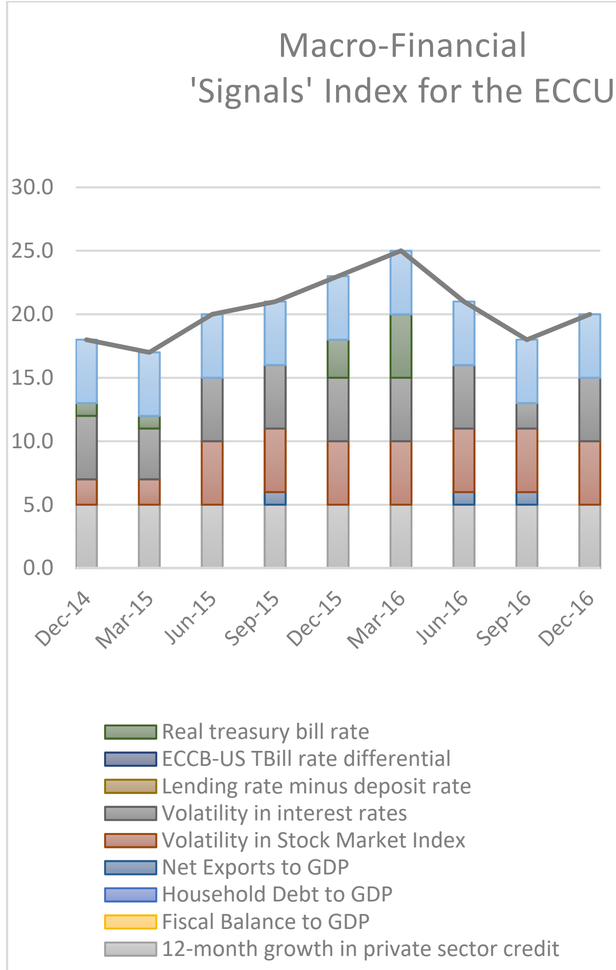
The improvement in the index was driven by developments in liquidity and asset quality. However, weak profitability continues to impede stability in the banking sector. Weaknesses in profitability are driven by both cyclical and structural factors and mostly reflect continued deleveraging and heightened risk aversion by financial institutions.

Macro-Financial Index (MaFI)

The MaFI showed improvements for 2016 with a reduction in the quarterly average value of the index to 20.0 points relative to 23.0 points for 2015 **(Figure 23)**. The Macro-Financial 'Signals' Index is meant to capture changes in different variables relative to a tranquil period. The index is analysed over the period December 2014 to December 2016 and includes the variables inflation, the fiscal balance to GDP, net exports to GDP, interest rate volatility, the ECCB-US T-bill rate differential, 12-month growth in private sector credit, household debt to GDP, stock market volatility, interest rate spread and the real treasury bill rate. The chart suggests that the Macro-Financial Signal rose from its December 2014 value of 22 to a value of 25, the highest point for the period under review.

Since March 2016, the index has declined in value to 20 points as at the end of December 2016. Much of the change in the value of the index has been determined by stock market and interest rate volatility. A secondary influence noted during the period was the real treasury bill rate.

Figure 23: Macro-Financial 'Signals' Index for the ECCU



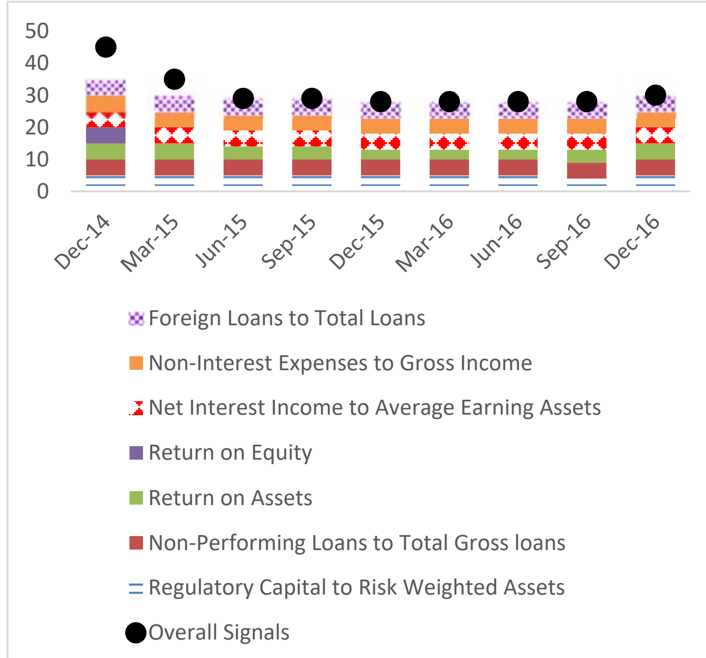
Micro-prudential Index (MiPI)

At the end of December 2016, the MiPI stood at 30 points, up slightly from 29 points in the 2015 (Figure 24). The indicators of non-performing loans, profitability measures10, capital and foreign loans to total loans continued to signal financial stress as non-performing loans and the ratio of foreign loan

[10] Profitability measures are Return on Assets (ROA), return on equity (ROE), Net Interest Income to average assets and non-interest income to total income.

to total loans continued to be above their historical averages. By contrast, the profitability and capital measures signal financial stress when they fall below their historical averages. These are consistent with the results from the BSI and AFSI suggesting that level of credit risk in the economy continues to impede stability while profitability continues to be weighed down by cyclical factors.

Figure 24: Micro-prudential Signals Index ECCU



Chapter 3: Financial Performance and Soundness of Deposit-Taking Institutions: Banking and Credit Union Sectors

3.1 Commercial Banking System

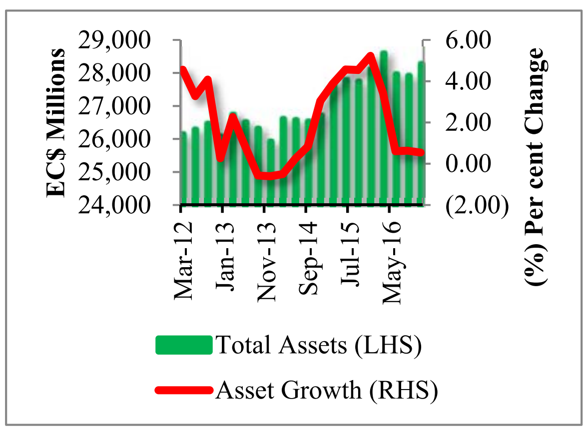
The banking sector of the ECCU remained robust and resilient during 2016. There were no eminent threats of systemic risk and risks in the banking sector diminished. The performance of the banking sector was influenced by improving economic conditions and activities surrounding the bank resolution in Anguilla. Additionally, commercial banks continued to deleverage their balance sheets and optimise their business models. These actions have led to some improvements across the sector.

Key risks which confront the sector are the high levels of Non-Performing Loans (NPL) and concentration in the loan portfolio. Commercial banks loan portfolio remained highly exposed to the household sector and vigilance should be maintained over this segment of the portfolio. However, improving economic conditions should help to stabilise household income and employment and thus translate into reduced risk for the banking sector. Another major risk to commercial banks comes from the low interest rate and negative credit growth environment, which may lead to a rise in income risk, particularly in the event of a further decline in lending to the non-financial sector and the maturing of higher-yielding investments securities. Thus, a deterioration in bank profitability, can reduce the capacity to generate internal capital which could spill over into solvency risk.

3.1.1 Performance - Assets (loans, credit, investments)

Total assets of the banking sector rose by \$154.0m to \$28.3b or 162.0 per cent of GDP during 2016 (Figure 25).

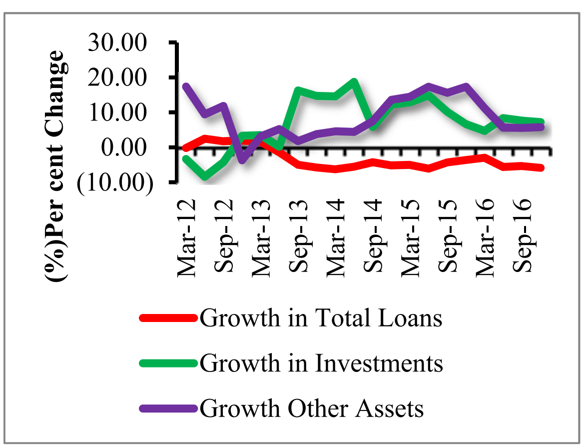
Figure 25: Total Assets and Asset Growth Commercial Banking Sector



Holdings of investments grew by 7.2 per cent, reflecting growth in both domestic and foreign investments. In particular, there was an increase in holdings of government securities and commercial banks' exposure to sovereign debt increased by $35.3m to $1.8b at the end of 2016, roughly 6.0 per cent of their total assets. In contrast, there were reductions in loans, advances and discounts issued by commercial banks.

Total loans, advances and discounts fell by 5.9 per cent to $12.3b as at the end of 2016 (**Figure 26**). This outcome was influenced by the resolution of the two indigenous banks in Anguilla where large amounts of NPL's were transferred to receivership. The reduction in commercial bank lending was broad based across all economic sectors. The reduction in commercial bank lending is also partially attributable to increased risk aversion on behalf of banks.

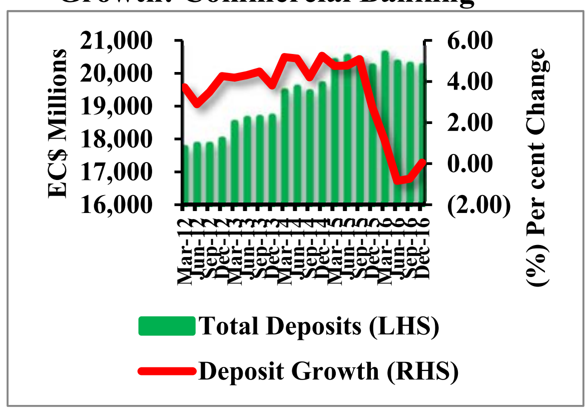
Figure 26: Growth in Loans, Investments and Other Assets of Commercial Banks



Liabilities - Deposits

The total stock of deposits in the banking sector increased by $10.0m to $20.2b or 116.0 per cent of GDP (**Figure 27**). The increase in deposits was occasioned by a $252.0m increase in government deposits while all other major deposit segments recorded declines.

Figure 27: Total Deposits and Deposit Growth: Commercial Banking



Source: ECCB

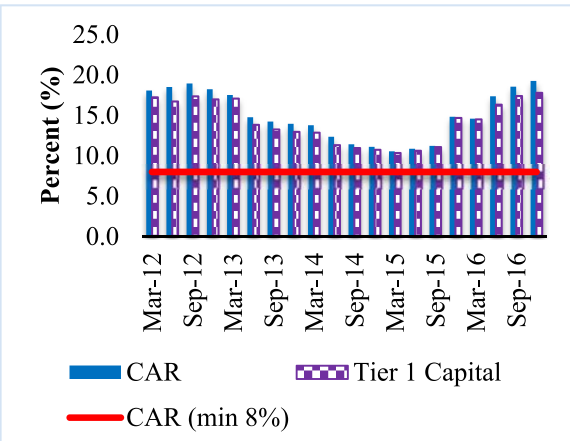
3.1.2 Financial Soundness Analysis

3.1.2.1 Capital

The solvency of the banking sector as measured by the capital adequacy ratio (regulatory capital to risk weighted assets(CAR)) increased as at the end of 2016. The capital adequacy is measure of the banking sector ability to absorb losses. During 2016, total regulatory capital in the ECCU banking sector rose by almost

$570.0m consequently the capital ratio increased by 4.5 percentage points to 19.8 per cent well above the 8.0 per cent regulatory). requirements and the Tier 1 capital ratio by 3.1 percentage points to 17.8 per cent (**Figure 28)**

Figure 28: Capital Adequacy Ratio (CAR) Commercial Banks



Source: ECCB

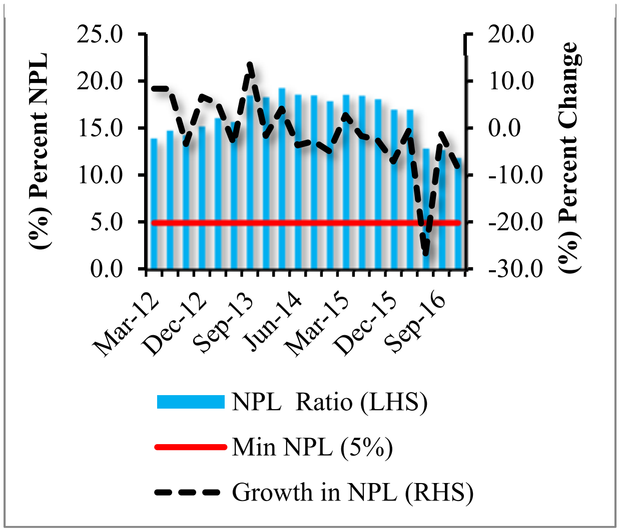
The increase in capital by the banking sector has increased the sector's ability to absorb losses thus boosting its resiliency but it may not be sufficient for some banks in an adverse phase of the business cycle. Despite the increase in the ratio most of this has been met through a reduction in risk weighted assets thus efforts are needed to further strengthen the capital position of the banking sector. A positive factor is that the sector's leverage ratio (the ratio of Tier 1 capital to non-risk-weighted exposures) rose slightly in the period under review despite the downward trend in aggregate risk weights. The fall in aggregate risk weights is thus not being accompanied by a decline in the banking sector's capital. The aggregate leverage ratio was 5.0 per cent at the end of 2016 up from 4.1 per cent at the end of 2015.

3.1.2.2 Asset Quality

The size of the NPL portfolio, its expected losses and coverage by provisions are important elements in the assessment of the condition and resilience of the banking sector. Asset quality of the commercial banking industry, as measured by the NPL ratio (defined as the ratio of non-performing loans[11] to gross loans), fell from 16.1 per cent at the end of December 2015 to 11.8 per cent at the end December 2016 **(Figure 29)**. The improvement in the NPL ratio largely reflected bank resolutions in Anguilla and Antigua and Barbuda.

[11] Non-performing loans are defined as loans past due 90 days or more.

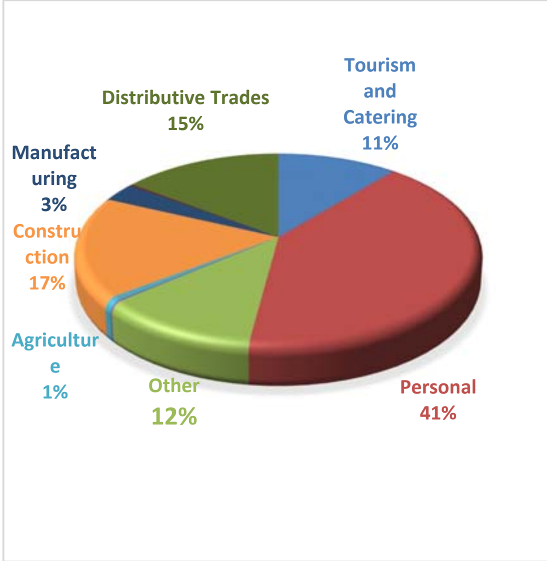
Figure 29: Non-Performing Loans Ratio Commercial Banking Sector



Source: ECCB

There is also a considerable concentration of non-performing loans, 41.0 per cent of the NPL's belong to the personal sector most of which are concentrated in mortgages **(Figure 30)** which have proven difficult to resolve to due legal and collateral market issues. The loans in the over 365-day bucket are the ones which pose the greatest risk to the banking sector since they require larger provisions and they are also reflective of the structural weaknesses in the disposal of real estate collateral. Going forward addressing these loans in a systematic way will create the type of environment for the banking sector to begin extending loans and cutting their losses.

Figure 30: Distribution of Non-Performing Loans by Sector

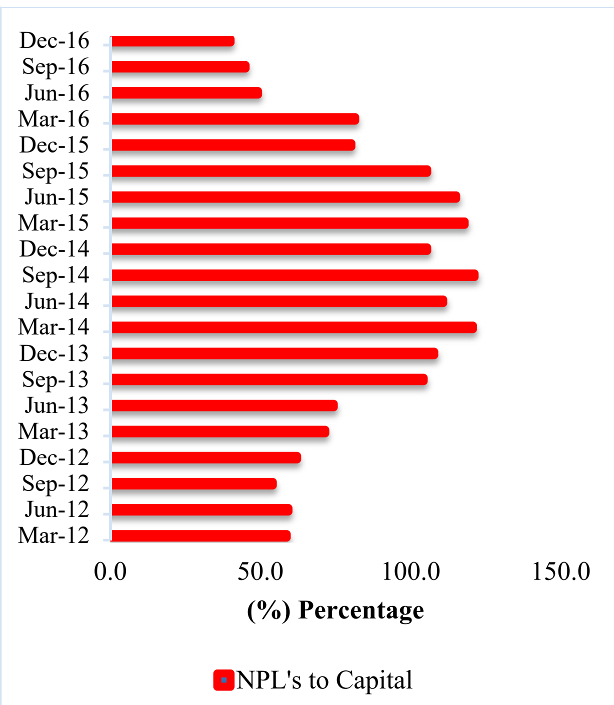


Source: ECCB

The ratio of non-performing loans net of provisions to total capital, a measure of the banking sector ability to absorb credit losses, decreased from 80.3 per cent as at the end of

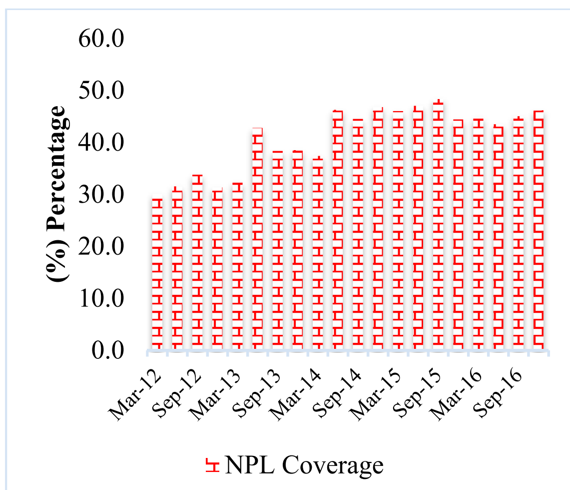
December 2015 to 40.1 per cent at the end of December 2016 (**Figure 31**). The reduction in the ratio is reflective of the decrease in the value of nonperforming loans relative to capital. Thus, a reduction in the ratio is interpreted as positive impact to the banking sector while an increase would signal a negative impact.

Figure 31: Ratio of Non-Performing Loans Net of Provisions to Total Capital



Despite the reduction in the value of the NPL's, the NPL coverage ratio (the ratio of loan loss provisions to total NPL's) increased from 45.0 per cent at end of 2015 to 46.2 per cent at the end 2016 (**Figure 32**), this is perhaps indicative of greater prudence on behalf of banks. By contrast loan loss provisions as a percentage of total loans decreased to 3.4 per cent at end-2016, relative to 4.4 per cent at end-2015. The provisions created by banks at the aggregate level nevertheless seem to be sufficient to cover the current expected loss given default. However, there are significant differences across the sector in the prudence of banks with regard to NPL coverage.

Figure 32: Non-Performing Loan (NPL) Coverage

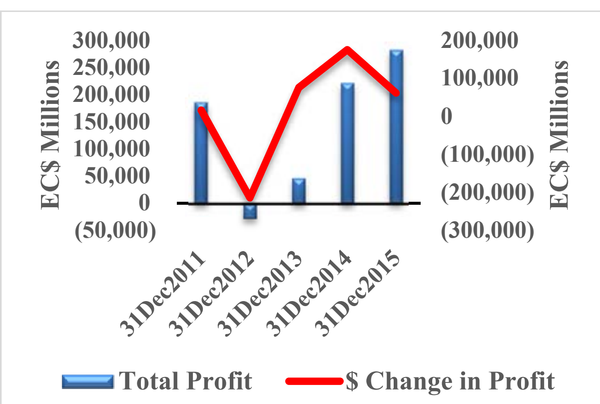


Source: ECCB

3.1.2.3 Earnings and profitability

The profitability of the commercial banking sector increased in 2016 as a result of a reduction in credit risk, lower impairment costs, a decrease in interest expenses and an increase in non-interest income. Profits before taxes totalled $282.0m as at the end of 2016, a $60.2m increase over the 2015 amount (Figure 33). The increase in profitability was supported by $31.0m increase in income from fees and charges, $14.8m in net interest income and a $15.0m reduction in the operational expenses of commercial banks. Commercial banks improvement in net interest income was as a result of a $92.0m reduction in interest expenses attributed mainly to the lowering the minimum savings rate (MSR) in May 2015.

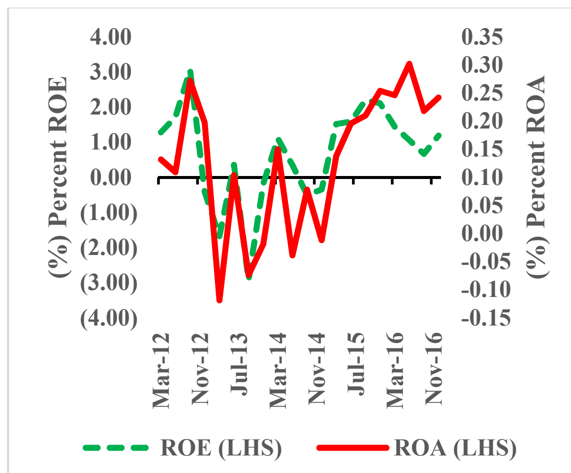
Figure 33: Profits before Taxes of Commercial Banks



Source: ECCB

Return on assets (ROA) a commonly used measure of commercial bank profitability increased to 1.0 per cent at the end of 2016 compared with a 0.8 per cent recorded in 2015 (**Figure 34**). At the same time the return on equity (ROE) declined to 4.4 per cent from 7.4 per cent recorded in 2015.

Figure 34: Return on Assets (ROA) and Return on Equity (ROE) Commercial Banks



Source: ECCB

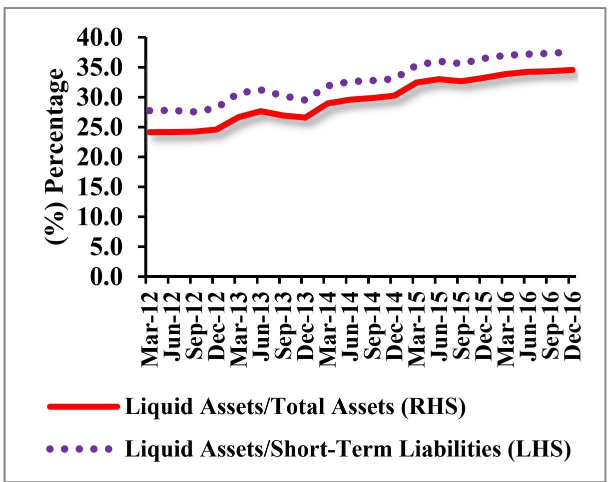
Though profitability is improving it has been driven largely by rising income from fees and charges which is not a sustainable strategy for the banking sector going forward. The main constraints on income generation remain the contraction in credit, a fall in interest rates on loans and the still very high levels of NPLs. A further reduction in NPL's would bode well for commercial bank profitability as it would reduce the level of provisioning expenses, however, impairment costs are pro-cyclical in nature, and do not have a long-term positive impact on income generation.

Therefore, going forward, it would be important for banks to continue to optimise their business models towards reducing operating costs and increasing credit growth. Increasing profitability is important for further strengthening the capital position of the banking sector.

3.1.2.4 Liquidity

Liquidity is the ability to meet unexpected redemptions of liabilities, especially deposits. Liquidity in the commercial banking sector can be assessed using a number of different measures. Two such measures examined here are the ratio of liquid assets to short term liabilities and the ratio of liquid assets to total assets; an increase in these ratios signal enhanced liquidity. During 2016 both indicators continued to trend upwards and well above minimum regulatory requirements. The continued increase in liquidity is reflective of lower levels of intermediation as banks go through the process of repairing their balance sheets post crisis (**Figure 35**).

Figure 35: Liquidity Ratios for Commercial Banks

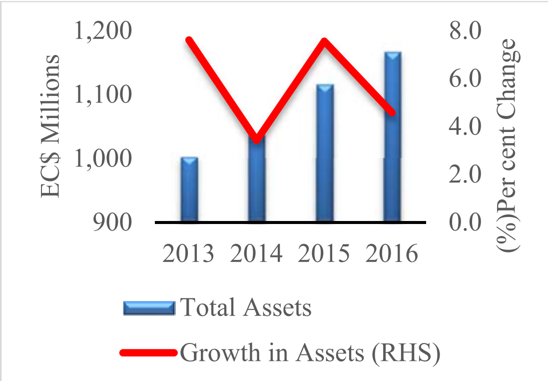


3.2 Non-Bank Financial Institutions (NBFI's)

This section covers NBFI's licenced under the Banking Act 2015[12]. As in the case of the commercial banking sector, NBFI's recorded an increase in their balance sheet, as total assets increased by 4.6 per cent to $1.2b at the end of 2016 from $1.1b at the end of 2015 (**Figure 36**).

[12] National Mortgage and Trust, Finance and Development Company Ltd., ACB Mortgage and Trust, TDC Financial Services Ltd (formerly FINCO), Capita Finance, FICS FirstCaribbean International Finance Corporation (Leeward & Windward) Ltd (FINCOR), Saint Lucia Mortgage Finance, Sagicor Mutual Finance, East Caribbean Financial Holdings (ECFH), First St Vincent Bank Ltd and St Vincent Cooperative Bank Ltd

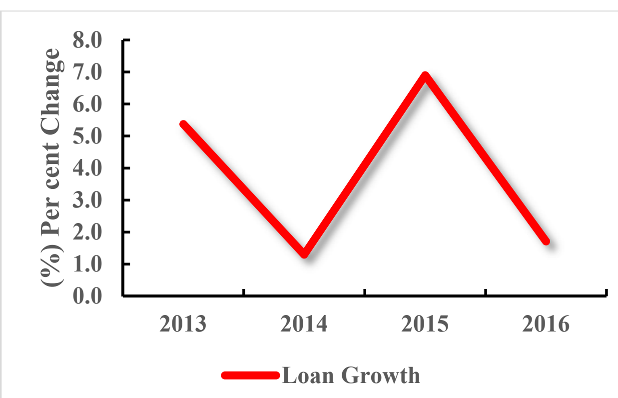
Figure 36: Total Assets and Asset Growth NBFI



Source: SRUs and ECCB Estimates

The increase in total assets was attributable to loans and advances and investments, which rose by 1.7 per cent and 4.5 per cent respectively. NBFI's have consistently been increasing loans and advances over the last few years with most of the loans going to households **(Figure 37).**

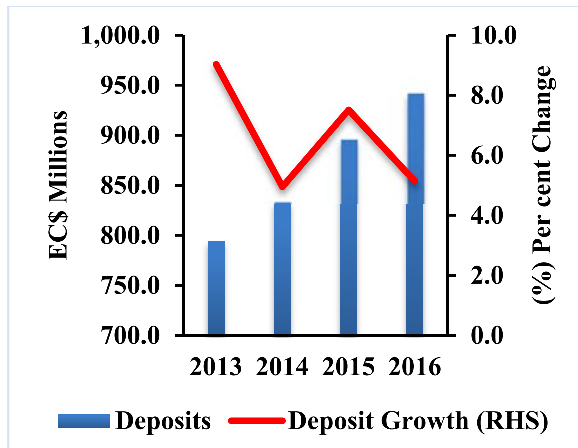
Figure 37: Loan Growth NBFI's



Source: SRUs and ECCB Estimates

Total deposits increased by 5.1 per cent to $0.94b as at the end of 2016 from $0.90b at the end 2015 **(Figure 38)**. The growth in total deposits was influenced mainly by an increase in time deposits as NBFI's offered slightly higher time deposit rates banks.

Figure 38: Total Deposits and Deposit Growth of NBFI's

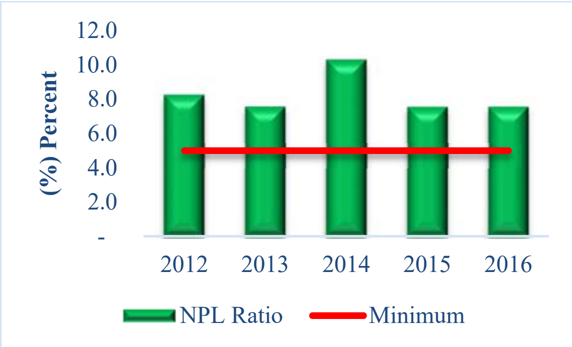


Source: ECCB and Author's calculation

Asset quality for the NBFI's remained constant throughout 2016 as the ratio of non-performing loans relative to total loans and advances stayed at around 8.0 per cent the same level recorded in 2015 **(Figure 39)**

The NPL coverage ratio as measured by provisions to NPL's increased during 2016.

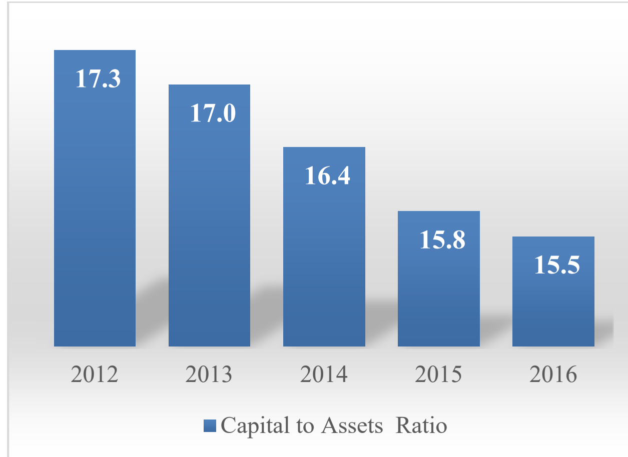
Figure 39: NBFI's - Non-Performing Loans Ratio



Liquidity improved as the loans to deposits ratio fell from 85.8 per cent in 2015 to 83.0 per cent at the end of 2016 as the pace of deposit growth outpaced that of asset growth.

The capital to assets ratio has been trending downwards for the NBFI sector indicating that its resilience is being reduced. As at the end of 2016 the capital to assets ratio fell to 15.5 per cent, from a high of 17.3 per cent recorded in 2012 **(Figure 40).** However, the distribution is asymmetric across countries with most of the deterioration in the ratio driven by institutions Saint Lucia and St Vincent and the Grenadines.

Figure 40: Capital to Assets Ratio



3.3 Credit Unions (Performance and Financial Soundness Analysis)

Credit Unions play a key role in providing access to financial services in the ECCU region and are thus important to financial stability. Total assets of credit unions grew by 8.7 per cent ($244.4m) to $3.0b at the end of 2016 **(Figure 41).**

The growth in assets was slightly lower than the previous year when assets grew by about 10.5 per cent. The increase in assets as at 31 December 2016 was mainly attributed to an increase in loans and advances as evident by the significant share of the loans portfolio to total assets (Figure 41).

Figure 41: ECCU Credit Unions-Total Assets

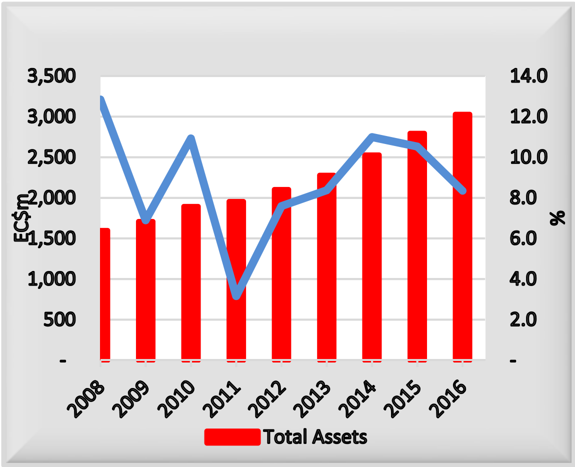
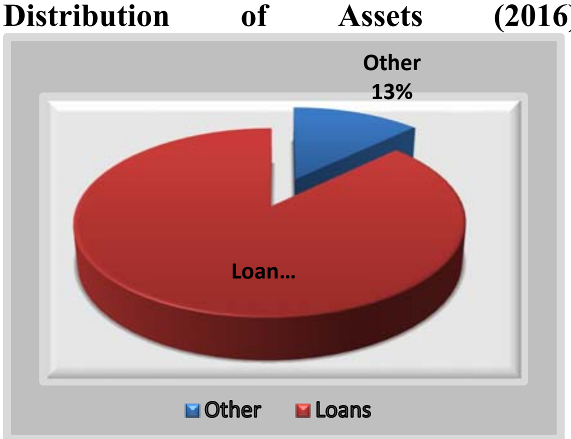


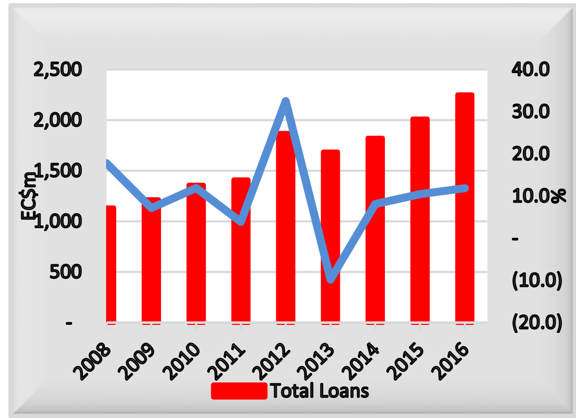
Figure 42: ECCU Credit Unions-Distribution of Assets (2016)



Source: Single Regulatory Units

As at December 2016, loans and advances granted by the credit unions sector increased by 11.8 per cent ($238.3m) to $2.2b. The growth in loans was slightly higher (1.5 percentage points) than the comparative period in 2015 (Figure 42)

Figure 43: ECCU Credit Unions-Total Loans



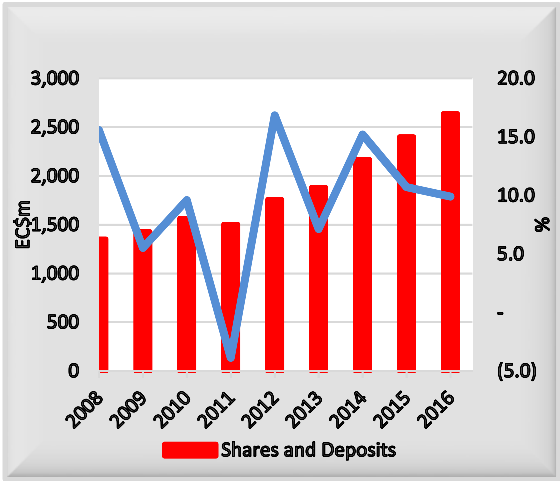
Source: Single Regulatory Units

Data on non-performing loans (NPL's) received from three of the seven territories with active credit unions indicates that NPL's decreased by 3.1 per cent ($1.9m) to $61.4m in 2016[13]. These territories accounted for 34.1 per cent of the total credit union loans as at 31 December 2016.

Shares and deposits of the credit union sector expanded by 9.9 per cent ($237.9m) to $2.6b in 2016 compared to 10.7 per cent ($232.1m) in the previous year **(Figure 44)**.

[13] Data on non-performing loans as at December 2015 and 2016 were received from the Regulatory Units in Grenada, Montserrat and St Vincent and the Grenadines.

Figure 44: ECCU Credit Unions-Total Shares and Deposits



Source: Single Regulatory Units

Figure 45: Total Assets – ECCU Insurance Sector

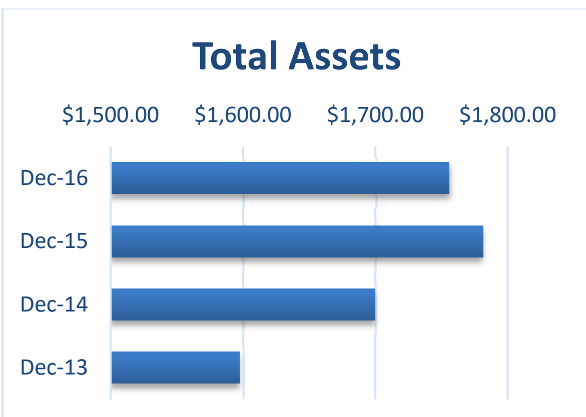
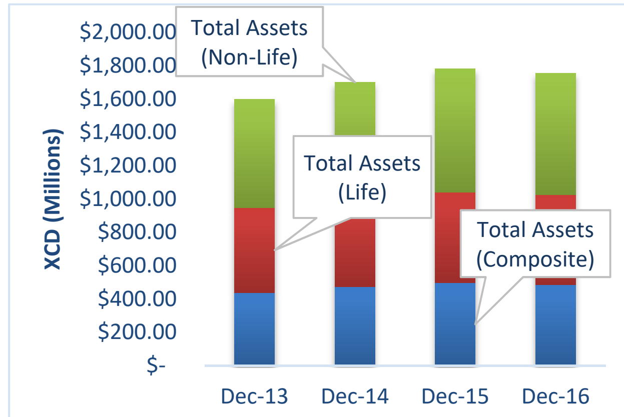


Figure 46: Share of Assets by Insurance Segment



As at 31 December 2016 the assets of the insurance sector were estimated at $1.76b, a decline of 1.4 per cent from 2015 (**Figure 44**). The largest share of assets is held by Non-Life (general) insurance firms, followed by Life insurance firms and Composite insurance companies **(Figure 45).** The composition of assets held by insurance companies as at 31 December 2016, consisted mainly of fixed income instruments (Bonds and Treasury bills), 49.0 per cent and equities, 31.0 per cent. Thus, insurance companies have a high exposure to market risks as a result of the structure of their portfolio.

Chapter 4: Financial Performance and Soundness of Non-Deposit-Taking Institutions: Insurance Companies

4.1 Underwriting Performance

Gross premiums collected, a measure of the underwriting performance of insurance companies, remained low as premiums declined by 2.6 per cent to $455.0m in 2016 following a decline of 7.0 per cent to $467.1m in 2015 (**Figure 47**). The decline in premiums is primarily attributed to the *Non-life and Composite (*Figure 49 and 50) segments and partly offset by an increase in the *Life segment* (Figure 48) of the industry. With the decline in gross premiums, expenses have remained stable rising by 1.7 per cent and 0.3 per cent in 2015 and 2016 respectively.

Figure 47: Share of Gross Premiums by line of Business

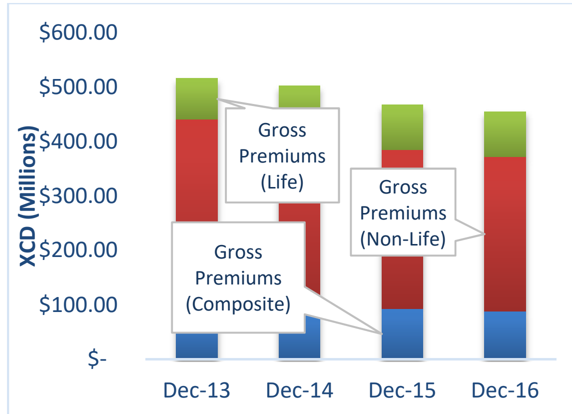


Figure 48: Gross Premiums - Life Insurance

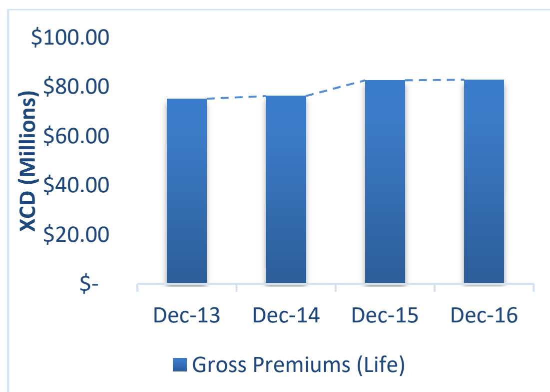


Figure 49: Gross Premiums - Non-Life

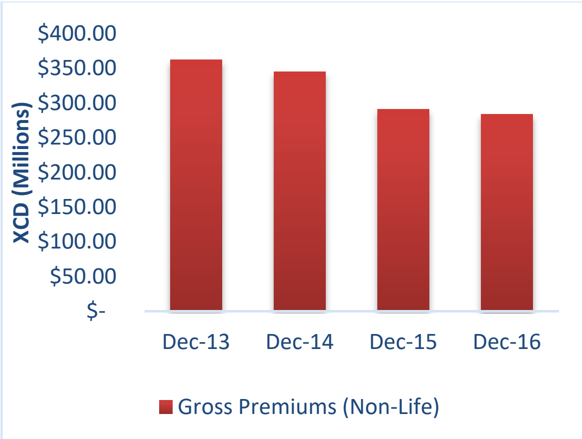
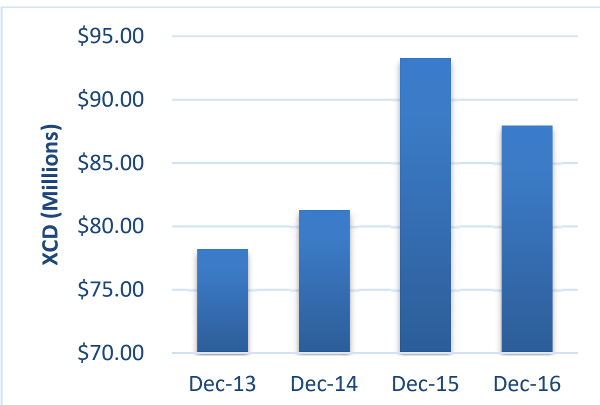


Figure 50: Gross Premiums (Composite Insurance)



The financial soundness of the insurance sector was assessed using the CARAMELS framework. This framework makes use of ratios for capital adequacy, asset quality, reinsurance and actuarial issues, management soundness, earnings and profitability, liquidity and sensitivity to market risks.

On a consolidated basis, capital (including technical reserves) of insurance companies rose to $1.26b in 2016 from $1.25b in 2015. As such, the aggregate ratio of capital-to-total assets increased to 67.2 per cent at the end of 2016 compared to 66.5 per cent in the prior year conversely, the ratio of net premiums to capital declined from 30.5 per cent to 29.6 per cent in 2016, Table (3).

Insurance investments are well diversified, the ratio of real estate investments to total assets for both life and non-life insurers are low at 6.4 and 11.8 per cent respectively see (Table 3). In the same period, the ratio of equity investments to total assets for life insurers increased from 10.9 per cent in 2015 to 12.7 per cent as at the end of 2016. In a similar vein the ratio of equities to total assets rose for non-life insurance companies. The growing exposure of insurance to equities is an indication that insurance companies are increasing their risk to market risk but given their levels of capital they should be able to cushion losses.

Available indicators for profitability in the insurance sector suggests it is improving despite lower interest rates. The expense ratio for life increased while for non-life insurers the ratio fell during 2016. An improvement was noted in the investment yield ratio for life insurance companies which increased by 62 basis points to 6.9 per cent (see Table 3). For non-life insurers, there was a reduction in the investment income-to-net premium ratio for 2015 as the ratio fell by 10 basis points to 4.4 per cent (**Table 3**).

These returns on investment, especially in the non-life segment of the market are indicative of the lower yields on assets held by firms in the region as well as increased competition in some islands which has consumed existing market share.

Insurance companies have built up substantial liquidity on their balance sheets. Liquid asset ratios rose to 120.8 per cent and 207.8 per cent for life and non-life companies respectively at the end of 2015 (**Table 3**).

Table 3: Financial Soundness Indicators Insurance Sector

Table of Selected Financial Ratios[1]	Life Insurance					Non-Life Insurance			
	2013	2014	2015	2016 E		2013	2014	2015	2016 E
Capital Adequacy (%)									
Net premium/capital	NA	NA	NA	NA		37.16	33.91	30.53	29.57
Capital/Total Assets	NA	NA	NA	NA		69.16	67.42	66.45	67.16
Capital/Technical Reserves	35.27	38.43	42.96	45.02		NA	NA	NA	NA
Asset Quality (%)									
(Real estate + unquoted equities + debtors)/total assets	8.37	7.92	5.85	6.35		15.36	11.59	11.57	11.75
Receivables/(Gross premium + reinsurance recoveries)	28.07	26.41	14.28	19.11		16.72	13.80	17.08	17.67
Equities/Total Assets	11.76	9.84	10.88	12.65		23.72	20.16	22.12	23.07
Reinsurance and Actuarial Issues (%)									
Risk retention ratio (net premium/gross premium)	87.58	88.13	89.53	89.11		46.15	46.44	51.67	51.09
Earnings and Profitability (%)									
Expense ratio (expense/net premium)	123.03	121.88	97.04	107.44		87.83	77.19	89.56	88.89
Investment Income/net premium	NA	NA	NA	NA		7.56	6.01	5.63	6.43
Investment Income/investment assets	3.64	6.09	6.23	6.85		NA	NA	NA	NA
Revisions to Technical Reserves/Technical Reserves	-0.68	0.34	0.01	0.49		0.00	0.00	0.00	0.00
Liquidity (%)									
Liquid assets/Current Liabilities	109.39	115.17	117.54	120.79		204.15	194.98	205.63	207.82
Sensitivity to Market Risk (%)									
Net Open Foreign Exchange Position to Capital (Non-Life) %	NA	NA	NA	NA		0.00	0.00	0.00	0.00

Source 1*:SRUs*

Insufficient data exists to completely evaluate CARAMELS. Management Soundness is left out of the framework above.

Source 2*: 'NA' - means Not Available*

Source 3*: * 'E' represents estimated values for the Financial Soundness Indicators. The countries included in the analysis are; Anguilla, Dominica, Grenada, St Kitts and Nevis, St Lucia and St Vincent and the Grenadines*

4.2 Capital

Reflecting an improved capital position, the aggregate ratio of capital-to-total assets decreased to 62.6 per cent at the end of 2015 compared to 63.8 per cent in the prior year conversely, the ratio of net premiums to capital increased from 41.2 per cent to 42.9 per cent in 2015, **Table (3)**. In the life insurance segment, the capital-to-technical reserves ratio moved higher by 5.0 percentage points to 43.0 per cent, well in excess of the international benchmarks of 7.0 per cent and 10.0 per cent, respectively. In the life insurance segment, capital[14] to technical reserves rose to 43.0 per cent at the end of 2015 up from 35.3 per cent in 2013. This increase in the ratio was due to growth in capital (without technical reserves) of 8.8 per cent in 2015 and offset by a decline in technical reserves of 2.7 per cent.

On a consolidated basis, capital (including technical reserves) of insurance companies rose to $1.38b in 2015 from $1.35b in 2014 and $1.24b in 2013. The increases in capital were attributed to growth in capital held by Non-life insurance companies of $31.8m in 2015 and which increased their technical reserve holdings by 5.2 per cent in 2015. In the Life insurance segment of the market, capital rose by $2.6m to $512.2m in 2015. However, technical reserve holdings within this market declined while remaining a significant portion (70.0 per cent) of total reserves.

4.3 Asset Quality

Insurance investments are well diversified, the ratio of real estate investments to total assets for both life and non-life insurers are low at 5.9 and 15.4 per cent respectively (**Table 3**). The ratio of equity investments to total assets for life insurers increased from 9.8 per cent in 2014 to 10.9 per cent as at the end of 2015. In a similar vein the ratio of equities to total assets rose for non-life insurance companies as well. The growing exposure of insurance equities is an indication that insurance companies are increasing their risk to market risk but given their levels of capital they should be able to cushion losses.

4.4 Reinsurance and actuarial issues

Reinsurance and actuarial issues were captured through the reinsurance or risk retention ratio[15], as measured by the ratio of

[14] Capital was separated from Technical reserves then divided by technical reserves in order to acquire this ratio.

[15] The risk retention ratio is a rough measure of how much of the risk is being carried by an insurer rather than being passed onto reinsurers. The lower the ratio, the more

net premiums to gross premiums, increased to 89.5 per cent as at the end of 2015 for the *life insurance* segment. In a similar fashion, the risk retention ratio for the non-life segment increased to 50.3 per cent at the end of 2015 from 47.9 per cent in 2013 **(Table 3)**. This continued increase in the ratio suggests that firms are retaining more premiums to cover potential claims. The higher retention ratio amongst non-life insurance companies may also be indicative of the relatively benign hurricane season over the past three years. This may also suggest that insurance companies do not foresee any major demand for claims in the near future given their retention of risk.

4.5 Earnings and profitability

Available indicators for profitability in the insurance sector suggest that profitability is improving despite lower interest rates. The expense ratio for both life and non-life insurers though fell during 2015 an indication of an improvement in profitability. An uptick was noted in the investment yield ratio for life insurance companies which decreased by 16 basis points to 6.2 per cent **(Table 6, Appendix 1)**. For non-life insurers, there was a reduction in the investment income-to-net premium ratio for 2015 as the ratio fell by 10 basis points to 4.4 per cent (**Table 3)**. These returns on investment, especially in the non-life segment of the market are indicative of the lower yields on assets held by firms in region as well as increased competition in some islands which has consumed existing market share.

4.6 Liquidity

In the presence of this competition, higher liquidity and lower interest rates from commercial banks, insurance companies have built up substantial liquidity on their balance sheets. Liquid asset ratios rose to 117.5 per cent and 182.6 per cent respectively at the end of 2015, **Table 3**. Finally, the non-life sector's sensitivity to market risk ratio has increased to 5.2 per cent from 4.0 per cent in 2013 as the net open position in foreign exchange increased from $20.8m in 2013 to $32.2m in 2015.

4.7 Risk Assessment

The risks emanating from the insurance sector remain low given adequate levels of capital, low pay-out (high retention) ratios and assets with a low concentration in illiquid or rather less liquid asset classes. Despite, the

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the company is able to avoid financial distress following a large claim.

improvement in liquidity and capital, expenses remained relatively high over the three (3) year period of analysis and investment income remains low (non-life insurance). Additionally, revisions to technical reserves have been minimal. Market risks, however, remain relatively high for insurance firms in the region given the structure of portfolios and positions in foreign currency. As per legislation, insurance companies are expected to structure their technical reserve portfolios around sovereign debt within the ECCU, while other capital holdings may be unquoted equities while general investment portfolios are centred on equities (quoted) and other fixed income instruments from within the ECCU and CARICOM. Consequently, market risks and market risk sensitivity continues to increase especially given the low returns to investment.

Chapter 5: Payments Infrastructure and Capital Markets

5.1 Key Developments in Payment Systems

Overview

Payment and settlement systems are a core part the financial infrastructure and thus facilitate economic activity through the efficient payments for goods and services. The payment system comprises the large value funds transfer payments for the interbank, security settlements and the retail funds transfer, which is managed mostly by the commercial banking community. Transactions analysed over the period January to December 2016 and the prior year comprise of cheques, cards (automated teller machines (ATM) and point-of-sales (POS)), real time gross settlement (RTGS) and other transactions (direct debits, e-money, standing orders, internet transfers, and payroll).

The financial sector's exposure to the financial infrastructure of the ECCU emanates from the concentration of liquidity in the large-value transfer system. Commercial banks use this system to facilitate the flow of liquidity within the financial network. The interconnections within the financial system, thus contribute to increased contagion risk in the event that participants experience liquidity constraints.

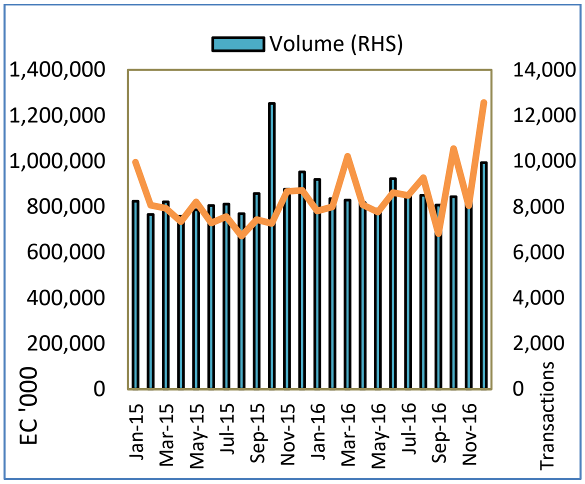
Overall, the stability of the ECCU payments and settlement system was maintained through 2016, when compared to the previous year. There was an increase in activity in the payments system, which was consistent with an improving economic environment. While the total value of transactions settled on the RTGS increased the total volume fell, by contrast both the value and volume transaction on the ECACH increased in 2016.

5.2 Analysis of Payment System

Real-Time Gross Settlement System (RTGS)

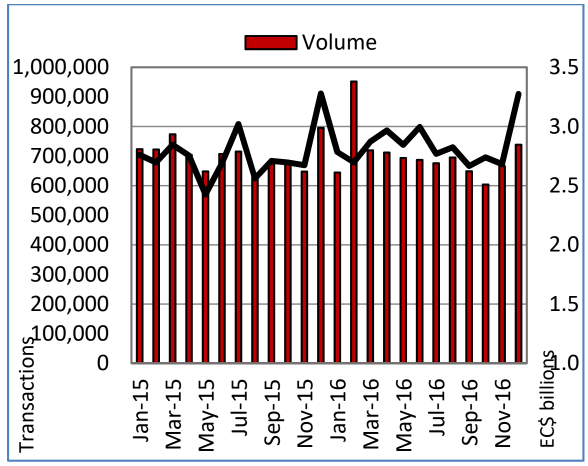
Overall, activity in the RTGS system increased during 2016, with total value of transactions rising by 11.6 per cent to $10.6b for 2016, from EC$9.5b for 2015 (**Figure 51**). Transaction volumes on the RTGS declined marginally in 2016 to 102,790 compared to 102, 826 for 2015.

Figure 51: RTGS monthly transaction values and volumes



Source: ECCB

Figure 52: ECACH monthly transaction values and volumes



Source: ECCB

5.3 Retail Payment Systems

Eastern Caribbean Automated Clearing House (ECACH)

Cheques including returned items remain the instrument with the highest transaction value (EC$34.1b for 2016), accounting for 74.0 per cent of the activity in the retail payment system.[16] The volume of cheques issued also increased for 2016 to 8.43m relative to the 8.42m observed for 2015 (**see Figure 52**).

Retail payment activity increased in 2016 by 3.1 per cent to EC$46.1b. The average monthly transaction value in 2016 was EC$3.8b compared to EC$3.7b in the previous year. Total transaction volumes were 0.9 per cent higher in 2016 ($39.7m). Card transactions were the main drivers of this increase in volume and continue to be the most used retail payment instrument (**Table 4**). Card based transactions accounted for 64.4 per cent of the total number of retail payment transactions. The preference for electronic forms of payments continues to increase while we observe reduced use of paper-based forms.

[16] The retail payment system includes cheque payments, card transactions (automated teller machines 'ATM' and point-of-sale terminals 'POS'), and other forms of electronic payments.

Table 4: Retail payment transactions and values 2015 and 2016

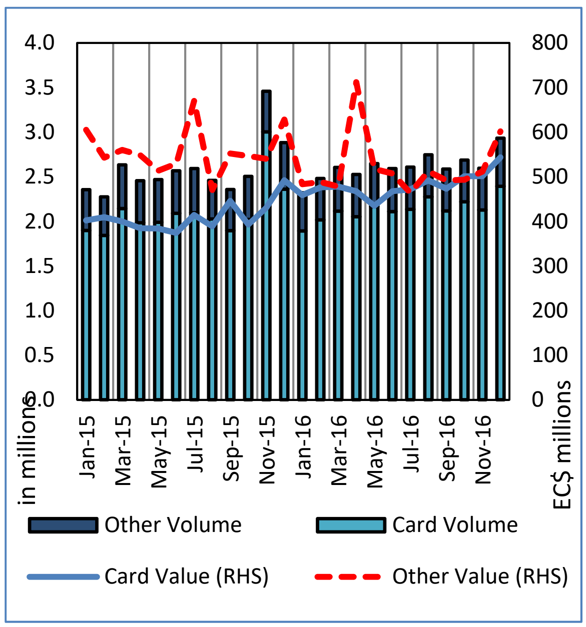
		2015		2016	
		Value	*Volume*	*Value*	*Volume*
		($ billions)	*(millions)*	*($ billions)*	*(millions)*
Cheques		33.1	8.4	34.1	8.4
Card Transactions:		4.9	25.3	5.7	25.6
	ATM	2.7	13.7	3.1	12.4
	POS	2.2	11.6	2.6	13.2
Other Transfers		6.7	5.6	6.2	5.7

Source: ECCB

5.4 Card Transactions and Other Transfers[17]

There was increased activity in 2016 for card transactions. Total card payments distributed almost equally between ATM and POS transactions, at 54.0 per cent and 46.0 per cent respectively. Overall, the number of transactions increased by 1.0 per cent to 25.6m for 2016 compared to 25.3m for 2015. A decline was observed in the number of ATM transactions (9.8 per cent), while point-of-sale transactions increased by 13.9 per cent in 2016. Overall, the value of card transactions increased by 17.2 per cent to $5.7b in 2016, from $4.9b in 2015. The average monthly transactional value was recorded at $480.0m for 2016 (**Figure 53**). Total other transfers declined to $6.2b in 2016 from $6.7b in 2015. This decline is likely indicative of a shift from these other forms of electronic payments to card and cheque transactions. The volume of transactions increased by 1.0 per cent for 2016 to 5.7m.

Figure 53: Monthly values and volumes (card transactions and other transfers)



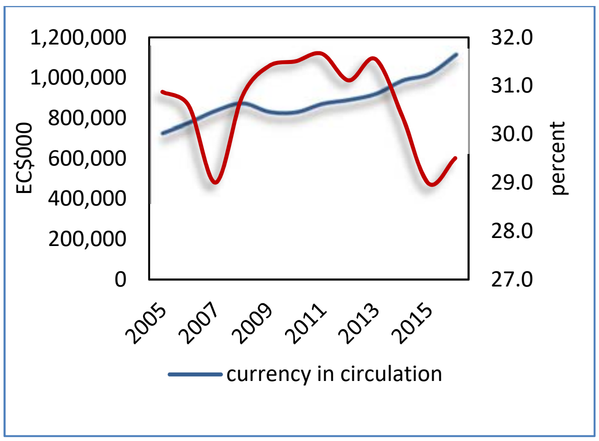
Source: ECCB

[17] Other transfers refer to all other electronic forms of payment, to include; Direct Debits, E-money, Standing Orders, Internet Transfers, and Payroll.

5.5 Cash

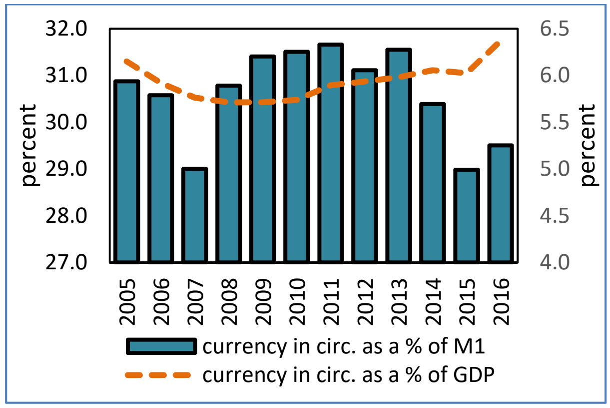
Despite some observed migration from paper-based to electronic payments, cash remains the dominant means of payment in the region. Currency in circulation grew by 9.4 per cent in 2016 to $1.1b compared to growth of 3.3 per cent during 2015 (**Figure 54**). As a share of GDP, currency in circulation increased to 6.4 per cent in 2016 compared to 6.0 per cent in 2015. Currency in circulation as a percentage of M1 also increased slightly to 29.5 per cent for 2016 from 28.9 per cent for 2015 (**see Figure 53**).

Figure 54: Currency in Circulation



Source: ECCB

Figure 55: Currency in circulation to M1 and GDP



Sources: ECCB and Staff Calculations

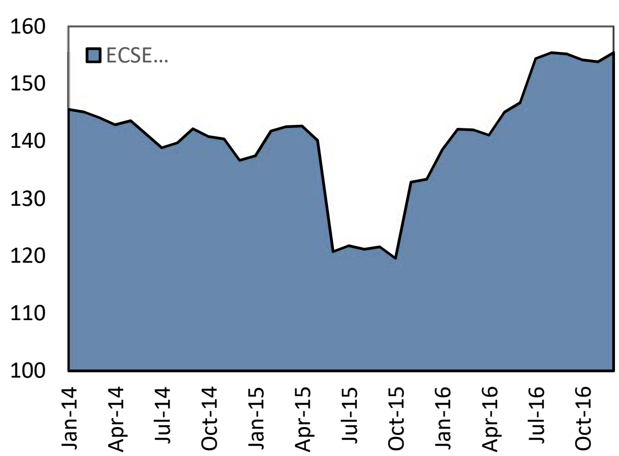
5.6 Financial and Capital Markets

The capital and financial markets of the ECCU are for the most part in the early stages of development. Consequently, the activity observed on the markets, though low, continues to improve annually as the markets and investors become more sophisticated. The Eastern Caribbean Securities Exchange (ECSE) index rose to 156.13 at 31 December 2016 from 133.14 at the end of 2015. In relation to the Regional Government Securities Market (RGSM), performance for 2016 closely matched that of the previous year. Governments raised $1,093m for 2016 on the (RGSM) relative to $1,094m raised for 2015.

5.6.1 Eastern Caribbean Securities Market *(ECSE) - Equity Market*

Equity-based finance is yet to become a popular medium for companies in the region to seek financing. The ECCU is still a bank-based environment where commercial banks dominate capital needs, accounting for majority of the financial systems total assets. Thus, activity on the ECSE though small resulted in an overall appreciation of the index in 2016. The ECSE stock market index gained 22.9 points on its 2015 level, moving to 156.13. The average monthly value of the index has been climbing steadily since October 2015, outperforming previous years (**Figure 56**). The market capitalization of the exchange stood at EC$8.2b as at 31 December 2016.

Figure 56: Average Monthly Value of the ECSE Stock Market Index



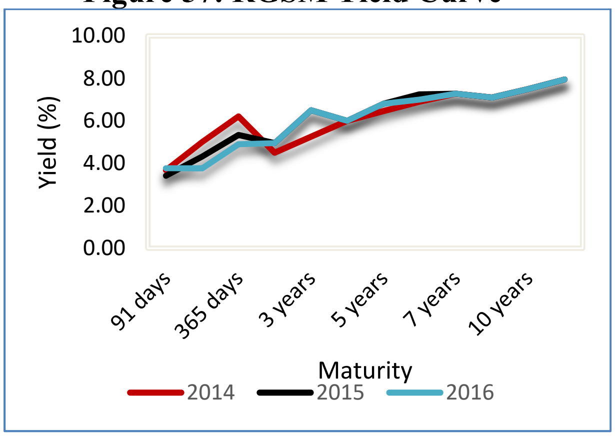
Source: ECSE

5.6.2 Bond Market (RGSM)

Compared to the equity markets of the ECCU, the regional sovereign bond market is robust, sophisticated, and more developed. Investor participation in the regional bond market encompasses: commercial banks; non-bank financial institutions; brokers; and private individuals. In 2016, governments raised $1,093.0m on the RGSM and issued securities totalling EC$965.0m, this performance is essentially in parity with the value governments raised in 2015 (EC$1,094m). A smaller number of auctions occurred in 2016 (51 auctions in 2016 when compared with 53 in 2015) as governments replaced longer-term instruments with short duration instruments. Commercial banks continue to dominate the market for government securities in the ECCU, accounting for 43.5 per cent of the total value of bids. Relative to 2015, commercial banks have reduced their exposure to the sovereign debt instruments issued on the market, while 'other' financial institutions have increased funding to the governments.

Majority of the instruments issued on the market are of short duration.[18] The 3-month and 6-month treasury bills accounted for 82.3 per cent of all securities issued for 2016, they accounted for 75.0 per cent of the instruments issued in 2015. These observations are supported by analysis of the yield curve (**Figure 57**).

Figure 57: RGSM Yield Curve



Source: ECCB

Over the years there has been a flattening of the yield curve as investors' appetite for short-term securities have increased. Interest rate movements have been largely concentrated in the shorter end of the curve while the long end of the curve has remained relatively static. Governments have limited the issue of long-term instruments as investors (fearing increased exposure to sovereign default risk) tend not to gravitate to them.

[18] For the purpose of this analysis, short duration securities are 3-month, 6-month, and 1-year debt instruments.

Chapter 6: Policy Initiatives for Enhancing Financial Stability in the ECCU

In the ECCU, several initiatives for enhancing financial stability in the monetary union are either ongoing or have been proposed. These include legislative reforms, supervisory and regulatory enhancements, infrastructural upgrades and development of resolution strategies. These initiatives come in the form of a new Banking Act, the proposed Harmonised Credit Reporting Bill (HCRB), the amendments to existing foreclosure legislation in member states, implementation of the Basel II framework, implementation of a deposit insurance scheme, operationalisation of the Eastern Caribbean Appraisal Institute, and the establishment of the ECCU Financial Services Commission (as a single regulator for insurance and pensions in the first instance).

A new Banking Act (2015) was passed by the member states of the ECCU. In the process of implementing the Act, several areas are being adjusted due to policy issues which would have arisen. These policy areas include; (1) financial requirements and limitations, (2) audit information, (3) administrative penalties, (4) bank fees and charges and (5) license fees. Since then, member states have met to discuss proposed amendments to the Banking Act (2015). It is expected that these amendments will form part of a new bill to be introduced by the end of 2017.

In 2016, the ECCB completed the resolution of three failed banks that were previously under conservatorship. The resolution of these banks helped to ease financial stability risk throughout the region. In November 2015, the ABI Bank in Antigua and Barbuda was resolved and in April 2016 the National Bank of Anguilla (NBA) and the Caribbean Commercial Bank (CCB) in Anguilla. The resolution of the entities was along similar lines through a purchase and assumption agreement whereby deposits over a pre-specified amount were transferred to a Depositor Protection Trust (DPT), an entity created to ensure that depositors are fully protected and receive their money over a 10-year period. All non-performing assets were transferred to receivership for recoveries. From these developments, strategies towards the resolution and enhanced monitoring of troubled institutions evolved. Moreover, contingency plans have been developed and the respective structures for crisis events enhanced with the assistance of international financial institutions such as the International Monetary Fund. Moreover, work continues on a regional crisis plan for the ECCU while contributions continue to be made on a CARICOM wide strategy.

One of the many infrastructural upgrades underway in the ECCU is the development of the Harmonised Credit Reporting Bill (HCRB). Firstly, the Bill provides for the proper administration and licensing of credit bureaus. Secondly, the Bill provides for the compilation and maintenance of databases, evaluation, update and dissemination of the data (to subscribers), the correction of inaccurate, illegal or incomplete information and gathering and processing credit information from a public register.

In addition, there are policy initiatives which encompass the collateral valuations and foreclosure. These initiatives include; the Eastern Caribbean Appraisal Institute (ECAI) along with amendments to the existing foreclosure legislation in member states. The ECAI is expected to function as a benchmark for appraisals in the ECCU, while providing guidelines on the appraisal process used by financial institutions within the region. Consequently, appraisers will be guided by the institute in their duties. The amendments to foreclosure legislation in the ECCU seek to improve the efficiency of credit administration by facilitating the disposal of collateral in the event of borrower default.

Appendix 1 Statistical Annex: Macro-Prudential and Financial Soundness Indicators

Table 5: *Commercial Banks Licenced Under the Banking Act 2015*

Territory	Name of Institution	Locally Owned (Indigenous)		Foreign Owned	Details
		Private Owned	Gov't Owned		
Anguilla	National Commercial Bank of Anguilla Ltd		X		Public Company
	FirstCaribbean International Bank (Barbados) Ltd			X	Branch
	Scotiabank Anguilla Ltd			X	Subsidiary of Scotia International Ltd, Bahamas*
Antigua & Barbuda	Antigua Commercial Bank	X			Public Company
	Caribbean Union Bank Ltd.	X			Private Company
	Bank of Nova Scotia			X	Branch
	FirstCaribbean International Bank (Barbados) Ltd			X	Branch
	Royal Bank of Canada			X	Branch
	Eastern Caribbean Amalgamated Bank	X			Private Company
Dominica	National Bank of Dominica		X		Statutory Corporation
	Bank of Nova Scotia			X	Branch
	FirstCaribbean International Bank (Barbados) Ltd			X	Branch
	Royal Bank of Canada			X	Branch
Grenada	Grenada Co-operative Bank	X			Public Company
	Republic Bank (Grenada) Ltd			X	Public Company (Republic Bank of Trinidad and Tobago Ltd hold the largest interest
	Bank of Nova Scotia			X	Branch
	FirstCaribbean International Bank (Barbados) Ltd			X	Branch
	RBTT Bank Grenada Ltd			X	Public Company (RBTT Bank Caribbean Ltd, a subsidary of RBTT Bank Ltd has the largest interest)
Montserrat	Bank of Montserrat Ltd		X		Public Company
	Royal Bank of Canada			X	Branch
St Kitts and Nevis	Bank of Nova Scotia			X	Branch
	FirstCaribbean International Bank (Barbados) Ltd			X	Branch
	Bank of Nevis Ltd	X			Public Company
	RBTT Bank (SKN) Ltd			X	Public Company (RBTT Bank Caribbean Ltd has the largest interest)
	Royal Bank of Canada			X	Branch
	St Kitts-Nevis-Anguilla National Bank Ltd		X		Public Company
Saint Lucia	Bank of St Lucia Ltd	X			Private Company
	FirstCaribbean International Bank (Barbados) Ltd			X	Branch
	Royal Bank of Canada			X	Branch
	RBTT Bank Caribbean Ltd			X	Branch
	1st National Bank St Lucia Ltd.	X			Public Company
St Vincent & the Grenadines	Bank of St Vincent and the Grenadines Ltd	X		X	Public Company
	Bank of Nova Scotia			X	Branch
	FirstCaribbean International Bank (Barbados) Ltd				Branch
	RBTT Bank Caribbean Ltd (SVG)			X	Branch
TOTAL	35	8	4	23	

Table 6: ***Non-Bank Financial Institutions Licenced under the Banking Act 2015***

NAME OF INSTITUTION
National Mortgage and Trust
Finance and Development Company Ltd.
ACB Mortgage and Trust
TDC Financial Services Ltd (formerly FINCO)
Capita Finance (Caricom owned - Barbados)
FICS
FirstCaribbean International Finance Corporation (Leeward & Windward) Ltd formerly Barclays Finance Corporation (FINCOR)
Saint Lucia Mortgage Finance
Sagicor Mutual Finance
East Caribbean Financial Holdings (ECFH)*
First St Vincent Bank Ltd
St Vincent Cooperative Bank Ltd

Table 7: ***Key Balance Sheet Data Commercial Banks EC$ Millions***

Indicator	2012	2013	2014	2015	2016
Assets	26,111	25,952	26,743	28,141	28,294
Deposits	18,005	18,690	19,672	20,218	20,228
Loans and Advances	15,208	14,329	13,585	13,094	12,323

Table 8: ***Core FSIs Commercial Banks in percentages***

	Data Variable	2012	2013	2014	2015	2016
Capital Adequacy	Regulatory Capital to Adjusted Risk Weighted Assets (%)	18.23	13.95	11.11	14.82	19.26
	Regulatory Tier 1 Capital to Adjusted risk-Weighted Assets (%)	16.98	12.96	10.75	14.69	17.76
Asset Quality	Non-Performing Loans to Total Gross loans (%)	15.18	18.30	17.88	16.97	11.84
	Non-Performing Loans Net of Provisions to Capital (%)	58.37	95.43	89.97	67.96	37.67
	Provisions to Non-Performing Loans (%)	31.33	38.49	46.76	44.40	46.17
Earnings and Profitability	Return on Assets (%)	0.71	(0.11)	0.18	0.80	1.01
	Return On Equity (%)	5.65	(4.38)	0.73	7.75	4.42
	Net Interest Margin to Gross Income (%)	64.23	64.35	64.44	63.82	62.53
	Non-Interest Expenses to Gross Income (%)	67.04	82.12	76.56	71.75	67.03
Liquidity	Liquid Assets to Total Assets (%)	24.59	26.60	30.27	33.24	34.57
	Liquid Assets to Short-Term Liabilities (%)	28.18	29.51	33.06	36.47	37.54
Sensitivity to Market Risk	Net Open Position in Foreign Exchange to Capital (%)	62.29	118.75	169.84	145.62	136.56

Table 9: ***Key Balance Sheet Data Non-Bank Financial Institutions Licenced under the Banking Act- EC$ Millions***

Indicator	2012	2013	2014	2015	2016
Total Assets	932.37	1,003.28	1,037.56	1,115.95	1,166.97
Loans	673.69	709.89	719.08	768.69	781.85
Investments	170.43	196.58	205.29	247.48	258.65
Deposits	728.54	794.34	833.66	896.29	942.31
Capital	161.47	170.47	170.10	176.15	181.42
Values Below in percentages					
NPL Ratio	8.3	7.6	10.3	7.6	7.6
LTD	92.5	89.4	86.3	85.8	83.0
Capital to As	17.3	17.0	16.4	15.8	15.5

Table 10: ***Key Balance Sheet Data Credit Union Sector- EC$ Millions***

	2012	2013	2014	2015	2016*
Total Assets	2,101.2	2,277.2	2,527.6	2,793.6	3,027.0
Total Loans	1,866.3	1,683.6	1,819.8	2,009.8	2,248.1
Total Shares and Deposits	1,757.0	1,882.2	2,168.3	2,400.5	2,638.4
Source: Single Regulatory Units					
*Data estimated					

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