THE EASTERN CARIBBEAN CENTRAL BANK

ANNUAL FINANCIAL STABILITY REPORT

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The Financial Stability Report is a publication of the Eastern Caribbean Central Bank. It aligns with the Eastern Caribbean Central Bank's financial stability objective by identifying, monitoring and communicating on systemic risks. The view is to enhance the resilience of the ECCU financial system by taking action to reduce or remove any threat to financial system stability. This is a key strategic priority of the Eastern Caribbean Central Bank and supports the Bank's objectives as it relates to growth, sustainability and employment.

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BASEL	Basel Committee on Banking Supervision
BSI	Bank Stability Index
DTI	Deposit-Taking Institutions
ECACH	Eastern Caribbean Automated Clearing House
ECCB	Eastern Caribbean Central Bank or the Bank
ECCU	Eastern Caribbean Currency Union
FMC	Financial Market Conduct
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman Index
ICAAP	Internal Capital Adequacy Assessment Process
IMF	International Monetary Fund
LFI	Licensed Financial Institution
M2	Total Monetary Liabilities (Currency with the Public plus Deposits)
MSME	Micro, Small and Medium Enterprises
MT103	Single Customer Credit Transfers
MT202	Interbank Transfers
NDTI	Non-Deposit-Taking Institutions
NFA	Net Foreign Assets
OFCI	Office of Financial Conduct and Inclusion
PEARLS	**P**rotection, **E**ffective Financial Structure, **A**sset Quality, **R**ates of Return, Signs of **G**rowth
RGSM	Regional Government Securities Market
RTGS	Real Time Gross Settlement System
SREP	Supervisory Review and Evaluation Process
WAIR	Weighted Average Interest Rate
WEO	World Economic Outlook
US/USA	United States of America

CHAPTER 1 RISKS AND VULNERABILITIES IN THE ECCU

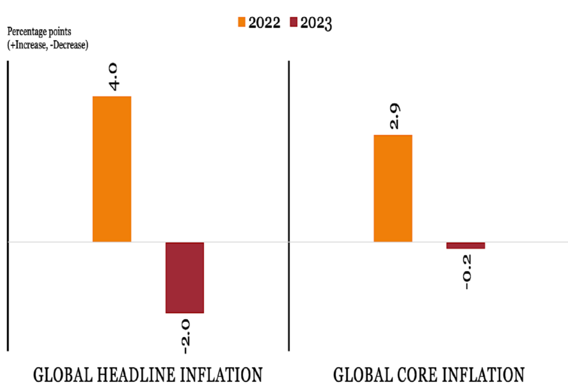
Chapter 1

Risks and Vulnerabilities in the ECCU

Global Macro-financial Conditions

Global macro-financial conditions improved in 2023 as the rapid hikes in monetary policy rates worldwide, along with the fading effects of the pandemic-era supply chain disruptions, helped lower inflationary pressures. Global inflation dropped sharply by 2.0 per cent from 6.8 per cent in 2023 after soaring to an annual average of 8.7 per cent in 2022 (Figure 1); the highest since 1981. The fall in inflation was largely reflected in lower food, and energy prices, which registered the largest drop. Core inflation (excluding food and energy), declined slightly by 0.2 per cent (Figure 1), a result of service sector inflation and buoyant labour markets.

Figure 1: Global Inflation



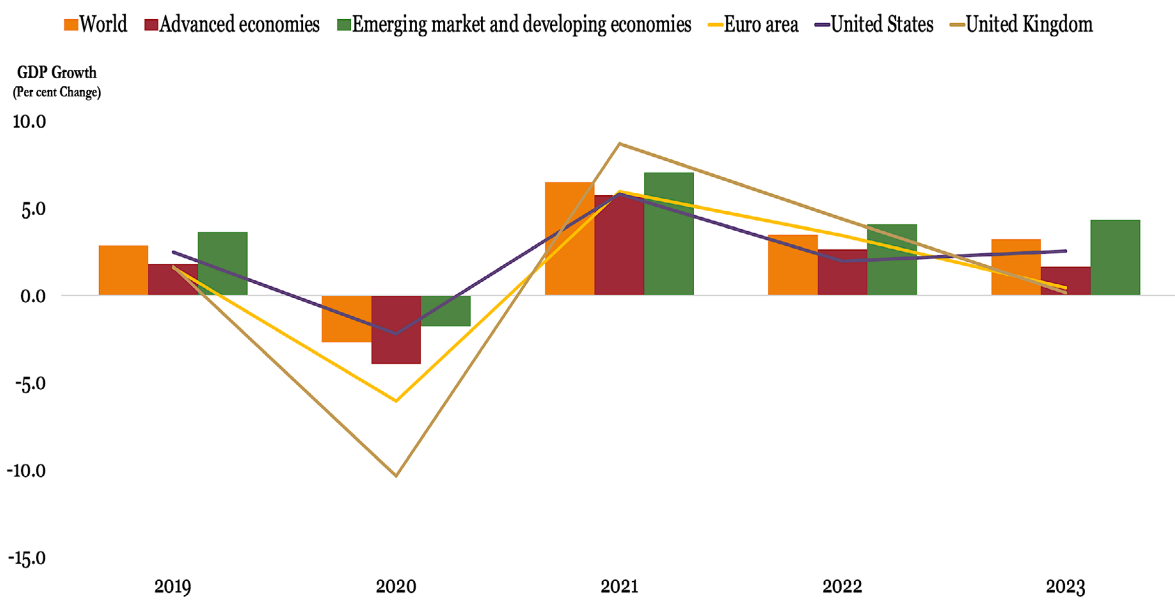
Source: IMF WEO April 2024 database

Global financial conditions (that is, the pricing of risks in capital markets) eased amid the elevated policy rates and deflationary environment, but credit market conditions weakened. Global financial conditions, eased in 2023 as investors priced in policy rate cuts in the face of the sharp drop in inflation, boosting performance in the stock and cooperate bond markets. By contrast, bank credit growth slowed globally on account of stricter lending terms and conditions. The tighter lending standards were chiefly motivated by banks' expectations for a deterioration in credit quality, particularly for commercial real estate loans, higher cost of funding, and concerns about a slowdown in economic activity in 2024. In addition, the demand for credit weakened, particularly in the United States and Euro area.

Moreover, global economic growth remained resilient, defying expectations of a global recession. Global economic activity slowed in 2023 (3.2 per cent) relative to 2022 (3.5 per cent), largely attributable to weaker-than-expected growth in advanced economies (Figure 2). The growth in 2023, however, outperformed expectations for the global economy to expand by 3.0 per cent (October 2023 WEO). The better performance relative to the forecast was largely due to the resilience of the USA economy, which grew by 2.5 per cent (1.0 percentage point higher than previously anticipated), up from 1.9 per cent in 2022

(Figure 2). The performance of the USA economy was supported by robust private consumption, tight labour markets and strong government spending. Emerging market and developing economies, also positively impacted global growth (Figure 2). The growth in the emerging markets and developing economies was bolstered primarily by strong domestic demand in several of the major economies.

Figure 2: GDP Growth Rate by Region



Source: IMF, WEO April 2024 database

Short-term risks associated with the steep rise in interest rates subsided, while several key medium and long-term risks to the global financial system remained elevated. Although the banking sector remained broadly resilient, rising vulnerabilities in the commercial real estate sector due to declining property prices and depressed demand for office space, may place pressure on banks with significant exposure in the sector. In addition, geopolitical tensions amid the war in Ukraine and the Middle East could escalate and have global knock-on effects through higher prices and supply chain disruptions, leading to deterioration in global economic conditions. Another key area of concern is the continuing property sector downturn in China, which could spill over and strain markets worldwide.

Materialisation of the global downside risk could have a profound impact on the ECCU economy. Deterioration in global economic conditions, particularly in the US, could dampen activity in the ECCU mainly through reduced demand for international tourism, and financial direct investments. This in turn could exacerbate vulnerabilities in the financial system particularly through increases in credit risks.

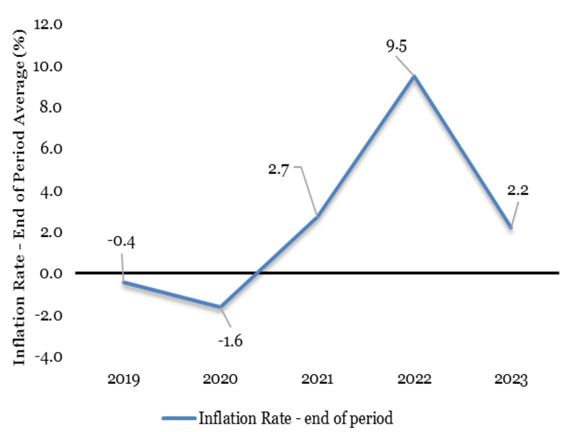
ECCU Economic Developments

Real Economic Growth

Real economic activity in the ECCU expanded during the 2023 period marked by increased activity in the tourism industry. In 2023, real economic growth was estimated to have increased by 4.3 per cent a lower rate than 2022 but reflective of the normalisation of activity following the economic rebound.

Inflation in the ECCU slowed to 2.2 per cent, reflective of lower global commodity prices (fuel and food) and efforts by member governments to subsidize prices where necessary (Figure 3).

Figure 3: ECCU Inflation Rate - End of Period Average (%)



Source: ECCB

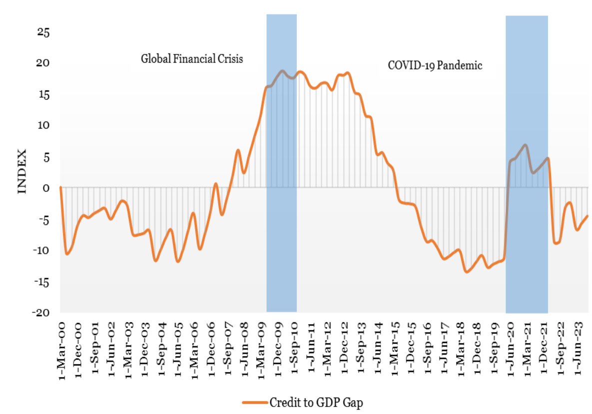
There was a narrowing of the Weighted Average Interest Rate (WAIR) for fixed income instruments on the Regional Government Securities Market (RGSM) in 2023. The WAIR for fixed income instruments declined to 2.96 per cent in December 2023 from 3.03 per cent in December 2022. This decline was driven by lower bond rates relative to T-Bill rates.

Key Risks and Vulnerabilities

Cyclical Risks

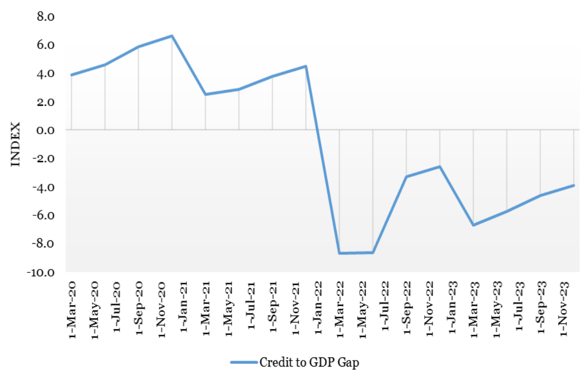
Cyclical risks in the ECCU's bank financial system remained low during the year 2023 (Figure 4 and Figure 5). The ECCU's financial cycle remained below historical averages and below the high levels seen during the Global Financial Crisis and the COVID-19 pandemic. Importantly, the increase in the financial cycle index during the COVID-19 pandemic was mainly a reflection of the lower levels of GDP during that period – as opposed to high and above-average increases in credit growth. Although the financial cycle remained within a low range during the 2023 period (Figure 5), credit growth and distribution remained skewed towards households and real estate activities.

Figure 4: ECCU Credit to GDP Gap (2000 - 2023)



Source: ECCB

Figure 5: ECCU Credit to GDP Gap (2020 - 2023)



Source: ECCB

Credit Risk

Credit risk remained relatively low across the commercial banking sector during the 2023 period. The NPL ratio, a proxy for credit risk in the ECCU declined slightly in 2023, despite the presence of elevated levels of NPLs in specific institutions.

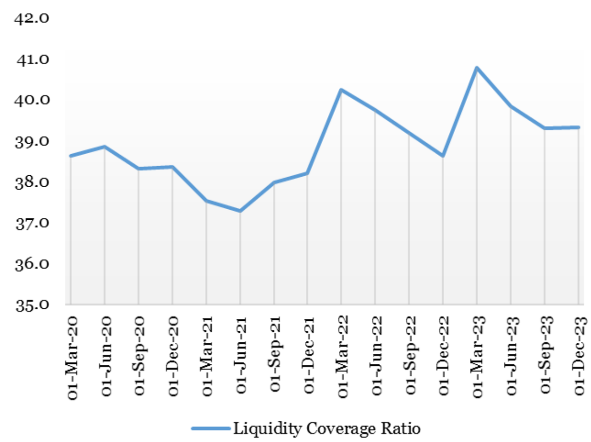
Solvency Risks

The capital adequacy ratio (16.8 per cent) and liquidity levels (55.7 per cent) for the sector remained well above the prudential benchmark of 8.0 per cent and 20.0 per cent respectively. The capital adequacy ratio among banks identified as systemically important (ten (10) as at 2023) was on average 10.3 percentage points above the prudential limit; up from the average of 9.5 percentage points in 2022. The period was also dominated by the resolution of First St Vincent Bank, a licensed financial institution located in Saint Vincent and the Grenadines.

Liquidity Risks

Liquidity risks in the ECCU continue to remain low, as commercial banks maintained high levels of liquidity, and economies continued their recovery from the COVID-19 pandemic.

Figure 6: ECCU Commercial Bank - Liquidity Coverage Ratio (2020 - 2023)



Source: ECCB

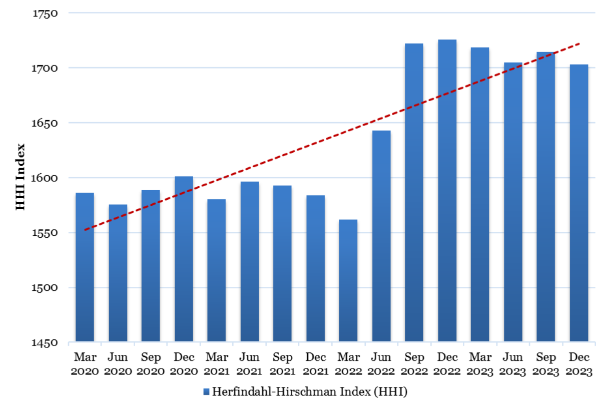
Liquidity in the ECCU banking system, proxied by the liquidity coverage ratio, rose to 39.3 per cent at the end of December 2023 from 38.6 per cent at the end of December 2022 (Figure 6). This points to the presence of adequate liquidity buffers to support banking system activity.

Concentration Risks

The ECCU's financial system, following the most recent mergers and acquisitions, remain concentrated amongst the national (indigenous) banks in the region. Credit Unions, which are the second largest segment of deposit-taking institutions, make up the remainder of the assets held by DTIs.

The Herfindahl-Hirschman Index (HHI)[1], a measure of loan concentration, rose to 1,703.3 points. This expansion reflects increased allocations of commercial bank loan portfolios to private households and loans for real estate activities (Figure 7).

Figure 7: HHI - Concentration of Commercial Bank Loan Portfolio (2020 - 2023)



Source: ECCB

[1] The Herfindahl-Hirschman Index (HHI) can range from close to zero to 10 000. An increasing index within the HHI indicates an increased level of concentration of the variable(s) being measured, that is loan type.

CHAPTER 2 DEPOSIT-TAKING INSTITUTIONS AND THE PAYMENT AND SETTLEMENT SYSTEM

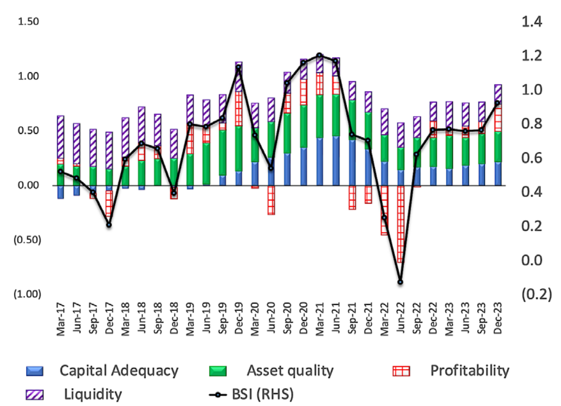
Chapter 2

Deposit-Taking Institutions & the Payment and Settlement System

The Commercial Banking Sector

The commercial banking sector remained stable in 2023, with adequate levels of capital, and liquidity, and lower credit risk. The ECCU Banking Stability Index (BSI)[2] which is used to assess overall stability of the financial system, improved in 2023 compared with 2022 (Figure 8), signalling increased banking sector resilience. All the sub-indices registered improvement (Figure 8). The sector continues to be regulated by the ECCB under an augmented Basel I framework.

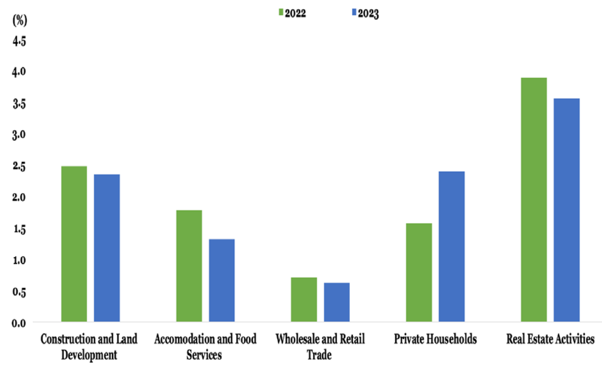
Figure 8: ECCU Banking Stability Index



Source: ECCB

The NPL ratio decreased from 11.9 per cent in 2022 to 11.2 per cent in 2023; implying a slight decline in credit risk. Declines in the NPL ratio were evident for all major economic sectors except households (Figure 9).

Figure 9: NPL ratio by Sector (in per cent)



Source: ECCB

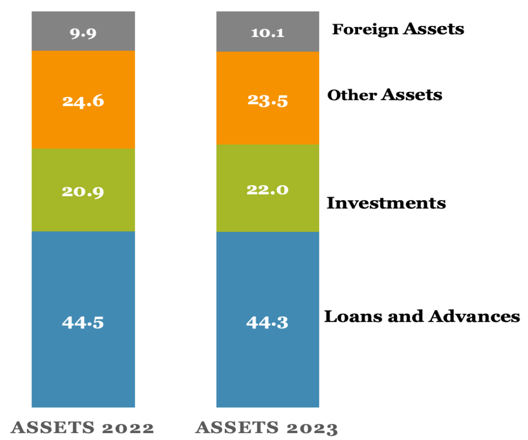
The assets of the banking sector expanded in 2023 relative to 2022, amid improvements in the domestic and global economies. Total assets of the banking sector grew at a faster pace in 2023 (3.7 per cent) to EC$32.2 billion compared with 2022 (2.7 per cent) or EC$31.1 billion and accounted for 192.2 per cent of GDP in 2023 (slightly down from 193.5 per cent in 2022). The growth in assets was mainly driven by expansions in foreign assets (5.4 per cent), and loans and advances (3.3 per cent). By contrast, in 2022, foreign assets fell by 63.3 per cent while loans and advances rose by 1.8 per cent.

Loans and Advances continued to be the dominant banking asset, accounting for

[2] The BSI is a weighted composite index constructed using a combination of financial soundness indicators namely asset quality, liquidity, capital adequacy and profitability (ROA).

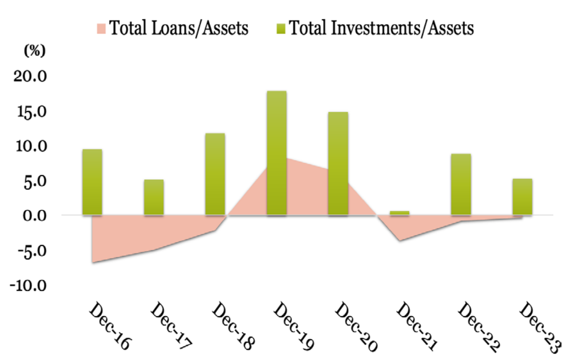
44.3 per cent of the share of assets in 2023, slightly down from 44.5 per cent in 2022 (Figure 10). However, investments are increasingly becoming an important source of income for the banking sector. This is evident by modest growth in the share of investments to total assets over time relative to the share of loans (Figure 11).

Figure 10: Asset composition of the Banking Sector (in per cent)



Source: ECCB

Figure 11: Rate of Growth in the Share of Loans and Investments to Total Assets

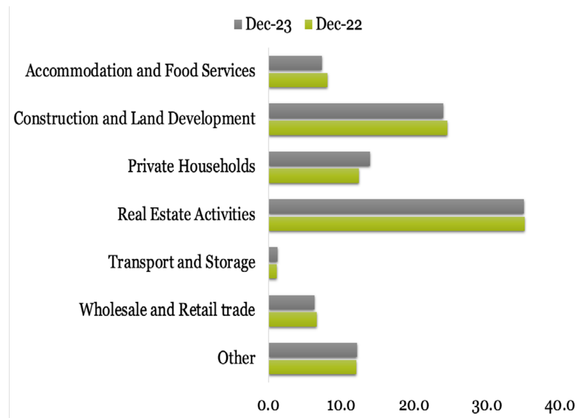


Source: ECCB

Credit growth to the household sector increased but declined for other major sectors. Loans and advances to the private sector grew by EC$0.4 million (3.3 per cent) in 2023, while credit to the public sector rose by EC$0.1 million.

The increase in lending to the private sector was mainly driven by credit to households for purposes other than real estate activities. This was likely a consequence of declining inflationary pressures on real income and the rebound in tourism-related services. Meanwhile, credit to other sectors declined relative to 2022; likely a result of commercial banks' decreased appetite for granting long-term loans amid uncertainty about global economic growth prospects (Figure 12).

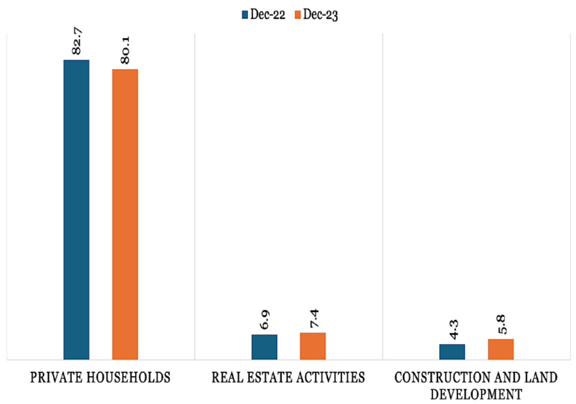
Figure 12: Sectoral Distribution of Loans to the Private Sector



Source: ECCB

Of the new loans extended in 2023, 80.1 per cent were issued to private households (Figure 13); continuing the trend in previous years and signalling banks increase exposure to the sector (Figure 13).

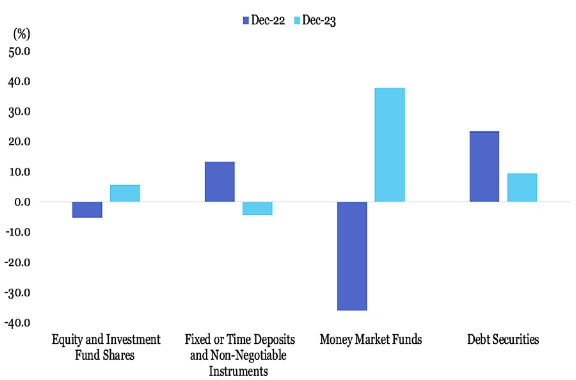
Figure 13: Sectors with the largest share of new loans (in per cent)



Source: ECCB

The investment portfolio of the banking sector contracted. Investment, grew at a rate of 9.2 per cent in 2023, slower than in 2022 (11.7 per cent). The slowdown was largely driven by declines in the growth rate of debt securities, and fixed/time deposits and non-negotiable instruments (Figure 14).

Figure 14: Change in Investment by Type (in per cent)



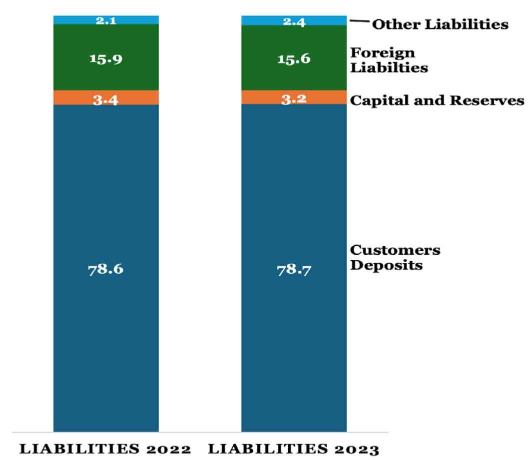
Source: ECCB

The slower rate of growth in debt securities, which accounted for the largest portion of the investment portfolio of the banking sector (70.7 per in 2023, slightly up from 70.5 per cent in 2022), was largely evident in declines in holdings of government securities including treasury bills, and corporate bonds.

Total corporate bonds, which comprise the largest share of debt securities grew by 13.0 per cent in 2023, down from 27.9 per cent in 2022. The slowdown in the pace of growth was mainly reflected in US bond holdings, indicating reduced exposure to the US market.

Deposits increased during 2023. Deposits grew at a faster rate in 2023 (3.9 per cent compared with 3.1 per cent in 2022) and remained the primary funding source for the banking sector (78.7 per cent of total liabilities in 2023, slightly up from 78.6 per cent in 2022) (Figure 15).

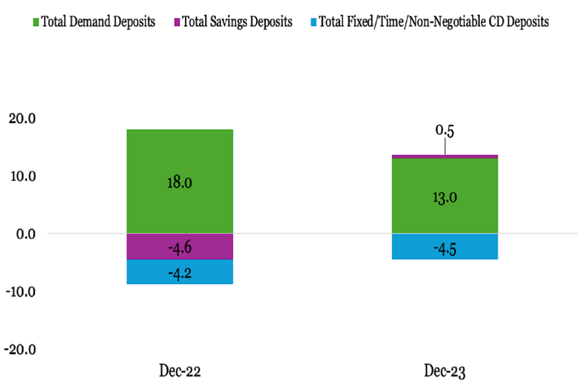
Figure 15: Liabilities Composition of the Banking Sector (in per cent)



Source: ECCB

Private sector deposits increased by 4.5 per cent in 2023, up from 2.3 per cent in 2022. The increase was driven by savings deposits, which rose by 0.5 per cent after falling by 4.6 per cent in 2022 (Figure 16).

Figure 16: Change in Commercial Banking Deposits by Type (in per cent)



Source: ECCB

Payment & Settlements System

The recent consolidations in the banking sector likely had varying effects on the payment and settlement system. A network analysis of the ECACH system based on data for 2019 (banking sector pre-consolidation period) and 2022 (banking sector post-consolidation period), revealed an increased level of interconnectedness in the system. This was reflected in the higher values in 2022 relative to 2019 for the global network measures[3] of degree distribution, reciprocity, and network density/connectivity (Table 1). The higher level of interconnectedness may have led to better management of liquidity among banks. Increased interconnectedness may result in higher contagion risks, as stresses may be transmitted more rapidly throughout the system.

Table 1: Global Network Measures of the ECACH system

	Description	2019	2022
Nodes	Represents the commercial banks	31	22
Edges	Represents the connections/linkages between banks	778	413
Mean value sent per node ($billion)		0.842	0.835
Mean volume sent per node		211,050	195,548
Degree (**Avg/per cent**)			
In degree	Measures the number/per cent of nodes (banks) from which incoming transactions are received by an individual node (bank).	**25/80.6**	**19/86.4**
Out degree	Measures the number/per cent of nodes (banks) to which transactions are sent by an individual node (bank).	**25**	**19**
Reciprocity (%)	Proportion of edges (connections/linkages) that are mutual	91	93.5
Network Density or Connectivity (%)	Gives an indication of how densely connected the nodes are. In other words whether banks are transacting with many or only a few of the other banks	83.7	89.4

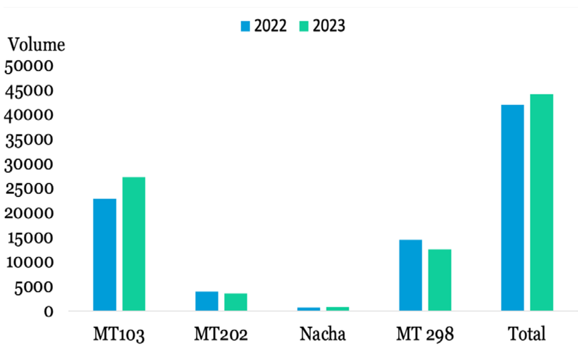
Source: ECCB

[3] Measures that are designed to summarise the state of an entire network.

Despite the likely increase in risks, the payment system continued to function effectively and was assessed as safe. During 2023 all market participants in both the ECACH (for settlement of retail payments) and RTGS (for settlement of large payment transactions) systems facilitated the clearance and settlement of financial services in a timely manner. The operational capacity of the ECACH was judged as adequate relative to the regular transaction processing needs of the system participants.

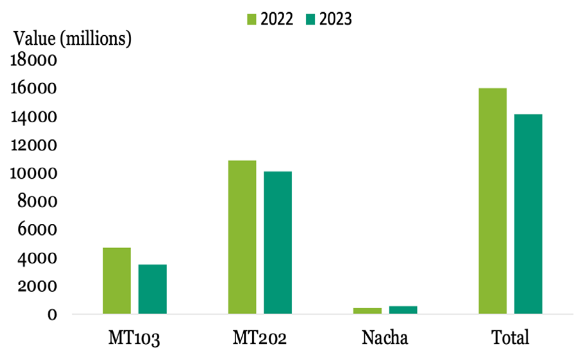
The total volume of transaction on the RTGS system increased in 2023 (44,067 compared with 41,977) though the value of the transactions were lower than in 2022 ($15.8m in 2023 compared with $16.0m in 2022) (Figure 17 and Figure 18). MT103 recorded the highest volume transaction (Figure 17) while MT202 recorded the highest transaction value (Figure 18)[4].

Figure 17: Volume of RTGS Transactions (Actual)



Source: SRUs

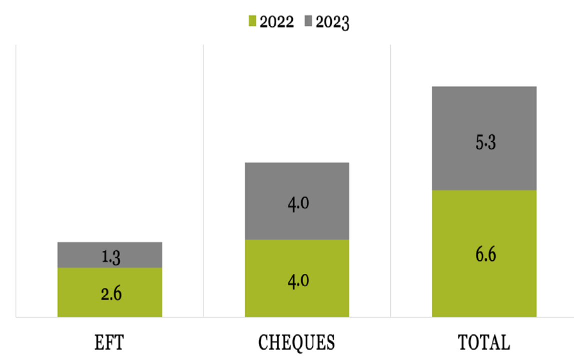
Figure 18: Value of RTGS Transactions (in EC$ billions)



Source: SRUs

Regarding the ECACH system, the volume and value of Electronic Fund Transfers (EFTs) decreased in 2023 relative to 2022 (Figure 19 and Figure 20). The number of cheques, the other instrument on the ECACH, remained relatively unchanged while the value declined (Figure 19 and Figure 20).

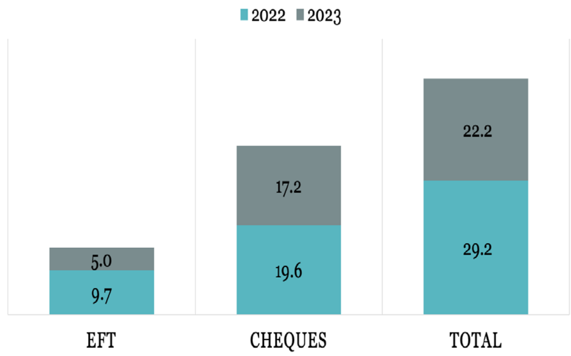
Figure 19: Volume of ECACH Transactions (in Millions)



Source: ECCB

[4] Message Type 103 (MT103) transactions are defined as Single Customer Credit Transfers executed by the Real Time Gross Settlement System (RTGS). Alternatively, Message Type 202 (MT202) transactions are defined as Interbank Transfers executed by the RTGS.

Figure 20: Value of ECACH Transactions (in Billions)

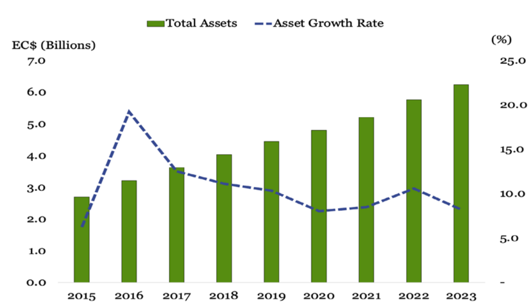


Source: ECCB

The Credit Union Sector

The credit union sector expanded in 2023. Total assets increased in 2023, albeit at a slower rate of growth, following the trend of previous years (Figure 21). Assets rose by 7.6 per cent to EC$6.2 billion in 2023 when compared with growth of 10.6 per cent in 2022. (Figure 21).

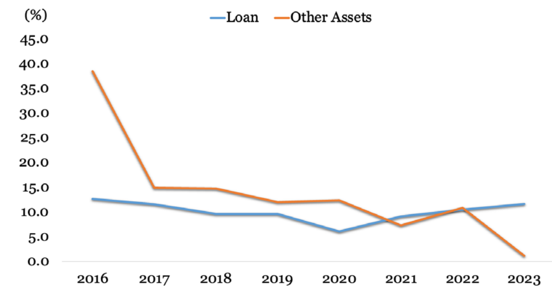
Figure 21: Trends in Credit Union Sector Assets



Source: SRUs

The slower growth in assets was driven by assets other than loans, which grew by 1.2 per cent in 2023 after growing by 10.2 per cent in 2022 (Figure 22).

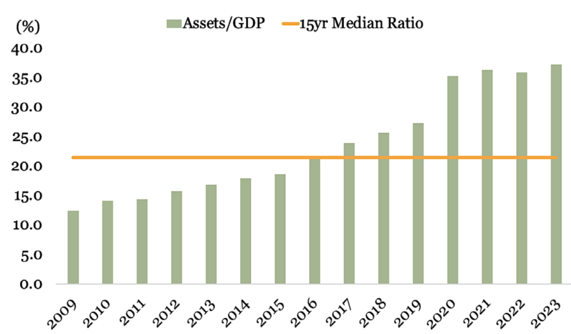
Figure 22: Growth in Credit Union Sector Assets by Type



Source: SRUs

Despite the slowdown, asset contribution to GDP continued to rise. Credit union assets as a percentage of GDP rose slightly in 2023 relative to 2022 (37.2 per cent to GDP, up from 35.9 per cent in 2022), but grew at a faster rate than its 15-year median percentage contribution to GDP (21.5 per cent) (Figure 23). The continued growth in the asset contribution to GDP signifies that the sector played a significant role in the domestic macroeconomy.

Figure 23: Credit Union Sector Total Assets as a Percentage of GDP

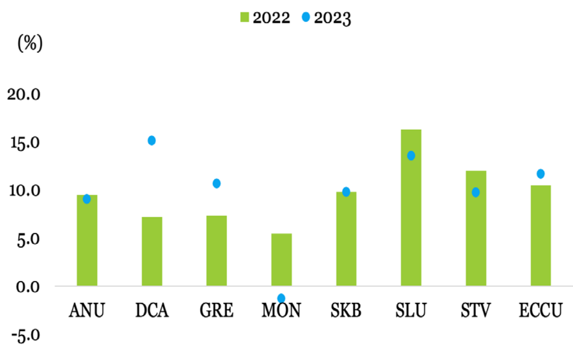


Source: SRUs

Lending to the private sector particularly for non-mortgage related purposes, continued to drive loan growth. Loans to the private sector by credit unions grew by 11.6 per cent to EC$4.3 billion, up from 10.5 per cent in

2022. The growth in loans was evident in three of the countries (Figure 24).

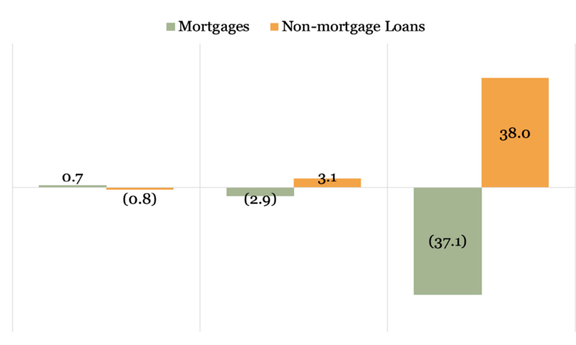
Figure 24: Credit Union Sector Loan Growth by Country



Source: SRUs

Most of the loan growth in 2023 was influenced by non-mortgage loans which grew significantly faster than in 2022 (38.8 per cent in 2023 compared with 3.1 per cent in 2022) (Figure 25). Meanwhile credit union exposure to mortgage loans declined; continuing the trend observed in 2022 (Figure 25).

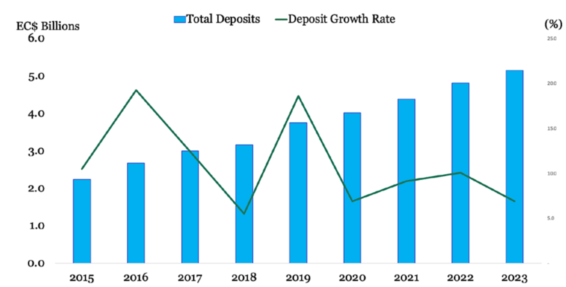
Figure 25: Growth of the Credit Union Sector Loan Composition by Category (in per cent)



Source: SRUs

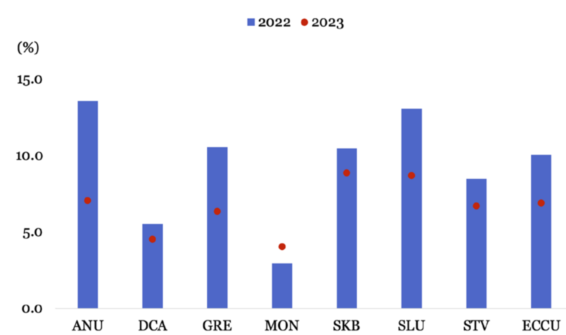
Despite a slowdown in growth, deposits remained the primary source of funding for the credit union sector. Deposits grew at a slower pace in 2023 (6.9 per cent) relative to 2022 (10.6 per cent) (Figure 26). Nevertheless, the value of deposits in 2023 was higher than in 2022 (EC$5.2 billion in 2023 compared with EC$4.8 billion in 2022) (Figure 26). The deposit growth rate slowed in all countries except Montserrat (Figure 27).

Figure 26: Trends in Credit Union Sector Deposits



Source: SRUs

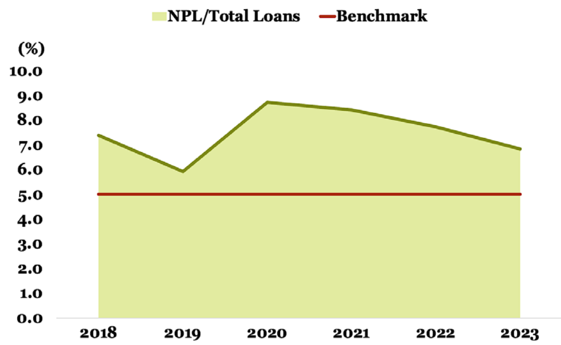
Figure 27: Growth rate of Credit Union Sector Deposits by Country



Source: SRUs

Credit risk as proxied by the NPL ratio (delinquencies) declined in 2023 but remains a major risk for the credit union sector. The ratio of non-performing loans to total loans (NPL ratio) registered a lower rate in 2023 (6.8 per cent) compared with 2022 (7.7 per cent). This continued the decline observed in 2021 following the rate of 8.7 posted in 2020 during the coronavirus pandemic. Despite the decline, the ratio remains above the 5.0 per cent prudential benchmark (Figure 28).

Figure 28: Trend in the Credit Union Sector Non-Performing Loan Ratio

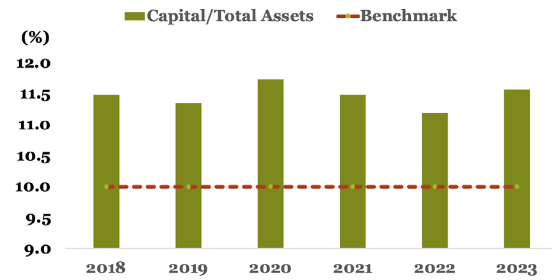


Source: SRUs

Under the PEARLS regulatory regime, the capital position of the credit union sector was adequate.

Capital adequacy, namely institutional capital to total assets, was above the benchmark (10.0 per cent) in 2023, and 0.4 percentage points higher than in 2022 (Figure 29).

Figure 29: Trend in the Credit Union Sector Capital Position



Source: SRUs

CHAPTER 3 MACROPRUDENTIAL POLICY AND OTHER REGULATORY DEVELOPMENTS

Chapter 3

Macroprudential Policy and Other Regulatory Developments

The Office of Financial Conduct and Inclusion (OFCI)

Financial Market Conduct (FMC) is the regulation of the business conduct of financial firms. The Eastern Caribbean Central Bank, in consideration of the increasing need to protect consumers from unscrupulous business practices by financial sector institutions, high and at times opaque fees, charges, and financial covenants, has proposed the development of the Office of Financial Conduct and Inclusion.

The Office of Financial Conduct and Inclusion (OFCI), will seek to establish clear rules/frameworks that govern engagement of financial firms with their customers. Additionally, the OFC will:

1. Allow for the appropriate disclosure of information on products and services to the market;
2. Ensure that market participants are not subject of unfair business practices;
3. Provide access to mechanisms for dispute resolution and redress;
4. Build awareness and financial literacy;
5. Improve access to basic financial services, and
6. Maintain a competitive environment within the financial sector.

The proposed model of the OFCI envisions the establishment of this conduct authority within the ECCB featuring work streams for alternative dispute resolution and redress, policy development, financial literacy and examination of licensed financial institutions. It is expected that the OFC will be established within the next 36 – 48 months.

Climate Change Risks and Policy Perspective in the Eastern Caribbean Currency Union

Climate change remains an ever present and pressing issue for the countries of the ECCU. The ECCB, in recognition of the broader macrofinancial impact of climatic events and climate related risks, has sought to strengthen the financial sector against the challenges related to the risks associated with climate change – both physical and transition risks. The ECCB aims to develop a regulatory framework to support mitigation of these risks. The ECCB also seeks to ascertain from LFIs and the ECCB's national regulatory counterparts, their awareness, knowledge and measurement of exposure to climate-related risks.

Transmission Channels

Transmission channels facilitate the transfer of physical climate risks to the balance sheets of financial institutions within the financial system. Climate-related risks can create a variety of financial risks including; (1) Credit risk, (2) market risk, (3) operational risk and (4) liquidity risk.

Climate Risk Survey

The ECCB conducted a climate risk survey for licensed financial institutions (LFIs) within the ECCU. The survey sought to meet four (4) broad objectives;

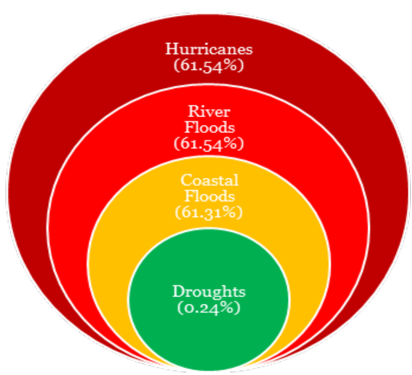
1. To allow the ECCB to assess the level of readiness of LFIs, for the inclusion of climate-related financial risks in their investment and lending decisions,
2. To assess the level of assistance that may be needed for the institutions to effectively evaluate, manage and monitor climate related financial risks on their balance sheets,
3. To ascertain the adequacy of the enterprise risk management frameworks and capital levels required to support the inclusion of climate-related financial risks, and
4. To inform policy design and decision-making on the development of an appropriate climate risk framework for the ECCU.

Firms under the supervision of national regulators were also surveyed. This group consisted of insurance companies, credit unions, other lending institutions, an investment/mutual fund and other licensees (including offshore banks, money service providers, trusts, etc.).

Initial Estimates

The ECCB in collaboration with the World Bank evaluated the exposure of commercial bank credit exposure to climate-related risks. The portfolios of the institutions assessed were primarily concentrated on hurricanes, flooding (including riverine and coastal floods) and to a lesser extent droughts (Figure 30). As temperatures rise in the future, the expectation is that LFIs exposure to and impact of these events will increase. Similarly, a survey of institutions supervised by ECCU member country regulators also found that exposures and climate-related risk drivers were highest for hurricanes, floods and extreme rainfall events, rising sea levels and droughts including drought related events such as heatwaves, wildfires and biodiversity loss.

Figure 30: Credit Portfolio Exposures to Climate-related risks in the ECCU



Initial estimation of the impact of intense climatic events point to a limited impact on the portfolio of commercial banks – affected by hurricanes Irma and Maria. In fact, it was found that the stock of NPLs did not significantly differ from countries not affected by hurricanes (recording only a small increase in NPLs during the quarter in which the island was affected by the event).

Figure 31: Three (3) most cited areas of Business Impact

Insurance	Credit union	Other lending institution	Other
Insurance portfolio (88%)	Credit portfolio (95%)	Credit portfolio (90%)	Operations (60%)
General profitability (85%)	Deposit portfolio (86%)	Operations (57%)	Regulatory/Legal (39%)
Operations (81%)	General profitability (67%)	General profitability, Liquidity (50%)	General profitability (36%)

Percentages in parentheses are percentage of sector respondents citing business impact in each area

The impact and importance of climate related risks to financial institutions cannot be dismissed. Among firms evaluated by national regulators, the three (3) most cited areas of business impact differed by firm type. Among the firms evaluated, the insurance portfolio was most important for insurance firms. Within the Credit Union industry and other lending institutions, the credit portfolio was found to be most important while operations were found to be important for other institutions (Figure 31).

Basel II/III Framework

Implementation of Pillar 1 (Minimum Capital Requirements): The ECCB continued its phased approach to implement its hybrid Basel II/III capital framework (Basel II/III). The implementation of Pillar 1 (Phase 1) was 95.0 per cent completed and the ECCB was simultaneously implementing Pillar 2 (Phase 2) of its framework. The ECCB successfully conducted two parallel runs with the industry using its new Basel II/III prudential reporting form. Pending the ongoing resolution of technical issues, the ECCB anticipates go live reporting by the fourth quarter of 2024, to fully implement Phase 1.

Implementation of Pillar 2 (Supervisory Review Process): The ECCB continued the finalisation of the framework for the Supervisory Review and Evaluation Process (SREP) for Pillar 2 and expects to fully implement Phase II of its roadmap by the second quarter of 2025. In February and March of 2024, the Caribbean Regional Technical Assistance Centre conducted two workshops with the ECCB's staff on the implementation of Pillar 2. The workshops were geared towards building supervisory capacity related to the review and evaluation of the banks' reports on the Internal Capital Adequacy Assessment Process (ICAAP), and capacity building sessions on the SREP including techniques for the calibration of Pillar 2 capital requirements. The first ICAAP report is due by 30 September 2024.