Turks and Caicos Islands Financial Services Commission

Financial Stability Report

2020

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Financial Stability Report 2020
Turks and Caicos Islands Financial Services Commission

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The Financial Stability Report is a product of the Policy Unit within the Financial Services Commission. The Commission wishes to acknowledge the contribution of several government agencies, including the TCI Treasury and Statistics Department, who provided fiscal and economic data for this report.

Preface

The Turks and Caicos Islands Financial Stability Report describes the overall risks and threats to financial stability in the Turks and Caicos Islands ('TCI') and the resilience of the financial system in the context of those assessed threats. The report is produced by the Turks and Caicos Islands Financial Services Commission ('the Commission'), pursuant to its mandate to monitor financial service businesses conducted in and from within the TCI.

This 2020 edition seeks, among other things, to:

(i) describe the overall risks and threats to financial stability in the TCI, and discuss the resilience of the system in the context of those assessed threats;

(ii) review trends of specific risk indicators and the outcome of stress test exercises; and

(iii) discuss emerging risks to system stability and their likely implications.

This report addresses only the domestic financial system which includes banks, investment businesses, domestic insurance companies, trust companies and money service businesses (MSBs). Primary focus is given to the domestic banking sector which is the main engine of intermediation and the most vulnerable to unexpected shocks through exposure to the rest of the economy. The report excludes financial institutions licensed to conduct business solely outside of the TCI. As at 31st December 2020, the international financial sector was dominated by over 7,000 small international insurers, the overwhelming number of which were Producer Owned Reinsurance Companies (PORCs), which reinsure low-value motor- and health-related risks for related or affiliated entities. The TCI also supervises a small number of other captive insurers, as well as corporate service providers, not-for-profit organisations, and designated non-financial businesses for anti-money laundering (AML) and combating the financing of terrorism (CFT) purposes.

This document, unless otherwise stated, references data available as at 31st December 2020.

The report is published to promote public understanding and transparency around risks in the financial sector and is available to the public for download at http://www.tcifsc.tc.

List of Abbreviations

AFSI	Aggregate Financial Stability Index
AMLC	Anti-Money Laundering Committee
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
BSI	Banking Stability Index
CAR	Capital Adequacy Ratio
CARTAC	Caribbean Regional Technical Assistance Centre
CBDC	Central Bank Digital Currencies
CPI	Consumer Price Index
FATF	Financial Action Task Force
FDI	Financial Development Index
FINTECH	Financial Technology
FSI	Financial Soundness Index
FVI	Financial Vulnerability Index
GDP	Gross Domestic Product
GSC	Global Stablecoins
HHI	Hirschman-Herfindahl Index
IDB	Inter-American Development Bank
IFC	International Financial Center
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commission
LAC	Latin American and Caribbean
MaFi	Macrofinancial Index
MiPi	Microprudential Index
ML/TF	Money Laundering/Terrorism Financing
NPL	Non-performing Loan
PORC	Producer Owned Reinsurance Company
RBA	Risk-based Approach
RBS	Risk-based Supervision
RHS	Right Hand Side
ROA	Return on Assets
ROE	Return on Equity
TCI	Turks and Caicos Islands
UK	United Kingdom
US	United States
WECI	World Economic Climate Index
WEO	World Economic Outlook

1.0 Financial System Overview

1.1 Macrofinancial Environment

Global output for 2020 is estimated to have contracted by 3.5 per cent, according to the January 2021 publication of the World Economic Outlook (WEO). The onset of the novel coronavirus (COVID-19) pandemic led to an abrupt deterioration in the global financial environment. In its January 2020 WEO, the IMF projected a rise in global growth from an estimated 2.9 per cent in 2019 to 3.3 per cent in 2020. However, three months after this publication, estimates were revised downwards when the world was plunged into a recession, as countries implemented isolationist measures, including widespread closures, to slow the spread of the highly infectious coronavirus.

In the domestic environment, the pandemic brought with it a sudden halt to economic activity as the TCI took containment measures by closing its borders and going into a lock-down on 27th March 2020. Given the nature of the public health crisis being addressed, non-essential businesses which require personal interaction, or where physical distancing was impractical, were most affected, as these businesses were ordered to close their doors and institute work-from-home arrangements to contain the virus. This had a material impact on all sectors in the TCI. The dominance of the tourism sector made the TCI economy particularly vulnerable to this unprecedented shock. Scores of workers in the hospitality, entertainment and tourism sectors were immediately impacted by loss in income due to the sudden closure of these businesses and the resulting sharp tightening of financial conditions.

More specifically, the pandemic led to a sharp decline in economic activity resulting in an estimated 22.8 per cent decline in GDP over the review period. Trading activity declined, influencing a 144.8 per cent contraction in the external current account balance, and a 57.1 percentage points increase in unemployment[1]. Given the sudden downturn in economic conditions in the domestic market and the pervasive impact of COVID-19, policy responses were multipronged to mitigate the immediate socioeconomic fallout of the pandemic. Fiscal support was provided to households and firms through various stimulus packages to dampen the effect of the downturn in economic activity. Other accommodative fiscal measures included deferred payments of Hotel, Restaurant and Tourism Taxes, as well as waivers of duties on certain imports[2]. Though these policies provided support to cushion the effect of the economic fallout, the adverse effect was a signification erosion of the fiscal surplus accumulated over the years. The outturn showed the TCI recording its third consecutive negative fiscal balance for the quarter ending 31st December 2020.

[1] Projections based on calculations from TCI Statistics Department at the Ministry of Finance.
[2] TCI Treasury Department third-quarter unaudited financial report October – December 2020.

1.2 Safeguarding TCI's Financial Wellbeing

COVID-19 brought fundamental changes to the TCI financial system and its regulation. On the eve on the pandemic, the system was in a strong, stable position which was a critical factor in allowing the sector to perform its role of managing risk and facilitating the flow of credit to the broader economy in times of stress. The banking sector was well capitalised and highly liquid, which allowed the sector to maintain service to its customers and support the TCI economy. The strong capital and liquidity positions helped maintained confidence in the stability of the system.

The Commission's actions in response to COVID-19 were aimed at mitigating the depth of the economic downturn by ensuring the continuity and stability of financial services with a clear focus on maintaining public confidence in the financial system. The Commission began its mobilisation in earnest in early March 2020 to understand the impact of the pandemic on financial institutions and their preparedness for what lay ahead. Regulated entities were mandated to update their business continuity plans to identify and protect critical functions, conduct effective prudential and operational risk assessment and management, and to consider alternative work arrangements in the event of widespread infection. As the virus moved closer to the TCI shores, the Commission implemented measures aimed at easing the operational burden of regulated entities to allow them to direct more resources towards their pandemic response and meeting the needs of customers. These included, inter alia:

(i) suspending direct interaction such as face-to-face meetings and on-site supervision;
(ii) instituting a temporary waiver of paper-based submission of quarterly returns;
(iii) supporting the enactment of Emergency Power (COVID-19) (Financial Services) Regulations 2020, which gave time extensions for payment of annual licence renewal fee or annual registration fees; and
(iv) exercising forbearance for late submission of regulatory reports.

Banks implemented various loan repayment moratoria aimed at mitigating the immediate liquidity shock to firms and households caused by the temporary closure of businesses and subsequent loss of employment. The Commission also issued guidance on the application of moratorium for customers affected by the COVID-19 pandemic and other disaster related customer relief programmes, and enhanced its monitoring processes by requesting periodic reports on the moratoria activities. Concurrently, the Commission implemented temporary weekly liquidity reporting requirement for the banks to monitor cash flow and liquidity positions. Quarterly stress testing was also conducted for the banking sector to assess the resilience of their balance sheets to hypothetical credit and liquidity shocks.

On the insurance side, the Commission fast-tracked new surveys to collect data on the impact of COVID-19 on operations, capital and solvency, and liquidity. The Commission worked with relevant insurers to assess the risk of underwriting business interruption, nursing homes and other areas significantly impacted by the pandemic. Furthermore, insurers were required to provide the results of their periodic stress tests conducted.

1.3 TCI Financial System Exposure

Notwithstanding the weakened macro-financial condition in the global and domestic market, the financial sector demonstrated buoyancy over the review period. Stress testing results showed that the banking sector was generally resilient to a range of shocks to its credit and liquidity portfolios. Conventional indicators of financial soundness for the banking sector generally pointed to a healthy sector from the standpoint of capital adequacy and liquidity levels but weakened levels of asset quality and profitability. Household debt through personal loans remained the largest asset exposure of the banks. The macroprudential indicators – which can be interpreted as early warning signals of possible threats to the financial sector – suggested pockets of vulnerability as at 31st December 2020.

The banking sector, despite being tested by the impacts of COVID-19, remained well capitalised with sound liquidity and funding positions. Capital levels remained high with a composite capital adequacy ratio of 29.6 per cent, well in excess of the regulatory minimum requirement. Liquidity and funding risks were low over the period, as liquidity was sourced mainly from stable retail deposits and surplus held at banks' head offices.[3] There was a slight deterioration in asset quality over the period, as non-performing loans grew modestly by 0.6 percentage points to 6.0 per cent of total credit as at December 2020. As shocks to household and business income persists due to effects of the pandemic, the banking sector's exposure to credit risk is likely to increase. The sector's profitability weakened particularly towards the second half of the review period. Return on assets (ROA) and return on equity (ROE) contracted, with the former decreasing to 0.5 per cent from 2.5 per cent in 2019 and the latter declining to 3.4 per cent from 17.2 per cent the previous year.

Within the non-bank financial sector, the asset base for investment businesses and mutual fund operators expanded over the review period. However, prudential reporting remained inadequate to comprehensively assess the financial performance of the sector from the standpoint of asset quality, capital adequacy and liquidity.

Risks in the insurance sector remained within acceptable levels. Insurers demonstrated satisfactory levels of solvency and liquidity over the review period; early warning test results showed insurers exceeding the minimum requirement prescribed by the Commission. However, there was a decline in earnings for 2020 relative to the corresponding period of 2019.

[3] Owing in part to a shortage of instruments available locally, a large portion of the sector's liquid assets are held in interest earning accounts overseas with foreign head offices with assured access.

Trust companies recorded an increase in on-balance sheet assets over the review period due mainly to difficulties in transferring clients' funds during the pandemic. However, income from services declined, resulting in lower profits for the sector over the period.

The MSB sector recorded decline in assets and weakened profitability over the review period. The effect of the pandemic was evident in the funds remitted to and from the TCI. Total outflows declined over the period on account of reduced traffic and tightening economic conditions[4], while total inflows increased. Specifically, inflows from the United States nearly doubled over the period, which may have been driven by better-than-expected economic recovery in the USA and the fiscal support of the US government through stimulus cheques to households in that country.

1.4 Risk Outlook for the Future

The economic impact of COVID-19 poses significant challenges to financial stability in the TCI. As the pandemic progresses, risks to the sector remains high as there is much uncertainty around the evolution of the virus. While restrictions loosened towards the second half of the year as the country began to reopen, economic recovery is uncertain within the short to medium-term.

Growth in the global economy and Latin American and Caribbean (LAC) was projected at 5.5 per cent[5] and 3.6 per cent[6] in 2021, respectively. However, near-term recovery is not assured and could potentially be thwarted by new outbreaks of the virus resulting in paused re-openings and targeted shutdowns, as was the case in several countries. The uptake in the vaccines is expected to improve the economic outlook in the global economy as more people become inoculated against the virus.

Prolonged decline in global economic activity could further tighten domestic macro-financial conditions. Though restrictions have eased with the reopening of businesses, the TCI economy has not yet rebound to its productivity capacity pre-COVID-19. The forecast for GDP shows a rebound of 2.0 per cent in 2021; however, this is subject to a high degree of uncertainty. Protracted contractions in GDP and elevated fiscal deficits could result in high debt-to-GDP ratios, which in turn, could lead to downgrades by rating agencies. Persistent weak aggregate demand is likely to continue to have a significant impact on both households and businesses in the medium term. Consequently, preventing further setbacks will require that economic support not be prematurely retracted. The medium to longer term outlook for domestic performance is dependent on how quickly the domestic economy rebounds which, in turn, is dependent on the economic recovery of TCI's main trading partners.

[4] While most businesses were ordered closed during the period of the lock down, selected money service businesses were permitted to operate with reduced operating hours and fewer staff.

[5] IMF WEO January 2021.

[6] IMF Regional Economic Outlook: Western Hemisphere October 2020.

The outlook for the financial sector includes a potential build-up of risk given the destabilising effect of the pandemic on the domestic economy and mounting pressure on banks' financial positions. While short-term support measures in the form of loan moratoria, provided many borrowers with additional time to improve their financial situation, some debtors may require further forbearance to mitigate default risk. Against this backdrop, additional pressure on banks' financial position is likely to stem from weaker underlying profitability, due to increased provisioning for anticipated defaults and downward pressure on banks' interest margins.

Managing Vulnerabilities in Financial Flows

The preservation of TCI's financial stability is dependent on the jurisdiction having a strong AML/CFT framework aimed at alleviating risks in the flow of funds and other financial assets. As an International Financial Centre (IFC), the TCI is vulnerable to money laundering/terrorism financing (ML/TF) risks. The Commission has therefore continued to monitor and assess the management of ML/FT risk through quarterly compliance reports, as well as on-site (2019) and off-site examinations of MSBs[7].

Despite the foregoing, there is still need for continued monitoring and effective risk management strategies to mitigate ML/TF risk exposures in all sectors of the financial system, and to plug pockets of vulnerability related to information gaps on cross-border movement of physical cash through customs and financial flows (wire transfers) in the financial system. The Commission remains committed to working with all stakeholders to effectively manage and mitigate the TCI's ML and TF risks in compliance with international AML standards.

1.5 Enhancing Financial Stability Oversight in the Banking Sector

A key priority for the Commission during the review period was progressing the implementation of systemic risk analysis as part of its macroprudential policy initiatives. The impact of COVID-19 has underscored the importance of understanding linkages between the economy and financial system stability. With the assistance of the Caribbean Regional Technical Assistance Centre (CARTAC), the Commission implemented a suite of quantitative tools aimed at assessing the build-up of systemic risk in the banking sector.

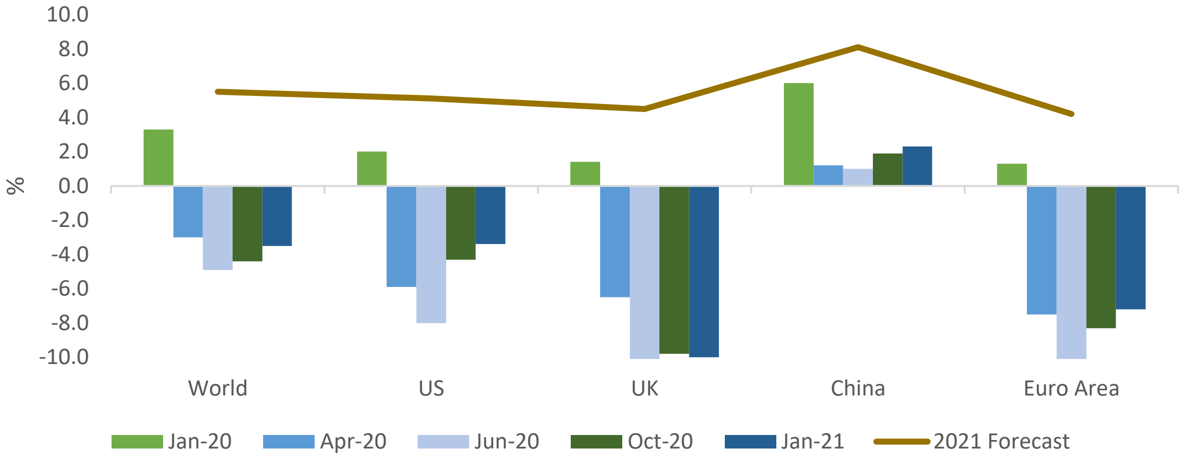
[7] The Commission suspended on-site supervision during 2020 due to the pandemic.

2.0 Macroeconomic Environment

2.1 The Global Environment

As the coronavirus pandemic unfolded, estimates for global output were revised thrice during 2020, reflecting changes in economic outlook for advanced and emerging economies (figure 1). In its April 2020 publication of the WEO, the IMF revised its 2020 estimate for global output downwards to -3.0 per cent (6.3 per cent lower than the estimate published in the January 2020 WEO) owing to the sharp contraction in global economic activity brought on by pandemic. In its June 2020 update, the IMF forecasted weaker growth of -4.9 per cent (1.9 percentage points below the April 2020 forecast) as countries (except for China where most areas were reopened by April) experienced greater economic recession than anticipated. The forecast was underpinned by aggregate demand shocks caused by sharp declines in consumption and private investment as firms suspend capital expenditures amid high uncertainty.

Figure 1: 2020 and 2021 global growth projections



Source: Own elaboration based on IMF WEO (Jan, April, June & Oct 2020; Jan 2021)

Following the ramp up of testing and the gradual reopening of economies, global growth for 2020 was projected at -4.4 per cent in October (0.5 percentage point above the June 2020 WEO update). The revision reflected evidence of less negative outturn in GDP, mostly in advanced economies of the United States (US) and the Euro area, and emerging economies such as China and India, on account of swift automatic stabilisers by policymakers to maintain cash-flow for firms and households.

Greater expansion in economic activity in the fourth quarter of 2020 led the IMF to revise its estimate of global output upwards to -3.5 per cent. Though uneven across economies, growth outturn was favourable in economies such as US, Japan, India, New Zealand, China, and Mexico which was attributed to greater-than anticipated expansion in private consumption, and in some cases, investment (except for China). Additionally, unprecedented fiscal support in advanced economies in the form of stimulus packages and central bank interventions brought economies on the path of economic recovery.

In 2021, global growth is projected at 5.5 per cent, subject to, among other factors, widespread inoculation again the virus and subsequent further easing of restrictions. The US economy is projected to rebound to year-end 2019 economic activity level in the second half of 2021, while growth in the United Kingdom (UK) and Euro area is expected to remain below year-end 2019 levels in 2022 due to continued lock downs aimed at curtailing new variants of the virus.

2.2 The Regional Context

The estimated loss in GDP of 8.1 per cent in 2020[8] in the Caribbean region mirrors the deep and expansive impact that the pandemic has had on the region, except for Guyana. Though economic performance varied across the region, several countries experienced double-digit recession (figure 2b) as countries closed their borders effectively impacting employment, demand for goods and services, and production. Tourism-dependent countries were hit hard when cruise lines and stay over arrivals came to a halt, affecting the livelihood of many persons in this sector. Commodity exporters, such as Trinidad and Suriname, experienced large declines in the exports of merchandise goods; however, this was mitigated by strong performance in the Guyanese economy (figures 2a and 2b).

Exports and imports fell in the region, resulting is a narrow reduction in the aggregate current account deficit. Remittances in the region slipped by 0.2 per cent in 2020 which is believed to have been buoyed by stimulus packages in countries such as the US[9].

Labour markets were severely impacted with an estimated 10 per cent job losses[10]. Like other economies, fiscal authorities in the region implemented relief packages for households and firms which were, on average, estimated to be around 8.5 per cent of GDP. This weakened fiscal stance across many countries as fiscal deficits rose with a commensurate increase in public debt-to-GDP[11], most of which was attributed to higher primary deficits and declines in GDP, among other factors (figure 3).

[8] IMF Regional Economic Outlook: Western Hemisphere October 2020.

[9] IDB Latin America and Caribbean Macroeconomic Report 2021

[10] According to the Inter-American Development Bank's (IDB) macroeconomic report 2021, job losses amounted to 10% during the period February to October 2020 which then fell to 7% by February 2021 when economies reopened.

[11] Fiscal deficits for the region is estimated to have increased from 58% of GDP in 2019 to 72% in 2020 for the average country.

Figure 2a: Country group real GDP growth estimate (year-over-year % change)

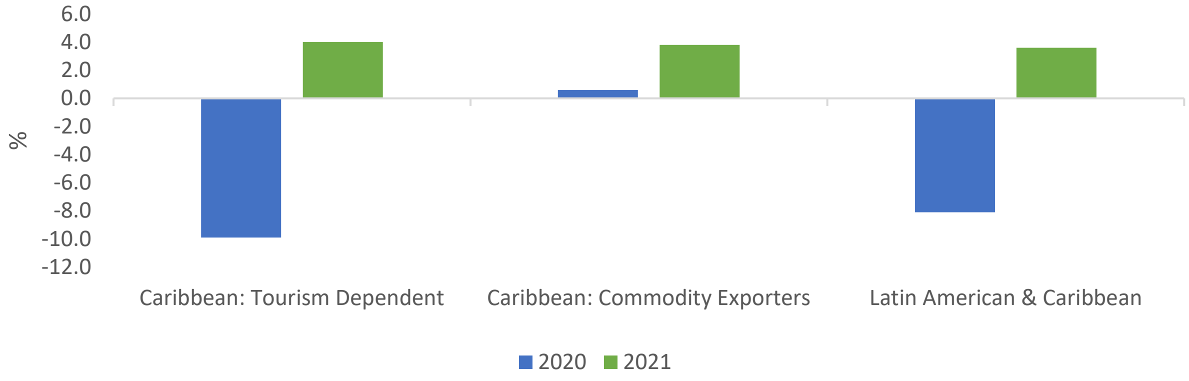
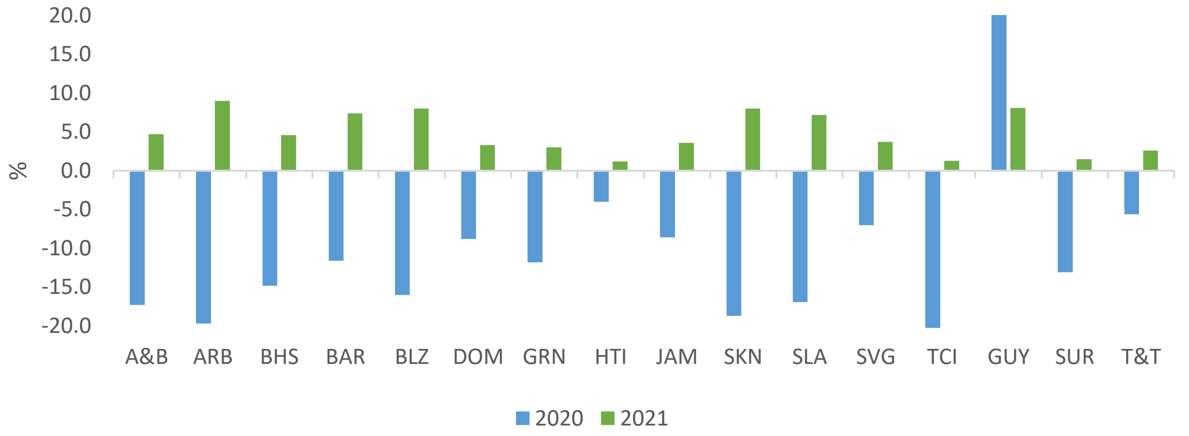
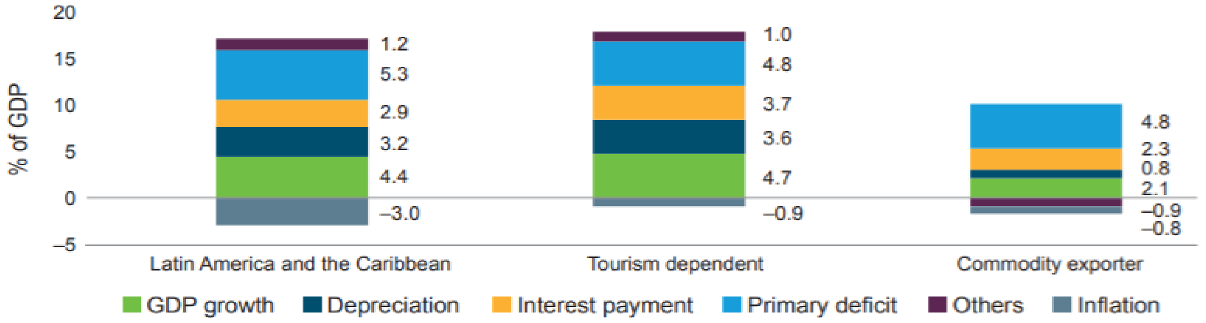


Figure 2b: Select Caribbean countries real GDP growth estimate (year-over-year % change)



Source: Financial Services Commission elaboration based on IMF Regional Economic Outlook[12]

Figure 3: Main drivers for changes in debt-to-GDP for 2019-2020 period



Source: Inter-America Development Bank LAC Macroeconomic report 2021[13]

[12] The list country abbreviations can be found in Appendix A.

[13] Latin America and the Caribbean includes the IDB's borrowing countries except Venezuela. Commodity exporters include Guyana, Bolivia, Ecuador, Colombia, Trinidad and Tobago, Peru, Chile, and Mexico. Tourism dependent countries include The Bahamas, Belize, Costa Rica, the Dominican Republic, and Panama.

The region is expected to grow by 3.6 per cent in 2021; however, the strength of the projected recovery varies across countries. The prospects for the tourism sector depend on global progress in controlling the coronavirus, effective distribution of the vaccine and the inoculation of populations in key sectors. Growth outlook in the region could also be derailed by the onset of adverse weather systems which, based on its location, makes the region susceptible to hurricanes and other natural disasters.

2.3 The Domestic Economy

Depending on the success of the containment measures, most current projections expect that the worst of the economic impact was evident in 2020, with a gradual recovery to begin in 2021. Even with this trajectory, the unemployment rate is still expected to remain higher than pre-pandemic levels (table 1). Annual inflation measured by the percentage change in the consumer price Index (CPI), is expected to gradually decline after a slight increase in 2020. However, these near-term expectations are subject to much greater uncertainty than usual.

Table 1: Domestic macroeconomic indicators

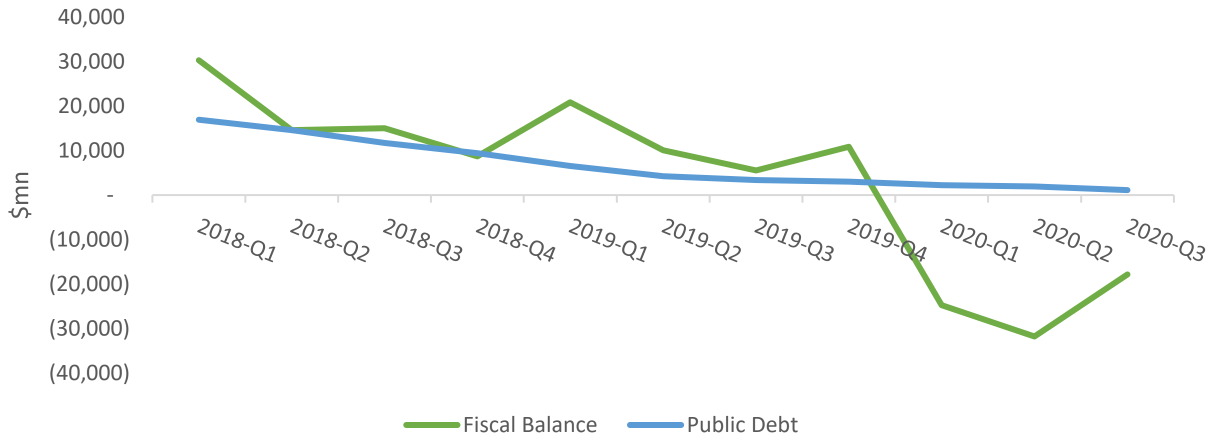
Indicators	Actual			Estimate	Projection		
	2016	2017	2018	2019	2020	2021	2022
Nominal GDP Growth (%)	9.6	-1.0	8.9	7.6	-22.8	2.0	2.0
CPI (%)	2.0	2.1	2.1	2.2	2.4	2.3	2.2
Balance of Trade ($mn)	-384.8	-430.2	-477.9	-482.3	-345.8	-434.6	-440.3
Unemployment (%)	7	6	7	7	11	9	9

Source: TCI Statistics Office

Within the context of fiscal performance, the government recorded three consecutive quarters of negative fiscal balance to close the year with a balance of -$74.3 million[14]. The outturn was influenced by the economic disruption, revenue fallout, and the Government's economic policy response designed to provide income support to households and businesses. Public debt stock continued its downward trend totalling $1.1 million as at December 2020, a reduction of 66.7 per cent compared to the same period in the prior year (figure 4). This occurred within the context of healthy cash reserves accumulated over the years, which allowed the TCIG to supplement the revenue fallout and service its obligations.

[14] This includes capital expenditure of $19.7 million for the period.

Figure 4: TCIG[15] fiscal balance and public debt performance (2018-2020)



Source: TCI Treasury

Post 2020, the TCI has reopened with limited restrictions on nightly movement in the form of a curfew and a nationwide vaccination program is underway. However, economic activity is likely to remain subdued in the coming quarters as the health crisis persists, prolonging restrictions on travel and having a direct impact on the tourism market.

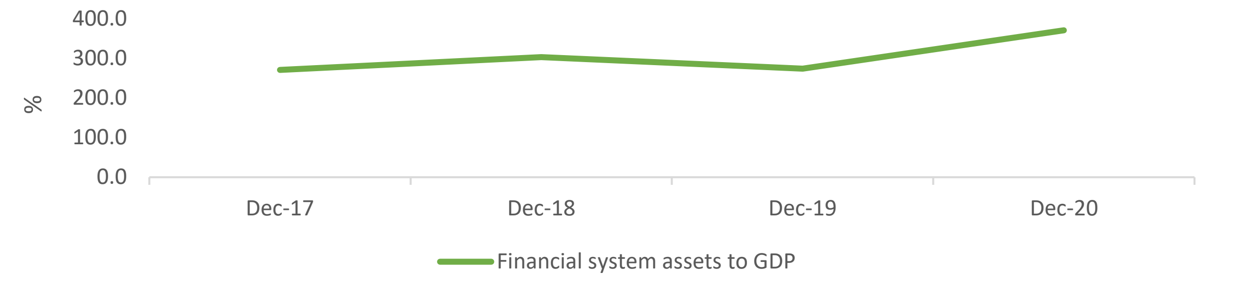
[15] Turks and Caicos Islands Government

3.0 Financial System Development

3.1 Overview

Financial intermediation, measured as the share of financial system assets to GDP, trended upwards to 370.2 per cent at the end of 2020. The change was driven by the large decline in GDP in 2020 (figure 5).

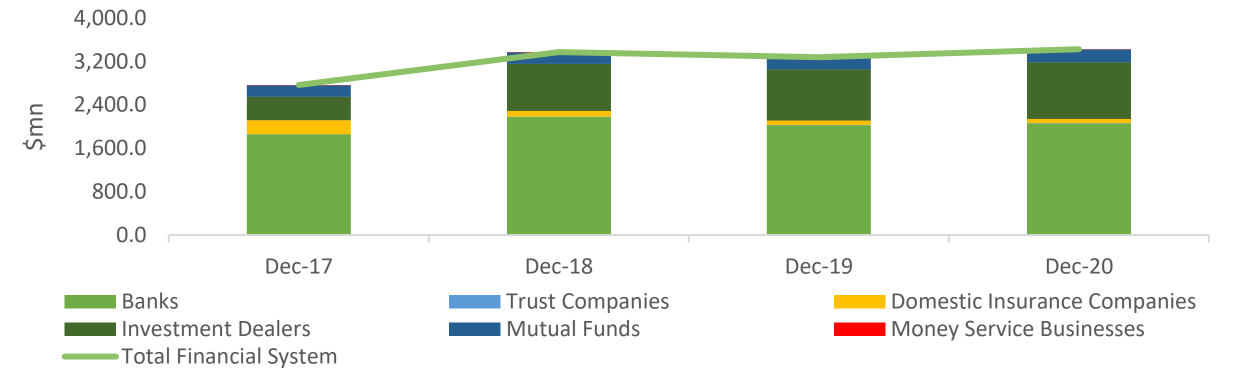
Figure 5: Financial intermediation in the TCI



Source: TCI Financial Services Commission

The domestic financial sector is dominated by the banking and investment sectors, which collectively accounted for approximately 91 per cent of total domestic financial system assets (figure 6)[16]. Total financial sector assets grew by 4.6 per cent during 2020 to $3,417.1 as at December 2020, driven mainly by the banking, investment[17] and trust sectors. At the end of 2020, the banking sector consolidated balance sheet grew by 1.6 per cent to $2,053.8 million, while assets held by the investment and trust sectors expanded by 10.3 per cent and 37.2 per cent, respectively. Conversely, there was a decline in the asset base in the domestic insurance and MSB sectors as at year-end 2020.

Figure 6: Financial institutions' assets

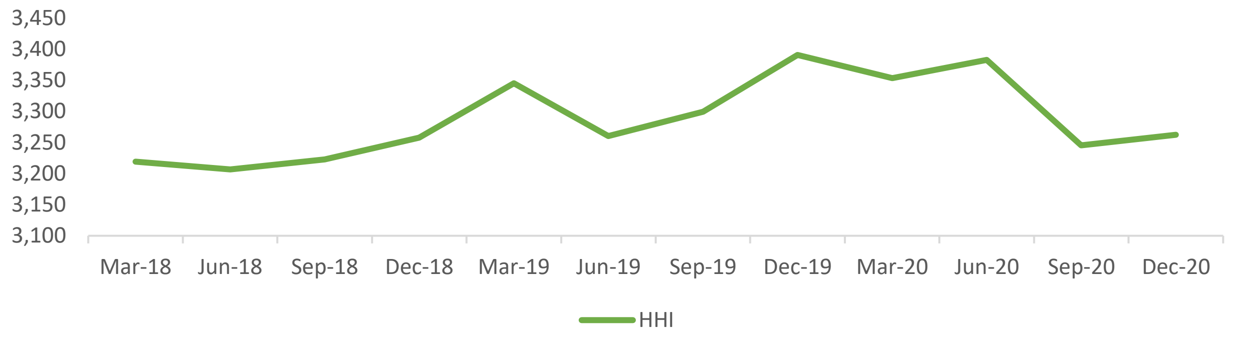


Source: TCI Financial Services Commission

[16] At the end of December 2020, the TCI financial system comprised of 6 banks, 18 domestic insurance companies, 6 investment operators, 1, fund manager, 8 mutual fund operators and 7 trust companies.
[17] The investment sector is the combined group of investment advisers and dealers, fund manager and mutual fund operators.

Banking asset concentration, as measured by the Hirschman-Herfindahl Index (HHI),[18] decreased by 3.8 per cent to 3,262.4 as at December 2020 relative to 3, 391.6 as at December 2019 (figure 7). Furthermore, banking sector assets remained heavily concentrated in three Canadian-owned banks, accounting for an average quarterly share of 98 per cent for the last three years. While the improvement in the HHI, as at December 2020, signals a tempering of concentration risk, the outturn highlighted the continued high degree of asset concentration within the sector and the need to continuously monitor developments within these entities.

Figure 7: Banking sector concentration as measured by the HHI



Source: TCI Financial Services Commission

The financial soundness indicators point to relatively stable banking sector with high capital buffers and a sound liquidity position. However, there was marked deterioration in the sector's profitability and asset quality (table 2).

Table 2: Banking sector quarterly financial soundness indicators

Category	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Capital Adequacy						
Regulatory Capital /Risk-weighted Assets	29.8	31.7	30.3	29.8	31.5	29.6
Regulatory Tier I Capital/ Risk-weighted Assets	24.9	28.6	27.7	27.4	28.9	27.3
Total Capital / Net Assets	14.4	16.8	15.5	15.7	16.3	15.6
Asset Quality						
Non-performing loans/ Gross Loans	5.9	5.4	5.3	4.4	4.7	6.0
Non-performing loans net of provisions for loan losses / Total Capital	7.0	6.0	6.0	1.1	0.2	1.1
Provision for loans losses / Gross Loans	3.2	3.1	3.0	4.0	4.6	5.6
Non-performing loans net of provision for loan losses /Paid-up capital	24.3	21.1	20.6	3.6	0.5	3.5
Earning and Profitability						
Return on Assets (Net profit / Average net assets)	0.6	0.6	0.6	0.0	0.0	-0.1

[18] The HHI is defined as the sum of the squared share of all banks' assets. It takes into consideration each bank's share of assets within the sector and is an indication of the degree of asset concentration.

Return on Equity (Net profits / Average total capital)	4.0	3.6	4.1	-0.2	0.1	-0.7
Net interest income / Gross income	63.5	67.1	69.5	65.0	75.4	65.9
Non-interest expenses/ Gross income	43.9	49.4	40.1	97.4	94.0	107.9
Liquidity						
Liquid assets / Total assets	57.8	50.3	54.3	54.8	53.5	55.4
Liquid assets / Short-term liabilities	70.8	63.3	66.7	67.8	66.3	68.4
Gross Loans / Customers Deposits	60.9	63.0	58.4	60.2	62.9	59.2
Liquid assets / Total deposits + borrowings	68.1	61.6	65.4	66.1	65.0	66.6

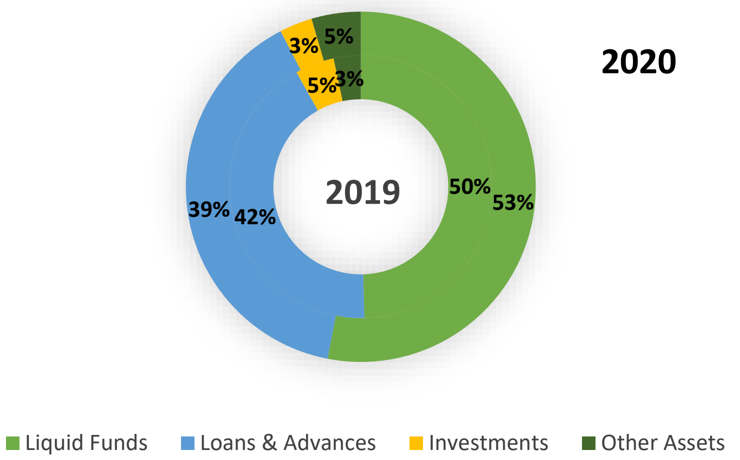
Source: TCI Financial Services Commission

3.2 Banking Sector Performance

3.2.1 Balance Sheet

The banking sector's balance sheet expanded by 1.6 per cent in 2020, ending the year at $2,052.8 million. There were minimal changes in the asset composition over the period, with liquid funds and loans and advances accounting for 53.1 and 39.4 per cent of total banking assets, respectively. Asset growth was dominated by an increase in banks' holdings of liquid assets of 3.5 percentage points compared to December 2019, which made them well placed to respond to liquidity shocks during the crisis. The portfolio of loans and advances decreased by 3.6 per cent in December 2020 relative to December 2019 on account of significant write-offs. In addition, banks' investment holdings decreased by 34.9 per cent to close the year at $65.2 million (figure 8). The deceleration was primarily driven by banks' liquidation of security holdings given the market downturn caused by the pandemic.

Figure 8: Banking sector asset classification



Source: TCI Financial Services Commission

The distribution of credit remained relatively stable throughout the review period. Private sector credit was concentrated in four main economic sectors namely household[19], construction and land development, tourism, and professional and other services. The domestic household sector (personal loans) remained the largest credit exposure for banks (figure 9a). In the aggregate, banks' exposure to personal loans decreased marginally by less than 1 per cent, driven mainly by marginal decreases in the categories acquisition of property, and motor vehicle and other durable goods (figure 9b).

Figure 9a: Sectoral distribution of credit

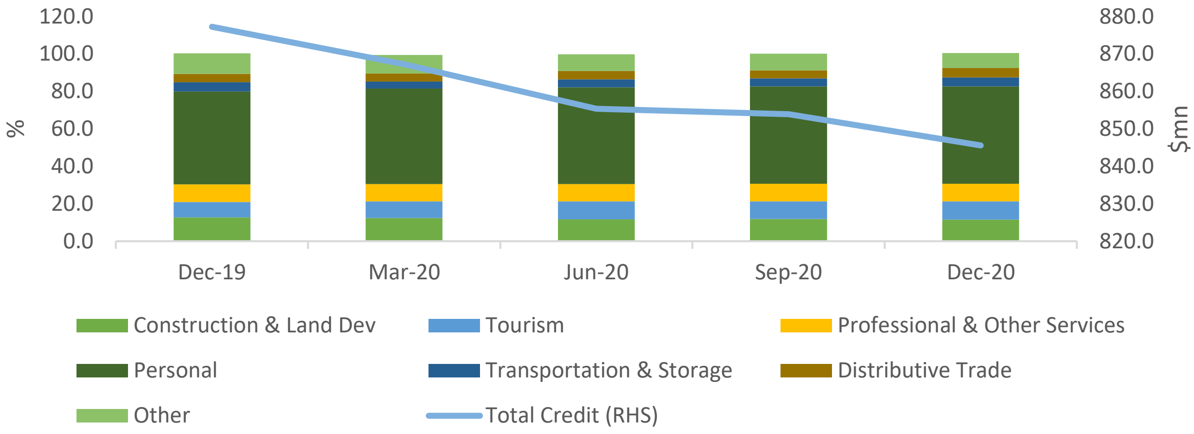
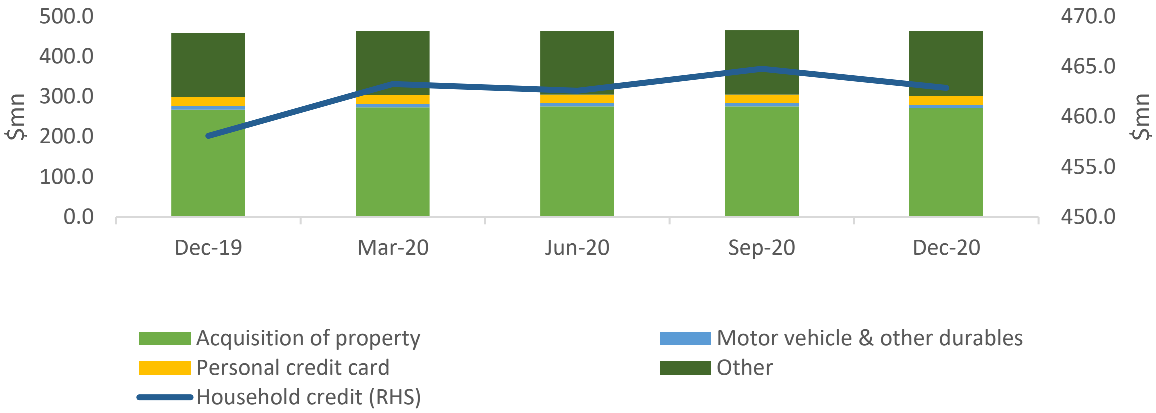


Figure 9b: Decomposition of personal loans



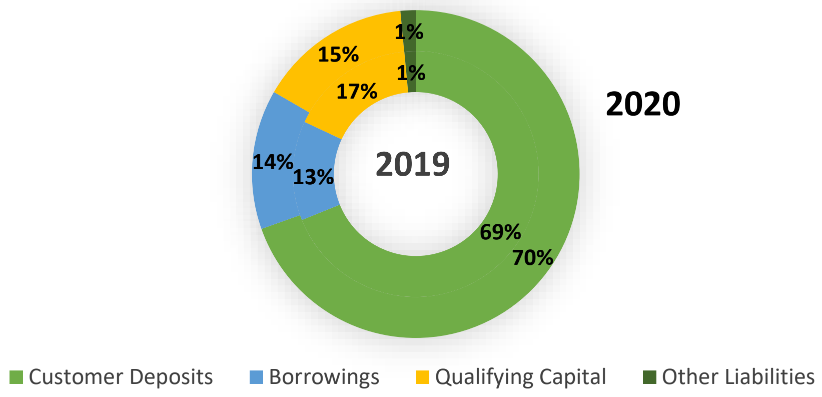
Source: TCI Financial Services Commission

Total liabilities in the banking sector also increased during the review period, with deposits remaining the major funding source of banks' assets (figure 10). Banks' total deposits increased by 2.6 per cent to $1, 428.1 million and represented 69.6 per cent of total liabilities as at December 2020, relative to 68.9 per cent as at December 2019. In contrast, the loans to deposits ratio declined

[19] Household represent personal loan items which include mortgages to individuals.

by 3.7 percentage points to 59.2 per cent as at December 2020, representing a decrease in banks' exposure to liquidity risk.

Figure 10: Banking sector funding sources

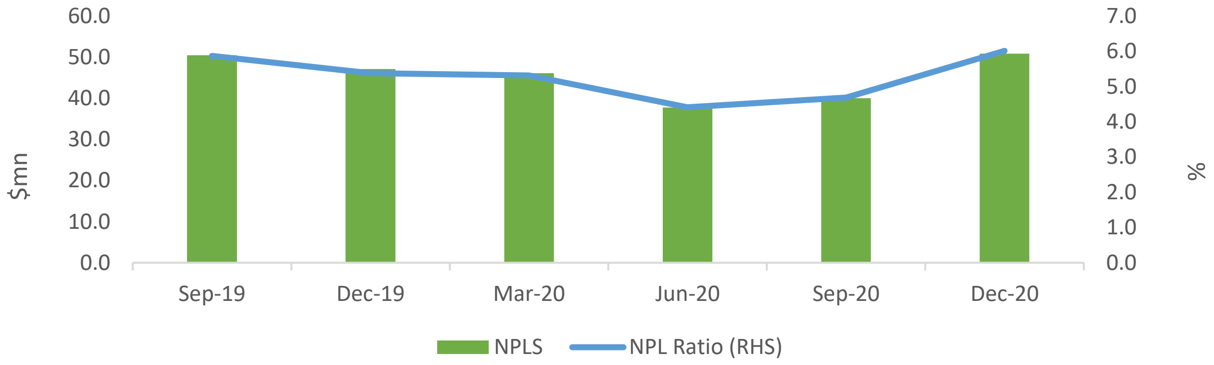


Source: TCI Financial Services Commission

3.2.2 Asset Quality

Against the backdrop of the pandemic, the quality of the loan portfolio deteriorated at year-end 2020 (Figure 11). Credit quality, as measured by the NPL ratio[20], decreased by 1.3 percentage points to 6.0 at year-end relative to the same period last year. Total NPLs increased during the review period by 7.8 per cent to $50.8 million. The distribution of NPLs remained relatively constant throughout the period, with personal loans holding the largest share. Noteworthy, there was a contraction from 30.1 to 17.3 per cent in NPLs in the construction and land development category[21] (figure 12).

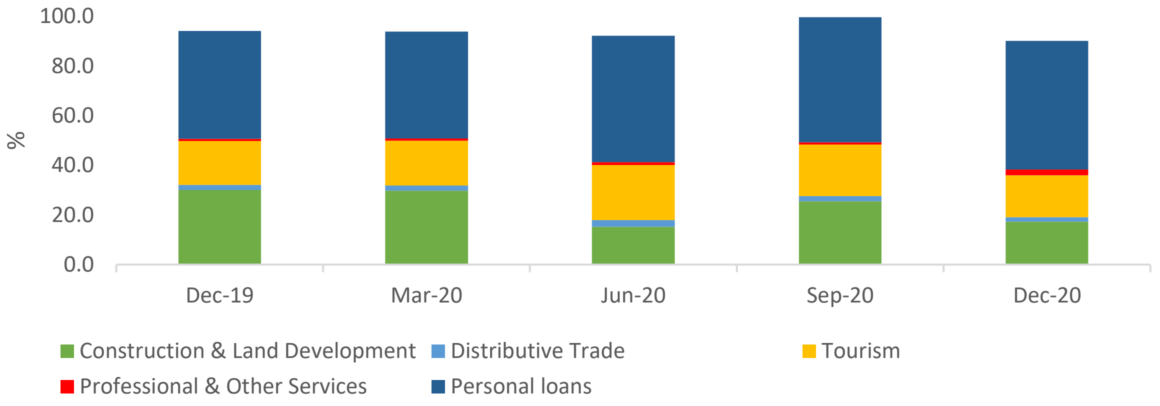
Figure 11: Total NPLs and NPL ratio



Source: TCI Financial Services Commission

[20] NPL ratio is measures by the ratio of non-performing loans to total gross loans.
[21] Driven primarily by customers payoff of outstanding balances, sale of underlying assets and write-offs.

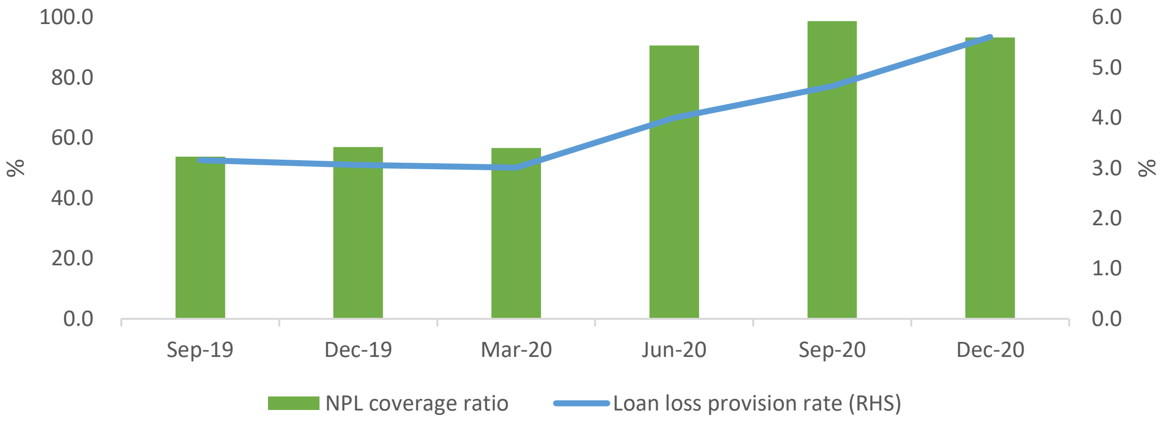
Figure 12: NPL distribution by sector



Source: TCI Financial Services Commission

Similarly, the NPL coverage ratio, which measures provisions as a share of NPLs, increased to 93.4 per cent, representing a 36.4 percentage point increase compared to December 2019. This was driven by an increase in provisioning over the period. The loan loss provisioning rate[22] increased as at year-end 2020 to 5.6 per cent compared to 3.1 per cent in the prior period (figure 13).

Figure 13: NPL coverage and loan loss provisioning ratio



Source: TCI Financial Services Commission

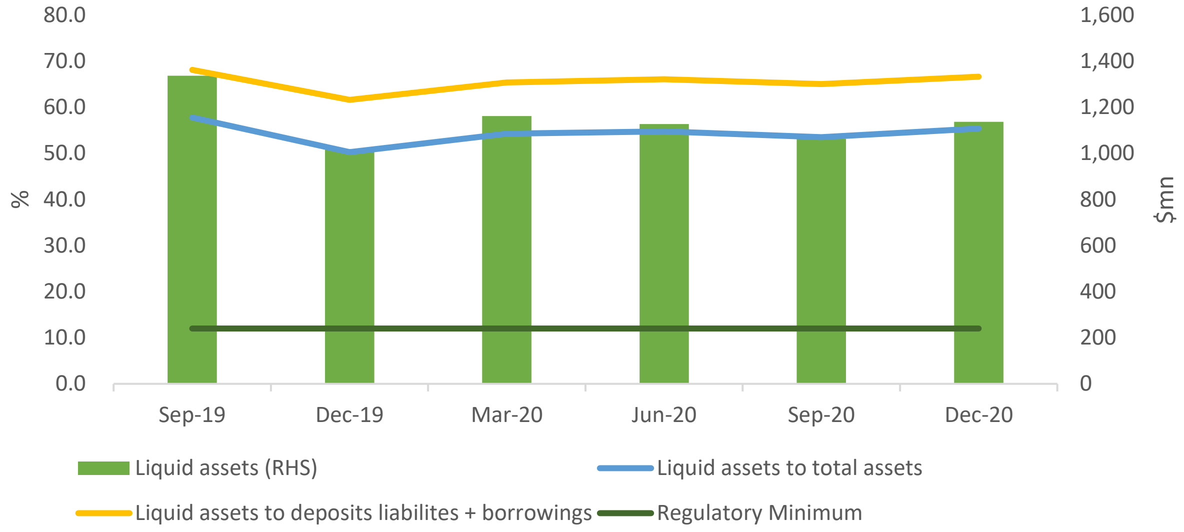
3.2.3 Liquidity and Funding

Liquid asset buffers remained comfortable, and banks continued to be well placed to respond to liquidity shocks. Banking sector liquidity, as measured by the ratio of liquid assets to total assets, increased to 55.4 per cent as at December 2020 from 50.3 per cent in December 2019 (figure 14).

[22] The loan loss provision rate is calculated as the ratio of total loan loss provisions to total gross loans.

The increase in the liquid asset ratio reflected stronger growth in banks' liquid assets relative to the growth in total assets. Customer deposits continued to account for the dominant share of banks' funding base and remained the main source of credit financing. The ratio of liquid assets to deposit liabilities and borrowings remained high at 66.6 per cent at year-end 2020.

Figure 14: Liquidity profile of the banking sector



Source: TCI Financial Services Commission

3.2.4 Earnings and Profitability

Over the review period, bank profitability dampened substantially owing to factors such as increased provisioning, narrowing interest margins, and reduced revenues from fees. Relative to 2019, interest income and operating income declined by 33.4 percent to $57.6 million and 24.6 percent to $20.7 million, respectively. In the face of declining revenues, total operating expenses increased to $63.7 million from the $46.8 million recorded in 2019. As a result, net profit for the sector plummeted to $10.8 million; a dramatic decline of 80.2 per cent over the year (figure 15a).

Against the background of declining net come, return on equity (ROE) for the sector was 3.4 per cent in 2020 compared to the 17.2 per cent in 2019. Decomposition of the ROE confirmed a sizeable decrease in net profit margin with small changes in asset turnover and the equity multiplier[23]. Concurrent with this performance was a notable decline in the sector's return on assets (ROA) to 0.5 per cent, down from 2.5 per cent in 2019 (figure 15b).

[23] ROE was decomposed into three sub-components: net profit margin (measured as the ratio of net income to total revenue), asset turnover (measured as the ratio of total revenue to average assets) and the equity multiplier (measured as the ratio of average assets to average shareholder's equity)

Figure 15a: Banking sector's income, profit and expenses

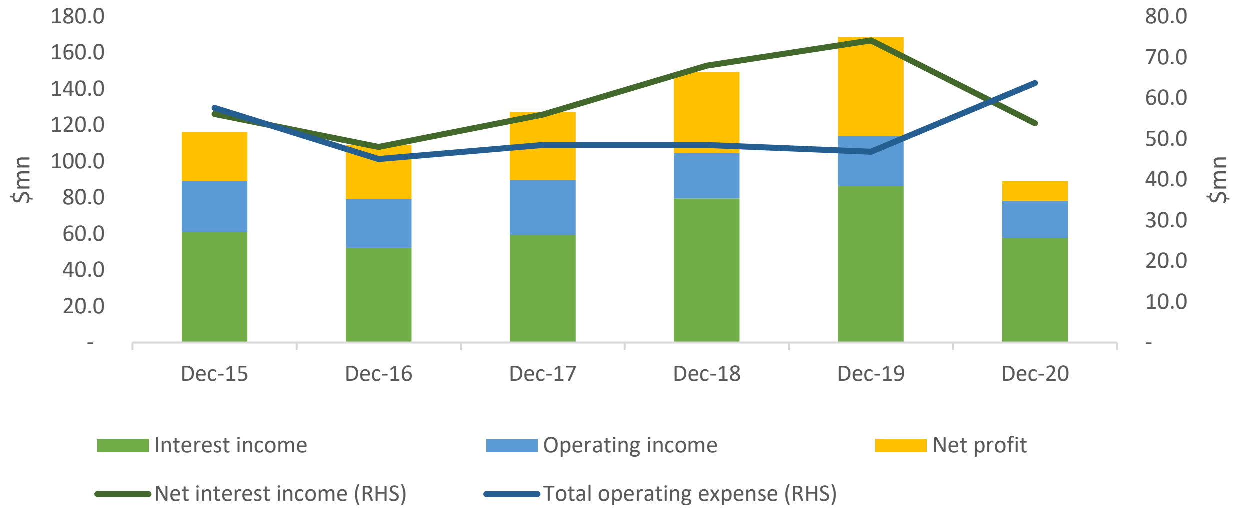
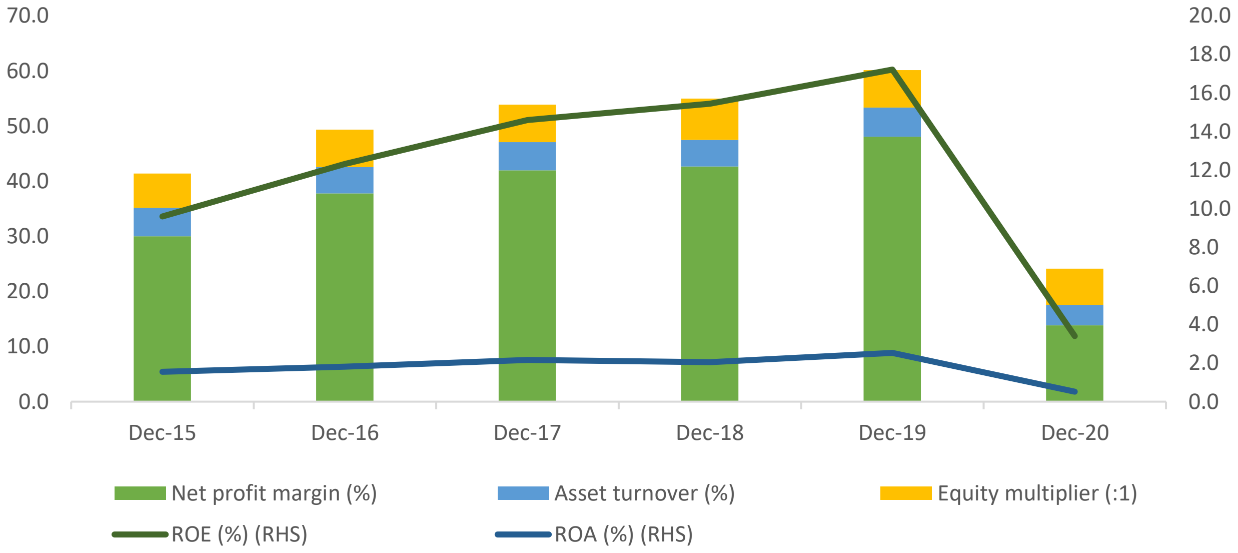


Figure 15b: Banking sector profitability performance



Source: TCI Financial Services Commission

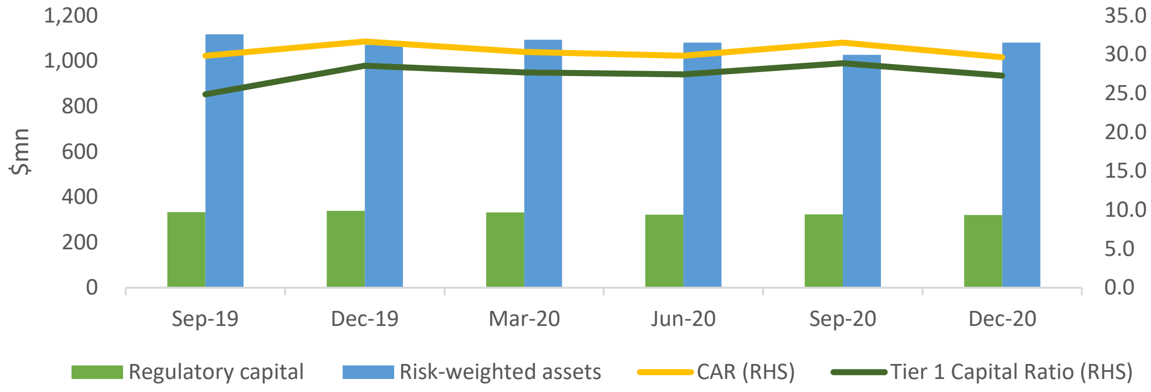
3.2.5 Capital Adequacy

Bank capital remained sound through the review period as capital adequacy[24] continued to exceed the minimum statutory requirement of 11 per cent. Nevertheless, the sector's CAR and the tier I

[24] Capital adequacy is the ratio of regulatory capital-to-risk-weighted assets.

capital ratio[25], the core measure of a bank's financial strength, declined to 29.6 and 27.3 per cent, relative to the December 2019 period of 31.7 and 28.6 per cent, respectively (figure 16). Notwithstanding the decline in capital adequacy, the sector remained well positioned to absorb potential asset losses or write-offs.

Figure 16: Banking sector capital adequacy



Source: TCI Financial Services Commission

3.3 Non-bank Financial Sector[26]

The asset base of the non-bank financial sector[27] totalled $1, 369.6 as at December 2020, a growth of 9.4 per cent when compared to the previous year ended December 2019. Expansion was reflected in all sub-sectors except domestic insurance. The investment sector accounted for the largest share of non-bank financial sector assets, followed by insurance and the trust companies.

3.3.1 Investment Sector

Investment business was conducted by seven entities licensed as investment dealers and mutual fund operators. Three entities accounted for approximately 54 per cent of the investment business portfolio[28]. To better assess the risk in the sector, the Commission will be introducing guidance for the prudential supervision of investment businesses. The guidance, which also include a supervisory questionnaire, will address gaps identified in the reporting framework. The objective is to provide the Commission with more comprehensive and reliable data to continually assess the management of risk in this sector.

[25] Tier 1 capital ratio is measured as common equity tier 1 capital to risk-weighted assets.

[26] Though there are entities who hold multiple financial business licenses, the non-bank financial sector is defined as those financial institutions that do not have a banking licence but facilitate alternative financial services such as investments, trusts, insurance and money transmission.

[27] The non-bank financial sector includes the domestic insurance companies, investment businesses, trust companies and money service businesses.

[28] Data as at March 2020.

3.3.2 Insurance Sector

As at December 2020, total assets of the insurance sector amounted to $80.6 million, a decrease of 1.6 per cent from the previous year. General insurance accounts for approximately 84.4 per cent of the sector's assets. During 2020, the life insurance sub-sector recorded asset growth of 14.9 per cent to $12.6 million while the general insurance sub-sector contracted by 4.2 per cent to $68.0 million. Cash, loans and deposits accounted for 83.0 per cent of life insurance total assets as at year-end December 2020 relative to 77.8 per cent as at December 2019. Similarly, cash and deposits had the largest share of general insurance assets at 45.3 per cent as at December 2020 compared to 33.9 per cent as at December 2019.

There was a general deceleration in earnings during 2020. Net income for the life insurance sub-sector declined by 12.2 per cent to $0.5 million, while the general insurance sub-sector recorded a decline of 20.1 per cent to $5.0 million, relative to the previous period.

Capital adequacy and solvency in the insurance sector remained at adequate levels as at December 2020. The solvency ratio[29] for individual life insurers was 429.6 per cent, relative to 411.3 per cent at year-end 2019, exceeding the early warning test minimum standard of 8.0 per cent for life insurers. For the general insurance sub-sector, the solvency ratio was 39.5 per cent relative to the 2019 outcome of 54.0 percent, exceeding the early warning test minimum standard of 25.0 per cent for general insurers.

Liquidity conditions continued to be buoyant within the insurance sector over the review period. The life insurance sub-sector's liquidity ratio, which is expressed as liquid assets[30] as a percentage of total liabilities, was 429.6 per cent relative to the December 2019 outcome of 379.0 per cent. This exceeded the early warning test minimum standard of 60.0 per cent with all life insurers exceeding the minimum standard. On the other hand, the liquidity ratio for the general insurance sub-sector weakened to 120.0 per cent compared to the 138.3 per cent recorded as at December 2019, though exceeding the early warning minimum of 95 per cent for general insurers. All but one insurance company met this minimum standard.

3.3.3 Trust Sector

On-balance sheet assets as at December 2020 amounted to $6.2 million, an increase of 37.2 per cent when compared to the previous year[31]. Total income, mainly generated from services, totalled $6.9 million for 2020, a decline of 4.9 per cent when compared to the 2019 outcome of $7.3

[29] This ratio measures the adequacy of the insurer's capital relative to its liabilities.

[30] Liquid assets generally include cash, restricted deposits, reinsurance assets and receivables less than six months.

[31] The growth in the trust sector asset was a temporary increase due to some difficulties in transferring clients' funds during the pandemic.

million. Total expenses grew by 14.5 per cent over the period to $5.3 million. Accordingly, combined profits for the sector declined by 39.3 per cent to $1.6 million over the period.

3.3.4 Money Service Business (MSB) Sector

The MSB sector recorded a decrease in assets of 12.7 per cent to $5.4 million over the review period. Similarly, total revenue contracted by 22.0 per cent to $3.0 million in 2020, spurring a decline in profits of 67.3 per cent to $0.3 million compared to $0.8 million recorded in 2019.

Total funds transmitted amounted to $117.1 million, a decline of 14.4 per cent compared to the previous year. Outflows, which accounted for 90.7 per cent of total transmitted funds, reduced by 17.5 per cent to $106.3 million, while inflows increased by 37.3 per cent to $10.9 million over the review period. The reduction in outflows was on account of reduced traffic at MSBs given the restrictions on movement, and tightened domestic financial conditions. Haiti and the Dominican Republic continued to be the main recipients of outbound remittances, collectively accounting for 59.0 per cent ($62.7 million) of total outflows, relative to 55.5 per cent ($71.6 million) remitted the previous period. Remittance inflows from the United States of America, which continued to contribute the largest portion of inflows to the TCI[32], increased by 88.8 per cent to $6.7 million, relative to $3.5 million in 2019. This result may have been influenced by improvement in the US economy towards the latter part of 2020, as well as the US government's stimulus support to households[33].

[32] Remittance inflows from the US accounted for 61.4 per cent of total inflows for 2020 and 44.6 per cent in 2019.

[33] https://publications.iadb.org/publications/english/document/2021-Latin-American-and-Caribbean-Macroeconomic-Report-Opportunities-for-Stronger-and-Sustainable-Postpandemic-Growth.pdf

4.0 Risks to Financial Stability

Within the broad framework of developing its macroprudential policy, the Commission, through the help of CARTAC, applied a set of early warning indicators to actively monitor the build-up of systemic risk within the banking sector. Systemic risk monitoring involves the early detection of risks to financial stability and potential sources of vulnerability in the financial system that can lead to imbalances within the economy. The indices are constructed based on financial market indicators, and macroeconomic and financial data.

This chapter assesses the key channels of risk and vulnerabilities in the domestic macro-financial system using four composite indices. The indices highlighted weakened conditions in the domestic macro-financial environment due to the onset of the COVID-19 pandemic. The outturn was driven by unfavourable domestic economic conditions such as lower levels of GDP, higher fiscal deficits and narrowing performance in the external sector. Moreover, there was weaker profitability levels in the banking sector, along with asset quality deterioration over the review period.

4.1 Aggregate Financial Stability Index (AFSI)

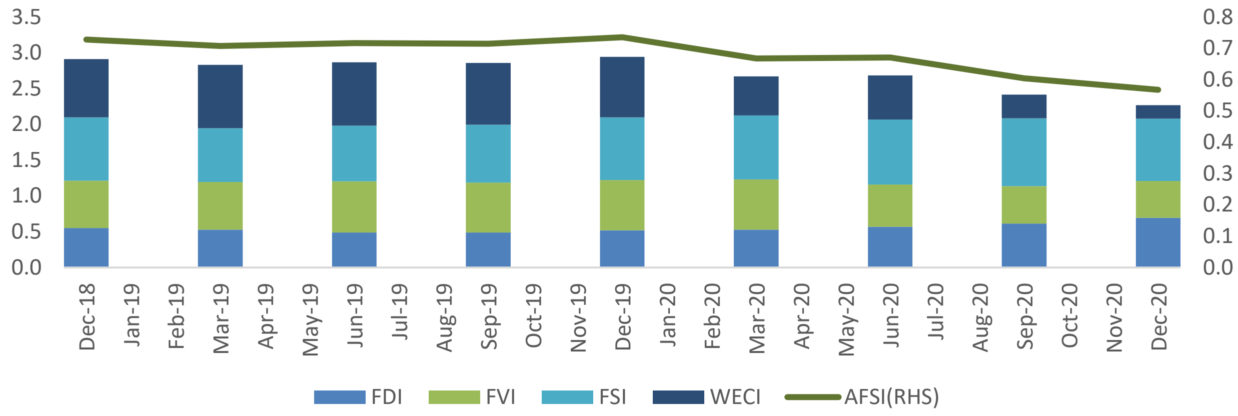
The Aggregate Financial Stability Index (AFSI) is a composite index generated as a weighted average of normalised macroeconomic data and financial statement variables to form an aggregate measure of financial stability[34]. The index is grouped into four sub-indexes namely, financial development (FDI), financial vulnerability (FVI), financial soundness (FSI) and the world economic climate (WECI). An increase in value of the AFSI shows an improvement in financial stability and a decrease indicates deterioration.

The AFSI showed weakened stability for the period ending December 2020 (figure 17). The financial soundness sub-index deteriorated due to decline in capital adequacy and weakened asset quality, as measured by the NPL ratio. Furthermore, there was deterioration in the world economic climate index on account of the economic downturn in the global and domestic environment. On the other hand, the higher level of financial intermediation, on account of lower levels of GDP[35], resulted in an improvement in the financial development sub-component and notable weaking in financial vulnerability.

[34] (Cheang and Choy, 2011).

[35] Quarterly figures for economic series were derived based on the interpolation of annual values using the cubic last method.

Figure 17: AFSI and sub-indices



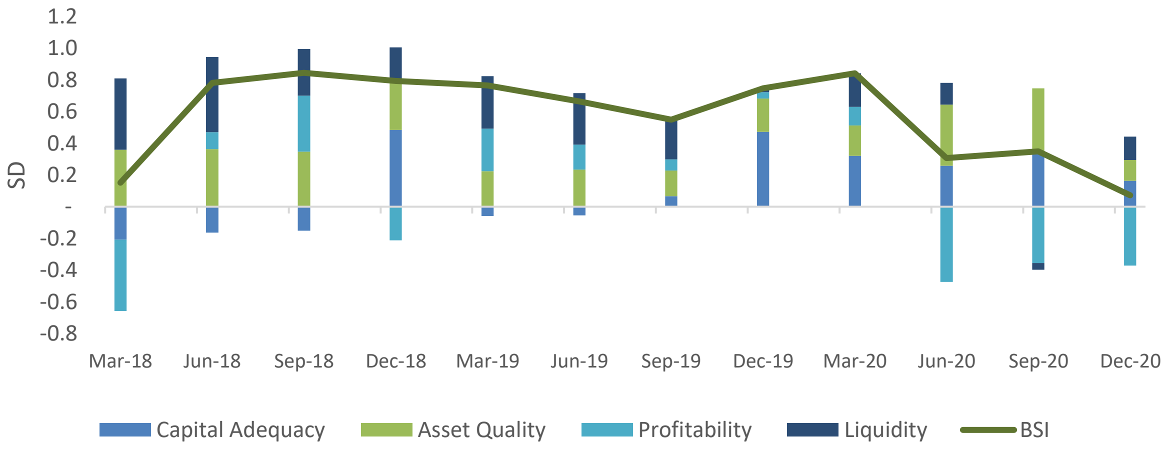
Source: TCI Financial Services Commission

4.2 Banking Stability Index (BSI)

The Banking Stability Index (BSI) is computed as the weighted sum of selected, normalised indicators that reflect the IMF's core financial soundness indicators of capital adequacy, profitability, asset quality and balance sheet liquidity[36]. A higher value represents an improvement in financial stability and a decrease symbolises a deterioration.

A negative outturn in the BSI was observed for the TCI banking sector for the review period. Sharp declines were observed in the periods ending June and December 2020 owing to weaker performance in the core indicators of profitability, asset quality and capital adequacy compared to the previous period ending December 2019 (figure 18).

Figure 18: BSI and sub-components



Source: TCI Financial Services Commission

[36] Geršl A., and J. Hermánek, 2008

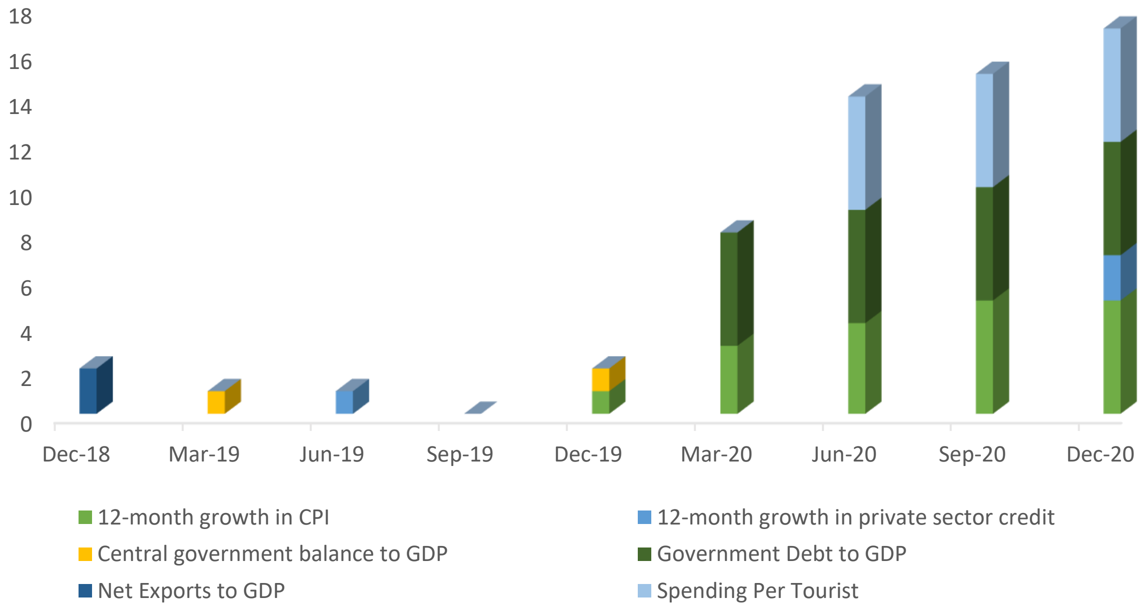
4.3 Micro-prudential & Macro-financial Indexes

The Micro-prudential (MiPi) and Macro-financial (MaFi) indexes are early warning signal-based indicators of systemic risk. The MiPi and MaFi aggregates underlying transformed financial soundness indicators (FSIs) weighted by institution asset size and macro-financial indicators, respectively. The MiPi signals potential financial distress in the banking sector while the MaFi reflects the potential impact of the macroeconomic environment on bank fragility.

The analysis involves monitoring the behaviour of indicators based on the number of standard deviations of each indicator from their base period[37]mean value. Computation of the overall value of the index, requires aggregation of the signal scores (scores range from 0-5 with 5 representing the most severe signal) across all indicators. In the period leading up to instability, the signals will increase in terms of both the number of variables signalling and the severity of the signals. Increases in the value of each index reflect a deterioration in financial stability.

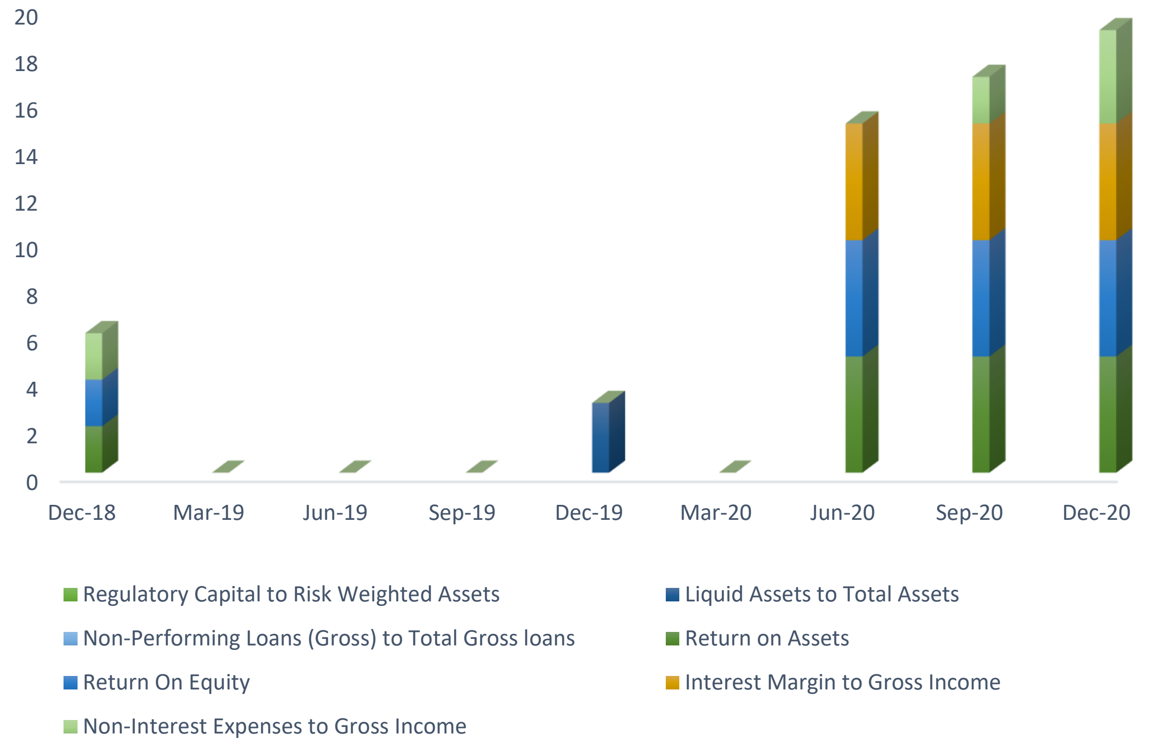
The MaFi increased to 22 points during 2020 relative to 7 points recorded in 2019 (figure 19a). The increase in the index reflected adverse performance in economic activity for the period. Similarly, the MiPi index for the banking sector increased to 25 points in 2020 from 8 points in 2019. The outturn was negatively impacted by the deterioration in the profitability categories, namely ROA and ROI (figure 19b). The increases in both indices reflect a relative deterioration in financial stability.

Figure 19a: Macro-financial index



[37] The base period is a six-quarter period of relative stability. The base period for each index is March 2018-June 2019.

Figure 19b: Micro-prudential index for the banking sector



Source: TCI Financial Services Commission

4.4 Financial Stability Cobweb

The financial stability cobweb depicts domestic economic and financial risk exposures across six[38] risk categories and the direction of their changes. The categories are shown below:

(i) **Domestic environment** – economic conditions can affect financial stability, mainly causing changes in borrowers' solvency and affecting the quality of the credit institutions' loan portfolio and profitability.

(ii) **Domestic financial environment** – sharp changes in financial assets or shortfalls in market liquidity can expose domestic financial institutions to market and liquidity risks.

(iii) **Global environment** – external shocks such as downturn in the world economy can cause credit losses for financial institutions.

(iv) **Global financial environment** - sharp changes in global asset prices or shortfalls in market liquidity can expose domestic financial institutions to market and liquidity risks.

(v) **Capital and profitability** - ability of credit institutions to absorb shocks and raise adequate capital for absorbing losses when necessary.

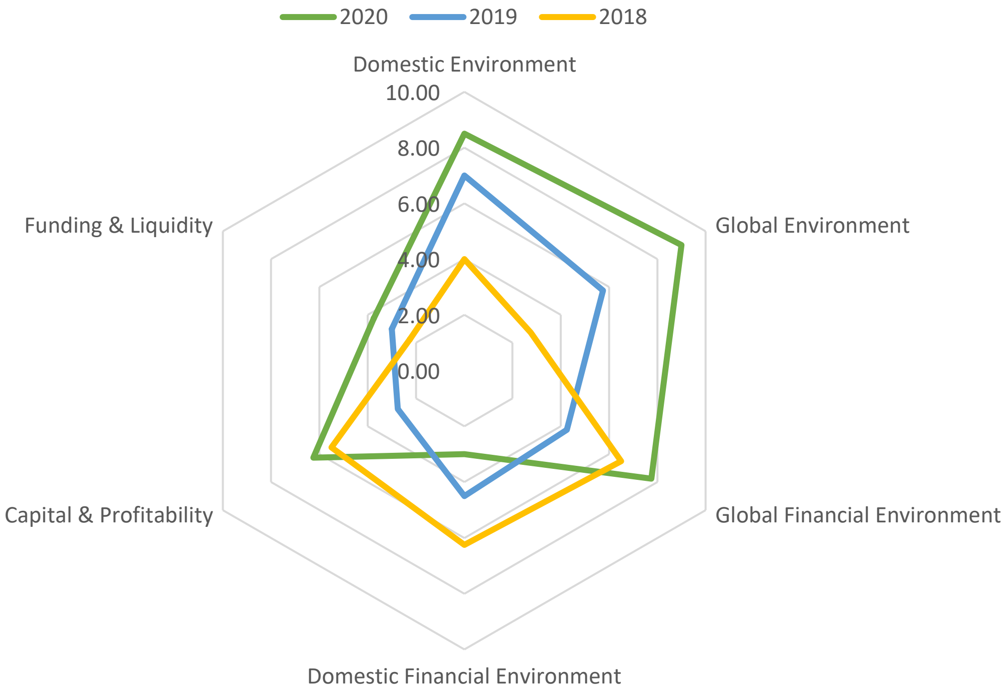
[38] The first four categories identify systemic shocks that would trigger major difficulties for financial institutions, while the remaining two reflects the capacity of the banks to absorb shocks to their balance sheets.

(vi) **Funding and liquidity** - the availability of funding provided by credit institutions and changes in funding costs can affect financial stability in the system.

Movements away from the centre of the diagram represent an increase in the risk to financial stability, while movements towards the centre of the diagram represent a reduction in financial stability risks.

Risks to financial stability were higher in 2020 (figure 20) with marked increases in risk exposures in the global financial and domestic and global environments dimensions due largely to the impact of the pandemic. A similar outturn was also noticed in the capital and profitability risk category on account of declining bank profits and capital buffer. The reduction in risk exposure in the domestic financial environment dimension was driven by deeper financial intermediary performance.

Figure 20: Cobweb map



Source: TCI Financial Services Commission

5.0 Banking Sector Resilience

Stress tests were applied to banks' credit[39] and liquidity portfolios to assess their resilience to hypothetical shocks. Additional parameters were applied under the December 2020 test relative to those in 2018, in that, further shocks were applied to other credit facilities to ascertain the impact on banks' capital adequacy. The test also considered the impact of sizeable withdrawals by large depositors on the banks' liquidity positions. These severe but plausible shocks were designed to account for any major impact to the banks credit and liquidity positions due to the pandemic[40].

Credit Test

Bank capital were lower as at December 2020 relative to the prior period. Nevertheless, the test outcomes revealed that the banking sector was well capitalised and resilient to a range of scenarios, while exceeding the prudential minimum CAR of 11 per cent (table 3). Of note, the test found no substantial capital erosion as a consequence of hypothetical growth in the NPLs by sectors and associated provisioning.

In response to hypothetical shocks to other sectors, the banking sector remained generally resilient as at December 2020 to increases in NPLs to the vulnerable sectors such as tourism, construction & development and personal loans[41].

Liquidity Test

The liquidity stress test examined, under two scenarios, the number of days that banks could withstand a simultaneous run on demand and time deposits before liquid assets were depleted and contingent lines or other external sources of liquidity would be required. The first scenario assumes, a daily run rate of 20 per cent on demand and 5 per cent on time deposits. The results indicate that as at December 2020, the banking sector can generally withstand a simultaneous run on demand and time deposits, except for one bank which exhausted its liquid assets before the seven-day mark.

The second scenario examines the effect of a 20 per cent daily withdrawal rate on large depositors' accounts. Results indicate that only one bank would not have survived the seven-day bank run. The results remained the same under both scenarios for the last three quarters of the year (table 3).

[39] The test considered tier 1 capital only.
[40] Assumptions for each test are summarized in Appendix B.
[41] These sectors would have been most impacted by the lock-down measures.

Table 3: Banking sector credit and liquidity risk stress test results

		Dec-19	**Mar-20**	**Jun-20**	**Sep-20**	**Dec-20**
Credit Test						
Baseline/Pre-shock CAR %		**28.6**	**34.3**	**27.4**	**28.7**	**27.3**
Shock 1a: Generalized increase in NPL	Post-shock CAR %	26.7	33.5	27.0	28.5	23.9
Shock 1b: Correction for under provisioning	Post-shock CAR %	26.2	31.7	25.4	26.8	25.4
Shock 1c: Migration across NPL Categories	Post-shock CAR %	25.5	31.1	25.0	26.2	24.5
Shock 1d: Sectoral Shocks (Mortgages)	Post-shock CAR %	27.3	32.9	26.3	27.3	25.6
Shock 1e: Credit Concentration	Post-shock CAR %	17.1	22.1	17.0	19.1	17.0
Additional Shocks						
Shock 1f: Sectoral Shocks (Tourism)	Post-shock CAR %			27.1	28.3	26.8
Shock 1g: Sectoral Shocks (Construction)	Post-shock CAR %			27.0	28.1	26.7
Shock 1h: Sectoral Shocks (Personal)	Post-shock CAR %			26.7	27.7	26.1
Liquidity Test						
Bank run on demand & time deposit accounts	No. of banks with liquidity drainage before 7 days	2	1	1	1	1
Bank run on large depositors' accounts	No. of banks with liquidity drainage before 7 days			1	1	1

6.0 Key Policy Initiatives

Addressing Key Developments in the Financial Sector Landscape

Within the last few years, the financial technology (fintech) area has become increasingly dynamic as new forms of digital money gained more popularity in the international financial system. These include central bank digital currencies (CBDC), cryptocurrencies and, more recently, global stablecoins (GSC). Enabled by distributed ledger technology such as blockchain, the currencies use digital tokens to transfer value over a peer-to-peer system without having to go through financial intermediaries such as banks.

Motivated by objectives, including but not limited to, promoting financial inclusion and improving efficiencies in cross-border payments, regional and international countries are at various stages of designing their own digital currencies. However, absent strong regulatory safeguards, these payment system initiatives could facilitate illicit flow of funds within and across borders. Research by the G7[42] Working Group on Stablecoins emphasised that digital currencies with global reach pose a significant risk to financial stability[43]. Moreover, the Financial Stability Board in its consultative document on Addressing the Regulatory, Supervisory and Oversight Challenges raised by Global Stablecoin Arrangements, underscores that supervisory authorities should address possible gaps in their domestic framework to adequately mitigate risks posed by crypto assets such as GSC[44].

As a strategic response to the rising interest in digital currency assets, the Commission will be publishing a discussion paper that explores the regulatory risks emanating from the potential use of digital currencies within the domestic economy. The Commission recognises the continued growth and mounting interests in the fintech landscape and will therefore work to formalise a regulatory framework that will not only consider leveraging the benefits from these and other financial innovations but also position itself to address the potential risks to the financial sector.

Strengthening Guidelines for the Industry

The Commission will be issuing a revised Credit Classification and Provisioning Guidance to the banking sector. The guidance will establish the Commission’s minimum requirements in respect of classification of loans and other credit facilities, and provisions for deteriorating asset quality. The new guidance will adopt the IFRS 9 forward-looking expected credit loss model which will result in more timely recognition of credit losses.

[42] Group of Seven: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

[43] G7 Working Group on Stablecoins, “Investigating the impact of global stablecoins”, Bank of International Settlements, 2019. https://www.bis.org/cpmi/publ/d187.pdf

[44] “Addressing the regulatory, supervisory and oversight challenges raised by “global stablecoins” arrangements”, Consultative document. Financial Stability Board, 2020. https://www.fsb.org/wp-content/uploads/P140420-1.pdf

New prudential guidelines for the investment business sector will also come on stream. Aimed at improving prudential reporting from the sector, the guidance will take account of the International Organisation of Securities Commission's (IOSCO) Memorandum of Understanding, as well as the Financial Action Task Force's (FATF) guidance on a Risk-based Approach (RBA) to the Securities Sector. The Commission will also issue new guidance on (i) due diligence and enhanced due diligence for high-risk customers and (ii) reporting of suspicious activities for AML/CFT supervision.

Enhancing Regulatory and Supervisory Framework

Over the next three years, the Commission will be strengthening its financial stability function through the use of key macroprudential policy tools to monitor risk and vulnerabilities in the financial sector. This will be done with continued technical assistance from CARTAC.

Concurrently, the Commission is also undertaking efforts to improve its supervisory methodology of licensees in line with international best practices. The Commission continues to implement its risk-based supervision (RBS) framework across banks, insurance companies and investment businesses. In addition, a risk-based approach for AML/CFT supervision is also being developed.

Appendix

Appendix A – List of country abbreviations

Caribbean: Tourism Dependent	
Antigua & Barbuda	A&B
Aruba	ARB
The Bahamas	BHS
Barbados	BAR
Belize	BLZ
Dominican Republic	DOM
Grenada	GRN
Haiti	HTI
Jamaica	JAM
St. Kitts & Nevis	SKN
St. Lucia	SLA
St. Vincent & the Grenadines	SVG
Turks & Caicos Islands	TCI

Caribbean: Commodity Exporter	
Guyana	GUY
Suriname	SUR
Trinidad & Tobago	T&T

Appendix B – Stress test assumptions

The credit component of the stress test carried the following assumptions:

Risk Type	Scenario	Assumptions
General Credit Risk	1a- Worsening of NPLs	- Each category of NPLs increases by 100%. - Each bank's new NPLs provided for at its current rate of provisioning.
	1b- Correct for under provisioning	- NPLs in arrears for longer than 1 year fully provided for and written off.
	1c- Worsening of NPLs	- All loans in each NPL category migrate 'down' to the next worst category and the prudential provisioning rates applied. - Loss category is fully written off.
Sector Credit Risk	1d – Mortgage portfolio shock	- Sector wide deterioration of mortgage loans leads to 100% increase in mortgage NPLs with 100% provisioning.
Concentration Risk	1e - Default of largest loan to group	- There is default of the largest borrowers (group) from each institution, with a provisioning rate of 100%

Other Sector Risk	1f – Portfolio shock to loans given to Tourism sector	- Deterioration of Tourism loans leads to 100% increase in NPLs with 100% provisioning.
	1g – Portfolio shock to loans given to Construction sector	- Deterioration of Construction loans leads to 100% increase in NPLs with 100% provisioning.
	1h – Portfolio shock to Personal loans	- Deterioration of Personal loans leads to 100% increase in NPLs with 100% provisioning.

The following assumption were used in the liquidity test:

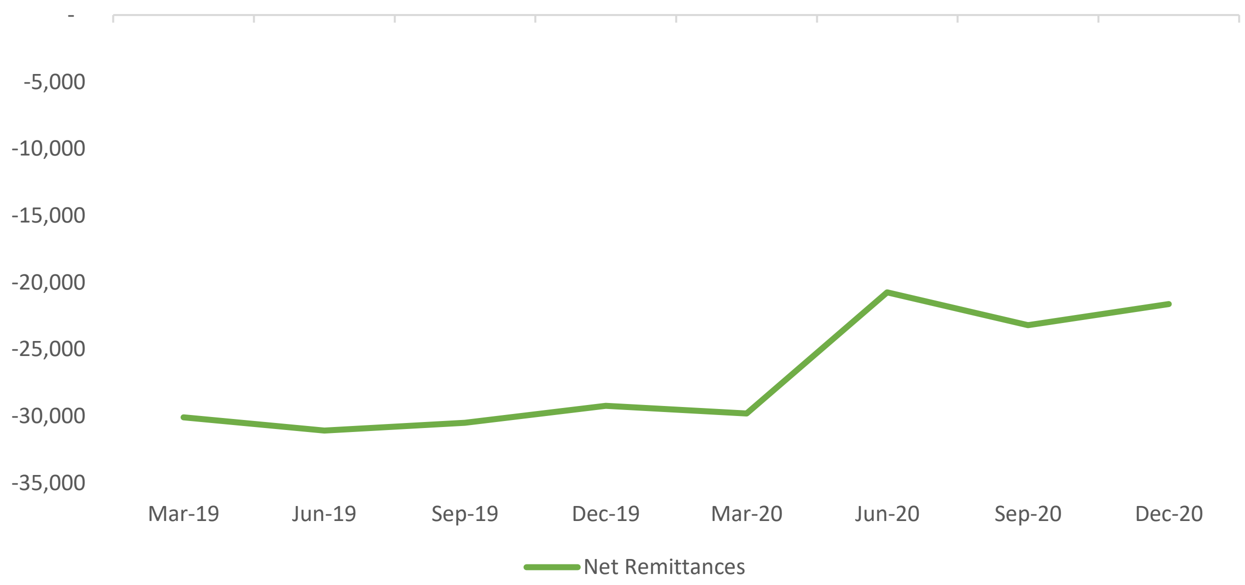
(i) Daily attrition rate of 20% and 5% in demand and time deposit runs, respectively.

(ii) 50% of (remaining) liquid assets would be available on any given day to offset deposit withdrawals.

(iii) Ill-liquid assets are not available to offset deposit withdrawals.

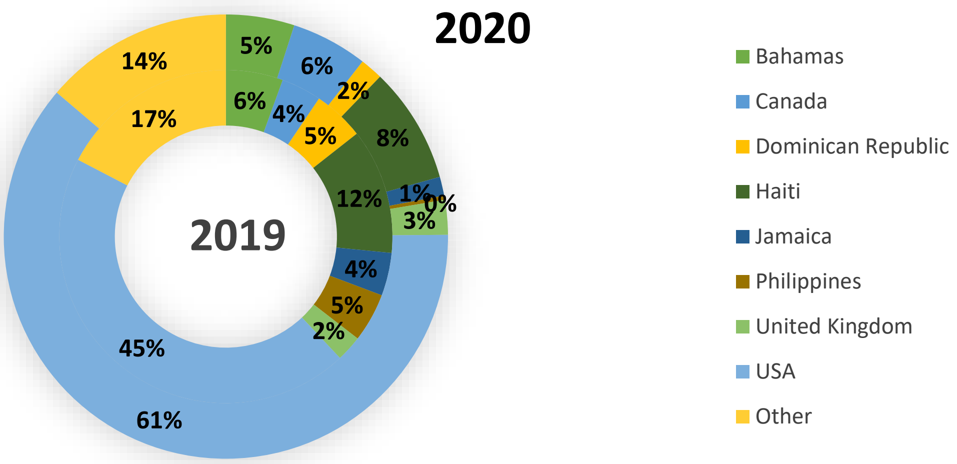
Appendix C – Remittances

Net Remittances



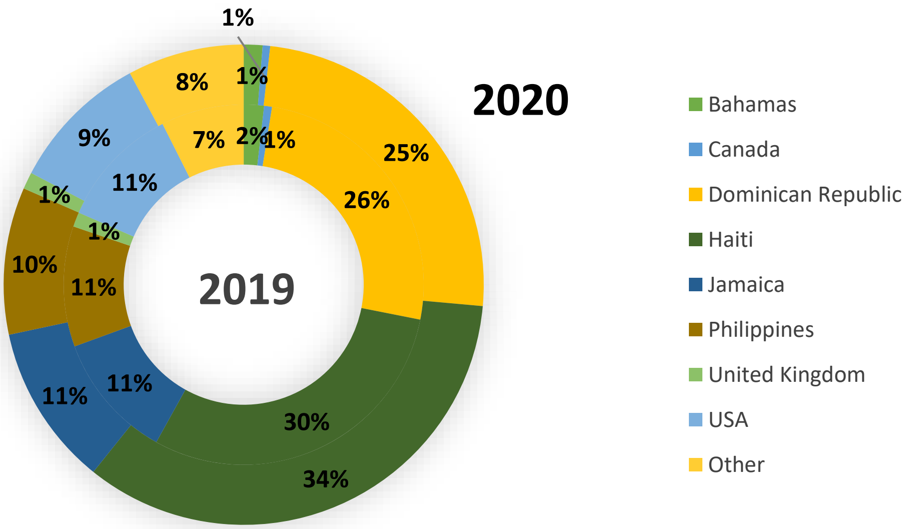
Source: TCI Financial Services Commission

Inflows by country



Source: TCI Financial Services Commission

Outflows by country



Source: TCI Financial Services Commission

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