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Newsletter

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FIRST GLOBAL BANK RESPONDS TO JAMAICAN BUSINESS FINANCING NEEDS

First Global Bank (FGB) today announced that it has concluded discussions with the International Finance Corporation (IFC) for an investment of US\$20 million, by the IFC, into First Global Bank. Of this US\$20M, the IFC will invest US\$10 million in non-redeemable, non-cumulative preferred shares and the remaining US\$10 million will be in the form of a loan. The US\$10 million loan has been earmarked by FGB for onward lending to Jamaican businesses.

shareholder in First Global Bank. It has been approved by the FGB and IFC Boards and the Bank of Jamaica has indicated that it has no objection to the transaction.

The IFC is the largest multilateral source of debt and equity financing for private enterprises in the developing world, and is a member of the World Bank group.

"We value IFC's partnership in addressing the critical area of working capital and project financing for Jamaican businesses," said

This investment makes the IFC a minority

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TRINIDAD & TOBAGO CENTRAL BANK MEDIA ADDRESS: "UPDATE ON CIB/CLICO/CMMB"

The following is an extended extract of the news briefing given by Ewart S. Williams, Governor, Central Bank of Trinidad and Tobago, on Feb. 13, 2009 regarding the Government of Trinidad and Tobago's role in resolving the financial difficulties related to CLICO, CIB and CMMB.

The Governor's statement may be viewed in its entirety at www.central-bank.org.tt



This is the first in a series of media conferences that the Central Bank intends to schedule to update the national community about progress with respect to resolving the financial difficulties in CLICO, CIB and CMMB. The Chairman of the Board will also be communicating with the media from time to time.

Since the Media Conference of Friday 30, January 2009, much has been achieved in the implementation of the MOU signed between CL Financial and the Government and in the clarification of the financial situation of the three institutions – CIB, CLICO and CMMB.

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**CAIB MANAGEMENT & STAFF
NEWSLETTER EDITORIAL TEAM**

Mrs. Patricia Hamilton: Chief Executive Officer
Mrs. Mary Louis: Administrative Officer

CEO's Editorial

Dear Colleagues

Welcome to the January / February 2009 issue of CAIB's Newsletter!

Our recently-concluded November 2008 Conference was hosted under the theme "Safeguarding Our Future in the Face of Global Economic Challenge", and certainly the ongoing crisis within the international economic and financial arenas has underscored the pertinence of this focus. The fact that our Conference Theme clearly echoes some 3 months on speaks both to the preparedness and foresight of our membership - virtues that are essential to survival in the financial industry, and which have served us well thus far.

Speakers and workshop presenters alike cautioned of our need as Caribbean banks to continue sound vigilance and wise banking practices. As many alluded to, though we may have been spared the full brunt of the financial storm now ravaging the industrialised world, we must not become complacent or be lulled into believing that we have been totally protected. For such is not the case.

Though we are indigenous banks - with Caribbean roots and firm local ties - we nonetheless conduct business in an increasingly globalised world. We have investments in foreign institutions; we have clients who rely on foreign revenue streams; we abide by foreign-drafted legislations and regulations; and we partner with foreign banks in order to service the full scope of our customers' needs.

The first two months of the year have seen new challenges present themselves: one of our region's leading investment firms, CLICO (with close ties to several major financial and insurance institutions in the Caribbean), has found itself in need of rescue by the Trinidad and Tobago Government; and alleged massive fraud on the part of a foreign investor

has seen the need for a consortium of indigenous banks to step in and take over the operations of Bank of Antigua Ltd.

Now, therefore, is as good a time as any to reflect on the comments of Dr. Marion Williams, Governor of the Central Bank of Barbados, which she delivered at the Opening Ceremony of CAIB's 2008 Pre-Conference Training & Conference. Brought to you as this edition's Viewpoint (pages 4-6). Dr. Williams reminded the audience that "in this current globalisation era, the speed of change is rapid, (and) our achievements up until now do not guarantee success tomorrow... From here every step needs to be carefully and cautiously calculated."

Our first lead stories on page 1 bring news of First Global Bank's responsiveness to the evolving financing needs of Jamaican businesses, especially in this era of contracted liquidity. While our second lead story features the update given by Trinidad and Tobago's Central Bank Governor, Mr. Ewart Williams relating to that Government's rescue of CLICO. Also featured within this edition is news out of the Eastern Caribbean Central Bank, giving details on the consortium of indigenous banks now running the operations of Bank of Antigua.

Remember! Now is also the time to purchase copies of our Caribbean Account 2009 magazine - a must for anyone interested in our Region's Financial Arena. Just contact us here at the Secretariat, and we'd be happy to fill your orders.

And as we look for ways to better serve the information needs of CAIB members, we invite you, our valued readers, to give us feedback on how best this newsletter can serve you. Please send your comments to our Secretariat office via the email address caib@candw.lc

Enjoy reading!

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CAIB VISION

Caribbean Association of Indigenous Banks Inc. will be the focal point for networking and effective advocacy and the organisation of choice for support and services for indigenous financial institutions in the region.

CAIB MISSION

The Mission of Caribbean Association of Indigenous Banks Inc. is to facilitate the growth and development of indigenous financial institutions in the region.

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VIEWPOINT

Safeguarding Our Future in the Face of Global Economic Challenge.

OPENING REMARKS DELIVERED BY DR. MARION WILLIAMS, GOVERNOR — CENTRAL BANK OF BARBADOS
CARIBBEAN ASSOCIATION OF INDIGENOUS BANKS INC. 35th ANNUAL GENERAL MEETING, PRE-CONFERENCE TRAINING & CONFERENCE NOVEMBER 17th, 2008

I first would like to congratulate the organisers of this conference for the foresight and the tenacity in keeping this annual conference going.

Indigenous banks are a most important part of our economic landscape and even though, as we become more regional it seems we have tended to change our definition to a regional definition of indigenous, they remain as important as before.

Indigenous institutions tend to have an ethos which is Caribbean and which I trust helps them to focus on the longer term goals of the region and not just on profitability and market share.

Today more so than ever, it is necessary for financial institutions to take the long view about where they are going. It has been fortunate for the Caribbean that we have so far avoided the impact of much of the global financial turbulence. This is partly because we were not on the cutting edge of the financial technology but also because we did not stray too far from the basics of good credit assessments and sound financial management. I would like to believe that the Central Banks within the region contributed to this approach and I know too that the calibre of managers which we have within the region make their regulations sound. After all, this is your home. Indigenous banks will not leave at the sign of a downturn. They will stay and overcome any chal-

lenges.

Having said that, the world has become a global village, and we cannot isolate ourselves from global developments.

Given the unprecedented events that have occurred in the global economy over the past eighteen months, the theme for this year's conference is quite appropriate. In my opening remarks this evening, I will restrict my focus to the main sources of risk and vulnerability which have emanated from four areas: (i) the global macro-financial environment; (ii) financial markets; (iii) the balance sheets the region's households and businesses; and (iv) financial intermediaries.

Though the region has over the years substantially improved its macroeconomic fundamentals and is better suited to face external shocks, there will be fallout from the current turmoil. Market volatility will undoubtedly lead to sharp downward growth revisions for 2008 and 2009, as the decline in global demand will tend to reduce regional exports of goods and services. In addition, the fall in interest rates in the U.S. will impact on both fixed and floating exchange rate regimes, while the decline in global liquidity will force curtailment of Foreign Direct Investment and cross border flows. How we respond to the problems posed to us by the recent upheaval will be important for the robustness of the regional economy going forward.

Though the direct impact on the re-

gional domestic banking sector has not been significant, largely because of the lack of sophistication and the relative of risk aversion of our regional banks, there are lessons we can draw from these events.

"It has been fortunate for the Caribbean that we have so far avoided the impact of much of the global financial turbulence. This is partly because we were not on the cutting edge of the financial technology but also because we did not stray too far from the basics of good credit assessments and sound financial management."

We must respond to these changes by further strengthening our efforts at maintaining financial system stability with adequate rules and regulations while avoiding over-regulation.

Many have now related the current crisis to market over-exuberance, coupled with less than all-encompassing regulation which was necessary to monitor the very rapid

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VIEWPOINT

Safeguarding Our Future in the Face of Global Economic Challenge.

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changes in derivative and structured finance instruments. The innovations and developments which spawned such instruments increased the complexity of financial transactions and made their traceability difficult. Such changes were also supported by increasing levels of excess liquidity, low interest rates in the global financial market and the increased demand for variations in financial instruments, given different consumers' risk profiles. Consequently, there was a further blurring of financial intermediation roles between the traditional banks and non-bank market players. Risk-shifting and risk transfer eventually forced the collapse we are witnessing today.

What these developments have demonstrated is that adequate regulation of the financial system in the US is important to the rest of the world. While these guidelines are set in the developed world the failure of regulation impacts us all. Developing countries therefore have an interest in making sure that the US gets it right. While the global recession will have significant implications for the region, inflation continues to be a regional concern though there is evidence that this should ameliorate in the future.

It is our hope that with oil and other commodity prices falling, the region will be a beneficiary of a substantially lower inflation rate in 2009. In some of the Caribbean islands, demand growth evidenced by still strong credit, has not dropped dramatically, and in many instances,

interest rates are below inflation rates. That is to say, real interest rates are negative; and this has occurred at a time when banks anticipate heightened levels of delinquencies, and would prudently adjust their credit standards. This has the potential to force individuals to use their savings to cope with normal activities.

“...adequate regulation of the financial system in the US is important to the rest of the world. While these guidelines are set in the developed World, the failure of regulation impacts us all. Developing countries therefore have an interest in making sure that the US gets it right.”

Over the most recent past, we have also seen a tighter level of integration between international markets and regional economies, which is reflected in a higher volume of cross-border financial flows, FDI or otherwise. Greater integration between the markets is supported by the emergence of new players, who operate across borders and are often privately-owned, or are subsidiary companies of state-owned institutions.

This has important implications for us in the Caribbean in the current situa-

tion. As we have witnessed, changes in the global financial markets have the potential to rapidly alter levels of global liquidity. The sharp growth in excess liquidity that started in the early 2000's, and cheaper financing costs which fuelled the export of wealth and capital from the financial capitals to all parts of the globe is now at a premium. This boom in growth, liquidity and employment served to fuel heightened levels of Foreign Direct Investment flows to the region through interests in real estate and other forms of investment. These 'boom' conditions also led to strong performances in the flow of remittances, which has been a vital component of virtually all regional economies' balance of payments. With the turmoil in the international markets, there has been a liquidity crunch, coupled with the higher-than-usual levels of risk aversion. As a result, access to this kind of funding has contracted sharply.

While we do need Foreign Direct Investment and value it highly, thankfully the region has not been overly reliant on portfolio cross-border flows. This was a direct consequence of the thinness of our financial markets but has turned out to be a benefit. A decline in net inflows of funds into the region would have had large spillover effects on the domestic economy, and some impact on the international business sector had the region been more securitised.

Although short-term capital inflows can be useful to meet short-term national financial requirements, they can also be very volatile and vulnerable to sudden reversal. Short term borrowers

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VIEWPOINT

Safeguarding Our Future in the Face of Global Economic Challenge.

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are more influenced by market expectations.

The factor of expectations is currently clearly evidenced in the sensitivity of some regional currencies towards changes in the risk appetite of global investors towards US dollar-denominated debt instruments in the region. At least one central bank in the region had to provide support for issuers of national bonds denominated in US dollars as a result of this volatility. We may therefore need to turn increasingly to the region and support each other. It would seem obvious that what I have outlined so far implies that maintaining regional macroeconomic stability is clearly one of the supporting pillars of overall financial system stability.

As for the resilience of the banking system, I can say that the regulatory actions of the regional central banks have categorically shown that our banks are able to overcome the market risk related to the current macro instability in the global market. However, we need to constantly reinforce the resilience of the banking industry and guard against over-

confidence.

Ladies and gentlemen, we should be grateful for the strength and resilience of the banking industry when confronting these various risks and shocks. Industry performance has steadily improved. Bank profits remain healthy and are in line with expansion of the intermediation function and with efficiency improvements, as well as effective risk management. Although much has been accomplished, a lot more still remains to be done.

In this current globalisation era, the speed of change is rapid. Our achievements up until now do not guarantee success tomorrow. We have always relied on this awareness as the foundation of banking industry policy. From here every step needs to be carefully and cautiously calculated. It is imperative that we remain always sensitive to our long term goals and to the impact on the financial system when addressing the changes and dynamics of the current crisis. We also have to be able to calculate the implications of each step, prioritize policy, and maintain a good balance in the implementation.

I know that the negative credit trends will filter through to our markets and is

likely to affect corporations in some key sectors, particularly those who entered this phase with low levels of liquidity. This underscores the challenges of slower economic growth and shrinking liquidity in the global economy, and may mean that they turn to regional banks and to indigenous banks in particular.

These challenges facing regional macroeconomic policy makers look more difficult than they have been for a long time; but with the collaborative efforts at the micro level, the region will weather the storm. I am sure that the discussion over the next few days will help us focus on the severity of the issues, and will help us to find viable solutions to head off any potential adverse impacts.

I wish again to congratulate the CAIB for their commitment to commercial banking in the region and to the exchange of views and ideas on the safeguarding of our future, given the global financial challenges. Sometimes collaboration is important in order to make a breakthrough. I thank you and wish you a successful conference.



"In this current globalisation era, the speed of change is rapid. Our achievements up until now do not guarantee success tomorrow. We have always relied on this awareness as the foundation of banking industry policy. From here every step needs to be carefully and cautiously calculated."

Dr. Marion Williams - Governor, Central Bank of Barbados

REGIONAL NEWS BRIEF

FIRST GLOBAL BANK RESPONDS TO JAMAICAN BUSINESS FINANCING NEEDS

(continued from page 1)

Wayne Wray, First Global Bank president, in commenting on the conclusion of this landmark agreement. First Global Bank will now be able to provide additional financing options, particularly in light of the general reduction of credit lines due to the global economic crisis.

“The additional capital that this agreement also provides will help to facilitate FGB’s expansion plans in Jamaica and throughout the region, as we seek to be even more responsive to customer needs,” said Wray.

“The IFC is a strong international partner that will also carry with it solid technical expertise and financial depth.”

For its part, Kirk Ifill, IFC’s representative for the English-Speaking Caribbean, noted, “IFC’s first financing to First Global Bank Ltd. is expected to enhance the bank’s ability to lend to Jamaican businesses, improving overall access to capital and longer term financing. IFC is committed to supporting sound financial players in the Caribbean to help them in the servicing of their clients and to help mitigate the impact of the global financial crisis

in the region”.

First Global Bank is a wholly owned indirect subsidiary of GraceKennedy Limited. First Global Holdings CEO, Courtney Campbell, who is also CEO of GK Investments, is also expectant about the possibilities that this strategic partnership will open up for the regional business sector. “This relationship will further strengthen FGB’s position in the marketplace as the commercial bank of choice for Jamaican businesses.”

(SOURCE: First Global Bank - Press Release)

Call For Single European Regulator

Editor’s Note: The need for more centralized regulation within the financial markets of the Industrialised world was a topic discussed by several presenters and panelists during CAIB’s Conference held in Barbados in November 2008. This press release indicates that top officials within the financial services sector of Europe are also weighing the wisdom of such a regulatory change.

A new European Commission report into the continent’s supervision of the banking and financial services sectors is set to recommend the establishment of a single, pan-European watchdog, it has been claimed.

According to the BBC, the proposal will be included in a 30-point plan developed by ex-Bank of France governor Jacques de Larosiere, who was commissioned to conduct a review of Europe’s banking oversight in November.

That move followed criticism that the continent’s reaction to the credit crunch and ensuing financial crisis had been too “nation-based” and did not give a big enough role to the European Union or the European Central Bank, the news service added.

Many supporters of reform also argue that the modern financial services sector is too big and crosses too many borders for individual national regulators to effectively monitor the industry.

Under Mr. Larosiere’s proposals, supervisory agencies like the UK’s Financial Services Authority (FSA) would become subordinate to the European regulator.

Former director of public prosecutions Sir Ken McDonald recently called for the FSA and the Serious Fraud Office to be replaced with a single City regulator.

(SOURCE: The Bob’s Guide Website: www.bobsguide.com, February 26th, 2008)

REGIONAL NEWS BRIEF

TRINIDAD & TOBAGO CENTRAL BANK MEDIA ADDRESS:
“UPDATE ON CIB/CLICO/CMMB”

(continued from page 1)

As you are no doubt aware, in accordance with the MOU, a new Board was appointed to run the affairs of Clico, in addition to a Manager/CEO (Mr. Andrew Claudius Musaib-Ali) and a Chief Financial Controller (Ms Carolyn John). CL Financial, the signatory to the MOU has appointed a team to work with the Government on the implementation of the MOU. This team and the Government representatives have had one meeting but have otherwise been in constant communication with each other. Meanwhile, with the assistance of the Manager appointed to Clico by the Central Bank, we have made much progress in clarifying the present financial position of CLICO, which unfortunately, appears to be much worse than we had envisaged. Let me give you some examples:

- Based on the audited accounts, Clico had surpluses in the Statutory Fund in 2004, 2005 and 2006; these surpluses shifted to a deficit of about \$600 million in 2007.

- Based on the un-audited accounts for 2008 the Statutory Fund deficit (measured on the same basis as in the period 2004 - 2007) has ballooned to \$5.1 billion. If this is correct, one interpretation would be that the premium income collected in 2008, and which should have been directed to the Statutory Fund, was otherwise utilized.

- Over the last few years Clico's statutory fund assets have included several inter-group assets, including deposits in CIB and securities issued by the parent CL Financial. Certainly at the present time, these instruments appear to be of little value. If we exclude these from the Statutory Fund calculation of 2008, the notional deficit rises to \$10 billion, on a policyholder liability base of \$16.7 billion.

- In the CL Financial business model, Clico was a major source of cash much of which was used to finance investments held in the name of other entities in the Group. In this model, Clico has ended up as guarantor for many of the Group's assets most of which are heavily pledged. Of course,

pledging limits the potential proceeds from asset sales. A Canadian firm has been contracted to disentangle, inter alia, a whole range of complicated financial transactions, to review Clico's non-policyholders' liabilities and the extent to which Clico's assets are pledged.

Turning to the immediate situation: As at end-January 2009, Clico had policy surrender requests on maturing obligations of \$650 million; the monthly payment for pensions and annuities is \$40 million. Clico currently has a bank balance of \$15 million, in addition to a sizable bank overdraft. In accordance with the MOU the Cabinet has approved a first tranche of a funding package to begin to ease the liquidity pressures on Clico and British American. In line with the spirit of the MOU, the focus in the first round will be on meeting policyholders' liabilities and payments to pensioners.

(SOURCE: www.caribbeanpressrelease.com/articles/4610, February 13th, 2009)

CONSORTIUM OF INDIGENOUS BANKS TO CARRY ON BANK OF ANTIGUA OPERATIONS

The Eastern Caribbean Central Bank (ECCB) wishes to advise that following the Communiqué issued on Friday 20 February 2009, representatives of the following parties met on the weekend of 21 – 22 February 2009 at the ECCB Headquarters in St Kitts: Eastern Caribbean Central Bank ; Government of Antigua and Barbuda ; Government of St Vincent and the Grenadines ; Antigua Commercial Bank Ltd ; St Kitts-Nevis-Anguilla National Bank Ltd ; Eastern Caribbean Financial Holdings Company Ltd ; National Commercial Bank (SVG) Ltd ; and National Bank of Dominica Ltd.

The parties came to a successful conclusion on the formation of an entity to carry on the operations of the Bank of Antigua Ltd. This will come into effect on Monday 23 February 2009.

(SOURCE: *The Eastern Caribbean Central Bank's website: www.eccb-centralbank.org/News, February 22nd, 2009*)

UPCOMING CONFERENCES / TRAINING OPPS.

Caribbean Association of Audit Committee Members (CAACM) 3rd Annual Meeting, Pre-Conference Training & Conference

July 16th - 18th, 2009

**Bay Gardens Hotel
& Conference Centre**

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