Central Bank of The Bahamas

PUBLIC CONSULTATION

on the

Management of Credit Risk Guidelines, 2021

I. INTRODUCTION

1.1 Given the implementation of the International Financial Reporting Standard (IFRS) 9 *Financial Instruments,* the Central Bank of The Bahamas ("the Central Bank") has updated its Credit Risk Guidelines to reflect these updates. IFRS 9, which superseded the International Accounting Standards (IAS 39), is an expected credit loss model that requires SFIs to adequately provision for all credit exposures; thus removing 'general provisioning' from the credit risk provisioning framework.

1.2 As impaired/non-performing assets and provisioning form a subset of the overall credit risk management, the *Management of Credit Risk Guidelines (2003)* and the *Impaired Assets and Provisioning Guidelines (2012)* has been streamlined into a single document.

II. DETAILS OF THE PROPOSED GUIDELINES

2.1 The updates build on the existing credit risk management framework and seeks to strengthen the Central Bank's macro-prudential effectiveness and add to the safety and soundness of the financial sector. Most notably, the Guidelines include:

a. Expected Credit Losses IFRS 9 Guidance;
b. Streamlined Impaired Asset Guidance;
c. Asset Categorization Best Practices; and
d. Total Debt Service Ratio Clarifications.

III. CONSULTATION PERIOD AND NEXT STEPS

The Central Bank invites your comments on the proposed credit risk guidelines, which should be submitted no later than 11 February, 2022. Your comments and questions regarding the proposals and amendments should be directed via email to the following:

Policy Unit
Bank Supervision Department
Central Bank of The Bahamas
Email: Policy@centralbankbahamas.com

Upon receiving feedback from interested parties, the Central Bank intends to finalise the Internal Audit Guidelines by 28 February, 2022, to become effective by 1 March 2022. The Bank reserves the right to vary this timeline based upon information received through consultation on this Guideline.

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SUPERVISORY AND REGULATORY GUIDELINES: 2021
Management of Credit Risk Guidelines
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GUIDELINES FOR MANAGEMENT OF CREDIT RISK

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1. INTRODUCTION

1.1 The Central Bank of The Bahamas *("the Central Bank")* is responsible for the licensing, regulation and supervision of supervised financial institutions ("SFIs") operating in and from within The Bahamas pursuant to The Banks and Trust Companies Regulation Act, 2020 ("the BTCRA"), and The Central Bank of The Bahamas Act, 2020 ("the CBA").

1.2 All SFIs are expected to adhere to the Central Bank's licensing and prudential requirements and ongoing supervisory programmes, including periodic on-site inspections, and required regulatory reporting. SFIs are also expected to conduct their affairs in conformity with all other Bahamian legal requirements.

2. PURPOSE

2.1 These Guidelines specifically address the management of the credit risk present in the business activities of SFIs, within their overall corporate governance process and risk management programmes. The effective management of credit risk as a component of a comprehensive risk management programme is fundamental to the safety, soundness, and long-term viability of every SFI. These Guidelines should be read in conjunction with the ***"Guidelines for the Corporate Governance of Banks and Trust Companies Licensed to do Business within and from within The Bahamas" ("Corporate Governance Guidelines"), "Guidelines for the Management of Capital and the Calculation of Capital Adequacy*** and the ***Guidelines for the Management of Large Exposures ("Large Exposures Guidelines").*** Additionally, the Central Bank endorses the Basel Committee's Guidance on Accounting for Expected Credit Losses (See Appendix 1). Banks are encouraged to refer to the full Basel document at www.bis.org.

2.2 Experience indicates that adherence to sound credit granting policies and procedures goes hand in hand with financial soundness. Failure to adopt and adhere to sound credit policies and procedures is often a source of weakness in financial institutions. The major consequence, which arise from a weakening of the credit risk portfolio is the impairment of capital, liquidity, or both.

2.3 Credit risk management should be conducted within the context of a comprehensive board-approved business plan. Although these Guidelines focus on a SFI's responsibility for managing and controlling its investments, loan portfolio, and exposure to credit risk, it is not meant to imply that credit risk can be managed in isolation from other considerations such as asset/liability management considerations and the need to maintain adequate liquidity.

2.4 Sound credit management involves establishing a credit risk philosophy, and policies and procedures for prudently managing the risk/reward relationship across a variety of dimensions, such as quality, concentration, maturity, currency, collateral security or property, and type of credit facility.

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3. APPLICABILITY

3.1 These Guidelines apply, as appropriate, to all SFIs that engage in business activities that produce credit risk. They represent the Central Bank's identification of accepted best practices for effective credit risk management in SFIs. The Central Bank appreciates that the breadth of the credit risk management programme in each SFI will depend on the scope and sophistication of the activities of the SFI, the nature and complexity of its credit-related businesses, and the types and levels of the risks that it assumes. However, failure to adopt a satisfactory credit risk management programme appropriate to a SFI's business activities, constitutes an unsafe and unsound practice and could subject the SFI to regulatory sanctions.

3.2 As part of its ongoing off-site supervision, on-site examination and analysis programmes, the Central Bank will periodically conduct an evaluation of each SFI's strategies, policies, procedures and the management of the business activities that generate credit and related risks (i.e., the credit risk management programme). **The Central Bank's Regulations and Guidelines establish the standards against which each SFI's credit risk management programme will be evaluated.**

4. DEFINITIONS

4.1 For the purpose of these Guidelines:-

Collateral refers to eligible contingent assets that are pledged by borrowers to lenders or obligations undertaken by a third party that serve as security to reduce the expected losses if default were to occur.

Credit is the provision of funds, or promise of provision of funds, on agreed terms and conditions to a debtor who is obligated to repay the amount borrowed (together with interest thereon). Credit may be extended on a secured or unsecured basis, by way of instruments such as mortgages, bonds, consumer and corporate advances, financial derivatives and finance leases.

Credit Risk means risk associated with a financial institution's on and off-balance sheet exposures. The risk to earnings or capital arising from the potential that a borrower or counterparty will fail to repay a loan or extension of credit in the manner or timeframe as contractually agreed.

Credit Risk Management is the process of managing and controlling the impact of credit risk-related events on the SFI; this management involves the identification, understanding, and quantification of the degree of potential loss and pre-emptively taking appropriate measures to minimise the risk of loss to the SFI.

Foreclosed Asset is an asset acquired by a SFI, in full or partial settlement of a loan or similar facility secured by real property, through enforcement of collateral security arrangements.

Fully-Secured Facility is a credit facility whereby the net current market value of the associated collateral is sufficient to ensure that the SFI will recover the principal and any accrued interest due.

Impaired Asset refers to a credit facility where there is no longer reasonable assurance of timely collection of the full amount (e.g. principal and interest) without the bank's realisation of collateral, regardless of the number of days the exposure is past due.

Non-Accrual Asset refers to an impaired asset that has exceeded the 90 days past due trigger event and interest is no longer accrued.

Past Due Asset refers to an asset whereby the obligor has not met a contracted payment of principal and interest or is otherwise outside of contracted arrangements.

Restructured Asset refers to an asset in which the original contractual terms have been modified to provide for concessions of interest or principal for reasons related to the financial difficulties of a counterparty.

5. ROLE OF THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

5.1 The Board is responsible for ensuring that the SFI has appropriate credit risk practices and effective internal controls which are commensurate with the size, nature, and complexity of its lending exposures so that allowances are determined in accordance with the stated policies and procedures, the IFRS 9 accounting framework, and the Central Bank's "***Corporate Governance Guidelines"***.

5.2 The Board should at minimum, ensure that the credit policies and procedures implemented by senior management are aligned to the risk profile and strategy of the SFI; this includes periodic reporting of material risks (e.g. watch listed credits).

5.3 Senior management is responsible for ensuring the appropriate implementation of the SFI's policies/processes and the Board's strategy. Senior management should periodically report to the Board the results of the credit risk assessment and measurement process, including estimates of its expected credit loss (ECLs) allowances.

6. EXPECTED CREDIT LOSSES PROVISIONING FRAMEWORK

6.1 The International Financial Reporting Standards 9 (IFRS 9) *Financial Instruments* includes a new loan loss provisioning standard based on ECLs. It requires more forward-looking and robust methods for identifying, measuring, monitoring, and controlling credit risk exposures. The previous International Accounting Standards 39 (IAS39) was an incurred loss model that required institutions to recognise losses on assets when observable evidence of impairment was identified.

6.2 The Central Bank notes that in many jurisdictions the prudential provisioning frameworks are not aligned to the financial accounting frameworks thus adjustments must be made for shortfalls. The Central Bank instead prefers to utilise the same approach for both financial and prudential accounting; this approach represents considerable savings of expense and effort for SFIs. Notwithstanding the aforementioned approach, it is important to note that:

i. The Central Bank reserves the right through supervisory discretion to respond to any perceived shortfall in credit provisioning by a SFI. The Central Bank may for example require the SFI to increase its minimum capital requirement, or to reduce its reported loan portfolio value to make up any prudent shortfall.

ii. The Central Bank expects that SFIs will effectively manage their accounting provisioning and other risk and reporting elements covered within these Guidelines, resulting in a sound and comprehensive credit risk management environment.

7. CREDIT RISK MANAGEMENT FRAMEWORK

7.1 SFIs should develop and implement procedures to identify, monitor and control the characteristics and quality of its credit portfolio. SFIs should also maintain a comprehensive credit manual with procedures and adequate information systems for measuring credit risk. This should include measuring credit risk that is inherent in off-balance sheet products such as guarantees issued and received, derivatives in credit equivalent terms, loan commitments, etc. SFIs are expected to monitor the condition of individual credits to facilitate the identification of problem credits and determine the adequacy of provisions and reserves. SFIs should clearly articulate their credit risk tolerance, including how much, and what types of risk they are prepared to undertake.

7.2 The credit manual should also stipulate sound, well-defined criteria for granting credit, including a thorough understanding of the borrower or counterparty, the purpose and structure of the credit, and its source of repayment. The credit manual should outline the documentation for compliance with statutory requirements, the formal risk assessment for new products, the administration of the portfolio inclusive of sound internal controls, effective risk mitigation, and a well-defined credit collection and arrears management process.

7.3 Failure to establish adequate procedures to effectively monitor and control the credit function within established guidelines can result in an inefficient allocation of resources, processing gaps and significant other costs, in addition to credit losses. Compromising effective credit policies and procedures is a major cause of servicing costs and credit losses.

7.4 The complexity of the credit risk measurement tools will depend on the nature and degree of the inherent risks of the products involved. These should be flexible to help

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SFIs identify risk concentrations. At minimum, a SFI's monitoring system should be capable of analysing its credit portfolio by the following characteristics:-

i. Size of exposure;
ii. Exposure to groups of connected parties;
iii. Individual product lines;
iv. Sectors (geographic, industrial);
v. Borrowers' demographic profiles;
vi. Account performance;
vii. Internal credit ratings;
viii. Outstanding versus undrawn commitments;
ix. Types and coverage of collateral; and
x. Interest rate sensitivity (i.e. fixed or floating), etc.

7.5 Prudential ratio limits such as Total Debt Service Ratio (TDSR) of 45% and Loan to Value Ratio (LTV) of 80% serve as key factors when assessing borrowers' ability to repay credit facilities. When calculating the TDSR, ordinary monthly income is defined as the sum of wages and gratuities and guaranteed rental and investment income (Gratuities receive a 50% haircut).

7.6 TDSR should include the following monthly non-discretionary obligations:

i. Loan payments (consumer loans, mortgages, 3% to 5% of all credit card and overdraft limits);
ii. Insurance premium payments (e.g. life insurance or chattel if used as collateral and homeowner's insurance);
iii. Rent expense;
iv. Maintenance costs; and
v. Real property tax (for properties that exceed the exempted value).

7.7 The presence of mortgage indemnity insurance is not a substitute for sound underwriting practices. Additionally, prudential limits should only be exceeded on an exceptional basis and in accordance with the SFI's Board approved risk appetite.

7.8 SFIs should be conscious of business and economic cycles and regularly stress-test their portfolios against adverse market scenarios. Adequate contingency planning should be developed in conjunction with stress-testing.

7.9 SFIs should keep the functions of credit initiation, approval, review, administration, payments and delinquency management as separate as possible. SFIs should ensure that a credit authority is required and designated for all types of credit exposures, including the use of credit derivatives for hedging or income generation. Approval limits should relate to some combination of the elements of paragraph 7.4.

7.10 Delegated credit authority may be absolute, incremental or a combination thereof and may also be individual, pooled, or shared within a committee. The delegation of authority needs to be clearly documented, and should include:-

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i. the absolute and/or incremental approval authority being delegated;

ii. the officers, positions or committees to whom authority is being delegated;

iii. the ability of recipients to further delegate risk approval; and

iv. the restrictions, if any, placed on the use of delegated risk-approval.

7.11 In controlling credit risk, SFIs can utilise certain mitigation techniques; these would include eligible collateral as per the ***"Capital Regulations, 2021"***.

7.12 Additionally, SFIs are expected to utilise the Credit Bureau as a tool to understand the creditworthiness of their individual clients. SFIs should factor in the credit risk scores of clients, obtained from the Credit Bureau, into their rating of prospective clients and use the credit reports to monitor the risk profile of existing loan portfolios.

8. ASSET CLASSIFICATION

8.1 SFIs are required to develop and use credit risk grading systems (CRGS) in managing credit risk. The grading system should be consistent with the nature, size and complexity of the SFI's activities; the level of granularity will vary depending on these activities.

8.2 The Central Bank of the Bahamas does not wish to impose a standard CRGS for all SFIs. Rather, the Central Bank will rely upon the system adopted by each SFI, provided that the system adopted is satisfactory to the Central Bank.

The following factors should be considered when developing these systems:-

i. Coverage should extend to as much of a SFI's portfolio as possible, including off-balance sheet exposures;

ii. For applicable exposures, the system should cover both performing and non-performing assets to provide for the migration of an exposure from fully performing to loss status;

iii. Connected parties should generally be classified on a group basis;

iv. A regular independent review function to provide assurances about the integrity of the grading process should be established;

v. Arrangements for the periodic validation of the grading model to ensure that it continues to deliver reliable information and adequately distinguishes between exposures of varying credit quality;

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vi. A sufficient number of risk grades to ensure that the system adequately captures the gradation of risk; and upon analysis, SFIs should be able to identify transitions throughout different asset classes such as:-

a. Satisfactory - the credit is current and its original source of repayment and collateral support is adequate. Timely repayment of the outstanding credit facility is not in doubt. Repayment is prompt and the credit facility does not exhibit any potential weakness in repayment capability, business, cash flow or financial position of the borrower.

b. Special Mention - the credit is of acceptable quality, however, particular weaknesses exist that if not corrected in a timely manner, may adversely affect repayment by the borrower at a future date and warrant close attention by the financial institution. Characteristics of special mention credit facilities may include inter alia:-

(1) A declining trend in the operations of the borrower that signals a potential weakness in the financial position of the borrower, but not to the point that repayment is jeopardised; and

(2) Economic and market conditions that may unfavourably affect the profitability and business of the borrower in the future.

c. Substandard - the credit facility exhibits defined weaknesses that may jeopardise repayment on existing terms and involves more than a normal risk of loss due to one or a combination of factors, namely:-

(3) Unsatisfactory debt servicing record or inability of the borrower to meet contractual repayment terms of the credit facility;

(4) Weak financial condition, or the inability of the borrower to generate sufficient cash flow to service the payments;

(5) The facility’s principal and/or interest has not been serviced for 90 days or more;

(6) Insufficiency of collateral;

(7) Uncertainty with respect to the ability of the borrower to comply with the agreed repayment terms. This uncertainty may be a result of unfavourable economic and market conditions or operating problems that would affect the profitability and business of the borrower in the future;

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(8) A credit facility that is currently performing but has weaknesses that raise doubt on the borrower's ability to comply with the terms and conditions of the credit. This includes difficulties experienced by the borrower in repaying other credit facilities; and

(9) The financial institution shall assess the severity of each weakness exhibited by the credit facility and consider whether the weaknesses, when considered singly or in combination, would adversely affect the repayment ability of the borrower.

d. Doubtful - The outstanding credit facility exhibits more severe weaknesses than those in a "substandard" credit facility, such that the prospect of full recovery of the outstanding credit facility from collateral or other assets of the borrower is questionable and the prospect of a loss is high, yet the exact amount remains undeterminable.

e. Loss - The outstanding credit facility is uncollectable, and little or nothing can be done to recover the outstanding amount from any collateral or from the assets of the borrower generally.

8.3 Comparable rating systems may also be used. Appendix 2 may be used to map a SFI's existing CRGS to the standard system mentioned in paragraph 8.2.

9. IMPAIRMENT RECOGNITION

9.1 Under the ECL model, originated or purchased assets transition through three stages of impairment: Stage 1, 2, and 3 (See Appendix 2). Stage 1 and 2 assets are deemed performing while Stage 3 assets are credit impaired. SFIs are required to provision for all credit facilities.

9.2 The credit treatment for off-balance sheet exposures will be in accordance with the ***"Capital Regulations, 2021"***. The principal off-balance sheet exposures to be captured by these Guidelines are likely to be direct credit substitutes and commitments. Direct credit substitutes (e.g. guarantees and standby letters of credit) are usually converted into on-balance sheet items when called. However, there may be circumstances when the SFI is reasonably certain that such instruments will be called upon at a future date because of uncertainty about the counterparty. In such cases, the off-balance sheet exposure should be regarded as impaired.

9.3 The assessment of impairment for pools of loans should be based on all available and relevant information. SFIs are likely to identify multiple components of collective loan impairment, such as historical loss experience, current environmental conditions,

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attributes of a defined group of borrowers, and characteristics affecting the collectability of a pool or portfolio of loans.

9.4 SFIs should ensure that when non-performing assets are reclassified to performing assets, that this decision is based on objective evidence. A credit facility may be returned to performing status when all of the following conditions are met:-

i. All past due principal and interest payments have been made;

ii. The borrower's financial situation has improved and the remaining payments according to the credit facility agreement are expected;

iii. The borrower has resumed paying the full amount of the rescheduled contractual principal and interest for at least six months; and

iv. All remaining payments are deemed collectable within the contractually stipulated timeframe.

9.5 The renegotiation (refinancing, rescheduling, renewal or other modifications) of credit agreements arising from weaknesses in the borrower's financial position or inability to repay would be allowable under the following conditions:-

i. The borrower can demonstrate the capacity to service the credit facility under the new conditions of the contract;

ii. Credit facilities with the least likelihood of recovery[1] would not be eligible for renegotiation unless such facilities have either an improvement in the facility collateral or the borrower makes an up-front cash payment;

iii. Where a credit facility has been renegotiated, it should not receive a more favourable categorisation unless a continuous repayment period and collection in accordance with the contractual terms have been demonstrated for at least six months;

iv. Any loan rescheduling involving capitalisation of interest (whereby uncollected interest is added to unpaid principal at the payment date or maturity of a credit facility or advance) would require an increase in the value of the collateral to cover the capitalised interest, where applicable; and

v. The new credit facility resulting from the interest capitalisation will be offered only if the borrower can demonstrate the capacity to service the facility under the new conditions of the contract.

9.6 The following concessions can lead to an asset being classified as "restructured":-

[1] Under the Standard CRGS: doubtful or loss categories.

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i. A reduction in the principal amount of the asset, or the amount payable at maturity, as set down in the original facility agreement;

ii. Forbearance in the form of a below market rate of interest;

iii. A reduction of interest payable by the counterparty, including forgiveness of interest (whether or how interest is accrued, is up to the SFI. The counterparty may be unaware of any changes in the accrual of interest – the counterparty only knows about paid, payable, and overdue/ penalties);

iv. A deferral or extension of interest and/or principal payments, including interest capitalisation; or

v. An extension of the original maturity date (or dates) at a stated interest rate lower than the current market rate for new debt with a similar risk.

9.7 If after a restructuring, there still remains considerable doubt about the recovery of principal and interest, and the asset is not "fully-secured", it should be regarded as a non-accrual asset.

9.8 Non-accrual assets may be restored to accrual status when:-

i. all payments in arrears have been brought up to date (where the payment of arrears has not resulted from a further advance by the SFI);

ii. the SFI judges that the customer is capable of fully servicing its future obligations under the facility; and

iii. it becomes fully secured. (Loans which are impaired but are fully secured should be disclosed).

9.9 In each case, the underlying evidence should support the view that there is no reasonable doubt about the ultimate collectibility of principal and interest. This should be appropriately documented in a written assessment that addresses the current credit evaluation of the borrower's financial condition and other factors affecting prospects for repayment and maintained on the credit file.

9.10 For revolving facilities, the clearance of excesses should be sufficient to remove an item from the non-accrual category, provided the SFI judges that the customer is capable of fully servicing its future obligations under the exposure. Clearance should not be artificial, that is undertaken merely to "reset" past due status. As noted above, the rationale employed should be clearly documented in the credit file.

9.11 An overdraft credit is impaired where one of the following factors exists:-

i. The contracted interest payment and/or principal have been past due for 90 days or more, and this was not as a result of any special client arrangement; or

ii. The facility has operated, on average, in excess of the authorised limit for a period of 90 days or more, and the financial institution has not approved an increased limit even if only on a temporary basis.

10. TREATMENT OF INTEREST

10.1 For exposures in Stages 1 and 2, interest income should be recognised on the gross carrying value of the asset. Interest is recognised on a net basis for exposures in Stage 3 (i.e. net of provisions).

10.2 Interest should not continue to accrue when there is reasonable doubt about the collection of principal and interest as scheduled or within 90 days thereafter.

10.3 All stage 3 exposures that are not fully-secured should be placed on a non-accrual basis where it is evidenced that payment of principal and interest is unlikely. When an asset becomes credit-impaired, recognition of interest income in accordance with the terms of the original contractual agreement should cease until the asset has been written down to its estimated recoverable amount. Interest income thereafter may be recognised.

10.4 When an impaired asset is measured on the basis of expected future cash flow discounted at the asset's effective interest rate, changes in the estimated recoverable amount arising subsequent to initial recognition of impairment should be reflected in the income statement in the current period. The reductions in the carrying amount of the impaired asset should be recognised as a charge in the statement of income in the period in which the impairment is identified.

10.5 When an impaired asset is measured on the basis of the fair value of the collateral underlying the asset or an observable market price for the asset, changes in the estimated recoverable amount arising subsequent to initial recognition of impairment should be reflected in the income statement in the current period as a charge or credit for asset impairment.

10.6 Where an asset is placed on non-accrual status, any interest accrued but unpaid in the current accounting period should be reversed from income. Unpaid interest relating to prior accounting periods, and already taken to the Profit and Loss account, should be reviewed to determine the amount of specific loss provisions required.

10.7 Interest on assets that are past due but fully-secured should be accrued to income. Portfolio-managed past due assets may continue to accrue interest until they have reached an equivalent of 180 days' worth of contractual payments past due.

10.8 Interest income taken to profit and loss on a cash basis for non-accrual assets should be disaggregated according to whether an immaterial, partial or full payment of interest has occurred under the relevant item. For non-accrual assets, the income on these items should also be taken to the profit and loss account on a cash basis.

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10.9 Interest income on restructured assets may be credited to the profit and loss account on an accrual basis. Given that interest charged or received on an accrual basis may be at a rate that is below market rates, and in order to determine the "income drag" for such assets, the SFI should separately disclose the amount of income accrued over the reporting period on the aggregate of restructured assets as at balance sheet date.

10.10 Where relevant documentation stipulates the order of priority in which cash receipts are to be treated, the SFI should follow that treatment, unless an agreement has been reached with the client to vary the priority of repayment in the facility documentation. Where the documentation is silent, then in the absence of any legislation, court orders, or regulations governing priority, cash received should be applied in the following priority:

i) Statutory charges
ii) Penalty interest and fees
iii) Overdue interest and fees
iv) Current interest and fees
v) Principal

11. WRITE-OFFS

11.1 An account shall be written off three months after being categorised as a loss (or equivalent category). A record of bad debts written off should be maintained in a memorandum account.

11.2 To maintain a complete record of write-offs and recoveries in the allowance for loan impairment account, write-offs and recoveries related to impaired assets should be recorded through this account rather than being recorded directly as a charge or credit for asset impairment in the income statement. Write-offs and recoveries, that are charged or credited to the allowance account during an accounting period, are reflected as a charge or credit for asset impairment in the income statement at the end of the period when the ending balance in the allowance account is established.

11.3 Subsequent payments (whether designated as interest or principal) received on an impaired facility should be recorded as a reduction of the recorded investment in the facility. When the recorded investment in the facility is completely written off, the subsequent payments should be credited to the allowance for impaired assets.

12. DISCLOSURE

12.1 In addition to the disclosure requirements of International Financial Reporting Standards, the following information should be disclosed in the financial statements:-

i. the total recorded investment in individual assets identified as impaired and the amount of the related allowance for impairment, analysed by groups of facilities with similar characteristics;

ii. the total recorded investment in foreclosed assets held for sale and the amount of the related allowance for asset impairment;

iii. the recorded investment in each group of assets against which an allowance for asset impairment has been established collectively and the provisions for the current period;

iv. the net charge or credit to income in respect of asset impairment, identifying separately recoveries of assets written off in previous periods;

v. write-offs of assets during the reporting period, identifying separately amounts related to facilities restructured during the reporting period;

vi. the amount of restructured assets, analysed by groups of facilities with similar characteristics;

vii. the basis of determining the amount of the allowance for impaired assets as well as the events and conditions considered in determining the charge to income for the period in respect of the provisions should be disclosed; and

viii. a continuity schedule of the allowance for impairment, identifying separately the total amount of allowances; and the total amount of allowances against individual assets and groups of assets.

12.2 A facility cannot be split into unimpaired and impaired portions for the purpose of reducing the recorded investment in impaired assets that is required to be disclosed unless this is done to reflect a change in the underlying legal agreements. The existence of a guarantee or insurance (irrespective of the status of the guarantor or provider of insurance) does not preclude a facility from being disclosed as an impaired asset when reasonable assurance does not exist of the timely collection of the full amount of principal and interest.

12.3 Although not necessarily regarded as impaired assets, SFIs are required to disclose the amount of past due facilities as a routine part of their quarterly reporting requirements to the Central Bank.

12.4 When reporting impaired assets to the Central Bank, SFIs should include provisions for off-balance sheet exposures.

12.5 Identification of loans that are classified as amortised cost, fair value through other comprehensive income or fair value through profit and loss.

12.6 **Exemption from these disclosure requirements may be granted in circumstances where the Central Bank has agreed, in writing, with the SFI that the cost of disclosure is disproportionately greater than the benefit it provides.**

13. CENTRAL BANK OF THE BAHAMAS ASSESSMENT PROCESS

13.1 The Central Bank of The Bahamas' assessment of a SFI's compliance with these Guidelines will be conducted as the Central Bank sees fit, normally including:-

i. The Central Bank's assessment of SFIs' credit risk management policies, provisioning policy and associated methodologies against the assessment criteria identified in this Guideline. Emphasis will be placed on the understanding and degree of oversight of the provisioning process applied by senior management and the Board of each SFI; and

ii. The Central Bank's assessment of the overall reasonableness of the level of provisioning.

13.2 SFIs having a credit risk management methodology and/or level of provisioning that is assessed as "Not Acceptable" at the sole discretion of the Central Bank will be required to submit an action plan and timeline for compliance with the Guideline. Until such time as the SFI achieves an "Acceptable" or better rating the SFI may be subject to enhanced monitoring of its risk management processes. Also, SFIs that do not achieve an "Acceptable" rating for the level of provisioning may be expected to provide an additional level of capital or equivalent to minimise the adverse effects of not having sufficient levels of provisioning. This capital may be provided by a deduction from an SFI's regulatory capital.

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Appendix 1

Guidance on Accounting for Expected Credit Losses
Basel Committee on Banking Supervision (February 2015)

Supervisory requirements for sound credit risk practices that interact with expected credit loss measurement

Principle 1: A bank's board of directors (or equivalent) and senior management are responsible for ensuring that the bank has appropriate credit risk practices, including effective internal controls, commensurate with the size, nature and complexity of its lending exposures to consistently determine allowances in accordance with the bank's stated policies and procedures, the applicable accounting framework and relevant supervisory guidance.

Principle 2: A bank should adopt, document and adhere to sound methodologies that address policies, procedures and controls for assessing and measuring the level of credit risk on all lending exposures. The robust and timely measurement of allowances should build upon those methodologies.

Principle 3: A bank should have a process in place to appropriately group lending exposures on the basis of shared credit risk characteristics.

Principle 4: A bank's aggregate amount of allowances, regardless of whether allowance components are determined on a collective or an individual basis, should be adequate as defined by the Basel Core Principles, which is an amount understood to be consistent with the objectives of the relevant accounting requirements.

Principle 5: A bank should have policies and procedures in place to appropriately validate its internal credit risk assessment models.

Principle 6: A bank's use of experienced credit judgment, especially in the robust consideration of forward-looking information that is reasonably available and macroeconomic factors, is essential to the assessment and measurement of expected credit losses.

Principle 7: A bank should have a sound credit risk assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess and price credit risk, and account for expected credit losses.

Principle 8: A bank's public reporting should promote transparency and comparability by providing timely, relevant and decision-useful information.

Supervisory evaluation of credit risk practices, accounting for expected credit losses and capital adequacy

Principle 9: Banking supervisors should periodically evaluate the effectiveness of a bank's credit risk practices.

Principle 10: Banking supervisors should be satisfied that the methods employed by a bank to determine allowances produce a robust measurement of expected credit losses under the applicable accounting framework.

Principle 11: Banking supervisors should consider a bank's credit risk practices when assessing a bank's capital adequacy. This guidance is intended to set forth supervisory requirements on accounting for expected credit losses that do not contradict applicable accounting standards established by standard setters.

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Appendix 2

Classification Levels			
	Performing Exposures		Non-Performing Exposures
IFRS 9 ECL Level	Stage 1	Stage 2	Stage 3
ECL Provisioning Measure	12Month ECL	Lifetime ECL	Lifetime ECL
Standard Asset Classification	Satisfactory	Special Mention	Substandard | Doubtful | Loss
Days Past Due ***Lagging Indicator of default**	$x < 30$ DPD	$30 \leq x < 90$ DPD	$90 \leq x < 360$ DPD

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