BANKS AND TRUST COMPANIES (LIQUIDITY RISK MANAGEMENT) REGULATIONS, 2025

Arrangement of Regulations

Regulation

BANKS AND TRUST COMPANIES REGULATION ACT (2020)

BANKS AND TRUST COMPANIES (LIQUIDITY RISK MANAGEMENT) REGULATIONS, 2025

In exercise of the powers conferred by section 82 of the Banks and Trust Companies Regulation Act, 2020 (*No. 22 of 2020*), the Central Bank of The Bahamas makes the following Regulations–

PART I — PRELIMINARY

1. Citation

These Regulations may be cited as the *Banks and Trust Companies (Liquidity Risk Management) Regulations, 2025.*

2. Interpretation

(1) In these Regulations –

"Act" means the *Banks and Trust Companies Regulation Act, 2020 (No. 22 of 2020)*;

"Available Stable Funding" or "ASF" means the portion of an SFI's capital and liabilities expected to be stable or available over the one-year time horizon considered by the NSFR;

"Bahamian dollars" or "BSD" means the currency of the Commonwealth of The Bahamas;

"Cash Inflows" are the outstanding balances of various categories of contractual receivables, multiplied by the rates at which they are expected to be transferred and settled with the reporting SFI, during the stress period. These inflows are subject to an aggregate ceiling of 75% of the total cash outflows;

"Cash Outflows" are the outstanding balances of various categories of liabilities, inclusive of off-balance sheet commitments, multiplied by the rates at which they are expected to be drawn down from the reporting SFI during the stress period;

"Central Bank" means the Central Bank of The Bahamas preserved and continuing under section 3 of the Central Bank of The Bahamas Act, 2020 (*No. 24 of 2020*);

"Crisis" means any sudden, severe, and systemic disturbance in the financial sector that significantly undermines the solvency, liquidity, or operational viability of one or more financial institutions; events, both internal and external, that threaten an organisation's stability, reputation, or operations. These events can include natural disasters, financial crises, technological failures, pandemics, public relations issues, or even leadership misconduct.

"Contingency Funding Plan" or "CFP" is the compilation of policies, procedures and action plans for responding to severe disruptions to a SFI's ability to fund some or all of its activities in a timely manner and at a reasonable cost;

"Fire Drill" is a simulated exercise designed to test a supervised financial institution's liquidity contingency funding plans;

"Freely convertible foreign currency" means any foreign currency which, at the time in question, is in the opinion of the Central Bank freely negotiable and transferable on an international exchange market;

"Guidelines" means the Central Bank of The Bahamas' *Guidelines for the Management of Liquidity Risk*;

"High Quality Liquid Assets" or "HQLA" means assets that can be easily and immediately converted into cash at little or no loss of value; they are divided into Level 1 and Level 2 HQLA as prescribed in the *Schedule*. Bahamian dollar denominated assets are restricted to Level 1. Level 1 and 2 assets are limited to:

Level 1:

(a) Cash, coins and banknotes;

(b) Cash balances held at the Central Bank, including the statutory reserve required by commercial banks as per Section 19 of the *Central Bank of The Bahamas Act, 2020;*

(c) Qualifying marketable securities from sovereigns, central banks and PSEs assigned a 0% risk weight under the *Bahamas Capital Regulations, 2022*; and

(d) Sovereign or central bank debts which are not risk-weighted at 0%, but the underlying sovereign or central bank securities are:

(i) either issued in domestic currencies by the sovereign or central bank in the country in which the liquidity risk is being taken or in the SFI's home country; and

(ii) issued in foreign currencies up to the amount of the bank's stressed net cash outflows in that specific foreign currency stemming from the SFI's operations in that jurisdiction.

Level 2A:
(a) Sovereign, central bank, multilateral development banks, and PSE assets qualifying for 20% risk weighting;
(b) Qualifying corporate debt securities rated AA- or higher; and
(c) Qualifying covered bonds rated AA- or higher;

Level 2B:
(a) Qualifying residential mortgage-backed securities;
(b) Qualifying corporate debt securities rated between A+ and A-; and
(c) Qualifying common equity shares;

"Inspector" refers to the Office of the Inspectorate as defined in Part V of the Banks and Trust Companies Regulation Act, 2020;

"Less Stable Deposits" means deposits that are not fully covered by an effective deposit insurance scheme or sovereign deposit guarantee, high-value deposits, deposits from sophisticated or high net worth;

"Liquidity" means the ability to fund increases in assets or meet collateral obligations at a reasonable cost as they fall due without incurring unacceptable losses;

"Liquidity Coverage Ratio" or "LCR" means the ratio of the sum of a SFI's stock of HQLA in all currencies, expressed as a percentage of the sum of its net cash outflows over the next 30 calendar days;

"Liquidity Risk" means the risk that a SFI's financial condition or overall safety and soundness is adversely affected by an inability—real or perceived—to meet its contractual obligations;

"Liquidity Risk Management Strategy" means the strategy implemented by the SFI to manage its funding and market liquidity risks;

"Net Stable Funding Ratio" or "NSFR" means the ratio of the sum of a SFI's available stable funding in all currencies, expressed as a percentage of the sum of its required amount of stable funding in all currencies;

"**Non-zero risk weighted sovereign or Central Bank debt"** means sovereign or central bank debt not risk rated at 0% but the underlying sovereign or central bank securities are:

(a) issued in domestic currencies by the sovereign or central bank in the country in which the liquidity risk is being taken or in the SFI's home country; and
(b) issued in foreign currencies up to the amount of the bank's stressed net cash outflows in that specific foreign currency stemming from the SFI's operations in that jurisdiction;

"Public sector entities" or "PSEs" means entities that are mandated under legislation to provide services that promote the welfare of the country and are directly or wholly-owned by a central government or municipality;

"Qualifying marketable securities" means marketable securities that satisfy all of the following conditions:
(a) Assigned a zero risk-weight under the Credit Risk Standardised Approach;
(b) Traded in large, deep and active repo or cash markets characterized by a low level of concentration;
(c) Have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions; and
(d) Not an obligation of a financial institution or any of its affiliated entities;

"Required Stable Funding" or "RSF" is a measure of the liquidity characteristics and residual maturities of various assets held by an SFI as well as those of its off-balance sheet (OBS) exposures;

"Retail deposits" are deposits placed with a bank by a natural person that are divided into stable and less stable portion of funds that includes savings, transactional accounts and fixed term deposits;

"Secured funding" means liabilities and general obligations collateralized by legal rights to specifically designated assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation or resolution;

"Small business customers" means a non-financial customer whose total aggregate exposure to the SFI is less than ten million Bahamian dollars, and the deposit is managed by the SFI as a retail deposit;

"Supervised Financial Institution" or "SFI" means a licensee as defined under the *Banks and Trust Companies Regulation Act, 2020 (No. 22 of 2020)*;

"Stable Deposits" are deposits that are fully insured by the Deposit Insurance Corporation;

"Stress Period" refers to periods of severe firm specific and/or market conditions; a defined period of severe market downturn or shock used in stress tests to assess a bank's ability to withstand adverse conditions and maintain solvency;

"Total Net Cash Outflows" means the sum of total expected cash outflows less total expected cash inflows;

"Unsecured Wholesale Funding" means liabilities and general obligations raised from non-natural persons (i.e., legal entities, including sole proprietorships and partnerships, small business customers, etc.) that are not collateralized by legal rights to specifically designated assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation or resolution.

(2) Words not defined in these Regulations shall, unless the context otherwise requires, have the same meaning ascribed to such words in the Act.

PART II – LIQUIDITY RISK MANAGMENT

3. Applicability

(1) These Regulations are applicable to banks, and banks and trusts licensed under the Act.

4. Liquidity Risk Management Strategy

(1) A SFI shall establish and maintain a liquidity risk management strategy appropriate to the nature, scale and complexity of its activities, incorporating relevant risk management and monitoring tools outlined in the Guidelines.

(2) A SFI's liquidity risk management shall include a comprehensive Contingency Funding Plan approved by the Board, detailing the SFI's strategies for addressing liquidity shortfalls in a crisis.

(3) Bahamian retail deposit taking institutions shall develop and maintain a plan within its CFP for the management of a retail deposit run.

(4) The retail deposit run strategy shall be based on the premise that the SFI will ensure immediate access to retail deposit withdrawals, without restricting available withdrawal channels.

5. Review of Liquidity Risk Management Strategy

A SFI shall –

(1) Implement and adhere to its liquidity risk management strategy at all times; and

(2) Review on a regular basis, and at a minimum, once per year, its liquidity risk management strategy to take account of changing business objectives, strategic direction and the overall risk tolerance of the SFI. This review must include the approval of the SFI's Board of Directors.

6. Inspector to receive a copy of the Liquidity Risk Management Strategy

(1) A SFI shall provide the Inspector with a copy of its Liquidity Risk Management Strategy.

(2) A SFI shall, where any change to a SFI's risk management strategy has been approved by its Board of Directors, notify the Inspector of such change within fourteen (14) days of the Board's approval and provide the Inspector with a copy of the revised risk management strategy.

(3) The Liquidity Risk Management Strategy and CFP must be satisfactory to the Inspector.

7. Commercial Banks to maintain a Statutory Reserve

(1) Subject to the provisions of Section 19 of the *Central Bank of The Bahamas Act, 2020*, commercial banks shall establish and maintain a reserve to be called "the Statutory Reserve" of not less than that percentage of the amount of its deposit liabilities in Bahamian dollars that is at any time fixed by the Bank under this section.

8. SFI to maintain Liquidity Coverage Ratio and Net Stable Funding Ratio

(1) Subject to paragraph (2), a SFI shall continuously maintain a —

(a) Liquidity Coverage Ratio of not less than one hundred percent; and,

(b) Net Stable Funding Ratio of not less than one hundred percent.

(2) The Central Bank may in its sole discretion require a SFI or any class of SFIs to maintain a higher minimum LCR and/or NSFR.

(3) SFIs shall notify the Central Bank immediately if—–

(a) its LCR and/or NSFR has fallen below, or is expected to fall below 100%, or any higher minimum set by the Central Bank;

(b) the SFI is facing or believes it is about to encounter a retail run, or

(c) the SFI activates or expects to activate its CFP within thirty days.

9. Calculation of LCR and NSFR

(1) The Central Bank may, for the purpose of calculating the liquidity ratio of a SFI, require by notice in writing to the SFI that the liquidity ratio of the SFI be calculated –

(a) either on a consolidated or unconsolidated basis;
(b) on both a consolidated and unconsolidated basis, or
(c) for different currency exposures held by the SFI.

(2) The Central Bank may, in accordance with Regulation 8, include total Central Bank reserves which comprise the stock of HQLA for the purpose of calculating the LCR and NSFR for commercial banks.

(3) The LCR is calculated as:

$$\frac{Stock\ of\ HQLA}{Net\ Cash\ Outflows} \geq 100\%$$

(4) The *Schedule* contains the respective LCR factors to be applied to the various categories of HQLA.

(5) The NSFR is calculated as:

$$\frac{Available\ Stable\ Funding}{Required\ Stable\ Funding} \geq 100\%$$

(6) The *Schedule* contains the respective NSFR discounts and run-off factors to be applied to the various funding categories.

10. Central Bank to monitor the liquidity position of Supervised Financial Institutions

(1) The Central Bank shall monitor the liquidity position of each SFI to satisfy itself that the liquidity risk is being appropriately managed based on the nature, scale, and complexity of the SFI's activities.

(2) In times of stress, the Central Bank may allow a SFI's LCR and/or NSFR to fall below the required minimums. The Central Bank may make this allowance for a specific SFI or any class of SFIs.

(3) The Central Bank shall, monitor the liquidity position of SFIs which are subject to Section 19 of the *Central Bank of The Bahamas Act*, 2020, as a whole, both on and off the balance sheet and across all currencies.

(4) The Central Bank reserves the right to request any SFI's liquidity position at any time. SFIs must be able to provide the Central Bank with a materially accurate LCR and NSFR calculation, for the day the request is made, no later than the close of business the next business day.

11. Provision of Information to the Central Bank

A SFI shall –

(a) provide the Central Bank with such particulars of its liquidity position in such a manner, frequency and form as may be specified by the Inspector; and

(b) inform the Central Bank forthwith of any concerns it has about its current or future liquidity position as well as plans to address such concerns.

12. Fire Drill

(1) The Central Bank may conduct a fire drill of any relevant SFI on any given day, and require the SFI to provide the Central Bank with its LCR and NSFR calculations. SFIs must deliver the projections no later than the next business day.

(2) Where a SFI fails to provide adequate liquidity reporting of a crisis forthwith, this will be considered a material prudential issue, and considered a violation of provision under these Regulations. The SFI may be subject to a penalty as provided for under Section 46 of the *Central Bank of The Bahamas Act, 2020*.

13. SFIs to enter discussions with the Central Bank ~~Inspector~~

A SFI and the Inspector shall, where the SFI is in breach of paragraph (1) of regulation 7 or regulation 8, enter into discussions for the purpose of determining what remedial action is required.

14. Remedial Action

The Central Bank may issue a directive in writing requiring a SFI to take such remedial action as the Inspector deems appropriate to ensure compliance with paragraph (1) of regulation 7 and/or regulation 8.

15. Liability for non-compliance.

A SFI which fails to comply with a directive of the Central Bank made under regulation 14 shall be liable to a penalty.

16. Penalties.

The Central Bank may, where a SFI is in breach of regulations 2, 4 (1), 4 (2), 5, 6(1), 6 (2), 7 (1), 8, 11, 12 and 14, impose a penalty in line with the Act, and the Banks and Trust Companies (Administrative Monetary Penalties) Regulations, 2016.

17. Exemption.

(1) The Central Bank may exempt a SFI or any class of SFIs from any of the provisions of these Regulations.

(2) The Central Bank may withdraw any exemption granted pursuant to paragraph (1).

FIRST SCHEDULE

(Regulation 9)

LCR Stock of HQLA	Factor
Level 1 Assets:	
• Coins and banknotes; • Cash balances held at the Central Bank, including the statutory reserve required by commercial banks as per Section 19 of the Central Bank of The Bahamas Act, 2020; • Qualifying marketable securities from sovereigns, central banks and public sector entities assigned a 0% risk weight under the Bahamas Capital Regulations, 2022; and • Non-zero risk weighted sovereign or central bank debt	**100%**
Level 2 Assets (maximum of 40% of HQLA):	
• **Level 2A Assets:**	
○ Sovereign, central bank, multilateral development banks, and PSE assets qualifying for 20% risk weighting. ○ Qualifying corporate debt securities rated AA- or higher ○ Qualifying covered bonds rated AA- or higher	**85%**
• **Level 2B Assets (maximum of 15% of HQLA):**	
○ Qualifying RMBS	**75%**
○ Qualifying corporate debt securities rated between A+ and A- ○ Qualifying common equity shares	**50%**
LCR Cash Outflows	**Factor**
Retail Deposits:	
• Demand deposits and term deposits (less than 30 days maturity) of which:	
○ Stable deposits (covered by Deposit Insurance)	**5%**
○ Less stable retail deposits	**10%**
• Term Deposits with residual maturity greater than 30 days	**0%**
Unsecured wholesale funding:	
• Demand and term deposits (less than 30 days maturity) provided by small business customers:	
○ Stable deposits	**5%**
○ Less stable deposits	**10%**
• Cooperative banks in an institutional network (qualifying deposits with the centralised institution)	**25%**
• Non-financial corporates, sovereigns, central banks, multilateral development banks, and PSEs: ○ If the entire amount is covered by Deposit Insurance	**40%**
• Other Legal entity customers	**100%**
Secured funding:	
• Secured funding transactions with a central bank counterparty or backed by Level 1 assets with any counterparty	**0%**
• All other secured funding transactions	**100%**

Additional Requirements:	
• Currently undrawn committed credit and liquidity facilities provided to:	
○ Retail and small business clients	**5%**
○ Non-financial corporates, sovereigns and central banks, MDBs, and PSEs	**10%**
○ Banks subject to prudential supervision	**40%**
○ Other financial institutions (including securities firms and insurance companies	**40%**
○ Other legal entity customers, credit and liquidity facilities	**100%**
○ Any additional contractual outflows	**100%**
○ Net derivative cash outflows	**100%**
○ Any other contractual cash outflows	**100%**
LCR Cash Inflows	**Factors**
Maturing secured lending transactions backed by the following collateral:	
• Level 1 Assets	**0%**
• Level 2A Assets	**15%**
• Level 2B Assets:	
○ Eligible RMBS	**25%**
○ Other Assets	**50%**
• Margin lending backed by all other collateral	**50%**
• All other assets	**100%**
• Credit or liquidity facilities provided to the reporting bank	**0%**
Other inflows by counterparty:	
• Amounts to be received from retail counterparties	**50%**
• Amounts to be received from non-financial wholesale counterparties, from transactions other than those listed in the above inflow categories	**50%**
• Amounts to be received from financial and central banks, from transactions other than those listed in the above inflow categories	**100%**
• Net derivative cash inflows	**100%**
• Other contractual cash inflows	**100%**

NSFR ASF Components	Factors
• Total Regulatory CET1 instruments with residual maturity of less than one year	**100%**
• Other Capital instruments and liabilities with effective residual maturity of one year	100%
• Stable non-maturity (demand) deposits and term deposits with residual maturity of less than one year provided by retail and small business customers	**95%**
• Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers	**90%**
• Funding with residual maturity of less than one year provided by non-financial corporate customers	**50%**
• Funding with residual maturity of less than one year from sovereigns, PSEs, multilateral and national development banks	**50%**
• Other funding with residual maturity between six months and less than one year not included in the above categories, including funding provided by central banks and financial institutions	**50%**
• All other liabilities and equity not included in the above categories, including liabilities without a stated maturity	**0%**
NSFR RSF Components (On Balance Sheet)	**Factors**
• Coins and banknotes	**0%**
• All central bank reserves	**0%**
• All claims on central banks with residual maturities of less than six months	**0%**
• Unencumbered Level 1 assets, excluding coins, banknotes and central bank reserves	**0%**
• Unencumbered loans to financial institutions with residual maturities of less than six months, where the loan is secured against Level 1 assets, and where the bank has the ability to freely rehypothecate the received collateral for the life of the loan	**10%**
• All other unencumbered loans to financial institutions with residual maturities of less than six months not included in the above categories	**15%**
• HQLA encumbered for a period of six months or more and less than one year	**50%**
• Loans to financial institutions and central banks with residual maturities between six months and less than one year	**50%**

• All other assets not included in the above categories with residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns and PSEs	**50%**
• Unencumbered residential mortgages with a residual maturity of one year or more and with a risk weight of less than or equal to 50% under the Standardised Approach	**65%**
• Other unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more and with a risk weight of less than or equal to 50% under the Standardised Approach	**65%**
• Other unencumbered performing loans with risk weights greater than 50% under the Standardised Approach and residual maturities of one year or more, excluding loans to financial institutions securities	**100%**
• Unencumbered securities that are not in default and do not qualify as HQLA with a remaining maturity of one year or more and exchange-traded equities	**100%**
• Physical traded commodities, including gold	**100%**
• All assets that are encumbered for a period of one year or more	**100%**
• All other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities	**100%**
NSFR RSF Components (Off Balance Sheet)	**Factors**
• Irrevocable and conditionally revocable credit and liquidity facilities to any client	**5% of the currently undrawn portion**
• Other contingent funding obligations, including products and instruments:	**0% for all other categories**
○ Unconditionally revocable credit and liquidity facilities	
○ Trade finance -related obligations (including guarantees and letters of credit)	
○ Guarantees and letters of credit unrelated to trade finance obligations	
• Non-contractual obligations such as:	

○ potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities ○ structured products where customers anticipate ready marketability, such as adjustable rate notes and variable rate demand notes (VRDNs) ○ managed funds that are marketed with the objective of maintaining a stable value	

Made this of 2025.

Signed