



SUPERVISORY AND REGULATORY GUIDELINES: 2026
Large Exposures
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LARGE EXPOSURES GUIDELINES, 2026

TABLE OF CONTENTS

1. INTRODUCTION	2
2. PURPOSE	2
3. APPLICABILITY	2
4. DEFINITIONS	3
5. LARGE EXPOSURES POLICY STATEMENTS	8
6. BOARD OF DIRECTORS' RESPONSIBILITIES	10
7. EXPOSURE LIMITS	11
8. EXEMPT EXPOSURES	12
9. CREDIT RISK MITIGATION ("CRM") TECHNIQUES	14
10. THE MEASURE OF EXPOSURE	15
11. CALCULATIONS OF LARGE EXPOSURES	18
12. REPORTING REQUIREMENTS	19

INTRODUCTION

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 Central Bank of The Bahamas Act, 2020 (“CBA”) and the Banks and Trust Companies Regulation Act, 2020 (“BTCRA”).
2. All SFIs are expected to adhere to the Central Bank’s licensing and prudential requirements and ongoing supervisory programmes, including periodic on-site examinations, and required regulatory reporting. SFIs are also expected to conduct their affairs in conformity with all other Bahamian legal requirements.

PURPOSE

3. These Guidelines outline the minimum standards and requirements that SFIs are expected to follow in relation to controls on large credit exposures, as defined in Section 4 below. These Guidelines are to be read in conjunction with the:
 - a) [Bahamas Capital Regulations, 2022 \(“the Capital Regulations”\);](#)
 - b) [Guidelines for the Management of Capital and the Calculation of Capital Adequacy, 2022 \(“the Capital Adequacy Guidelines”\);](#)
 - c) [Minimum Standards for Letters of Comfort and Parental Guarantees;](#)
 - d) [Digital Assets Guidelines;](#)
 - e) [Guidelines for the Management of Credit Risk;](#)
 - f) [Guidelines for the Management of Market Risk;](#)
 - g) [Guidelines for the Management of Country Risk;](#) and
 - h) [Guidelines for the Corporate Governance of Banks and Trust Companies Licensed to do Business Within and from Within The Bahamas.](#)

Additionally, the Central Bank endorses the Basel Committee on Banking Supervision’s (“the Basel Committee”) Core Principles and Basel III Large Exposures implementation. SFIs are encouraged to refer to the full Basel Committee document at www.bis.org.

APPLICABILITY

4. These Guidelines apply to all banks and banks and trust companies incorporated in The Bahamas (collectively referred to as SFIs) which are licensed or registered by the Central Bank of The Bahamas. These Guidelines do not apply to pure trust companies, nominee trust companies, money transmission businesses, electronic money service providers, credit unions, branches of foreign banks and restricted banks and/or trust companies that are allowed to carry on business for specified named persons who are included in

the licence issued. The Central Bank expects, however, that a branch of a foreign bank will comply at all times with the large exposures policies and limits established by its head office, including any limits established by its home regulator. Branches of foreign banks should discuss these arrangements with the Central Bank. If, in the Central Bank's opinion, the head office of a branch of a foreign bank does not have a comparable relevant policy, the Central Bank will require the branch to comply with the limits set out in **Paragraphs 13 - 20** of these Guidelines.

5. The Central Bank's Regulations and Guidelines establish the standards against which each SFI's large exposures programme will be evaluated.

DEFINITIONS

6. For the purpose of these Guidelines:

"Banking book" means those positions in financial instruments not assigned to the trading book;

"Board" means the Board of Directors of the Supervised Financial Institution;

"Capital Base" or **"total regulatory capital"** has the meaning assigned in Regulation 2 of The Bahamas Capital Regulations, 2022 (No. 22 of 2020);

"Central Bank" means the Central Bank of The Bahamas preserved and continued pursuant to **Section 3** of the Central Bank of The Bahamas Act, 2020 (No. 24 of 2020);

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

"Concessive terms" means conditions and requirements that are less demanding than or inconsistent with the conditions and requirements imposed upon the general range of non-related-party clients in similar circumstances;

"Control" means the ability of a legal or natural person to ensure the affairs of a legal entity are conducted in accordance with the wishes of that person by means of either—

- a) the holding of shares, voting rights, or the position of voting power;
- b) significant influence on the appointment or dismissal of a SFI's administrative, management or supervisory body; or
- c) by virtue of any agreement or any powers conferred by the articles of association or any other document.

In assessing whether there is a control relationship between counterparties, SFIs must automatically consider that one of the counterparties directly or indirectly, has control over the other(s) if one entity owns more than 50 percent of the voting rights of the other entity;

“Counterparty” means the borrower (customer), the person guaranteed, issuer of a security in the case of an investment in a security or the party with whom the contract is made in the case of a contract;

A “**covered bond**” refers to a debt instrument issued by a bank and secured by a pool of debt securities, whose proceeds would be used on a priority basis for the reimbursement of the principal and payments of accrued interest;

“Credit Conversion Factor” or **“CCF”** means the conversion of off-balance sheet exposures to the credit risk weighted equivalent for the different types of off-balance sheet items or transactions;

“Credit risk” means any risk associated with a SFI’s on and off-balance sheet exposures, and includes any risk to the earnings or capital arising from the potential that a borrower or counterparty will fail to perform on a loan or extension of credit;

“Credit Risk Mitigation” or **“CRM”** means any technique used by a SFI to reduce the credit risk associated with any exposure held by the reporting SFI;

“Cross guarantee” refers to an arrangement between entities within a group where one or more entities guarantee the debt obligations of another;

“Domestic Systemically Important Banks” or **“D-SIBs”** means a bank which has been designated by the Central Bank as an institution whose impact, in the event of distress or failure, could cause significant disruption to the financial system and economic activity of The Bahamas;

“Economic interdependence” refers to a relationship between counterparties where the financial failure of one counterparty will likely lead to the failure of the other. In establishing connectedness based on economic interdependence, SFIs must consider, at a minimum, the following qualitative criteria –

- a) where 50 percent or more of one counterparty’s gross receipts or gross expenditure (on an annual basis) is derived from transactions with the other counterparty (e.g., the owner of a residential/ commercial property and the tenant who pays a significant part of the rent);
- b) where one counterparty has fully or partly guaranteed the exposure of the other counterparty, or is liable by other means, and the exposure is so significant that the guarantor is likely to default if a claim occurs;

- c) where a significant part of one counterparty's production/output is sold to another counterparty, which cannot easily be replaced by other customers;
- d) when the expected source of funds to repay the loans of both counterparties is the same and neither counterparty has another independent source of income from which the loan may be serviced and fully repaid;
- e) where it is likely that the financial problems of one counterparty would cause difficulties for the other counterparties in terms of full and timely repayment of liabilities;
- f) where the insolvency or default of one counterparty is likely to be associated with the insolvency or default of the other(s); and
- g) when two or more counterparties rely on the same source for the majority of their funding and, in the event of the common provider's default, an alternative provider cannot be found – in this case, the funding problems of one counterparty are likely to spread to another due to a one-way or two-way dependence on the same main funding source;

“Exposure” means –

- a) claims on a counterparty including actual and potential exposures which would arise from the drawing down in full of undrawn advised facilities, whether revocable, irrevocable, conditional or unconditional, which the SFI has committed itself to provide and claims which the SFI has committed itself to purchase or underwrite;
- b) contingent liabilities arising in the normal course of business and liabilities that would arise from the drawing down of undrawn advised facilities;
- c) holdings of equity capital, bonds, bills or other financial instruments; and
- d) any other assets that constitute a claim on a counterparty by the SFI and which are not included in sub-subparagraphs (a), (b), or (c);

“Fully collateralised” means secured by marketable securities acceptable to the Inspector and cash deposits, including certificates of deposit and equivalent instruments, held with the specific right of offset by and under the exclusive administration of the SFI, where repayment of the deposit is conditional on the repayment of the related extension(s) of credit. Such collateral must have a market value equal to at least 100 percent of the extension credit. The SFI would have to show it has the ability and that it will regularly mark these securities to market during the loan and take immediate action if this valuation shows a shortfall of collateral;

A “**Group of Connected Counterparties**” exists where two or more natural or legal counterparties constitute a single risk and includes –

- a) any party that either directly or indirectly, controls (**see definition above**) the counterparty;
- b) any party that is controlled, either directly or indirectly, by any party that controls, either directly or indirectly, the counterparty;
- c) a relationship where the failure of one counterparty would likely lead to a failure of the other counterparties;
- d) a subsidiary or associate company of the counterparty;
- e) directors, executive officers, senior staff and controlling shareholders of the counterparty;
- f) directors, executive officers, senior staff and controlling shareholders of any person identified in a), b), and/or d), above;
- g) a basis of economic interdependence (**see definition above**) in all cases where the sum of all exposures to one individual counterparty exceeds five percent of the eligible capital base; and
- h) such other person, not specified in (a) through (g), as the Central Bank may determine;

“**Immediate family members**” means a parent, sibling, spouse and/or child;

“**Investment Grade**” means exposures rated AAA to BBB- by an accredited external rating agency, demonstrating a low default rate and adequate capacity to meet financial commitments, including the repayment of both principal and interest;

“**Investment Grade Banks**” means banks that are located in investment grade countries;

“**Investment Grade Central Banks**” means central banks located in investment grade countries;

“**Investment Grade Central Governments**” means central governments located in Investment grade countries;

“**Large Exposure**” means the sum of all exposure values of a SFI to a counterparty or to a group of connected counterparties that is equal to or above ten percent of the SFI’s capital base;

“**Loan to Value Ratio**” or “**LTV**” means the current amount of a property loan divided by the valuation of the property;

“Lombard (Secured) lending” is defined as a loan granted by a SFI to its clients and secured by some or all of the marketable securities held by the client in a custody account with that SFI;

“Look-Through Approach” or **“LTA”** means the methodology by which a SFI must utilise the risk weight of an underlying exposure, as if the exposure were held directly by the SFI;

“Non-Capital Investment” means any stock, inventory, or property that is held for the sole purpose of trading (i.e., short-term). This applies to both equity and debt securities;

“Non-Investment Grade” refers to exposures that receive a rating lower than BBB-, according to external credit rating agencies, demonstrating a speculative capacity to meet financial commitments, including the repayment of both principals and interest;

“Non-Investment Grade Central Banks” means central banks located in non-Investment grade countries;

“Non-Investment Grade Central Governments” means central governments located in non-Investment grade countries;

A **“Related Party”** is a counterparty that is linked to the SFI and includes -

- a) a person that controls, whether directly or indirectly a SFI;
- b) a person that is controlled, whether directly or indirectly, by the person that controls the SFI;
- c) the subsidiaries or associate companies of a SFI;
- d) the directors, executive officers, senior staff of –
 - i. a SFI; or
 - ii. any person identified in paragraphs a), b), or c) above;
- e) any person (or beneficial owners) who, either alone or together with any associate, is entitled to exercise control over ten percent or more of the share capital of –
 - i. a SFI; or
 - ii. any person identified on paragraphs a), b) or c) above;
- f) the immediate family members of persons identified in paragraphs a), d) or e) above;
- g) partnerships, companies, trusts or other entities in which an immediate family member referred to in paragraph f) above, has a controlling interest; and

- h) any person that manages or is managed by the SFI under a management contract; and
- i) such other person, not specified in (a) through (h), as the Central Bank may determine;

“Related party transactions” means any transaction entered into with related parties or in which an unrelated party (with whom a bank has an existing exposure) subsequently becomes a related party and includes –

- a) on-balance sheet and off-balance sheet credit exposures;
- b) dealings such as service contracts, asset purchases and sales;
- c) construction contracts; lease agreements; and
- d) derivative transactions; borrowings; and write-offs;

“Risk Concentration” means any exposure with the potential to produce losses that are substantial enough to threaten a SFI’s capital strength or earnings or otherwise undermine public confidence in the SFI;

“Supervised Financial Institutions” or **“SFI”** means any regulated entity listed in **Paragraph 4** above.

LARGE EXPOSURES POLICY STATEMENTS

7. Safeguarding against credit risk concentrations should form an important component of a SFI’s risk management system. Therefore, SFIs are required to adopt and set out in writing their internal policies and internal limits¹, which will ensure their compliance with the exposure limits set out in these Guidelines. For some SFIs, where prudent, the Central Bank may determine lower exposure limits by way of prudential norms. The Central Bank will not apply common maximum percentages for SFIs’ sectoral or country exposures but will monitor such exposures on an individual and general basis. However, the Central Bank may require SFIs to justify their policy on exposures, including the maximum size of any exposure contemplated.
8. SFIs must set out their policies on large exposures in their policy statements and include definitions and limits for differing types of exposures to individual counterparties, group(s) of connected counterparties, countries and economic sectors. A SFI’s policy statement must be approved by its Board. Additionally, the policy statement should identify the SFI’s “related parties” and its policies towards lending to and investing in these parties. SFIs are required to put in place policies and processes to ensure that any member of their Board, management, or staff who may benefit from related party

¹ It may be appropriate for a SFI to set lower internal limits, which are reasonable in relation to its capital base and balance sheet size.

exposures, (or individuals related to such a person) or who otherwise have a conflict of interest, are excluded from being part of the process of granting and managing the exposures. SFIs are required to submit their Large Exposures Policy Statements to the Central Bank, no less than annually. Significant changes to the policy statement must be reported to the Central Bank, immediately. SFIs are expected to notify the Inspector in advance of their submission to discuss any proposed transaction that will result in a significant deviation from a SFI's Large Exposures Policy Statement submitted to the Central Bank.

9. Elements of a SFI's policy statements on large exposures should cover, but are not limited to the following –
 - a) A general statement of the Board's adoption of the Central Bank's Large Exposures Regulations and Guidelines, including the definition of an exposure contained therein.
 - b) The maximum individual exposure considered acceptable to counterparties categorised as follows –
 - i. Banks (both Investment and Non-Investment Grade);
 - ii. Non-bank counterparties (individual and corporate);
 - iii. Sovereigns and their central banks (both Investment and Non-Investment Grade) and Multilateral Development Banks ("MDBs");
 - iv. Lombard (secured) lending limits;
 - v. Economic Sectors; and
 - vi. Country/Geographical limits.
 - c) The maximum level of large exposures considered acceptable to the Board of Directors.
 - d) The internal policies and procedures by which counterparty limits are determined and reviewed (including various levels or authority).
 - e) Details of the procedures by which exposures are measured, monitored and controlled (in relation to limits).
 - f) The maturity of particular exposures and a SFI's expertise in the particular type of transaction.

- g) The circumstances under which limits may be exceeded and the process for authorising exceptions to these limits.
- h) The policy on related party exposures and intra-group lending. The Board of Directors should identify the SFI's related parties and its procedures and limits for exposures to related parties, including the limits for exposures entered into for treasury management purposes, as a part of this exercise.
- i) Any differentiation in policies between secured and unsecured exposures, together with descriptions of permissible forms of security.
- j) The allocation of responsibility for large exposures reporting and pre-notification to the Central Bank.

10. The Central Bank is aware that some SFIs operate within policies and limits set by their parent banks. Therefore, a SFI's policy statement should clearly indicate where this is the case and describe the policy of its parent bank.

BOARD OF DIRECTORS' RESPONSIBILITIES

- 11.** The Board of Directors ("the Board") of a SFI is responsible for establishing and monitoring compliance with policies governing large exposures and risk concentrations of the SFI. In undertaking this responsibility, the Board should, *inter alia* –
 - a) Approve the SFI's large exposures policy statement in writing;
 - b) Review the policy statement periodically, but at least annually;
 - c) Regularly review compliance with the large exposures policy;
 - d) Review sectoral exposures and limits at least quarterly;
 - e) Approve all exceptions to established internal limits; and
 - f) Include a statement in the Annual Corporate Governance Certificate confirming that the Board has reviewed the large exposures policy statement and that it considers it appropriate to the SFI's operating circumstances. The policy review should be monitored and reported through an independent credit review or audit process.
- 12.** SFIs must ensure that transactions with related parties and the write-off of all related party exposures exceeding specified amounts or those which pose special risks should be subject to prior approval by the SFI's Board.

EXPOSURE LIMITS

13. SFIs shall comply at all times with the exposure limits established in section 14 a) to d) below, unless the Central Bank has granted an exemption, as set out in **Exempt Exposures** of these Guidelines. Notwithstanding the established exemptions, the exposures set out in **Paragraph 21(2)** must be preapproved by the Inspector before a SFI may avail itself of an exemption to these limits. The Central Bank reserves the right to limit any or all exempted exposures if determined that the exposure poses a material risk (i.e., economic stress).
14. A SFI must notify the Inspector of Banks and Trust Companies no later than two business days after breaching any of these limits and take immediate action to bring the exposure within the established limits as soon as practicable, but no later than five business days after breaching the limits. The notification must include the nature of the breach, the reason for the breach, and a plan of action for correcting the breach. Depending on the circumstances, the Central Bank may direct a SFI to take measures to reduce its level of risk concentration or increase its capital.

a) Single Exposure Limit

15. A SFI may not incur exposures, on an aggregate basis, to an individual counterparty or group of connected parties, which exceed 25 percent of its capital base.
16. In addition, a SFI may not hold non-capital investments² in securities of a single issuer, which exceed 10 percent of its capital base.

b) Related Party Limit

17. A SFI may not incur exposures to any of its related parties which, in aggregate, exceed 15 percent of its capital base. All exposures to related parties must be:
 - i. at market rates without concessive terms; and
 - ii. specifically approved by the SFI's Board of Directors.
18. The Central Bank will closely monitor all exposures to related parties and may deduct them from the capital base of the SFI if they are, in the opinion of the Central Bank, of the nature of a capital investment or made on concessive terms.

² **N.B.:** Bonds can be held to maturity (normally in the case of Bahamas Registered Securities) or for trading purposes and SFIs are required to determine the applicable one.

c) Domestic Systemically Important Banks (D-SIBs)

19. A SFI may not incur exposures to D-SIBs, which in aggregate exceed 15 percent of its capital base.

d) Aggregate Limit on Large Exposures

20. A SFI may not incur non-exempt large exposures, which in aggregate, exceed 800³ percent of its capital base.

EXEMPT EXPOSURES

21. The following exposures are exempt from limits outlined above in **Exposure Limits**:

- 1. Exempt exposures where no prior approval of the Inspector is required**
 - a) Exposures to the Government of The Bahamas and non-commercial Bahamian governmental institutions⁴ or secured by securities/guarantees of the Government of The Bahamas;
 - b) Exposures denominated in Bahamian Dollars to the Central Bank;
 - c) Exposures to Investment Grade central banks, in the sovereign currency of the relevant central banks;
 - d) Exposures to Investment Grade central governments rated AAA to BBB- by two of the major credit rating agencies⁵ for foreign currency debt;
 - e) Exposures secured by securities/guarantees from Investment Grade central governments rated high grade or higher by two of the major credit rating agencies for foreign currency debt;
 - f) Short-term interbank deposits of not more than six months maturity, booked with Investment Grade banks which are located in Investment Grade countries; and
 - g) Exposures which are fully collateralised throughout their tenure by cash deposits (including certificates of deposit and equivalent instruments issued by the lending bank) held by the lender with the specific right of

³ Limit refers to non-exempt exposures (loans and market placements).

⁴ Defined as government corporations and agencies responsible for the administration of a specific sector, field or area. Examples are found on the Government of The Bahamas website at www.bahamas.gov.bs.

⁵For the purposes of these Guidelines, the reference credit rating agencies and ratings are Moody's Investors Service (BBB3 and higher), Standard & Poor's (BBB- and higher), Fitch (BBB- and higher), and CariCris (BBB- and higher).

offset, where the release of the deposit is conditional on the repayment of the related extension(s) of credit.

2. Exempt exposures where the prior approval of the Inspector is required

SFIs seeking the prior approval of the Inspector for an exemption from the limits set out at **Paragraph 14** above must apply via the Large Exposures Application Form. Applications should ordinarily be submitted to the Inspector at least one month prior to entering into the exposure. In assessing possible exemptions, the Central Bank will determine whether the exposure(s) would significantly increase the risk to depositors of the SFI and whether the exposure(s) is consistent with the SFI's large exposures policy statement. SFIs should refer to the *Minimum Standards for Letters of Comfort and Parental Guarantees* for the minimum applicable requirements, where such support is required to be submitted with respect to any of the following –

- a) exposures to Non-Investment Grade central governments and central banks which are denominated in the country's local currency and funded by liabilities in the same currency rated high grade or higher by two of the major credit rating agencies for foreign currency debt;
- b) exposures which are collateralised by **investment grade** marketable securities throughout their tenure, which are recognised by the Central Bank, and have a market value equal to at least one hundred percent of the extension of credit or such higher percentage as the Inspector shall require, notwithstanding parameters outlined in **Paragraph 28**;
- c) exposures which are supported by a parental guarantee acceptable to the Inspector. [*Exemptions for which the prior-approval of the Inspector have already been obtained, which are covered by letters of comfort, are not required to be supported by a parental guarantee*];
- d) underwriting exposures, which do not exceed 90 days duration. Any residual holdings of securities, which are held for more than 90 days, are not treated as exempt and are subject to the exposure limits outlined in Section 7 above;
- e) off-balance sheet exposures (such as derivative contracts) to banks, which are acceptable to the Inspector; and
- f) exposures to related parties where the SFI or the related party is fulfilling a treasury role on behalf of the group or managing liquidity across the group, provided the exposures meet the following conditions –

- i. the banking group is subject to adequate consolidated supervision by the home supervisor in accordance with Basel Core Principles for Effective Banking Supervision;
- ii. the SFI must satisfy the Central Bank that the appropriate management and other group control systems are in place to ensure that risk-taking among related counterparties is properly monitored and controlled;
- iii. the exposures have an original maturity of one year or less⁶ and are placements with the SFI's parent or to another member of the banking group. The placement should be surplus to the needs of the SFI and the amount of the surplus should fluctuate regularly; and
- iv. the SFI is required to provide an estimated level of activity of these exposures in the application and pre-notify the Central Bank if the level of activity is expected to increase.

The Central Bank reserves the right to require a SFI to provide a copy of a 'No Objection' letter from the home supervisor in support of the application.

CREDIT RISK MITIGATION ("CRM") TECHNIQUES

- 22.** SFIs may reduce the value of the exposure to a counterparty by the amount of an eligible credit risk mitigation technique prescribed in Paragraph 40 of the *Capital Guidelines*, 2022. The recognised amount is the value of the portion of the claim collateralised by the market value of the recognised financial collateral.
- 23.** For the purpose of calculating risk-weighted assets, only the simple standardised approach may be applied to banking exposures where recognised credit risk mitigation techniques have been used. Under the simple method, the risk weight of collateral is substituted for the risk weight counterparty for the collateralised portion of an exposure, subject to a floor of 20 percent. The uncollateralised portion of the exposure will be risk weighted according to the risk weight applicable to the original counterparty.
- 24.** Where a SFI has recognised an eligible CRM technique in calculating its capital requirements, the SFI must also recognise that CRM technique for large exposure purposes.

On-Balance Sheet netting

- 25.** Where a SFI has in place a legally enforceable netting arrangement, the SFI may combine multiple financial obligations as a method to reduce risk in

⁶ Where the exposures have an original maturity greater than one year, it must be adequately covered by a parental guarantee acceptable to the Inspector.

financial contracts for large exposure purposes. SFIs may use the net exposure of loans and deposits so long as they meet the requirements prescribed in Regulation 19(1) of the *Capital Regulations*.

Off-Balance Sheet Commitments

26. Off balance sheet items are to be converted into the credit exposure equivalent by applying the appropriate credit conversion factor as set out in Table 10 of the *Fourth Schedule of the Capital Regulations*. The reported amount will be determined by multiplying the notional principal amount by the appropriate credit conversion factor.

THE MEASURE OF EXPOSURE

27. For large exposures reporting purposes, the measure of exposure should reflect the maximum loss that will arise should a counterparty fail. The measure of exposure should include the amount at risk arising from:

- A SFI's claims on a counterparty, including actual and potential exposures, that would arise from the drawing down in full of undrawn advised facilities (whether revocable, irrevocable, conditional or unconditional), whereby the SFI has committed itself to provide and claims which the SFI has committed itself to purchase or underwrite. In the case of undrawn advised overdraft facilities, the advised limit must be reported after deduction of any provisions. In the case of loans, the net outstanding balance as shown in the books of the SFI should be reported after deduction of any provisions.
- A SFI's contingent liabilities arising in the normal course of business and liabilities that would arise from the drawing down of undrawn advised facilities. In the case of undrawn trade finance or similar facilities, the advised limit should be reported.
- A SFI's holdings of equity capital, bonds, bills or other financial instruments. In the case of financial instruments, the current fair value (as shown in the books of the SFI) should be reported.
- Any other assets that constitute a claim on a counterparty by the SFI and which are not included in a), b) or c), above.

28. As a rule, exposures should be reported on a gross basis (i.e., no offsets). However, debit balances on accounts for a counterparty may be offset against credit balances on other accounts with the SFI if:

- a legally enforceable right of set-off exists in all cases (as confirmed by a legal opinion addressed to the SFI);
- the debit and credit balances relate to the same counterparty or group of connected counterparties; or

- c) the SFI intends to settle on a net basis or to realise the debit balances and settle the credit balances simultaneously. For a group facility, a full cross guarantee structure must also exist before debit balances on accounts may be offset.

Lombard Lending

- 29.** A SFI engaged in Lombard lending must develop and implement policies consistent with the principles set forth in the Capital Adequacy Guidelines. SFIs should at the execution of the credit arrangement, indicate the purpose and parameters in which the credit will be deemed in compliance, such as: -
 - a) The minimum and maximum loan value appropriate to the nature and level of risk to the SFI;
 - b) The collateral secured is at least equal to the aggregate amount of funds actually dispersed;
 - c) The lender can require at any time under the agreement to call for additional collateral sufficient to bring the credit into compliance; and
 - d) Alternatively, the SFI may realise collateral to reduce the relevant exposure to agreed limits relative to the remaining collateral.
- 30.** SFIs may extend exposure limits to brokers and dealers for Lombard lending purposes. Extended exposure will be subject to large exposure limits based on the exposure risk. A SFI may obtain and accept in good faith a written notice or certification from the borrower as to the purpose of the loan. The written notice or certification shall be evidence of eligibility for the special credit provisions until the borrower notifies the SFI that it is no longer eligible or the SFI has information that would cause questions as to the purpose specified.
- 31.** Credit extended shall be treated as a single exposure and group exposures shall be aggregated separately from other unrelated credit extended by the same counterparty.
- 32.** If a SFI extends a Lombard loan and a non-Lombard loan to a single client, the SFI shall treat the exposures as two separate loans and may not rely upon the required collateral securing the Lombard loan for any other loan.
- 33.** Collateral must be pledged for at least the life of the exposure, i.e., there must be no maturity shortfall. The right of pledge extends to all interest and dividends due (whether current or future) but securities issued by the lending SFI may not be included as collateral.
- 34.** A SFI may permit the withdrawal or substitution of cash or collateral by the customer if: -

- a) The risk weight of the substituting collateral is the same or lower risk weight; and
- b) The withdrawal or substitution would not cause the credit to exceed the maximum LTV ratio of the collateral.

35. In the event that the value of a security declines or the LTV ratio is adjusted, the SFI may continue to satisfy the credit requirements by:

- a) Reducing the equity in the portfolio to the applicable amount;
- b) Changing the maximum loan value prescribed;
- c) Requiring an additional unencumbered investment into the portfolio; and
- d) Liquidating the pledged assets as collateral.

Covered Bonds

36. A SFI must implement an enforceable agreement that sets out the full scope, rights and obligations of both parties related to the issuance of a covered bond, which extends to all collateral used for the purpose of the bond. A covered bond agreement must: -

- a) Identify the counterparty to which the exposure value is assigned as the issuer of the bond;
- b) Identify eligible collateral used as outlined in Regulation 17 of the *Capital Regulations*;
- c) Outline provisions for adding or replacing collateral within the pool, taking into account that the collateral must be of the same risk weight;
- d) Require that collateral pledged must secure at minimum 100% of the exposure, in the event of a default. In the event of default, assets not securing the covered bond must be returned to the SFI within the stipulated timeframe as set out in the original agreement; and
- e) Only permit collateral securing the covered bond to be sold, liquidated, or otherwise disbursed in the event of default.

37. Collateral instruments eligible for recognition for covered bond purposes must consist of: -

- a) claims on, or guaranteed by, sovereign entities and their central banks, public entities, or multilateral development banks;
- b) claims secured by mortgages on residential real estate that would qualify for a 50% or lower risk weight, in accordance with the *Fourth Schedule* of the *Capital Regulations*; and

- c) claims secured by commercial real estate that would qualify for the 100% or lower risk weight in accordance with *the Fourth Schedule* of the *Capital Regulations*.

38. A SFI must assign an exposure value equal to 100% of the nominal value of the issuing bank's covered bond holdings. Notwithstanding, a SFI may assign an exposure value of 20%, should the nominal value of the pool of underlying collateral exceed the nominal value of the covered bond exposure by 110%.

39. Where a SFI assigns an exposure value of 20%, the SFI must publicly disclose on a regular basis, that their pool of collateral meets the 10% requirement. In the event of a shortfall (i.e., the nominal value of the underlying pool is less than 110%, but above the minimum 100%) the SFI may call for additional capital to bring the value into compliance. Collateral eligible for substitution are:

- a) cash;
- b) notes and coins;
- c) short-term high-quality assets (i.e., marketable debt securities); and
- d) derivatives entered for the purpose of hedging risk.

CALCULATIONS OF LARGE EXPOSURES

40. The total exposure amount is calculated using the sum of exposures arising from the trading book of a single counterparty, and the banking book of the same counterparty. Calculations of banking book exposures should reflect the nominal amount, net of specific provisions and value adjustments, arising from on-balance sheet exposures⁷, and the credit equivalent amount for off-balance sheet exposures.

Lombard Loans

41. For Lombard loans, when the LTA is required, the exposure value to a counterparty is measured for each tranche within the structure, assuming a pro rata distribution of losses amongst investors in a single tranche. To compute the exposure value to the underlying asset, a SFI must use the following formula:

$$\text{Exposure} [\text{Sum} (\text{Nominal Value} / \text{Vehicle Value}) * \% \text{ Capital Base}]$$

Where exposure represents the total value of the loan, nominal value represents the nominal value of the underlying asset, and vehicle value represents the total value of the pool of assets.

⁷ Off-balance sheet items are converted into credit exposure equivalents through the use of credit conversion factors (CCFs) set forth in the Fourth Schedule of the *Capital Regulations*, 2022.

42. A SFI's exposure arising from its securities trading operations is calculated as its net long position in a particular security. A SFI's net long position in a security refers to its commitment(s) to buy the security plus its current holdings of the security less any commitments to sell the same security. A short position in one security issue may not be offset against a long position in another issue made by the same party. Netting across the banking and trading book is prohibited.
43. Trading book exposures arising from straight debt instruments and equities are reported as the accounting value of the exposure. Market related transactions are calculated based on the methodology prescribed in the Fourth Schedule of *The Bahamas Capital Regulations, 2022*. SFIs should report the credit equivalent exposure for non-market related trading book transactions.
44. In the case of credit derivatives that represent sold protection, SFIs should calculate the exposure as the amount due in the case that the referenced name triggers the instrument less the absolute market value of the credit protection.

Options

45. For large exposure purposes, the exposure value assigned to an option is calculated as the change in the option price that would result from a default of the underlying instrument⁸.

REPORTING REQUIREMENTS

46. SFIs must report their exposures on a quarterly basis via the prescribed forms in the Online Reporting Information Management System ("ORIMS"), namely the **Investments, Market Placements, Largest Depositors, Statements of Large Exposures, Largest Loan Arrears**, and the **20 Largest Exposures Forms**. Should the number of large exposures exceed the number of entries allowed on the named reporting forms, then the SFI should report the remaining large exposures on a separate Excel sheet, which should accompany the Financial Returns quarterly submissions.
47. SFIs are required to submit exposure values before and after the use of credit risk mitigation techniques. The following exposures should be reported:
 - a) All large exposures greater than or equal to 10% of capital base;
 - b) All exposures with and without the effect of credit risk mitigation being taken into account;

⁸ Exposure value of a long call option is equal to its market value, while a short put option is equal to the strike price minus the market value.

- c) All exempted/excluded exposures with values equal to or greater than 10% of capital base; and
- d) The largest 20 exposures regardless of the size/value as a proportion of the capital base.