

<p>The Central Bank of The Bahamas BANK SUPERVISION DEPARTMENT</p>
<p>Quarterly Letter to All Senior Officials 02/16</p>
<p>Email: Email Address Licensee: Name</p>

Dear Senior Official,

Much of Bank Supervision Department's effort, over the past few months, was on refining our internal processes with respect to the roll-out of the **Administrative Monetary Penalties Regime**. During this period, we started to alert licensees of the breaches identified, provided them with proforma invoices for the applicable penalties and more importantly, reminded of the need to ensure appropriate compliance and management oversight of the regulatory requirements under the Banks and Trust Companies Regulation Act, 2000, to avoid the imposition of any penalty. The Central Bank will gradually phase in the severity of penalties imposed for daily and weekly reporting obligations during September and October, as the binding period for enforcement takes effect.

We also advised licensees, via appropriate notice, of additional amendments made to the appendix of the Administrative Monetary Penalties Guidelines. The applicability column now takes note of exceptions granted and differentiates between companies incorporated under the Companies Act and those under the International Business Companies Act. The appendix now includes the **Foreign Currency Daily Sales Submission Report** required to be submitted to the Exchange Control Department of the Central Bank. The amended Guidelines can be accessed in the Bank Supervision area of the Bank's website at www.centralbankbahamas.com under: Bank Supervision → Regulatory Framework → Guidelines and Regulations → General Information.

Turning to our **Basel II & III framework**, much time was spent during the quarter, on an in-depth analysis of the **QIS 2 returns**. While a more detailed summary of the analysis will be posted to our website in the coming weeks, we are pleased to share a few highlights with you in this letter. Generally, Basel III requirements have had a modest impact on banks' ability to comply with regulatory capital requirements. While average capital adequacy levels for domestic banks fell by only 1.62 percentage points; the international banks, by comparison, experienced a larger drop in average capital levels of 25 percentage points, while still maintaining capital levels well above the minimum regulatory requirements. Capital attribution requirements for Operational Risk had some impact on overall capital levels and on average, accounted for approximately 14 percentage points of total risk weighted assets; while Market Risk requirements had little to no impact on regulatory capital. We will advise licensees of the posting of the detailed summary to our website in short order.

As a part of the Pillar II requirements under Basel II, we released the final version of our Guidelines on the **Internal Capital Adequacy Assessment Process (ICAAP)** to our website. These guidelines specifically address a licensee's responsibility in developing and implementing its own ICAAP for the purpose of setting internal capital targets and developing strategies for achieving those internal targets that are consistent with its business plans, risk profile and current operating environment. A licensee's ICAAP is not subject to approval by the Central Bank; however, the licensee's internal capital adequacy assessment process will be subject to our supervisory review, as appropriate. We wish to highlight that licensees are expected to submit their ICAAPs to the Central Bank within 180 days of the calendar year-end commencing in **2017** and annually thereafter.

Finally, we wish to thank all licensees who have submitted their responses to the **second Correspondent Banking Survey** by the due date of 31st August, 2016. Pending our analysis of the survey responses, licensees who have not yet submitted their responses may still do so in the coming days. The results of the survey will be instructive in further informing the Central Bank as we continue our monitoring of the effects of de-risking within The Bahamas and, will be shared with the industry upon completion of our analysis.

Any questions regarding this letter should be directed to:

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Sincerely,



Abhilash D. Bhachech

Inspector of Banks & Trust Companies

9th September, 2016