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As a trusted partner to financial institutions worldwide, CMRAI provides rigorous supervision, innovative solutions, and strategic guidance to foster a secure and thriving financial environment. With decades of experience and a commitment to global standards, we stand as a pillar of trust and security in an ever-evolving financial landscape.

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Our comprehensive approach to regulation encompasses a deep understanding of financial risks and a proactive stance on emerging challenges. We are committed to empowering financial institutions with the tools and guidance necessary to navigate complex regulatory landscapes, thereby contributing to global economic stability and growth.

CMRAI Thematic Credit Review Report Dec 20211 THEMATIC CREDITREVIEWREPORT ISSUEDDECEMBER2021 CMRAI Thematic Credit Review Report Dec 20212 Contents
 CMRAI Thematic Credit Review Report Dec 20213 Introduction & Scope Inearly 2020, theCOVID-19 pandemic was declared and countriesacross theworld experiencedand continuetogo through unprecedented timeswhich have generated significantinstabilityandhighvolatilityinglobalmarketsincludingtheBankingIndustry. One areathat has beensignificantly affectedby thepandemicis credit risk. It is against this backdropthattheCaymanIslandsMonetaryAuthority(the Authority)conducteda thematic credit review (the Thematic Credit Review)of nine financial institutions (the Selected Lending Institutions or SLIs)from 18March 2021 to30 June 2021. The objectives of theThematic Credit Reviewwereto: a) assess thecredit policiesand procedures,corporategovernancestructure andinternal controlenvironment oftheSelectedLending Institutions,in particularregarding loans andadvances, inordertoascertaincompliancewiththeMonetaryAuthorityAct(2020 Revision) (the MAA),theBank and Trust CompaniesAct (2020 Revision) (the BTCA) whereapplicable, theCooperativeSocietiesAct (2020 Revision) (the CSA) whereapplicable, theRule on Management of Credit Riskand Problem Assets (the Rule), theRules on Large Exposuresand Credit Risk ConcentrationforBanks (the Rules onLargeExposures), theStatement of Guidance on Credit Risk Classification, Provisioning andManagement (the SOGonCreditRisk), theStatement ofGuidance onLargeExposuresandCreditRiskConcentrationforBanks aswellasotherapplicable legislations and accepted standards ofbest practice b)assesstheimpact of COVID-19 on theloanportfolios of theparticipating financial institutions and tounderstand the nature ofconcessionsgrantedto customersas well as risk mitigationmeasures c) identifythemesinimplementation of credit risk management frameworksacrosspeer institutions supervised by theAuthority Inorder toachieve thestatedobjectives, theThematic Credit Review focused specificallyon anassessment of: a) The impactofCOVID-19onthecredit portfolio b) Theadequacy ofthecredit riskmanagement policies and procedures c)Theadequacyof thecredit rating methodology adoptedby theSelectedLending Institutions comparedto theminimumrequirements establishedunder theRule d) Theadequacy of credit lossprovisions CMRAI Thematic Credit Review Report Dec 20214 e) The effectivenessofthecreditreviewandmonitoringprocessesforearlydetectionand management ofproblem loans f) Theadequacy of corporategovernance processes over credit Thefollowing key areasor components of credit were out ofscopefor theThematicCredit Review: a) Loanorigination/underwriting b) Collateral Management c) Implementationof Expected Credit Losses (ECL) modelsperInternational Financial Reporting Standard(IFRS) 9 andCurrentExpectedCredit Loss (CECL) modelsper ASC 326 and theassumptionsusedfor such provision models d) Formsofcredit other thanloans and advances e) Off-balance sheetcreditexposures f)Write-off of uncollectiblecredits Insome instances, documentary evidence relating tothesesareas of credit that were not in scopewasobtainedinordertomakeappropriateconclusionsforspecificcustomerfilestested. This

Thematic Credit Review Report (the Report) highlights thegeneral themes observed across theSelected Lending Institutionsincluding thegoodpracticesas wellas highlightsthe areas of concerns. Through bilateral communication, theAuthority has outlined to each participating SLI the deficienciesidentifiedas well astherequirements in orderto enhance theSLI scredit risk management framework. Fromthe Thematic Credit Review,goodpracticesand/orareasof concerns wereidentifiedin the following areas: a) Credit administrationincluding credit ratings andongoing monitoring b) Loanlossprovisioning c) Write-off of uncollectiblecredits d) Restructuring and reclassificationof credit facilities e) Credit controlsand internal audit f) Collateral management. Impact of COVID-19 TheAuthoritynotedthattheCaymanIslandsloanbookshavebeengenerallyresilientthrough thepandemic for theSelectedLending Institutions; andwhere SLIsarepartofgroups with presencein theCaribbean region, it was observed that thebest outcome was seen in the CMRAI Thematic Credit Review Report Dec 20215 Page | 3 CaymanIslands.Someoftheinstitutions attributed the resilience oftheir loanbookstothe robustness of underwriting practices as well asdiversificationefforts that werealready in place aspartoftheinstitutions ongoing preparedness forhurricanesand otherweather- related events intheCaymanIslands. The resilienceasnoted from theloanbooks was alsoattributableto the successful effortsby theCaymanIslandsGovernmenttocontrolthespreadofthevirusthrough2020whichhelped theeconomy toquickly stabilizeafter theinitial shock. With theborders remaining closed, theresilience oftheCayman Islands economy was supportedby: a)Existence ofarobust financial services sectorwhich has significantly expanded in recent yearspartly becauseofopportunitiescreated bychanges inregulations suchas the PrivateFunds Act b)Introductionofthe GlobalCitizenConciergeProgram toattract financially independent persons to live inCayman whileworking remotelyfor upto2years c) Global high networth individuals buying luxurious realestate in a largelyCOVID-19 free Caribbeanisland Theabovefactorshaveoccasionedanincreaseindemandforhousingoverrecentyearswhich has resulted in a construction boom. From discussions with themanagement of the retail Selected Lending Institutions, theAuthoritywas informed that thepre-construction agreements signedbetweenthecustomers andthepropertydevelopers beforethepandemic proceededto close at thesamevaluesat completion despite thepandemic.Theproperty valueshavecontinuedto trend upwards. Themost adversely impactedsectors in theCayman Islands weretourism, hospitality, and transport sectors.Generally, theSLIswere well diversified with no significantconcentration in thesesectors. Theborrowers from theseimpacted sectorsweregrantedconcessions through payment moratoria fora significant portion of 2020 asencouraged by theCayman IslandsGovernment. With thecontinuing adverseimpact of thepandemictothesesectors, theSLIshave entered intorepayment arrangementswith thecustomers; forexample, through restructuring thedebtfacilities.The customers havealsotaken necessarystepsto complywith the new terms. For instance,the Authoritynoted instanceswhere toursand car hire businesses downsized their olderfleets, thusenabling themtoservice the intereston theirloans. Hotels reduced their staff complement andused thelowperiodtoundertake needed renovations on theirfacilities. Foreclosuresweretemporarily halted by retail SLIs at the onsetof the pandemic. In March/April2020, alltheSLIs financing the domestic retail segment granted waiversto their customers but the approacheswerevaried, with somegranting blanket waivers and others,ona case-by-case basistocustomersmost impactedbythepandemic.TheAuthority CMRAI Thematic Credit Review Report Dec 20216 Page | 4 notes thatthere wasinsufficient educationby thelending institutionsto thecustomers onthe long-term financial impact of theseconcessions. Sufficient informationwould have enabled thecustomerstomakeinformeddecisionsand those that didn tnecessarily needthe waiver to opt-out if they considered the termsunfavourable tothem. Understandably, theCayman Islands andthe world generally wasgoingthrough uncharteredterritory atthe timeand the institutions werechallengedtoremain operational in a remoteworking environment. Institutions should develop, implement, and maintain mechanisms of clearly communicating theterms and implications of waiving loan payments and how these decisions will impact customers. This informationshould be disseminated tothecustomerspriorto granting loan payment waivers,should the institutions befaced by asimilarsituationinthe future. InresponsetoCOVID-19, someinstitutions madetemporary adjustments totheir risk appetite.Someadoptedmoreconservativelending and underwriting practices while others restrictedlending to tourism and other significantly impacted sectors. Summary of goodpractices: i.Promptreview of the risk appetite in responsetoa crisis ii.Well diversified portfolios in terms ofproduct, geography, collateral etc. iii.Grantingconcessionsonlytocustomerswhosefacilitiesarecurrentandonacase- by-casebasis basedon demonstrable need iv.Effectivebusinesscontinuity plans v.Striking a balance betweensupporting customers and credit risk management Summary of areas for improvement: i.Need forprior education tothepublic on thelong-term financial impact of concessions ii.Granting waivers tocustomers whosefacilitieswerenot current without appropriately classifyingthe facilities mask thetrueasset quality of the portfolio iii.Blanket waivers which do notconsider customer specific circumstances e.g. extension of credit period past the retirement date iv.Needfor preparedness forhandlingasimilar situationshould it occure.g. enhancements to recordkeeping of engagementwith customers CMRAI Thematic Credit Review Report Dec 20217 Findings From The Thematic CreditReview Corporate Governance Board involvement TheBoard of Directorsis responsiblefor determining the institution s credit risk appetite and strategy. Some of theSelected Lending Institutionshave separatecredit risk board committeeswhile for others, thefull boardprovidesoversight anddirectiontothe creditrisk management team. TheAuthority noted that credit risk management was coveredinthe boardpacks and that thepacks were sent to thedirectors at leastone(1) weekin advanceof the boardmeetings (which wereheld,in mostcases,quarterly). The Authority notedthatthe creditrisk component of theboard packs was in mostcases sufficiently comprehensiveincluding: delinquencytrends,highriskaccounts,loansrequiringboardapprovalbasedonthedelegated limits,levelofprovisions, concentrationper product, geography,sectors and collateral,large exposures,other exceptions, and results of any internal audit reviews,inter alia. Formost institutions the risk appetite is set and approvedby theboard annually. Theboard alsoapproves temporary deviationsfrom the risk appetiteduring quarterlymeetings. Policies and procedures The creditpoliciesandprocedures for theSLIs were inmost cases comprehensive and addressed underwriting proceduresfor different product types,credit approval limits,credit ratings/grading,connectedpartiesandgroupexposuresguidelines,creditratios(loantovalue and debt service coverage ratios), restructuring, reclassification, watch listing, valuationof collateral, indicators of deterioration, provisioning and write-offs of uncollectible exposures. However,mostofthepoliciesandproceduresdidnotincludetheexposure limitsperproducts. TheSelected Lending Institutionshaveimplementeddelegated approval limits for varying loanthresholds. Assessment ofadherenceto these limits was out ofscopefor the review. Summary of goodpractices: i.Comprehensiveboardpacks covering key aspects of credit risk management ii.Sufficient timeallowedfor the boardmembersto reviewthe board packsahead of the meetings iii.Clear documentation of policies and procedures for credit riskmanagement approved bytheboardor authorizedboard committee CMRAI Thematic Credit Review Report Dec 20218 iv.Welldocumenteddelegatedlendingauthorityforvaryingloanthresholdsandloan types Summary of areas forimprovement: i.Needfor enhancements to thepolicies and proceduresfor someSLIswherethey werenotedtobe incomplete ornot sufficiently comprehensive ii.Lack ofdocumented concentrationlimits perproduct type, collateraltype Credit Administration Risk Rating of Credit Facilities Categorization of assets onacontinuous basis is an integral partto themonitoring and management of credit risk. TheRule and SOG onCredit Risk establishes five (5) minimum categories of credit riskassetclassification. TheAuthorityexpects theinstitutions toconsider bothobjective/quantitativecriteria(such as number ofdays past due) and subjective/qualitativecriteria(such asexistence offinancial difficulty or otherweaknesses). Thequalitativecriteria, which is consideredex-ante,may necessitateadowngrade of a credit facility beforeadefault hasmaterializedwhich gives an institution the opportunity totakethenecessarystepsin advance to stem orlimit the losses. TheAuthority notedinstances wheretheSLIs failedto categorizeloansthat have evidenceof weakness ordeterioration asnon-performing wherethey considerthequality of collateral held to besufficient. Collateralizationshouldplay no directroleincategorizationof credit facilities, instead, collateralshould be considered,alongside other factorswhileassessing whethertheborrower islikely to pay. Some of the SLIs had acredit risk asset classificationmethodology that differentiates credit facilitiesat origination basedon the product risk forinstancesecuredversus unsecured facilities,fully amortizing versusrevolving and committed versusuncommitted. Retail Portfolio For most of theSLIs, theretail portfolio is comprisedofloans to individuals and small businesses. TheSLIs that offerretail lending had a materialretail portfolio in aggregate, in some cases,significantly largerthanthecorporate loans segment. It is generally acceptableto classifyretail credit facilities basedon repayment performance. However, whereaninstitution becomes awareoflossoramaterial deteriorating event e.g. death of a customer, bankruptcy,fraud loansetc., thefacilities should beimmediately CMRAI Thematic Credit Review Report Dec 20219 classifiedirrespective ofthecurrentdelinquencystatusunlessiftheinstitutioncansufficiently demonstrate and document that repayment is likely to occur. TheAuthoritynotedthatthemajorityoftheSLIsonlyassignacreditratingtoretailcustomers at onboarding and these ratings are not updated to reflect therepayment performanceand changing credit profile of thecustomerand in somecases, no ratingswere assigned at all. Onthe otherhand,two oftheSLIsimplementedacreditriskassetclassificationsystemwhich would downgrade a customerbasedonrepayment performance(numberof days inarrears). For oneinstitution, theAuthority notedevidenceofconsideration of qualitativeindicators in theclassificationofretail customers when theinstitution became aware ofweaknesses even though the facilities werenot contractually in arrears. TheAuthority noted that for some SLIs,where aretail customer hasnumerous facilities, if onefacility was classified as non-performing, the otherfacilities were alsodowngraded irrespective ofperformance.Thisensuresthat theSLI ismonitoring the entirerelationship. TheAuthority notedthat twoSLIs didnot adopt the same approachforretail customers, instead, only thecredit facility in default was classified. TheAuthority considered the recommendationby BaselCommitteeon BankingSupervisionasperthe Guidelines for Prudential Treatment ofProblemAssetsasbestpracticein thisscenario and thereforehas no objection totheclassification at facility levelfor retail portfolio. However, the Authority requires thesupervisedinstitutions to ensurethat whileassessing thestatus of any specific retail facility,all the other exposuresto thesame borrower areconsidered.In the eventthe assessment ofthe borrower indicates the existence offinancialdifficulty, allthe other retail facilities should bedowngradedevenif they are lessthanninety (90) days in arrears. CorporateCustomers Thecorporateexposuresareassessedatthecounterpartylevel.Whereonematerialexposure is non-performing, the institutions areexpected toconsiderall the exposures to that counterpartyas non-performing. Theinstitutions are expectedto classify connected parties on agroup basis.However, insome instances,theSLIsdid notconsider personalloans tothe ultimatebeneficialowners(UBOs) ordirectors ofsuch corporatecustomers while undertaking theperiodicreviews. Generally, the corporateportfolio wassubjecttoannual reviews andreassessment of the credit ratings (except forone SLIwhich didnot updatethecredit ratingsassigned at onboarding forboth the retail and corporate portfolio). More frequent interim reviewswere conductedfor largeexposures,watchlistedaccounts and those caseswhere material deteriorationwas identified. CMRAI Thematic Credit Review Report Dec 202110 Summary of goodpractices: i. Robust customerassessment tools at onboarding ii. Annual reviews and proper risk classificationofcorporatecustomers,including utilizationof dual rating systemby one oftheSLIs whichconsiders both a borrower s score and a facility score Summary of areas forimprovement: i.Failure toimplement a credit riskasset classification methodologyfor all credit customerswhichreflects repaymentperformanceofthecustomerandotherindicators ofdeterioration ii. Failure to consider qualitative indicators in categorizationof credits iii. Failure toappropriatelycategorize non-performing exposuresdue to thequalityof collateral held iv. Failure toconsiderthepersonal facilities of theUBOs and directorsin theperiodic credit reviewsfor corporatecustomers v. Failure todocumenthowtheSLIscredit riskassetclassificationmethodologymapinto theratings asper theRuleand theSOGoncredit Ongoing monitoring TheSLIshaveimplemented varioustoolsfor early detectionof warning signs. Theuse of technology has improved the abilityofthe institutionstoassess the customers risk profile during origination and tomonitorcredit facilities as well as thecollateral/riskmitigants. The SLIs havedesignated special units to overseemanagement of non-performing facilities through early engagement withcustomers, recovery by saleofcollateral or where appropriate,restructureofthe facilities toalign tocustomers' financial abilityand willingness torepay. Retail Portfolio Except for twoSLIs which haveimplementedapolicy on periodicreviewfor retail facilities basedonaspecified threshold,the otherSLIshavenotimplementedanyperiodicreviews for retail customers, instead, this portfoliois solely managed through delinquencies. The Authority notesthat the twoSLIs thathave implementedathresholdbasedperiodicreview for the retail portfolio havearelatively smaller credit portfolio compared to the otherSLIs. The retail portfolio typically consistsofa large number ofloans withrelatively homogenous andsmaller-valueloans(per customer)which rendersitinefficientandburdensometoreview CMRAI Thematic Credit Review Report Dec 202111 theportfolio on a loan by loan basis andthereforemanagement of retail portfolio basedon repayment performance is consistent withindustry practice. In theabsence ofperiodic reviews and updated information forretail portfolio,thereis need for prudent credit administrationotherwise thelending institutions may be exposedto significantlosses.Thisisespeciallyimportantconsideringthattheretailportfolioissusceptible tobroad economic issues such as unemployment, interest ratechanges and othersystemic factors.Therefore,there isneed tobuild lossratesassociated withthis portfoliomore reliably intotheir pricing.Systems forpromptidentificationofearly-stage delinquencysigns or increase inutilizationrates for revolving credit isessential. Corporateportfolio For most of theSLIs, corporate loans areplacedon a watch list oncetheSLI becomesaware of situations that could lead to potential weaknesses in the customers future cash flow. The policies and proceduresincludedearly warning indicatorsthat would triggerareview of customeraccounts andbasedon further review,anassessment onwhetherthe account should be includedinawatch list for constant monitoring. For most oftheSLIs, loans onthe watchlist were oftencloselymonitored,inmostcases, monthly. Additionally, these loansare reviewed by Credit Risk Management and reported theBoardof Directors. TheAuthority noted instanceswheresome corporateloans thataresupposed tobe reviewed annually werenot reviewed timely. Summary of goodpractices: i.Early identificationofindicators ofdeterioration, adding to watch list and taking earlysteps tominimizeloss ii.Robust management of credits at early, mid orlatedelinquency stages Summary of areas forimprovement: i.Though requiredasperthe policiesandprocedures, someSLIs didnotconduct timely annual reviewforthecorporatecustomer accounts ii.Using daysin arrearsas the only criteria foradding accounts onwatch list without considering qualitativefactors iii.Absence ofoversight by an independent riskfunction in theadditionor removal of accounts from thewatch list CMRAI Thematic Credit Review Report Dec 202112 Concentrationrisk Theinstitutions are expected to be alertto concentrations with regardtoproducts, business lines, geography,collateraland legal entities(large exposures)that cansignificantlyelevate risk. All theSLIs that are operating under a banking licenceissued by theAuthority were aware ofthe requirements under the RuleonLarge Exposures. These includedisclosureof anyexposuretoanyindividualcounterpartyorGroupofconnectedcounterpartiesthatexceed 10% ofabank scapital baseandtoseektheAuthority spriorapprovalforanyexposure that exceeds 25%. Also,thetotalof all exposuresto relatedcounterparties must notexceed 25% of a bank s capitalbaseand theaggregate of alllargeexposures should notexceed 800% of a bank s capital base. Sincemost of theSLIs arematerially concentrated in theCaymanIslands, theinstitutions haveimplemented various approaches to minimizethe risk including limiting exposuresto any singlemajorprojectincluding byuse ofsyndicated loansfor materialundertakings within theIslands, monitoringconcentrationof collateralin any one area,diversifyingacceptable forms ofcollateral, sizable overseas trading book, and participating in opportunities inother regionscoordinated through theparent companies, among otherapproaches. Summary of goodpractices: i.Adherence to therequirementsas perRuleandSOGon LargeExposures ii.Establishment of concentration limits which ensure the creditportfoliosarewell diversified iii.Limit monitoring through periodic exceptions reportswhich compareactual against establishedthresholds Provisioningand Charge-off of Uncollectible Credits TheAuthority noted that all the retail SLIsexcept onehad long outstanding credit facilities, over 1,000 daysin arrearswith someashigh as4,500 daysin arrears. Itwas alsonotedthat some of these credit facilitieswerenotadequately provided for. Significant delaysin reclassifyingcredit facilitiesfrom doubtful categorytolosscategory even in instances where reasonableavenues for recovery had beensubstantially exhausted were noted.Someresidual balances werestill beingcarriedon thebookslong after the sale of collateral. Areviewof the full provisioning models; ECL modelsforIFRS 9 and CECL Modelsasper US GAAP ASC326 and the related assumptions, wasnotinscopefor review by the Authority. CMRAI Thematic Credit Review Report Dec 202113 TheSelected Lending Institutions adoptedeitherIFRS 9 or ASC 326 (CECL methodper US GAAP). The SelectedLending Institutions madespecificprovisions fornon-performing loans, thatis,ataminimum,loansthatareninety(90)daysormoreinarrearsandmadeaprovision at theportfoliolevelfor theperforming book as pertherequirements of theapplicable accounting standards. Summary of goodpractices: i. Writing offresidual loanbalancesafter the sale of collateral ii. Writing off non-performing unsecured loansafter not more than 180 days in arrears or assoonas thelenderdetermines thatthecustomer is unlikelytopay, whicheveris earlier iii. Immediatewrite-offofcredit card fraud loans Summary of areas forimprovement: i. Delayin reclassifying accounts fromdoubtful to loss despitethefactthat reasonable collectionefforts havebeenexhausted and consequently delayingthewrite-off of uncollectible credits ii. Failure tomakeprovisions timely for uncollectiblecredits Restructure & Reclassification of Credits Facilities Most of the retail SLIs reported a declinein restructuring of facilities in 2020 compared to prior years. Thisislikelyexplainedbythe opportunities forborrowersto participate in the COVID-19 waivers. The Authority noted an increasing trend ofrestructuring of facilities in early2021 afterthe endof theformalwaiverperiod. Most of theSLIs observed acontinuous performanceperiodofsix (6) months ormore before reclassifying thefacilities to satisfactory status, with oneinstitution taking a more conservative approach oftwelve (12) months which is consistent withthe commonpractice acrosstheCaribbean.One institutionhowever did not comply with thisrequirement. TheAuthority noted the applicationofpolicy exceptions bytheSLIs especiallyin regardto loan-to-value (LTV)ratios,debtservice ratios,pricing, updatesto valuations,holidaywaivers etc. Theinstitutions should on anongoingbasisassess howthese exceptionsare impacting the riskprofile of theportfolio,whether positively ornegatively.Theassessment should consider volume, natureand trends of the exceptions and monitor theperformance ofthe facilities that receivedthese exceptions. If theassessment indicateshigher riskthan envisioned aspertheinstitution s risk appetite, stricter adherencetopolicy isrequired while CMRAI Thematic Credit Review Report Dec 202114 a better long-termperformance,that isdirectly linkedto the exceptions,indicatesaneedto updatethepolicies. In addition totheCOVID-19 waivers, theAuthority notedotherinstances wheresome ofthe SLIsgrantedtemporary paymentdeferrals/waiverstotheir customersbeforetheonsetofthe pandemic.Thesedeferrals result ina longercredit period,which makesthe facilitiesmore susceptibletoincomedeclines, borrower lifeevents such as illness, joblosses orretirement, financed assetsexceedingor approaching theendof their useful lifeandother concerns. The Board of Directors and senior management should assessthe full impactof such concessions and ensurea balanceisachievedbetweensupporting thecustomers and theincreasedrisk of credit lossesto the institution. Summary of goodpractices: i.Only reclassifyingfacilitiesto current status following atleast six(6) monthsof continued performance and when thereis sufficient evidencethat thetrend is expectedto continue Summary of areas forimprovement: i.Modificationof terms ofa loanwith insufficient evidenceof ability ofthecustomer tocomplywith thenew requirementsleading tounderestimation ofdefaults andthe requiredprovisions ii.Non-compliancewith theRule in reclassification ofnon-performing credit facilities to performing status Credit Controls and Internal Audit Mostof theSelectedLending Institutionsregularlyconducted internalaudit reviews ofthe credit function. Aneffectivethird lineofdefense isessentialfor an independent reviewof the institutions creditriskmanagementenvironment.TheAuthoritynotedthatforoneinstitution, nointernal audit reviewscovering the credit functionwereconductedin a five-year window. TheAuthority also noted instanceswherethe internalaudit functionwasnotadequately resourced forthe size,nature and complexity oftheSLI s credit and otheroperations. Mostof theinternal audit reviewreports reviewed fordifferent SLIs resulted in Satisfactory assessmentexceptforonereportthatassessedasegmentofanSLI screditriskmanagement environment as NeedsImprovement . No instances ofdelaysin remediationofinternal audit concernswerenoted. However,instances of repeat findings werenoted. CMRAI Thematic Credit Review Report Dec 202115 Summary of goodpractices: i.Regular internal audit reviews and timely remediationof the identified deficiencies Summary of areas forimprovement: i.Failure byoneSLItoconduct internal audit reviews of the credit function in over four (4) years ii.Insufficientinternalaudit resources toundertakeacomprehensive credit review in considerationofthesize, nature and complexityof the institution s operations Collateral Management Collateral managementwas notin scopefortheThematic CreditReview. Nevertheless,inthe course of reviewing the selectedcustomer files, the Authoritydetermined that the collateral instruments were mostly equity and otherinvestments, residential and commercial real estate,motorvehicles, personal guarantees, cash, debentures over company assetsand life insurance. TwoSLIs whoseportfolioswerepredominantly securedbyinvestments had currentvaluesof collateral, with oneSLIhaving thecollateral marked tomarketon a daily basis and the customers topost a margin forany shortfall. TheAuthority notedfrom thepolicies and procedures that most of the Retail SLIs required new valuationsevery three (3) years for land and buildings for non-performing loans. However, the Authority noted numerous instancesamong theinstitutions whereup to date valuationswerenotobtained. In theabsence ofindependent valuation of collateral, the Authority did not seeanyevidence of internal assessments. TheAuthority notedthat theSLIs consideredtheconcentrationof collateralin the ongoing monitoring of their credit portfolios. Summary of goodpractices: i.Use ofcurrent values of risk mitigants ii.Activemanagement of collateralconcentration risk Summary of areas forimprovement: i.Use ofoutdatedvaluesofrisk mitigants in determining provisionsfor non- performing loans CMRAI Thematic Credit Review Report Dec 202116 ii.Failure tohavedocumented internal valuations or assessment of collateral in the absence of current independent values of collateral Other Observations Low interest rate environment TheAuthoritynotedthattheprotractedlowinterest rateenvironmentwhichwasexacerbated by COVID-19, has resultedin compressedinterestmargins andintensecompetition, especially among theinstitutions serving thedomestic market. As a result, theSelected Lending Institutionshadto diversifyintonon-interest income. LIBOR Transition For some oftheSelected Lending Institutionsreviewed, LIBOR was the primaryrateusedto pricecredit facilities,whilesome of theretail institutionshad few corporatecredit facilities pricedusing LIBOR.Most of the institutions that had facilities priced atLIBORwereworking in conjunctionwiththeparent companies toidentify a new referencerateandtomanagethe transition. CMRAI Thematic Credit Review Report Dec 202117 THEMATICCREDIT REVIEWREPORT SIX, Cricket Square PO Box 10052 Grand Cayman KY1-1001 Cayman Islands :