Cayman National Bank
Pillar 3 Disclosure Report
Annual

As at 30 September 2022

CAYMAN NATIONAL

CNB Pillar 3 Disclosure Report

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1. INTRODUCTION

1.1. Cayman National Bank Ltd. (“CNB”) was incorporated under the Companies Act of the Cayman Islands on November 21, 1973. CNB is a wholly owned subsidiary of Cayman National Corporation Ltd. (“CNC”) (incorporated in the Cayman Islands). CNC is partially owned (74.9%) by Republic Bank Trinidad and Tobago (Barbados) Limited (“RBTTBL”), a subsidiary of Republic Financial Holdings Limited (“RFHL”). The shares of RFHL are listed and publicly traded on the Trinidad and Tobago Stock Exchange.

1.2. CNB holds a category ‘A’ banking license subject to the provisions of the Banks and Trust Companies Act of the Cayman Islands and provides full-service banking facilities. CNB owns the entire issued share capital of Cayman National Property Holdings Ltd. ("CNP"), a company incorporated under the Companies Act of the Cayman Islands on June 4, 1996. The principal business of CNP is to provide office space for CNC and its subsidiary companies and to hold other leased premises in the Cayman Islands. CNP is fully consolidated into CNB’s Financial Statements, as such, any reference to CNB throughout this document refers to CNB’s consolidated position inclusive of CNP.

1.3. This CNB Pillar 3 Disclosure Report includes CNB’s data as at 30 September 2022 and has been developed to meet the requirements of the Cayman Islands Monetary Authority’s (“CIMA”) ***Market Discipline Disclosure Requirements (Pillar 3), Rules and Guidelines*** (“CIMA’s Pillar 3 Rules”). CNB’s consolidated position, inclusive of CNP, is subject to CIMA’s Pillar 3 Rules, and as such is included throughout this CNB Pillar 3 Disclosure Report.

1.4. This CNB Pillar 3 Disclosure Report has been reviewed and approved by the CNB Board of Directors (“CNB Board”).

2. RISK MANAGEMENT

2.1 Bank Risk Management Approach - OVA

2.1.1 CNB is a traditional banking institution that takes in short-term client deposits and lends out funds on a longer term to fulfill its client's needs. CNB has no exposure to derivatives or securitization and has a highly collateralized loan portfolio. These prudent banking practices are founded on a solid risk management approach, inclusive of a conservative risk appetite and strong corporate governance practices, which ultimately results in a well-capitalized bank.

2.1.2 The CNB Board has ultimate responsibility for risk within CNB. CNB's Risk Management approach is documented within a Risk Management Policy which covers CNB's Risk Management Framework. The Framework is a comprehensive framework for managing risks, which is continually evolving to keep pace with the dynamic environment as CNB's business activities change in response to market, credit, product and other developments.

2.1.3 CNB's Risk Management Framework begins with the CNB Board, as it believes that establishing the right tone at the top is paramount for cultivating a strong risk culture throughout the bank. Cultivating a strong risk culture means that risk awareness is heavily engrained in our corporate culture. To generate sustainable growth and maintain good client relationships, risk must remain at the forefront of all decisions.

2.1.4 CNB's Risk Management Framework is furthermore developed around the three lines of defense concept. The business units act as the first line of defense and assume full responsibility for their risks by managing them in an efficient and effective way and by implementing the necessary controls. The CNB Risk Management Department ("RMD") and the CNB Compliance Department serve as the second line of defense by providing independent opinions on the risks/potential risks faced and any mitigation techniques. To do this effectively, they develop, institute and consistently monitor methods or frameworks used to identify, measure and report on risks. CNC's Group Internal Audit Department ("GIA") serves as the third line of defense and provides assurance to the CNB Board that the overall internal control environment is effective. External Auditors and other third-party specialists who provide independent assurance also constitute part of the third line of defense.

2.1.5 CNB's Risk Management Framework includes the following three key components – a Risk Management Process; an Enterprise Risk Management ("ERM") Framework; and a Risk Appetite Statement ("RAS"). CNB's effective risk management process requires that all material risks that could adversely affect the achievement of the strategic objectives, be identified, measured/assessed, monitored and, where applicable, controlled or mitigated.

2.1.6 The ERM Framework requires risk reporting from each business unit on a quarterly basis via an ERM Workbook. Each business unit is required to identify all inherent risks within their business as well as any corresponding mitigating controls. The ERM rating process results in a Residual Risk Rating for Key Risks and Sub Risks. Risk Indicators are developed, measured and monitored for all material Sub Risks.

2.1.7 The RAS provides an indication of the nature and magnitude of risk the CNB Board is willing to accept in pursuit of CNB's strategic goals. The RAS defines all of CNB's material risks and describes quantitative and qualitative risk metrics and tolerances for assessing and monitoring each risk. CNB's Board sets all risk appetite limits and tolerances. CNB's RAS measures are calculated on a monthly basis, monitored by the RMD, presented at the Executive Committee ("EXCO") and the Asset and Liability Committee ("ALCO") meetings on a monthly basis, and presented to the CNB Board on a quarterly basis.

2.1.8 Detail with respect to CNB's risk exposure, risk limits, risk tolerances and capital adequacy are presented monthly to EXCO and ALCO, and quarterly to CNB's Board.

2.1.9 Stress Testing is a key component of CNB's risk management and capital assessment process, which is used to determine the amount of capital required to support the activities of and risks faced by CNB during stress periods. CNB has adopted Scenario Analysis, Sensitivity Analysis and Reverse Stress Testing approaches, which are also included in the Internal Capital Adequacy Assessment Process ("ICAAP"). RMD conducts stress testing for CNB and has adopted a range of quantitative and qualitative techniques to achieve comprehensive coverage, relative to the scale and complexity of CNB's activities.

2.1.10 Scenario analysis is currently the main stress testing methodology adopted by CNB. It allows CNB to project various plausible macro-economic scenarios into the future to determine the impact on its Risk and Financial position (as reported in CNB's Financial Statements). The forecasted financial statements derived from the scenario analysis are used to determine CNB's probable capital and risk position in the future, and importantly whether additional capital may be required, or if changes may need to be made to business strategies.

2.1.11 CNB's approach to risk management is therefore based on well-established governance processes and relies on both individual responsibility and collective oversight, supported by comprehensive reporting.

3. LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

3.1 Differences between scopes of consolidation – LI1

3.1.1 Table LI1 below highlights the carrying value of assets published in CNB's Financial Statements, as well as the carrying value of the same assets per the scope of regulatory consolidation.

Table 1: LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories.							
	a	b	c	d	e	f	g
			Carrying values of items:				
30 September 2022 KYD ('000)	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and cash equivalents	13,600	48,058	48,058	-	-	-	34,458
Due from banks	111,648	158,619	158,619	-	-	-	46,971
Advances	879,481	886,532	886,532	-	-	-	7,051
Investment securities	380,052	299,310	299,310	-	-	-	(80,742)
Investment interest receivable	2,289	2,289	2,289	-	-	-	-
Investment property	60	60	60	-	-	-	-
Premises and equipment	21,836	21,836	21,836	-	-	-	-
Right-of-use assets	1,534	1,534	1,534	-	-	-	-
Other assets	3,362	3,362	3,362	-	-	-	-
Total assets	1,413,862	1,421,600	1,421,600	-	-	-	7,738
Liabilities							
Customers' current, savings and deposit accounts	1,235,309	1,235,309	-	-	-	-	-
Accrued interest payable	754	754	-	-	-	-	-
Other liabilities	10,310	18,048	-	-	-	-	-
Total liabilities	1,246,373	1,254,111	-	-	-	-	-

3.1.2 CNB has two key differences in reporting of carrying values between the Financial Statements and under regulatory consolidation, (i) Operating Accounts and (ii) Bank Placements. All Operating accounts are recorded under Due from Banks in the Financial Statements but under Cash and Cash Equivalents for regulatory consolidation. In the

Financial Statements all bank placements with a maturity of less than three months are reported under Due from Banks, and all bank placements with a maturity of more than three months are reported under Investment Securities. Whereas all bank placements are reported under Due from Banks for regulatory consolidation.

3.2 Differences between amounts reported - LI2 & LIA

3.2.1 Table LI2 below highlights the carrying value of assets and liabilities as per the scope of regulatory consolidation and the exposure amounts considered for regulatory purposes.

3.2.2 No investments are marked-to-market as the majority of investments are reported at amortised cost with some being reported at cost.

Table 2: LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements						
30 September 2022 KYD ('000)		a	b	c	d	e
		Total	Items subject to:			
			Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	**1,421,600**	**1,421,600**	**-**	**-**	**-**
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	1,421,600	1,421,600	-	-	-
4	Off-balance sheet amounts	177,396	177,396	-	-	-
9	**Exposure amounts considered for regulatory purposes**	**1,598,996**	**1,598,996**	**-**	**-**	**-**

4. CAPITAL MANAGEMENT

4.1 Overview of Risk Weighted Assets – OV1

4.1.1 Table 3 provides an overview of Risk Weighted Assets ("RWA") and Minimum Capital Requirements per risk type. As is evident in Table 3, there were no significant differences between RWA reported as at 30 June 2022 and RWA reported as at 30 September 2022. The decrease in Credit Risk RWA from KYD 566.29 million reported as at 30 June 2022 to KYD 534.64 million reported as at 30 September 2022, is mainly due to a Credit Risk RWA release on bank placements which were used to repay deposits over the same period.

Table 3: OV1 – Overview of RWA

OV1: Overview of RWA				
KYD ('000)		a	b	c
		RWA		Minimum capital Requirements
		30-Sep-22	30-Jun-22	30-Sep-22
1	**Credit risk (excluding counterparty credit risk) (CCR)**	**534,643**	**566,288**	**80,196**
2	**Securitisation exposures**	-	-	-
3	**Counterparty credit risk**	-	-	-
4	Of which: current exposure method	-	-	-
5	Of which: standardized method	-	-	-
6	**Market risk**	**227**	**67**	**34**
7	Of which: Equity risk	-	-	-
8	**Operational risk**	**115,617**	**115,617**	**17,343**
9	Of which: Basic Indicator Approach	115,617	115,617	17,343
10	Of which: Standardised Approach	-	-	-
11	Of which: Alternative Standardised	-	-	-
12	**Total (1 + 2 + 3 + 6 + 8)**	**650,488**	**681,972**	**97,573**

4.2 Capital Overview - CAP

4.2.1 CNB's policy is to allocate capital within the bank efficiently and to maintain a prudent relationship between capital resources and the risk of its underlying business. CNB's objectives when managing capital are:

a. To comply with the capital requirements set by its regulator CIMA;
b. To safeguard its ability to continue as a going concern while maximizing the return to stakeholders; and
c. To maintain a strong capital base to support the development of the business.

4.2.2 Tables 4 and 5 provide detail on CNB's capital position. As noted in Table 4, the majority of CNB's capital is Retained Earnings as the General Reserve represents amounts appropriated by the Directors from Retained Earnings to a separate component of shareholder's equity. The General Reserve is intended for dividend equalization and general banking risks including potential future losses or other unforeseeable risks. To the extent that the General Reserve is considered by the Directors to be surplus to requirements, the reserve is distributable at the discretion of the Directors, subject to CNB's capital adequacy requirements.

Table 4: CAP – Capital Structure

CAP: Capital Structure	
KYD ('000)	**30-Sep-22**
Tier 1 Capital	
Paid up capital	2,437
Disclosed reserves	145,539
Share premium	1,695
Retained earnings	104,344
Current year's earnings (audited)	-
General Reserves	39,500
Foreign currency translation adjustment	-
Paid-up perpetual non-cumulative preference shares	-
Eligible innovative instruments	-
Minority Interest	-
Other Tier 1 Capital	-
Total Tier 1 Capital	**147,976**
Goodwill	-
Intangible assets	-
Increase in equity capital resulting from a securitisation exposure	-
Pro-rata basis deduction	-
Unrealized Losses on AFS Equity Securities	-
Other Tier 1 Deductions	3,047
Total Deductions from Tier 1 Capital	**3,047**
Net Tier 1 Capital	**144,929**
Net Tier 2 Capital	**22,607**
Net Tier 3 Capital	**-**
Total Eligible Capital	**167,536**

Table 5: CAP – Scope of Capital

CAP: Scope of Capital	
KYD ('000)	**30-Sep-22**
The aggregate amount of surplus capital of insurance subsidiaries (whether deducted or subjected to an alternative method) included in the capital of the consolidated group.	-
The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. that are deducted and the name(s) of such subsidiaries.	-
The aggregate amounts (e.g. current book value) of the firm's total interests in insurance entities, which are risk-weighted rather than deducted from capital or subjected to an alternate group-wide method, as well as their name, their country of incorporation or residence, the proportion of ownership interest and, if different, the proportion of voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using the deduction or alternate group-wide method.	-

4.2.3 CNB's Board aims to hold sufficient capital to remain adequately capitalized from both an Internal Capital and a Regulatory Capital perspective. To assess its capital adequacy from a Regulatory Capital perspective, CNB uses CIMA's rules for the calculation of RWA for the Pillar 1 Risks: Credit Risk, Operational Risk and Market Risk. In assessing its capital adequacy from an Internal Capital perspective, CNB uses the same calculations for RWA for the Pillar 1 Risks, but also includes RWA for other risks not included within the scope of CIMA's rules, such as Strategic Risk, Interest Rate Risk in the Banking Book and Governance Risk. In calculating its Capital Adequacy Ratio ("CAR"), CNB uses the same definition of qualifying capital for both the Internal Capital and Regulatory Capital calculation.

4.2.4 Table 6 below provides CNB's Regulatory Capital Requirement for Credit Risk, Market Risk and Operational Risk, as well as CNB's Tier 1 and Total Capital Adequacy Ratios. As is evident in Table 6, CNB remained adequately capitalized as at 30 September 2022.

Table 6: CAP – Capital Adequacy

CAP: Capital Adequacy	
KYD ('000)	**30-Sep-22**
Capital Requirement	
Capital Requirement: Credit Risk: *Standardised Approach*	80,196
Capital Requirement: Market Risk: *Standardised Approach*	34
Capital Requirement: Operational Risk: *Basic Indicator Approach*	17,342
Capital Adequacy Ratio	
Tier 1 Capital Adequacy Ratio	**22.28%**
Total Capital Adequacy Ratio	**25.76%**

4.3 Leverage Ratio - LR1 & LR2

4.3.1. The Leverage Ratio regulatory measure is a non-risk based measure to restrict the build-up of leverage in the banking sector. The Leverage Ratio is derived as Tier 1 Capital against a defined measure of exposure.

4.3.2. Table 7 provides a reconciliation between the regulatory exposure measure and the financial statements of CNB.

Table 7: LR1 – Summary comparison of accounting assets vs leverage ratio exposure measure

LR1: Summary comparison of accounting assets vs leverage ratio exposure measure		
	KYD ('000)	**30-Sep-22**
1	Total consolidated assets as per published financial statements	1,413,862
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-
4	Adjustments for temporary exemption of central bank reserves (if applicable)	-
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
6	Adjustments for regular way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustments for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	-
9	Adjustment for securities financing transactions (i.e. repurchase agreements and similar secured lending)	-
10	Adjustment for off balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,796
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	(3,047)
12	Other adjustments	4,645
13	**Leverage ratio exposure measure**	**1,417,256**

4.3.3. The following provides detail on the adjustments identified in Table 7:

a. Row 10 - Off-Balance Sheet items post the Credit Conversion Factor and Credit Risk Mitigation are not reflected on the balance sheet and are therefore an adjustment item reported in row 10 of Table 7 above.
b. Row 11 - CIMA approved capital deduction of related party loans.
c. Row 12 - Other adjustments constitute of unearned loan origination fees and general provisions on loans and investments. As unearned loan origination fees are reflected as contra accounts against gross loan balances, and for regulatory purposes, these

accounts are reclassified as liability items on balance sheet as gross loan balances, not net loan balances, and are used to calculate the capital adequacy ratio. The investment allowance provision is a contra account against gross investment balance. The capital adequacy ratio is determined on gross investment balance not the net investment balance, hence, provision on investment is shown as a liability on the balance sheet.

4.3.4. As evident in Table 8 below, balances remained relatively flat with the only material movement between reporting periods being a reduction in "On-balance sheet exposures" from KYD 1,568.57 million reported as at 30 June 2022 to KYD 1,426.81 million reported as at 30 September 2022. This reduction is mainly due to bank placements and investments used to repay deposits between these reporting periods.

Table 8: LR2 – Leverage Ratio common disclosure

LR2: Leverage Ratio common disclosure			
KYD ('000)		**a**	**b**
		30-Sep-22	**30-Jun-22**
On-Balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,426,807	1,568,567
2	Gross up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(Specific and general provisions associated with on balance sheet exposures that are deducted from Basel III Tier 1 capital)	(7,746)	(7,779)
6	(Asset amounts deducted in determining Basel III Tier 1 capital and regulatory adjustments)	(3,047)	(3,044)
7	**Total on balance sheet exposures** (excluding derivatives and SFTs) (sum of rows 1 to 6)	**1,416,014**	**1,557,744**
Derivative exposures			
13	**Total derivative exposures** (sum of rows 8 to 12)	**-**	**-**
Securities financing transaction exposures			
18	**Total securities financing transaction exposures** (sum of rows 14 to 17)	**-**	**-**
Other off-balance sheet exposures			
19	Off-balance balance sheet exposure at gross notional amount	177,396	158,095
20	(Adjustments for conversion to credit equivalent amounts)	(175,600)	(156,284)
21	(Specific and general provisions associated with off balance sheet exposures deducted in determining Tier 1 capital)	(554)	(349)
22	**Off-balance sheet items** (sum of rows 19 to 21)	**1,242**	**1,462**

LR2: Leverage Ratio common disclosure			
KYD ('000)		a	b
		30-Sep-22	30-Jun-22
Capital and total exposures			
23	**Tier 1 capital**	**144,930**	**144,933**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**1,417,256**	**1,559,206**
Leverage ratio			
25	**Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	**10.23%**	**9.30%**
25a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	10.23%	9.30%
26	National minimum leverage ratio requirement	3.00%	3.00%
27	**Applicable leverage buffers**	**7.23%**	**6.30%**

5. CREDIT RISK

5.1 Credit Risk Overview - CRA

5.1.1. Credit risk is the potential that a borrower or counterparty will fail to meet its stated obligations in accordance with the agreed terms. The objective of CNB's credit risk management function is to maximise its risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. The effective management of credit risk is a key element of a comprehensive approach to risk management and is considered essential to the long-term success of CNB.

5.1.2. Given the importance of credit risk, significant emphasis is placed on the identification, measurement, monitoring and controlling of this risk. Credit risk is evident in almost all of CNB's assets, with Residential Mortgages, Commercial and Corporate Lending and Retail Lending (including Overdrafts and Credit Cards) being the largest credit risk exposures.

5.1.3. CNB uses a risk rating system at the origination of advances which groups loans, overdrafts and credit cards into various risk categories to facilitate the management of risk on both an individual account and portfolio basis. Retail, commercial and corporate, mortgages, overdrafts and credit cards are managed by product type. Preset risk management criteria is in place to facilitate decision-making for all categories of loans including credit cards.

5.1.4. The debt securities within CNB's investment security portfolio are exposed to credit risk and are managed by investment grading or country exposure with preset exposure limits, as approved by the CNB Board. The credit quality of each individual security is assessed based on the financial strength, reputation and market position of the issuing entity and the ability of that entity to service the debt.

5.1.5. CNB's appetite for credit risk is determined by the strategic and operational objectives and initiatives set by the CNB Board and its Executive Management Team. This is effectively managed through sound risk acceptance criteria and risk mitigation strategies established for its respective exposures, which are informed by the credit experience gained from knowledge of its customers, industry sectors and prevailing economic conditions.

5.1.6. CNB's credit risk management process operates on the basis of a hierarchy of discretionary authorities. A Board Credit Committee, including executive and non-executive directors, is in place, with the authority to exercise the powers of the Board on credit risk management decisions, up to approved limits. The Senior Vice President, Personal and Business Banking, is accountable for the general management and administration of CNB's credit portfolio, ensuring that lending is made in accordance with current legislation, sound banking practice and in accordance with the applicable general policy of the CNB Board.

5.1.7. CNB avoids exposure to undue concentrations of risk by placing limits on the amount of risk accepted from a number of borrowers engaged in similar business activities, or activities in the same geographic region or with similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

5.2 Credit Quality of Assets - CR1, CR2 & CRB

5.2.1. Table 9 provides a holistic view of the credit quality of CNB's assets. CNB considers a financial instrument defaulted, and therefore Stage 3 for Expected Credit Loss ("ECL") calculations, when the borrower becomes 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, CNB also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, CNB carefully considers whether the event should result in treating the customer as defaulted or not.

Table 9: CR1 – Credit Quality of Assets

CR1: Credit Quality of Assets						
30 September 2022 KYD ('000)		a	b	c	d
		Gross carrying values of:		Allowances / Impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	16,014	875,725	7,746	883,993
2	Debt Securities	-	301,688	826	300,862
3	Off-balance sheet exposures	-	177,396	554	176,842
4	**Total**	**16,014**	**1,354,809**	**9,126**	**1,361,697**

5.2.2. Table 10 shows the movement in defaulted loans between 31 March 2022 and 30 September 2022. The reduction in defaulted loans from KYD 16.97 million reported as at 31 March 2022 to KYD 16.01 million reported as at 30 September 2022 is mostly due to financial assets being written off over the period.

5.2.3. It is CNB's policy to consider a financial instrument as "recovered" and therefore reclassified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. CNB's accounting policy is for financial assets to be written off either partially or in their entirety only when CNB has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is passed against the credit loss on financial assets. Any subsequent recoveries are credited to credit recovery on financial assets.

Table 10: CR2 – Changes in Stock of Defaulted Loans and Debt Securities

CR2: Changes in Stock of Defaulted Loans and Debt Securities		
	KYD ('000)	30-Sep-22
1	**Defaulted loans and debt securities at end of the previous reporting period**	**16,966**
2	Loans and debt securities that have defaulted since the last reporting period	336
3	Returned to non-defaulted status	324
4	Amounts written off	654
5	Other changes	(310)
6	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)**	**16,014**

5.2.4. CNB, in accordance with its Board approved policy, reviews ECL estimates at the end of each quarter. Non-performing debts recommended for write-off are also reviewed quarterly and action taken in accordance with prescribed guidelines. A summary of CNB's impairment assessment and measurement approach is set out in the following paragraphs.

5.2.5. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or "LTECL"), unless there has been no significant increase in credit risk since origination, in which case, the ECL allowance is based on the 12 month's ECL ("12mECL"). CNB assesses whether there has been a significant increase in credit risk since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument. In addition, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

5.2.6. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. ECL is calculated on an individual basis for all Stage 3 assets, regardless of the class of financial assets.

5.2.7. CNB takes into account forward looking information such as the Prime Lending Rate, Residential Mortgage foreclosures and Asset Quality in its ECL models. CNB recognizes that the inputs and models used for calculating ECLs may not always capture all characteristics and expectations of the market. To reflect this, management adjustments or overlays are occasionally made.

5.2.8. Based on the above process, CNB classifies its financial instruments into Stage 1, Stage 2 and Stage 3, and calculates 12mECL or LTECL using the Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD"), as described below:

Stage 1

5.2.9. When financial instruments are first recognized and continue to perform in accordance with the contractual terms and conditions after initial recognition, CNB recognizes an allowance based on 12mECLs. Stage 1 financial instruments also include facilities where the credit risk has improved and the financial instrument has been reclassified from Stage 2.

5.2.10. The 12mECL is calculated as the portion of LTECLs that result from default events on a financial instrument that are possible within 12 months of the reporting date. CNB calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecasted EAD and multiplied by the expected LGD.

Stage 2

5.2.11. When a financial asset has shown a significant increase in credit risk since origination, CNB records an allowance for the LTECLs. Stage 2 financial assets also include facilities where the credit risk has improved and the financial asset has been reclassified from Stage 3. The mechanics used to calculate the LTECL are similar to those explained for Stage 1 above, but PDs and LGDs are estimated over the lifetime of the instrument.

Stage 3

5.2.12. For financial assets considered credit-impaired, CNB recognises the LTECL for these financial assets. The method is similar to that for Stage 2 assets, with the PD set at 100%.

5.2.13. Tables 11 and 12 provide quantitative data on CNB's impaired exposures across geographical region and industry.

Table 11: CRB – Impaired Exposures by Geographical Region

Credit Quality of Assets: Impaired Exposures by Geographical Region				
30 September 2022 KYD ('000)				
Country	Gross Exposure			Impairments
	Total	Un-Impaired	Impaired	
Cayman Islands	1,090,814	1,081,927	14,094	5,207
United States	201,822	201,822	-	-
Canada	135,585	135,585	-	-
Europe	18,715	18,715	-	-
Trinidad and Tobago	48,215	48,215	-	-
Other	98,638	98,638	-	-
Total	**1,593,789**	**1,584,902**	**14,094**	**5,207**

Table 12: CRB – Impaired Exposures by Industry

Credit Quality of Assets: Impaired Exposures by Industry				
30 September 2022 KYD ('000)				
Industry	Gross Exposure			Impairments
	Total	Un-Impaired	Impaired	
Agriculture	3,044	3,044	-	-
Construction	58,591	58,581	167	157
Distribution	5,497	5,223	632	358
Energy and mining	2,183	2,183	-	-
Electricity and Water	684	684	-	-
Government & Government Bodies	270,060	270,060	-	-
Financial Sector	285,402	285,401	1	-
Hotel and Restaurant	1,770	1,770	-	-
Manufacturing	8,287	8,290	33	36
Other Services	85,610	85,613	524	527
Personal	620,111	613,185	10,713	3,787
Real Estate	172,109	170,425	1,964	280
Retail Lending	42,782	42,784	60	62
Transport storage and communication	37,658	37,658	-	-
Total	**1,593,789**	**1,584,902**	**14,094**	**5,207**

5.2.14. Tables 13 and 14 provide a breakdown of CNB's total exposures and past due exposures by residual maturity.

Table 13: CRB – Distribution of Exposures by Residual Maturity

Credit Quality of Assets: Distribution of Exposures by Residual Maturity									
30 September 2022 KYD ('000)									
	Sight - 8 Days	8 days - 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Over 5 Years	No Maturity	Total
Gross Exposure	102,353	84,357	66,790	40,336	126,184	220,402	715,514	243,061	1,598,996

Table 14: CRB – Past-due Exposures Ageing Analysis

Credit Quality of Assets: Past-due Exposures Ageing Analysis								
30 September 2022 KYD ('000)								
	Sight - 8 Days	8 days - 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Over 5 Years	Total
Gross Exposure	76,016	3,183	2,588	634	935	8,217	2,554	94,128

5.2.15. CNB occasionally makes modifications to the original terms of retail loans and mortgages as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. These modifications are made only when CNB believes the borrower is likely to meet the modified terms and conditions. Indicators of financial difficulties include defaults on covenants, overdue payments or significant concerns raised by the Personal and Business Banking Department. Once the terms have been renegotiated, any impairment is measured using the original Effective Interest Rate as calculated before the modification of terms. Restructured loans are carefully monitored and amounted to KYD 9.38 million as at 30 September 2022, of which only 1.73% were impaired, as noted in Table 15 below.

Table 15: CRB – Restructured Exposures

Credit Quality of Assets: Restructured Loans Breakdown between Impairment Status			
30 September 2022 KYD ('000)			
	Total	Impaired	Not-Impaired
Commercial and Corporate lending	2,657	-	2,657
Retail Loans	369	-	369
Residential Mortgages	6,349	162	6,187

5.3 Credit Risk Mitigation - CRC & CR3

5.3.1. Credit risk mitigation ("CRM") refers to the actions taken to manage credit risk exposures. Various CRM methods can be used such as holding collateral, using credit derivatives, using netting agreements or obtaining guarantees. As CNB does not engage in derivative type activities or securities financing transactions, CNB's CRM is mainly focused on the collection and management of collateral and the use of financial guarantees. On a case-by-case basis, CNB will accept financial guarantees when approving a lending request.

5.3.2. It is CNB's policy when making loans to establish that they are within the customer's capacity to repay rather than relying exclusively on security. However, while certain facilities may be unsecured depending on the client's standing and the type of product, collateral can be an important mitigant of credit risk. CNB implements guidelines on the acceptability of specific classes of collateral. The principal collateral types accepted by CNB, dependent on the loan, include real estate, motor vehicles, boats, cash, business assets and land.

5.3.3. Collateral, unless repossessed, is not recorded on CNB's consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. The value of collateral is assessed at inception and re-assessed on a periodic basis.

5.3.4 Table 16 provides an overview of CNB's CRM techniques as at 30 September 2022. There were no significant movements since 31 March 2022 other than a decrease in Debt Securities. Debt Securities decreased due to CNB's liquidity management strategies.

Table 16: CR3 – Credit Risk Mitigation Techniques

CR3: Credit Risk Mitigation Techniques - Overview								
30 September 2022 KYD '(000)		a	b	c	d	e	f	g
		Exposures						
		Un-secured: carrying amount	Secured By Collateral		Secured by Financial Guarantees		Secured by Credit Derivatives	
			Total Carrying Amount	of which: secured amount	Total Carrying Amount	of which: secured amount	Total Carrying Amount	of which: secured amount
1	Loans	23,616	860,377	860,377	579	79	-	-
2	Debt securities	300,862	-	-	-	-	-	-
3	**Total**	**324,478**	**860,377**	**860,377**	**579**	**79**	**-**	**-**
4	Of which defaulted	809	15,205	15,205	-	-	-	-

5.4 Credit Risk - Regulatory RWA - CRD, CR4 & CR5

5.4.1 For the calculation of RWA for credit risk, CNB currently uses the Basel II Standardised Approach, as specified by CIMA. Each on-balance sheet exposure is evaluated against CIMA's risk weightings for the specific asset class. Off balance sheet exposures are also measured via the appropriate credit conversion factor ("CCF") for the specific product, as well as the risk weighting provided by CIMA for the specific asset class. Risk weightings are assigned per asset class and credit risk rating. CNB uses Moody's Investors Services as its nominated External Credit Assessment Institution ("ECAI") for all relevant asset classes.

5.4.2 Table 17 provides an overview of the regulatory risk weighted assets including the effects of CCF and CRM techniques. There were no significant movements since 31 March 2022.

Table 17: CR4 – Credit Risk Exposure and CRM Effects

CR4: Standardised Approach - credit Risk Exposure and CRM Effects							
30 September 2022 KYD ('000)		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA Density
1	Cash	48,058	-	48,058	-	6,892	14.34%
2	Sovereigns and their central banks	184,791	-	184,791	-	3,095	1.67%
3	Non-central government public sector entities	25,914	-	25,914	-	19,447	75.04%
4	Multilateral development banks	59,354	-	59,354	-	-	0.00%
5	Banks	173,803	-	173,803	-	42,142	24.25%
6	Securities firms	-	-	-	-	-	0.00%
7	Corporates	80,012	132,807	80,012	1,785	40,247	49.20%
8	Regulatory retail portfolios	50,050	44,589	50,050	11	38,703	77.31%
9	Secured by residential property	670,812	-	670,812	-	253,574	37.80%
10	Secured by commercial real estate	91,206	-	91,206	-	91,153	99.94%
11	Past-due exposures	16,014	-	10,808	-	10,803	99.95%
12	Higher-risk categories	-	-	-	-	-	0.00%
13	Other assets	26,792	-	26,792	-	26,792	100.00%
14	**Total**	**1,426,806**	**177,396**	**1,421,600**	**1,796**	**532,848**	**37.43%**

5.4.3 Table 18 provides a breakdown of CNB's credit risk exposures by asset class and risk weight. There were no significant movements since 31 March 2022.

Table 18: CR5 – Exposures by Asset Class and Risk Weights

	CR5: Standardised Approach - Exposures by Asset Class and Risk Weights										
	30 September 2022 KYD '(000)	**a**	**b**	**c**	**d**	**e**	**f**	**g**	**h**	**i**	**j**
	Asset classes / **Risk Weight**	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposure amount (post CCF and post CRM)**
1	Cash	13,600	-	34,458	-	-	-	-	-	-	**48,058**
2	Sovereigns and their central banks	178,583	-	4,446	-	-	-	876	886	-	**184,791**
3	Non-central government public sector entities	-	-	8,085	-	-	-	17,829	-	-	**25,914**
4	Multilateral development banks	59,354	-	-	-	-	-	-	-	-	**59,354**
5	Banks	7,134	-	149,199	-	17,470	-	-	-	-	**173,803**
6	Securities firms	-	-	-	-	-	-	-	-	-	**-**
7	Corporates	-	-	12,873	-	58,934	-	8,205	-	-	**80,012**
8	Regulatory retail portfolios	-	-	-	-	-	25,733	24,317	-	-	**50,050**
9	Secured by residential property	-	-	-	622,457	-	48,355	-	-	-	**670,812**
10	Secured by commercial real estate	-	-	-	-	-	-	91,206	-	-	**91,206**
11	Past-due exposures	-	-	-	-	-	-	16,014	-	-	**16,014**
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	**-**
13	Other assets	-	-	-	-	-	-	26,792	-	-	**26,792**
14	**Total**	**245,071**	**-**	**174,603**	**622,457**	**76,404**	**74,088**	**185,239**	**886**	**-**	**1,426,806**

6. COUNTERPARTY CREDIT RISK

6.1. CNB does not have exposure to or engage in over-the-counter derivatives, exchange traded derivatives or securities financing transactions. As such CNB is not exposed to or subject to counterparty credit risk.

7. LIQUIDITY RISK

7.1. Liquidity Risk Management – LIQA

7.1.1 Liquidity risk is defined as the risk that CNB either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can access these only at excessive cost. Liquidity management is therefore primarily designed to ensure that funding requirements can be met, including the replacement of existing funds as they mature or are withdrawn, or to satisfy the demands of customers for additional borrowings. CNB's objective in managing liquidity risk is to ensure that funds can be generated from either assets, liabilities or external sources in a timely manner at a reasonable cost, to respond to the needs of customers. Market liquidity risk arises when CNB is unable to sell or transform its liquid assets into cash without significant losses.

7.1.2 CNB's Treasury Risk and Investment Management Policy ("TRIM Policy") which defines the framework for managing liquidity ultimately falls under the authority of the CNB Board, who in turn assigns authority for its formulation, monitoring and revision to CNB's ALCO. ALCO is primarily responsible for actively monitoring CNB's liquidity profile.

7.1.3 CNB's general approach to liquidity risk management is to delineate qualitative and quantitative risk procedures appropriate to CNB's business profile, balance sheet composition, regulatory and economic environments. Such risk procedures include:

a. Targeting cash flow gaps over discrete and cumulative time periods, under normal expected and adverse business conditions;
b. Surpassing regulatory liquid asset requirements;
c. Managing the stability and concentration of deposits;
d. Setting concentration limits on assets that may be difficult to convert into cash;
e. Ensuring adequate funding diversification regarding short-medium-long term funding sources and types available;
f. Limiting unstable liabilities;
g. Developing investment parameters based on liquidity needs;
h. Developing early warning indicators via contingency plans, for contingency funding events; and
i. Detailing any items that are unique to the Cayman Islands.

7.1.4 While the primary asset used for short-term liquidity management is short-term placements, CNB also holds significant investments in Government securities, which can be used for liquidity support. CNB continually balances the need for short term assets, which have lower yields, with the need for higher asset returns.

7.1.5 Bank Placements are short-term and established with reputable, highly rated international financial service providers in well-regulated jurisdictions. The CNB Treasury Manager oversees and manages all Bank Placements. The CNB Board sets limits on various categories of approved liquid investments such as commercial paper, money market funds, short term bond funds and US Government or US agency debt.

7.1.6 The Investment Portfolio is designated as amortised cost, thereby only permitting the sale of assets to meet liquidity requirements in dire circumstances. The Investment Portfolio is comprised largely of actively traded sovereign, supranational and corporate debt instruments with publicly quoted market prices and tight bid/ask spreads meeting the Basel III High Quality Liquid Asset classification.

7.1.7 CNB's TRIM Policy governs the daily management of liquidity. CNB operates within various Board sanctioned limits, all of which are monitored by ALCO. The limits include, but are not limited to:

a. Coverage Ratio Limits – Used to evaluate CNB's liquidity over a one month and twelve-month time horizon, in the most likely rate environment used for interest rate risk analysis and business planning;
b. Regulatory Limits – Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR");
c. Top 10 Deposits to Total Deposits;
d. Total Loans to Total Deposits;
e. Total Performing Loans to Total Assets; and
f. Non-performing Loans to Total Loans.

7.1.8 CNB's ALCO holds at least 10 meetings annually to review the prospective liquidity risk positions and monitor against policy limits as per CNB's TRIM Policy. Areas that are reviewed and monitored are:

a. CNB Investment Portfolio - an overview of CNB's investment portfolio, which includes face/market value, average duration and average credit rating;
b. Overview of CNB's liquidity position;
c. CNB Correspondent Bank Placements - an overview of bank placements value, currency and duration;
d. CNB Investment Maturity Profile - an overview of CNB's Top 10 Issuers which includes Sector; USD face value and percentage of the portfolio;
e. CNB's LCR & NSFR ratios, inclusive of five stress scenarios;
f. CNB's Coverage Ratios, inclusive of a stressed scenario; and
g. CNB Funding Profile - an overview of CNB's deposit products.

7.2. Liquidity Coverage Ratio – LIQ1

7.2.1. The LCR is designed to ensure that a bank has sufficient unencumbered high-quality liquid assets ("HQLA") that can be converted into cash to meet its liquidity needs for a 30-calendar day liquidity stress scenario. Table 19 below provides a breakdown of CNB's LCR as at 30 September 2022.

Table 19: LIQ1 – Liquidity Coverage Ratio as at 30 September 2022

LIQ1: Liquidity Coverage Ratio ("LCR")			
30 September 2022 KYD ('000)		a Total unweighted value	b Total weighted value
High-quality liquid assets			
1	**Total HQLA**		**216,871**
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which;	852,013	73,777
3	Stable deposits	-	-
4	Less stable deposits	852,013	73,777
5	Unsecured wholesale funding, of which:	368,457	213,373
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	124,071	31,018
7	Non-operational deposits (all counterparties)	244,386	182,355
8	Unsecured debt	-	-
9	Secured wholesale funding		-
10	Additional requirements, of which:	177,397	8,584
11	Outflows related to derivative exposures and other collateral requirements	-	-
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	168,416	8,421
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	8,981	163
16	**TOTAL CASH OUTFLOWS**		**295,734**
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	-	-
19	Other cash flows	155,253	117,473
20	**TOTAL CASH INFLOWS**	**155,253**	**117,473**
			Total adjusted value
21	**Total HQLA**		**216,871**
22	**Total net cash outflows**		**178,261**
23	**Liquidity Coverage Ratio (%)**		**122%**

7.2.2. CNB's total HQLA of KYD 217 million consists of KYD 180 million of Level 1 HQLA, KYD 14 million of Level 2A HQLA and KYD 23 million of Level 2B HQLA. 40.02% of funding is attributable to Retail Deposits, 29.79% to Small Business Customers, 9.22% to Other

Financial Institutions, 7.79% to Non-Financial Institutions, 6.71% to Sovereign deposits and 6.47% to other banks. 95.24% of HQLA is denominated in USD and 4.54% of HQLA is denominated in KYD. 80.45% of Total Net Cash Outflows is denominated in KYD and 17.84% of Total Net Cash Outflows is denominated in USD. There are some immaterial exposures in other currencies.

7.2.3. CNB's LCR ratio decreased from 139% reported as at 30 June 2022 to 122% reported as at 30 September 2022. This decrease is attributable to a decrease in HQLA and increase in Total Net Cash Outflows, with funding sources slightly more concentrated in Retail and Small Business Customer Deposits. Total HQLA decreased by KYD 25.54 million on an unweighted basis resulting in a KYD 21.65 million decrease on a weighted basis. The increase in Total Net Cash Inflows was mainly due to a KYD 75 million decrease in Bank Placements which are due within 30 days, partially offset by an unweighted KYD 158 million (KYD 70 million weighted) decrease in overall funding.

7.3. Net Stable Funding Ratio – LIQ2

7.3.1. The NSFR promotes resilience over a longer-term horizon by requiring funding of its activities with stable sources of funding on an ongoing basis. Table 20 below provides a breakdown of CNB's NSFR as at 30 September 2022.

Table 20: LIQ2 – Net Stable Funding Ratio as at 30 September 2022

LIQ2: Net Stable Funding Ratio ("NSFR")						
30 September 2022 KYD ('000)		a	b	c	d	e
		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	
Available stable funding (ASF) Item						
1	**Capital:**	**175,699**	**-**	**-**	**-**	**175,699**
2	*Regulatory capital*	175,699	-	-	-	175,699
3	*Other capital instruments*	-	-	-	-	-
4	**Retail deposits and deposits from small business customers:**	**-**	**837,678**	**25,483**	**3,690**	**780,534**
5	*Stable deposits*	-	-	-	-	-
6	*Less stable deposits*	-	837,678	25,483	3,690	780,534
7	**Wholesale funding:**	**-**	**338,696**	**28,096**	**1,667**	**116,648**
8	*Operational deposits*		124,072	-	-	62,036
9	*Other wholesale funding*		214,624	28,096	1,667	54,613
10	**Liabilities with matching interdependent assets**	**-**	**-**	**-**	**-**	**-**

LIQ2: Net Stable Funding Ratio ("NSFR")		a	b	c	d	e
30 September 2022 KYD ('000)		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	
11	**Other liabilities:**	**-**	**754**	**-**	**14,955**	**14,955**
12	*NSFR derivative liabilities*	-	-	-	-	-
13	*All other liabilities and equity not included in the above categories*	-	754		14,955	14,955
14	**Total ASF**	**175,699**	**1,177,128**	**53,578**	**20,312**	**1,087,837**
Required Stable Funding (RSF) Item						
15	**Total NSFR high-quality liquid assets (HQLA)**				**-**	**33,524**
16	**Deposits held at other financial institutions for operational purposes**	**-**	**-**	**-**	**-**	**17,229**
17	**Performing loans and securities:**	**98**	**247,916**	**39,698**	**773,991**	**627,532**
18	*Performing loans to financial institutions secured by Level 1 HQLA*	-	-	-	-	-
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	-	152,346	11,005	5,286	33,640
20	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	-	72,423	15,616	244,432	226,496
21	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	-	-	-	126,455	82,196
22	*Performing residential mortgages, of which:*	-	15,678	5,171	481,739	323,555
23	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	--	15,678	5,171	481,739	323,555
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*	98	7,469	7,906	42,534	43,842
25	**Assets with matching interdependent liabilities**					
26	**Other assets:**	**-**	**3,798**	**-**	**36,091**	**39,889**
27	*Physical traded commodities, including gold*	-				-
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		-	-	-	-
29	*NSFR derivative assets*		-	-	-	-
30	*NSFR derivative liabilities before deduction of variation margin posted*		-	-	-	-
31	*All other assets not included in the above categories*	-	3,798	-	36,091	39,889
32	**Off-balance sheet items**					**17,402**
33	**Total RSF**					**735,576**
34	**Net Stable Funding Ratio (%)**					**148%**

7.3.2. The NSFR ratio decreased from 154% reported as at 31 March 2022 to 148% reported as at 30 September 2022. This decrease is due to a proportionally larger decrease in Available Stable Funding ("ASF") in comparison with the decrease in Required Stable Funding ("RSF"). ASF decreased from KYD 1.17 billion as at 31 March 2022 to KYD 1.09 billion as at 30 September 2022, mostly attributable to a reduction in deposits partially offset by an increase in capital. RSF decreased from KYD 755.62 million as at 31 March 2022 to KYD 735.58 million as at 30 September 2022, mostly attributable to a decrease in both HQLA and deposits held at other financial institutions for operational purposes, partially offset by an increase in performing loans and securities.

8. MARKET RISK

8.1 Market Risk Management – MRA

8.1.1 CNB's exposure to Market Risk RWA is purely driven by its exposure to Foreign Exchange ("FX") Risk. FX Risk is the risk that the value of a financial instrument will fluctuate due to changes in FX rates.

8.1.2 CNB takes on exposure to the effects of fluctuations in the prevailing FX rates on its financial position and cash flows. Changes in FX rates affect CNB's earnings and equity through differences on the re-translation of the net assets, from the foreign currency to KYD dollars. CNB's practice is to match non-USD foreign currency liabilities through bank placements or highly liquid investments in the deposit currency with a matched maturity. The principal foreign currencies used and accepted by CNB are USD, GBP, CAD, EUR, JPY and CHF.

8.1.3 CNB manages its FX risk exposure by placing limits on open positions in foreign currencies. CNB's overnight FX Limit is the equivalent of USD200,000 for each foreign currency other than USD. The historically fixed exchange rate between the USD and the KYD acts as a mitigation to FX risk between these two currencies. There is an inherent mitigation to this risk in the contractual agreement (Offer Letters) with borrowing clients that provides CNB with the option to convert USD loans to KYD loans, and vice-versa.

8.1.4 CNB's Treasury Department is responsible for the daily monitoring of CNB's FX Limits. This function is performed twice daily. There is an inherent risk associated with clients' ability to perform transactions with a FX component during non-working hours via online banking. Any exposures as a result of these transactions are covered the following working day. There is a clause associated with online banking that permits CNB to recalculate the FX rate offered at the time of the transaction using the FX rate at the time of covering the exposure. CNB has the right to recover any costs associated with unfavorable movements in FX rates.

8.1.5 CNB measures and reports on its Risk Appetite Statement Measures on a monthly basis, which includes the FX Limits. The FX Limits are presented and discussed at CNB's ALCO meeting, which is 10 out of the 12 months in a year. The FX Limits are also presented to the Group Risk Assessment Committee ("GRAC") and the CNB Board each quarter.

8.2 Market Risk – Regulatory RWA– MR1

8.2.1. Table 21 provides a breakdown of the regulatory capital requirement for Market Risk as calculated based on CIMA's Standardised Approach for Market Risk. As is evident in Table 21, all of CNB's regulatory capital requirement for Market Risk is due to Foreign Exchange Risk.

Table 21: MR1: Market Risk – Standardised Approach

MR1: Market risk under the standardised approach		
	KYD ('000)	30-Sep-22 RWA
	Outright products	
1	Interest rate risk (general and specific)	-
2	Equity risk (general and specific)	-
3	Foreign exchange risk	227
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	**Total**	**227**

9. INTEREST RATE RISK IN THE BANKING BOOK

9.1. Overview of Interest Rate Risk in the Banking Book - IRR

9.1.1. Interest Rate Risk in the Banking Book ("IRRBB") is the risk of loss resulting from changes in interest rates that affect the banking book positions, i.e. CNB's assets and liabilities. CNB's TRIM Policy defines the framework for managing IRRBB. This framework ultimately falls under the authority of the CNB Board, who in turn assigns authority for its formulation, monitoring and revision to CNB's ALCO.

9.1.2. The CNB TRIM Policy defines the procedures to be followed in order to limit any adverse impact on financial performance associated with changes in interest rates. It is aimed at limiting the vulnerability of CNB's net interest income to changes in interest rates. CNB ALCO is ultimately responsible for the monitoring of this Policy, with primary oversight and authority for ensuring prudent asset liability management of interest rate risk, including:

a. To review interest rate maturity/repricing gap positions, and monitor compliance against policy limits.
b. To review pricing strategies and other risk management strategies for managing the structural balance sheet positions.
c. To identify the risks inherent in new products and activities and ensure that these are subject to adequate procedures and controls before introduced or undertaken.
d. To review at least annually Policy effectiveness and limits, and recommend amendments to the Board.

9.1.3. The CNB Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored by the CNB Treasury Manager and reported to the CNB ALCO. The Board also reviews a quarterly yield analysis to monitor its cost of funds and repricing risk as appropriate.

9.1.4. The primary tools currently in use are gap analysis, interest rate sensitivity analysis and exposure limits for financial instruments. The limits are defined in terms of amount, term, issuer, depositor and country. CNB is committed to refining and defining these tools to be in line with international best practice. IRRBB measures are monitored monthly through the RAS and ALCO meetings and is presented to GRAC and the CNB Board on at least a quarterly basis.

9.1.5. CNB has applied the CIMA mandated IRRBB methodology. The primary currencies for which IRRBB exists are KYD and USD, as these are the only two currencies where CNB's exposures exceed either 5% of total assets or liabilities. The result of the methodology clearly indicates that IRRBB is important as the total capital at risk was 16.57% of Regulatory Capital as at 30 September 2022.

10. OPERATIONAL RISK

10.1. Overview of Operational Risk – OPR

10.1.1. Operational risk is inherent within all business activities and is the potential for financial or reputational loss arising from inadequate or failed internal controls, operational processes or the systems that support them. It includes errors, omissions, disasters and deliberate acts such as fraud. CNB recognises that such risk can never be entirely eliminated and manages the risk through a combination of systems and procedures to monitor and document transactions. CNB has developed contingency arrangements and established facilities to support operations in the event of disasters. Independent checks on operational risk issues are also undertaken by the internal audit function.

10.1.2. CNB has a low overall appetite for operational risk and seeks to minimize exposures in key areas, including new initiatives and products, continuity of critical services and processes, information security and integrity, third party relationships and fraud, always taking into consideration the incremental cost of risk reduction and the impact on CNB's reputation.

10.1.3. CNB's Operational Risk Policy covers the operational risk management and governance framework. CNB's key processes used to identify, assess and monitor its exposure to operational risk include: an Incident Reporting ("IR") Framework, an ERM Framework, Business Risk Assessments and Business Case Risk Assessments. CNB has identified that the development of, and full adherence to, appropriate policies and procedures for all operational processes within the bank, will assist in ensuring that operational risk occurrences are minimized. In this regard, the CNB RMD ensures that all policies and procedures are reviewed, when applicable, and are in accordance with all applicable Cayman Islands regulatory rules and guidance, and, where necessary, with best practice.

10.1.4. CNB has an IR Framework which ensures that the RMD is notified of all operational risk events that occurred within the business. The RMD is in a position to identify trends in operational risk within CNB and, where necessary, recommend changes to business processes, procedures and systems to ensure operational risk events are kept to a minimum. Through the IR Framework, operational risk losses are monitored and recorded on an ongoing basis.

10.1.5. The RMD conducts a Business Risk Assessment within each business unit on a regular basis. The Business Risk Assessment entails an in-depth workshop with a business unit to ensure all inherent risks within a business unit have been identified, whether any new products, services or delivery channels, where applicable, have been considered from a risk perspective, and that all policies and procedures within a business unit are reviewed according to assigned frequencies and are up-to-date.

10.1.6. Operational Risk measures are monitored monthly through the RAS, reported to EXCO monthly and presented to GRAC and the CNB Board on at least a quarterly basis.

10.1.7. CNB incurred an average annual operational risk loss of KYD 198,000.00 during the three financial years between 30 September 2020 and 30 September 2022, as noted in Table 22 below. It is evident CNB continues to contain its operational risk losses to a minimum.

Table 22: Operational Risk Losses

Operational Risk Losses - 3 Year Summary				
KYD ('000)	**30 September 2020**	**30 September 2021**	**30 September 2022**	**Average**
Operational Risk Loss	269	219	106	198

10.1.8. For the calculation of RWA for operational risk, CNB currently uses the Basel II Basic Indicator Approach, as specified by CIMA. The Basic Indicator Approach weights 15% of each of the past three year's Gross Incomes to determine the Operational Risk RWA. Thus, the Operational Risk RWA will be a proportion of a bank's Gross Income. Table 23 below provides a breakdown of CNB's Operational Risk Capital Requirement as at 30 September 2022.

Table 23: Operational Risk: Basic Indicator Approach

Operational Risk: Basic Indicator Approach – 30 September 2022				
KYD ('000)	**Gross Income**	**α Factors**	**Weighted Income**	**Capital Requirement**
First Year	59,816	15%	8,972	**9,249**
Second Year	57,599		8,640	
Third Year	67,571		10,136	

11. SECURITISATION

11.1. CNB currently does not have any exposure to securitisation risk.

12. REMUNERATION

12.1 Remuneration disclosures – REM

12.1.1 CNB's approach to remuneration is decided by a CNC Nomination and Compensation Committee and then ratified by the Board. It is the philosophy and aim of CNC to provide a reward structure based on merit. CNB has an established Performance Management process that determines a Performance Rating for each employee based on CNC's Core Values, desired Competencies for each role and Performance Goals for each employee. An employee's Performance Rating will be evidence for any potential changes to remuneration.

12.1.2 The main component of remuneration is in the form of cash compensation paid on a monthly basis throughout the year (i.e. Basic Salary), which is determined by several factors, including but not limited to the role, level of responsibility, and competitive industry market rates. There is also a discretionary performance incentive designed to reward individual performance and achievement over the financial year. CNB does not offer Sign-On Rewards and does not guarantee bonus. CNB also provides its staff with additional benefits such as preferential interest rates on lending and reduced banking fees.

12.1.3 Senior level employees and members of the Board are entitled to participate in a Share Purchase Scheme. The employees and Board members may make monthly contributions that are matched by the company, and the funds are used to purchase CNC shares from the open market.

12.1.4 In 2019 CNB consulted with McConnell HR Consulting to benchmark Base Salary rates, review short term incentive rewards, review retirement rewards and review staff loan and preferential interest rate offerings. McConnell HR Consulting used surveys conducted at other financial institutions to determine its recommendations for CNB. CNB adjusted its remuneration structure given the findings of this consultation.

12.1.5 CNB endeavors to ensure that all remuneration of employees is compatible with its risk management framework, its strategy and its values.

12.1.6 Control of the CNB Board members' remuneration rests with the shareholders of CNB's publicly traded parent, CNC. As such, any changes to Board members' remuneration must be ultimately approved by CNC.

12.1.7 As at 30 September 2022, total staff costs were 38.56% of revenue and 59.29% of total Operating Expenses.

13. ASSET ENCUMBRANCE

13.1. Asset Encumbrance - ENC

13.1.1. As can be seen from Table 24 below, all of CNB's assets are unencumbered. Furthermore, there have been no changes in classification since the prior reporting period.

Table 24: ENC: Asset Encumbrance – 30 September 2022

ENC: Asset Encumbrance			
30 September 2022 KYD ('000)	**a**	**c**	**d**
	Encumbered assets	**Unencumbered assets**	**Total**
Cash and cash equivalents	-	-	-
Cash on hand	-	13,600	13,600
Operating accounts	-	34,459	34,459
Due from banks	-	77,189	77,189
Advances	-	879,481	879,481
Retail lending	-	22,235	22,235
Commercial & Corporate lending	-	291,772	291,772
Mortgages	-	541,563	541,563
Overdrafts	-	12,991	12,991
Credit Cards	-	10,920	10,920
Investment securities	-	380,052	380,052
Equities and mutual funds	-	98	98
Government securities	-	205,044	205,044
Corporate bonds/debentures	-	93,481	93,481
Placements over 3 months	-	81,429	81,429
Investment interest receivable	-	2,289	2,289
Investment property	-	60	60
Premises and equipment	-	23,370	23,370
Other assets	-	3,362	3,362
Total assets	**-**	**1,413,862**	**1,413,862**