Cayman National Bank

Pillar 3 Disclosure Report

As at 31 March 2023

CAYMAN NATIONAL

A Subsidiary of Republic Financial Holdings Limited

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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 Semi-Annual CNB Pillar 3 Disclosure Report includes CNB’s data as at 31 March 2023 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 Semi-Annual CNB Pillar 3 Disclosure Report.

1.4. This CNB Pillar 3 Disclosure Report has been reviewed and approved by CNC’s Executive Committee (“ExCo”).

2. CAPITAL MANAGEMENT

2.1. Overview of Risk Weighted Assets – OV1

2.1.1. Table 1 provides an overview of Risk Weighted Assets ("RWA") and Minimum Capital Requirements per risk type. As is evident in Table 1, Total RWA decreased by an insignificant 0.2% from KYD 656.45 million as at 31 December 2022 to KYD 655.15 million as at 31 March 2023. The decrease in Total RWA was driven by a 0.24% decrease in Credit Risk RWA from KYD 538.94 million as at 31 December 2022 to KYD 537.63 million as at 31 March 2023, partially offset by a 3.45% increase in Market Risk RWA over the same period.

Table 1: OV1 – Overview of RWA

OV1: Overview of RWA				
	KYD ('000)	a	b	c
		RWA		Minimum capital Requirements
		31-Mar-23	31-Dec-22	31-Mar-23
1	**Credit risk (excluding counterparty credit risk) (CCR)**	**537,633**	**538,937**	**80,645**
2	**Securitisation exposures**	-	-	-
3	**Counterparty credit risk**	-	-	-
4	Of which: current exposure method	-	-	-
5	Of which: standardized method	-	-	-
6	**Market risk**	**120**	**116**	**18**
7	Of which: Equity risk	-	-	-
8	**Operational risk**	**117,399**	**117,399**	**17,610**
9	Of which: Basic Indicator Approach	117,399	117,399	17,610
10	Of which: Standardised Approach	-	-	-
11	Of which: Alternative Standardised	-	-	-
12	**Total (1 + 2 + 3 + 6 + 8)**	**655,152**	**656,452**	**98,273**

2.2. Capital Overview - CAP

2.2.1. CNB's policy is to diversify its sources of capital, 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.

2.2.2. Tables 2 and 3 provide detail on CNB's capital position. As noted in Table 2, 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 2: CAP – Capital Structure

CAP: Capital Structure	
KYD ('000)	**31-Mar-23**
Tier 1 Capital	
Paid up capital	2,437
Disclosed reserves	165,052
Share premium	1,695
Retained earnings	123,857
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	**167,489**
Deductions from Tier 1 Capital	
Goodwill	-
Intangible assets	-
Increase in equity capital resulting from a securitisation exposure	-
Pro-rata basis deduction	-
Unrealised Losses on AFS Equity Securities	-
Other Tier 1 Deductions	10
Total Deductions from Tier 1 Capital	**10**
Net Tier 1 Capital	**167,479**
Net Tier 2 Capital	**20,606**
Net Tier 3 Capital	**-**
Total Eligible Capital	**188,085**

Table 3: CAP – Scope of Capital

CAP: Scope of Capital	
KYD ('000)	**31-Mar-23**
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.	-

2.2.3. 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, 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.

2.2.4. Table 4 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 4, CNB remained adequately capitalized as at 31 March 2023.

Table 4: CAP – Capital Adequacy

CAP: Capital Adequacy	
KYD ('000)	**31-Mar-23**
Capital Requirement	
Capital Requirement: Credit Risk: ***Standardised Approach***	80,645
Capital Requirement: Market Risk: ***Standardised Approach***	18
Capital Requirement: Operational Risk: ***Basic Indicator Approach***	17,610
Capital Adequacy Ratio	
Tier 1 Capital Adequacy Ratio	**25.56%**
Total Capital Adequacy Ratio	**28.71%**

2.3. Leverage Ratio – LR1 & LR2

2.3.1. 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.

2.3.2. Table 5 provides a reconciliation between the regulatory exposure measure and the financial statements of CNB.

Table 5: LR1 – Summary comparison of accounting assets vs leverage ratio exposure measure

LR1: Summary comparison of accounting assets vs leverage ratio exposure measure		
	KYD ('000)	**31-Mar-23**
1	Total consolidated assets as per published financial statements	1,497,542
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)	1,826
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	(10)
12	Other adjustments	4,502
13	**Leverage ratio exposure measure**	**1,503,860**

2.3.3. The following provides detail on the adjustments identified in Table 5:

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 5 above.
b. Row 11 - CIMA approved capital deduction of related party loans.
c. Row 12 - Other adjustments constitute of unearned loan origination fees and provisions on 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.

2.3.4. As evident in Table 6 below, the Basel III leverage ratio increased from 10.94% reported as at 31 December 2022 to 11.14% reported as at 31 March 2023.

Table 6: LR2 – Leverage Ratio common disclosure

LR2: Leverage Ratio common disclosure			
KYD ('000)		a	b
		31-Mar-23	31-Dec-22
On-Balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,509,809	1,503,425
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)	(7,332)	(7,391)
6	(Asset amounts deducted in determining Basel III Tier 1 capital and regulatory adjustments)	(10)	(4,216)
7	**Total on balance sheet exposures** (excluding derivatives and SFTs) (sum of rows 1 to 6)	**1,502,467**	**1,491,818**
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	125,078	183,820
20	(Adjustments for conversion to credit equivalent amounts)	(123,252)	(182,020)
21	(Specific and general provisions associated with off balance sheet exposures deducted in determining Tier 1 capital)	(433)	(545)
22	**Off-balance sheet items** (sum of rows 19 to 21)	**1,393**	**1,255**
Capital and total exposures			
23	**Tier 1 capital**	**167,480**	**163,274**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**1,503,860**	**1,493,073**

LR2: Leverage Ratio common disclosure			
KYD ('000)		a	b
		31-Mar-23	31-Dec-22
Leverage ratio			
25	**Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	**11.14%**	**10.94%**
25a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	11.14%	10.94%
26	National minimum leverage ratio requirement	3.00%	3.00%
27	**Applicable leverage buffers**	**8.14%**	**7.94%**

2.3.5. The increase in the Leverage Ratio is due to a proportionally larger increase in Total Tier 1 capital in comparison with the increase in Total Exposures. The increase in Tier 1 Capital is attributable to an increase in Retained Earnings and the increase in Total Exposure is largely due to an overall increase in CNB's "On-balance sheet exposures".

3. CREDIT RISK

3.1. Credit Quality of Assets - CR1, CR2

3.1.1. Table 7 provides a holistic view of the credit quality of CNB's assets. CNB considers a financial instrument defaulted, and therefore Stage 3 (credit-impaired) 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 7: CR1 – Credit Quality of Assets

CR1: Credit Quality of Assets					
		a	b	c	d
31 March 2023 KYD ('000)		Gross carrying values of:		Allowances/ Impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	15,242	870,451	7,332	878,361
2	Debt Securities	-	337,082	585	336,497
3	Off-balance sheet exposures	-	125,078	433	124,645
4	**Total**	**15,242**	**1,332,611**	**8,350**	**1,339,503**

3.1.2. Table 8 shows the movement in defaulted loans between 30 September 2022 and 31 March 2023. The reduction in defaulted loans from KYD 16.01 million reported as at 30 September 2022 to KYD 15.24 million reported as at 31 March 2023, is mostly due to KYD 0.88 million financial assets being written off since the last reporting period.

3.1.3. 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 8: CR2 – Changes in Stock of Defaulted Loans and Debt Securities

CR2: Changes in Stock of Defaulted Loans and Debt Securities		
	KYD ('000)	**31-Mar-23**
1	**Defaulted loans and debt securities at end of the previous reporting period**	**16,014**
2	Loans and debt securities that have defaulted since the last reporting period	582
3	Returned to non-defaulted status	111
4	Amounts written off	883
5	Other changes	(360)
6	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)**	**15,242**

3.2. Credit Risk Mitigation - CR3

3.2.1. 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.

3.2.2. Table 9 provides an overview of CNB's CRM techniques as at 31 March 2023. There were no significant movements since 30 September 2022 other than the increases in unsecured Debt Securities and "Exposures secured by financial guarantees". Debt Securities increased from KYD 300.86 million reported as at 30 September 2022 to KYD 336.5 million reported as at 31 March 2023, mostly due to additional US Treasury investments made as part of CNB Liquidity management strategies. "Exposures secured by financial guarantees" increased from KYD 0.58 million reported as at 30 September 2022 to KYD 4.3 million reported as at 31 March 2023, mostly due to an increase in loans to small and medium business, as part of the Cayman Islands Government ("CIG") stimulus plan which guarantees up to 50% of the loan balance.

Table 9: CR3 – Credit Risk Mitigation Techniques

CR3: Credit Risk Mitigation Techniques - Overview								
31 March 2023 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	25,295	853,066	853,066	4,303	1,691	-	-
2	Debt securities	336,497	-	-	-	-	-	-
3	**Total**	**361,792**	**853,066**	**853,066**	**4,303**	**1,691**	**-**	**-**
4	Of which defaulted	79	15,163	15,163	-	-	-	-

3.3. Credit Risk - Regulatory RWA - CR4 & CR5

3.3.1. Table 10 provides an overview of the regulatory risk weighted assets including the effects of CCF and CRM techniques. There were no significant movements since 30 September 2022 in terms of RWA Density on both an aggregate or individual asset class basis. On an aggregate basis the RWA Density decreased from 37.43% reported as at 30 September 2022 to 35.55% reported as at 31 March 2023. The largest movement on an individual asset class basis relates to "Other assets" where the on-balance sheet exposure increased from KYD 74.85 million reported as at 30 September 2022 to KYD 120.42 million whereas the RWA Density decreased from 45.00% to 42.25% over the same period. The increase in "Other assets" is mainly due to a KYD35.77 million increase in "Cash Items" (which is included in "Other assets").

Table 10: CR4 – Credit Risk Exposure and CRM Effects

CR4: Standardised Approach - Credit Risk Exposure and CRM Effects							
31 March 2023 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	Sovereigns and their central banks	233,535	-	233,535	-	3,066	1.31%
2	Non-central government public sector entities	25,826	-	25,826	-	19,371	75.01%
3	Multilateral development banks	59,556	-	59,556	-	-	0.00%
4	Banks	177,385	-	177,385	-	37,638	21.22%
5	Securities firms	-	-	-	-	-	0.00%
6	Corporates	67,862	94,312	67,862	1,815	32,916	47.24%
7	Regulatory retail portfolios	51,373	30,765	51,373	11	40,002	77.85%
8	Secured by residential property	669,572	-	669,572	-	252,884	37.77%
9	Secured by commercial real estate	89,041	-	89,041	-	88,459	99.35%
10	Past-due exposures	15,241	-	10,605	-	10,599	99.94%
11	Higher-risk categories	-	-	-	-	-	0.00%
12	Other assets	120,420	-	120,420	-	50,872	42.25%
13	**Total**	**1,509,811**	**125,077**	**1,505,175**	**1,826**	**535,807**	**35.55%**

3.3.2. Table 11 provides a breakdown of CNB's credit risk exposures by asset class and risk weight. There were no significant movements since 30 September 2022. The largest movement on both an individual asset class and risk weight basis, relates to zero percent risk weighted "Sovereigns and their central banks" exposures. The exposure increased from KYD 178.58 million reported as at 30 September 2022 to KYD 227.38 million, mostly due to CNB shifting from longer to shorter term investments to meet short term obligations.

<u>Table 11:</u> CR5 – Exposures by Asset Class and Risk Weights

	CR5: Standardised Approach - Exposures by Asset Class and Risk Weights										
	31 March 2023 KYD '(000)	**a**	**b**	**c**	**d**	**e**	**f**	**g**	**h**	**i**	**j**
	Risk Weight / Asset classes	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposure amount (post CCF and post CRM)**
1	Sovereigns and their central banks	227,382	-	4,410	-	-	-	863	880	-	233,535
2	Non-central government public sector entities	-	-	8,069	-	-	-	17,757	-	-	25,826
3	Multilateral development banks	59,556	-	-	-	-	-	-	-	-	59,556
4	Banks	2,959	-	170,183		4,243	-	-	-	-	177,385
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	17,027	-	42,649		8,186	-	-	67,862
7	Regulatory retail portfolios	-	-	-	-	-	25,496	25,877	-	-	51,373
8	Secured by residential property	-	-	-	621,407	-	48,165	-	-	-	669,572
9	Secured by commercial real estate	-	-	-	-	-	-	89,041	-	-	89,041
10	Past-due exposures	-	-	-	-	-	-	15,241	-	-	15,241
11	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
12	Other assets	12,440	-	71,385	-	-	-	36,595	-	-	120,420
13	**Total**	302,337	-	271,074	621,407	46,892	73,661	193,560	880	-	1,509,811

4. LIQUIDITY RISK

4.1. Liquidity Coverage Ratio – LIQ1

4.1.1. The Liquidity Coverage Ratio ("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 12 below provides a breakdown of CNB's LCR as at 31 March 2023, which has been derived by using the simple average balances of month end balances for November 2022, December 2022 and March 2023.

4.1.2. CNB's total HQLA of KYD 265.47 million consists of KYD 233.1 million of Level 1 HQLA, KYD 13.66 million of Level 2A HQLA and KYD 18.71 million of Level 2B HQLA. 39.28% of funding is attributable to Retail Deposits, 30.47% to Small Business Customers, 11.09% to Other Financial Institutions, 7.21% to Sovereign deposits, 6.71% to Banks and 5.23% to Non-Financial Institutions. 96.61% of HQLA is denominated in USD and 3.27% of HQLA is denominated in KYD. 95.99% of Total Net Cash Outflows is denominated in KYD, 5.81% of in EUR, 3.2% in JPY, 0.59% in CAD, 0.04% in CHF, -2.3% in GBP and -3.32% in USD.

4.1.3. CNB's LCR ratio increased from 158% reported as at 31 December 2022 to 181% reported as at 31 March 2023, due to an increase in Total HQLA and a decrease in Net Cash Outflows. The increase in Total HQLA was mostly attributable to the reinvestment of maturing bonds into Treasury Bills, in order to meet short term obligations whilst taking advantage of the rising interest rate environment. Furthermore, customer deposits remained relatively stable over the period, but a significant undrawn committed credit facility was cancelled due to the client no longer meeting CNB's credit approval requirements, which contributed to the decrease in Net Cash Outflows.

Table 12: LIQ1 – Liquidity Coverage Ratio as at 31 March 2023

LIQ1: Liquidity Coverage Ratio ("LCR")			
31 March 2023 KYD ('000)		a Total unweighted value	b Total weighted value
High-quality liquid assets			
1	**Total HQLA**		**265,466**
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which;	864,901	73,002
3	Stable deposits	-	-
4	Less stable deposits	864,901	73,002
5	Unsecured wholesale funding, of which:	375,031	230,318
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	115,439	28,860
7	Non-operational deposits (all counterparties)	259,592	201,459
8	Unsecured debt	-	-
9	Secured wholesale funding		-
10	Additional requirements, of which:	143,287	6,879
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	134,156	6,708
14	Other contractual funding obligations		
15	Other contingent funding obligations	9,131	171
16	**TOTAL CASH OUTFLOWS**		**310,199**
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	-	-
19	Other cash flows	226,929	163,305
20	**TOTAL CASH INFLOWS**		**163,305**
			Total adjusted value
21	**Total HQLA**		**265,466**
22	**Total net cash outflows**		**146,894**
23	**Liquidity Coverage Ratio (%)**		**181%**

4.2. Net Stable Funding Ratio – LIQ2

4.2.1. The Net Stable Funding Ratio ("NSFR") promotes resilience over a longer-term horizon by requiring funding of its activities with stable sources of funding on an ongoing basis. Table 13 below provides a breakdown of CNB's NSFR as at 31 March 2023.

4.2.2. The NSFR ratio decreased marginally from 148% reported as at 30 September 2022 to 147% reported as at 31 March 2023. This decrease is due to a proportionally larger increase in Required Stable Funding ("RSF") in comparison with the increase in Available Stable Funding ("ASF"). ASF increased from KYD 1.09 billion as at 30 September 2022 to KYD 1.13 billion as at 31 March 2022, due to an increase in wholesale funding and an increase in regulatory capital (in accordance with the increase in profits), partially offset by a decrease in retail funding. RSF increased from KYD 735.58 million as at 30 September 2022 to KYD 771.01 million as at 31 March 2023, mostly attributable to an increase in operational deposits held at other financial institutions in accordance with CNB's current investment strategy.

<u>Table 13:</u> LIQ2 – Net Stable Funding Ratio as at 31 March 2023

LIQ2: Net Stable Funding Ratio ("NSFR")						
31 March 2023 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:**	**188,096**	**-**	**-**	**-**	**188,096**
2	*Regulatory capital*	188,096	-	-	-	188,096
3	*Other capital instruments*	-	-	-	-	-
4	**Retail deposits and deposits from small business customers:**	**-**	**819,334**	**37,204**	**5,823**	**776,708**
5	*Stable deposits*	-	-	-	-	-
6	*Less stable deposits*	-	819,334	37,204	5,823	776,708
7	**Wholesale funding:**	**-**	**419,550**	**8,333**	**1,833**	**147,310**
8	*Operational deposits*	-	119,563	-	-	59,781
9	*Other wholesale funding*	-	299,988	8,333	1,833	87,529
10	**Liabilities with matching interdependent assets**	**-**	**-**	**-**	**-**	**-**
11	**Other liabilities:**	**-**	**2,854**	**-**	**22,147**	**22,147**
12	*NSFR derivative liabilities*	-	-	-	-	-
13	*All other liabilities and equity not included in the above categories*	-	2,854	-	22,147	22,147
14	**Total ASF**	**188,096**	**1,241,738**	**45,537**	**29,803**	**1,134,261**

LIQ2: Net Stable Funding Ratio ("NSFR")						
31 March 2023 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**	
Required Stable Funding (RSF) Item						
15	**Total NSFR high-quality liquid assets (HQLA)**				**-**	**32,245**
16	**Deposits held at other financial institutions for operational purposes**	**-**	**-**	**-**	**-**	**35,693**
17	**Performing loans and securities:**	**98**	**268,525**	**31,733**	**787,734**	**638,946**
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*		167,752	-	5,279	30,442
20	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*		85,337	21,917	254,594	244,185
21	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*		8	-	129,236	84,007
22	*Performing residential mortgages, of which:*		10,467	6,858	484,947	323,878
23	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*		10,467	6,858	484,947	323,878
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*	98	4,970	2,958	42,914	40,441
25	**Assets with matching interdependent liabilities**					
26	**Other assets:**	**-**	**3,569**	**2**	**45,628**	**49,199**
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*		3,569	2	45,628	49,199
32	**Off-balance sheet items**					**14,928**
33	**Total RSF**					**771,011**
34	**Net Stable Funding Ratio (%)**					**147%**

5. MARKET RISK

5.1. Market Risk – Regulatory RWA– MR1

5.1.1. 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 rate.

5.1.2. Table 14 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 14, all of CNB's regulatory capital requirement for Market Risk is due to Foreign Exchange Risk.

Table 14: MR1: Market Risk – Standardised Approach

MR1: Market risk under the standardised approach		
	KYD ('000)	31-Mar-23 RWA
	Outright products	
1	Interest rate risk (general and specific)	-
2	Equity risk (general and specific)	-
3	Foreign exchange risk	120
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	**Total**	**120**

6. SECURITISATION

6.1. CNB currently does not have any exposure to securitization risk.

7. ASSET ENCUMBRANCE

7.1. Asset Encumbrance - ENC

7.1.1. As can be seen from Table 15 below, all of CNB's assets are unencumbered. Furthermore, there have been no changes in classification since the prior reporting period.

Table 15: ENC: Asset Encumbrance – 31 March 2023

ENC: Asset Encumbrance			
31 March 2023 KYD ('000)	**a**	**c**	**d**
	Encumbered assets	**Unencumbered assets**	**Total**
Cash and cash equivalents	-	-	-
Cash on hand	-	12,440	12,440
Operating accounts	-	71,384	71,384
Due from banks	-	156,697	156,697
Advances	-	874,011	874,011
Retail lending	-	21,330	21,330
Commercial & Corporate lending	-	287,532	287,532
Mortgages	-	540,732	540,732
Overdrafts	-	13,594	13,594
Credit Cards	-	10,823	10,823
Investment securities	-	344,416	344,416
Equities and mutual funds	-	98	98
Government securities	-	257,144	257,144
Corporate bonds/debentures	-	77,174	77,174
Placements over 3 months	-	10,000	10,000
Investment interest receivable	-	1,999	1,999
Investment property	-	98	98
Premises and equipment	-	31,624	31,624
Other assets	-	4,873	4,873
Total assets	**-**	**1,497,542**	**2,715,969**