

*Cayman National Bank  
Pillar 3 Disclosure Report - Annual*

As at 30 September 2024



**CAYMAN  
NATIONAL**

A Subsidiary of  Republic Financial Holdings Limited

## Table of Contents

1.	INTRODUCTION.....	3
2.	RISK MANAGEMENT .....	4
2.1.	Bank Risk Management Approach - OVA.....	4
3.	LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES .....	7
3.1.	Differences between scopes of consolidation – LI1 .....	7
3.2.	Differences between amounts reported - LI2 & LIA .....	8
4.	CAPITAL MANAGEMENT .....	9
4.1.	Overview of Risk Weighted Assets – OV1 .....	9
4.2.	Capital Overview - CAP.....	9
4.3.	Leverage Ratio – LR1 & LR2 .....	12
5.	CREDIT RISK .....	15
5.1.	Credit Risk Overview - CRA.....	15
5.2.	Credit Quality of Assets - CR1, CR2 & CRB.....	16
5.3.	Credit Risk Mitigation – CRC & CR3 .....	21
5.4.	Credit Risk - Regulatory RWA – CRD, CR4 & CR5 .....	22
6.	COUNTERPARTY CREDIT RISK.....	24
7.	LIQUIDITY RISK .....	25
7.1.	Liquidity Risk Management – LIQA .....	25
7.2.	Liquidity Coverage Ratio – LIQ1.....	29
7.3.	Net Stable Funding Ratio – LIQ2 .....	31
8.	MARKET RISK.....	32
8.1.	Market Risk Management – MRA.....	33
8.2.	Market Risk – Regulatory RWA– MR1 .....	34
9.	INTEREST RATE RISK IN THE BANKING BOOK.....	35
9.1.	Overview of Interest Rate Risk in the Banking Book - IRR .....	35
10.	OPERATIONAL RISK .....	38
10.1.	Overview of Operational Risk – OPR .....	38
11.	SECURITISATION .....	39
12.	REMUNERATION .....	40
12.1.	Remuneration disclosures – REM .....	40
13.	ASSET ENCUMBRANCE .....	43
13.1.	Asset Encumbrance - ENC.....	43

### 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). The shares of CNC are listed and publicly traded on the Cayman Islands Stock Exchange ("CSX").
- 1.2. CNC is majority 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 Limited ("TTSE").
- 1.3. 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. ("CNPH"), a company incorporated under the Companies Act of the Cayman Islands on June 4, 1996. The principal business of CNPH is to provide office space for CNC and its subsidiary companies and to hold other leased premises in the Cayman Islands. CNPH 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 CNPH.
- 1.4. This Annual CNB Pillar 3 Disclosure Report includes CNB's data as at 30 September 2024 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 CNPH, is subject to CIMA's Pillar 3 Rules, and as such is included throughout this Annual CNB Pillar 3 Disclosure Report. Please note that certain total amounts in the tables in this report may not sum up due to rounding and all amounts are reported in Cayman Islands dollars ("KYD"), unless otherwise specified.
- 1.5. 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 fulfil 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, which includes determining the strategy for risk management, the setting of Risk Appetite, ensuring that risks are monitored and that risk management controls are effective. CNB's Risk Management approach is documented within its Risk Management Policy which covers CNB's Risk Management Framework. The Framework is a comprehensive approach 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 robust risk culture throughout the bank. CNB is of the view that in order to generate sustainable growth and maintain good client relationships, risk must remain at the forefront of all decisions. Cultivating a robust risk culture also means that risk awareness is heavily engrained in our corporate culture and furthermore that the value of risk identification, measurement, management, reporting is recognised and understood. CNB's risk culture is effectively translated throughout the organisation and adopted as part of its daily business activities. CNB's policies and procedures help to promote a robust risk culture.
- 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. CNB does not employ any specific risk hedging strategies. Risks are effectively managed through sound risk acceptance criteria and the risk mitigation strategies established for its respective exposures informed by the experience gained from knowledge of its customers, industry sectors and prevailing economic conditions.
- 2.1.9. Stress testing is an important component of CNB's comprehensive risk management and capital assessment process as it not only provides Senior Management and the Board of Directors with an indication of what may happen to CNB's financial position given an adverse situation, it also informs CNB's evolving risk profile and its exposure to a variety of risks. Stress testing is used for capital planning, assessing the adequacy of liquidity, identification of risks and for strategic decision-making purposes. CNB's stress testing is governed by its Stress Testing Framework.
- 2.1.10. CNB has adopted Scenario Analysis, Sensitivity Analysis and Reverse Stress Testing approaches. 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. The 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. From time-to-time ad-hoc stress testing is requested by Senior Management or the Board of Directors. Ad-Hoc stress testing is typically requested to test the impact of probable changes in the economy or markets.
- 2.1.12. The Internal Capital Adequacy Assessment Process ("ICAAP") Report is prepared to provide the CNB Board with an overview of the risk management framework and the determination of capital required to support the activities of and risks faced by CNB during various stress periods. Additionally, the report is required pursuant to paragraphs 7 and 8 of The Supervisory Review Process (Pillar 2) Rules and Guidelines which requires locally incorporated banks to submit annual ICAAP Reports to CIMA. Scenario analysis is used in producing the ICAAP Report.
- 2.1.13. CNB produces a Recovery and Resolution Plan that has two components, a Recovery Plan and a Resolution Plan, and which is updated on an annual basis. The Recovery Plan is an assessment conducted by CNB to determine what its management could do to keep the bank solvent and/or the business model viable should it incur life-threatening losses and/or adverse events. The Resolution Plan is an assessment conducted by CNB to facilitate the orderly resolution of itself, which is required to ensure the continuity of the bank's 'critical functions', to maintain financial stability and/or to restore the bank's viability (or parts thereof).
- 2.1.14. 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 1 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.							
30 September 2024 KYD ('000)	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			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
<b>Assets</b>							
Cash on hand	14,469	15,902	15,902	-	-	-	1,433
Due from banks	101,952	244,936	244,936	-	-	-	142,984
Advances	1,008,690	1,016,602	1,016,602	-	-	-	7,912
Investment securities	708,120	564,170	564,170	-	-	-	(143,950)
Investment interest receivable	6,736	6,736	6,736	-	-	-	-
Investment property	98	98	98	-	-	-	-
Premises and equipment	22,279	22,279	22,279	-	-	-	-
Right-of-use assets	9,750	9,750	9,750	-	-	-	-
Intangible Assets	4,172	4,172	4,172	-	-	-	-
Other assets	5,417	5,417	5,417	-	-	-	-
<b>Total assets</b>	<b>1,881,683</b>	<b>1,890,062</b>	<b>1,890,062</b>	-	-	-	<b>8,379</b>
<b>Liabilities</b>							
Customers' current, savings and deposit accounts	1,603,125	1,603,125	-	-	-	-	-
Due to Banks	4,423	4,423	-	-	-	-	-
Accrued interest payable	11,786	11,786	-	-	-	-	-
Lease liabilities	10,449	10,449	-	-	-	-	-
Other liabilities	11,058	19,437	-	-	-	-	-
<b>Total liabilities</b>	<b>1,640,841</b>	<b>1,649,220</b>	-	-	-	-	-

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 on Hand 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 2 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 2024 KYD ('000)		a	b	c	d	e
		Total	Items subject to:			
			Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	<b>Asset carrying value amount under scope of regulatory consolidation (as per template LI1)</b>	<b>1,890,062</b>	<b>1,890,062</b>	-	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	<b>1,890,062</b>	<b>1,890,062</b>	-	-	-
4	Off-balance sheet amounts	188,699	188,699	-	-	-
5	Differences in valuations	-	-	-	-	-
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7	Differences due to consideration of provisions	-	-	-	-	-
8	Differences due to prudential filters	-	-	-	-	-
9	<b>Exposure amounts considered for regulatory purposes</b>	<b>2,078,761</b>	<b>2,078,761</b>	-	-	-

#### 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, Total RWA increased by 0.79% from KYD 853.58 million as at 30 June 2024 to KYD 860.31 million as at 30 September 2024. The increase in Total RWA was driven by a 0.93% increase in Credit Risk RWA from 708.02 million as at 30 June 2024 to KYD 714.64 million as at 30 September 2024.

**Table 3:** OV1 – Overview of RWA

OV1: Overview of RWA				
KYD ('000)		a	b	c
		RWA		Minimum capital Requirements
		30-Sep-24	30-Jun-24	30-Sep-24
<b>1</b>	<b>Credit risk (excluding counterparty credit risk) (CCR)</b>	<b>714,643</b>	<b>708,023</b>	<b>107,196</b>
<b>2</b>	<b>Securitisation exposures</b>	-	-	-
<b>3</b>	<b>Counterparty credit risk</b>	-	-	-
4	Of which: current exposure method	-	-	-
5	Of which: standardized method	-	-	-
<b>6</b>	<b>Market risk</b>	<b>221</b>	<b>108</b>	<b>33</b>
7	Of which: Equity risk	-	-	-
<b>8</b>	<b>Operational risk</b>	<b>145,449</b>	<b>145,449</b>	<b>21,817</b>
9	Of which: Basic Indicator Approach	145,449	145,449	21,817
10	Of which: Standardised Approach	-	-	-
11	Of which: Alternative Standardised	-	-	-
<b>12</b>	<b>Total (1 + 2 + 3 + 6 + 8)</b>	<b>860,313</b>	<b>853,580</b>	<b>129,047</b>

##### 4.2. Capital Overview - CAP

4.2.1. CNB’s policy is to diversify its sources of capital, 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:

- To comply with the capital requirements set by its regulator CIMA;
- To safeguard its ability to continue as a going concern while maximizing the return to stakeholders; and
- 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-24
<b>Tier 1 Capital</b>	
Paid up capital	2,437
Disclosed reserves	203,997
<i>Share premium</i>	1,696
<i>Retained earnings</i>	162,763
<i>Current year's earnings (audited)</i>	-
<i>General Reserves</i>	39,538
<i>Foreign currency translation adjustment</i>	-
Paid-up perpetual non-cumulative preference shares	-
Eligible innovative instruments	-
Minority Interest	-
Other Tier 1 Capital	-
<b>Total Tier 1 Capital</b>	<b>206,434</b>
<b>Deductions from Tier 1 Capital</b>	
Goodwill	4,172
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	-
<b>Total Deductions from Tier 1 Capital</b>	<b>4,172</b>
<b>Net Tier 1 Capital</b>	<b>202,262</b>
<b>Net Tier 2 Capital</b>	<b>38,549</b>
<b>Net Tier 3 Capital</b>	<b>-</b>
<b>Total Eligible Capital</b>	<b>240,811</b>

**Table 5:** CAP – Scope of Capital

<b>CAP: Scope of Capital</b>	
<b>KYD ('000)</b>	<b>30-Sep-24</b>
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, 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 2024.

**Table 6:** CAP – Capital Adequacy

<b>CAP: Capital Adequacy</b>	
<b>KYD ('000)</b>	<b>30-Sep-24</b>
<b>Capital Requirement</b>	
Capital Requirement: Credit Risk: <b>Standardised Approach</b>	107,196
Capital Requirement: Market Risk: <b>Standardised Approach</b>	33
Capital Requirement: Operational Risk: <b>Basic Indicator Approach</b>	21,817
<b>Capital Adequacy Ratio</b>	
<b>Tier 1 Capital Adequacy Ratio</b>	<b>23.51%</b>
<b>Total Capital Adequacy Ratio</b>	<b>27.99%</b>

**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 measure of exposure as prescribed by CIMA.
- 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

<b>LR1: Summary comparison of accounting assets vs leverage ratio exposure measure</b>		
<b>KYD ('000)</b>		<b>30-Sep-24</b>
1	Total consolidated assets as per published financial statements	1,881,683
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)	4,914
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	(4,172)
12	Other adjustments	8,379
<b>13</b>	<b>Leverage ratio exposure measure</b>	<b>1,890,804</b>

- 4.3.3. The following provides detail on the adjustments identified in Table 7:
- Row 10 - Off-Balance Sheet items post the Credit Conversion Factor ("CCF") and Credit Risk Mitigation ("CRM") are not reflected on the balance sheet and are therefore an adjustment item reported in row 10 of Table 7 above.
  - Row 11 - Includes Goodwill and a deduction of related party exposures (if any), as approved by CIMA.
  - Row 12 - Other adjustments include unearned loan origination fees. These fees are recorded as contra accounts that reduce gross loan balances but are reclassified as

liabilities on the balance sheet for regulatory purposes. This is because gross loan balances, rather than net loan balances, are used in the calculation of the capital adequacy ratio. Additionally, other adjustments include general provisions, which function as contra accounts against the loan portfolio. Unlike unearned loan origination fees, these general provisions are added to Tier 2 capital rather than being subtracted from Tier 1 capital..

- 4.3.4. As evident in Table 8 below, the Basel III leverage ratio increased from 10.43% reported as at 30 June 2024 to 10.7% reported as at 30 September 2024. The increase in the Leverage Ratio is due to a decrease in Total Exposures. The decrease in Total Exposures is mostly due to a reduction of deposit funding and to loans being written off during the period, both of which resulted in an overall decrease in CNB's "On-balance sheet exposures".

**Table 8:** LR2 – Leverage Ratio common disclosure

LR2: Leverage Ratio common disclosure			
KYD ('000)		a	b
		30-Sep-24	30-Jun-24
<b>On-Balance sheet exposures</b>			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,893,800	1,942,987
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)	(3,738)	(4,925)
6	(Asset amounts deducted in determining Basel III Tier 1 capital and regulatory adjustments)	(4,172)	(4,172)
<b>7</b>	<b>Total on balance sheet exposures</b> (excluding derivatives and SFTs) (sum of rows 1 to 6)	<b>1,885,890</b>	<b>1,933,890</b>
<b>Derivative exposures</b>			
8	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	-	-
9	Add on amounts for potential future exposure associated with all derivatives transactions	-	-
10	(Exempted central counterparty (CCP) leg of client cleared trade exposures)	-	-
11	Adjusted effective notional amount of written credit derivatives	-	-
12	(Adjusted effective notional offsets and add on deductions for written credit derivatives)	-	-
<b>13</b>	<b>Total derivative exposures</b> (sum of rows 8 to 12)	<b>-</b>	<b>-</b>

<b>LR2: Leverage Ratio common disclosure</b>			
<b>KYD ('000)</b>		<b>a</b>	<b>b</b>
		<b>30-Sep-24</b>	<b>30-Jun-24</b>
<b>Securities financing transaction exposures</b>			
14	Gross SFT assets (with no recognition of netting), after adjustment for sale accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	Counterparty credit risk exposure for SFT assets	-	-
17	Agent transaction exposures	-	-
<b>18</b>	<b>Total securities financing transaction exposures</b> (sum of rows 14 to 17)	-	-
<b>Other off-balance sheet exposures</b>			
19	Off-balance balance sheet exposure at gross notional amount	188,699	188,547
20	(Adjustments for conversion to credit equivalent amounts)	(183,785)	(183,671)
21	(Specific and general provisions associated with off balance sheet exposures deducted in determining Tier 1 capital)	-	-
<b>22</b>	<b>Off-balance sheet items</b> (sum of rows 19 to 21)	<b>4,914</b>	<b>4,876</b>
<b>Capital and total exposures</b>			
<b>23</b>	<b>Tier 1 capital</b>	<b>202,262</b>	<b>202,262</b>
<b>24</b>	<b>Total exposures (sum of rows 7, 13, 18 and 22)</b>	<b>1,890,804</b>	<b>1,938,766</b>
<b>Leverage ratio</b>			
<b>25</b>	<b>Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)</b>	<b>10.70%</b>	<b>10.43%</b>
25a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	10.70%	10.43%
26	National minimum leverage ratio requirement	3.00%	3.00%
<b>27</b>	<b>Applicable leverage buffers</b>	<b>7.70%</b>	<b>7.43%</b>

## **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, 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, situated in single developments, 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 below provides a holistic view of the credit quality of CNB's assets. The paragraphs that follow provide definitions for key terms.

**Table 9:** CR1 – Credit Quality of Assets

CR1: Credit Quality of Assets					
30 September 2024 KYD ('000)		a	b	c	d
		Gross carrying values of:		Allowances/ Impairments	Net values (a+b-c)
		Defaulted exposures	Non- defaulted exposures		
1	Loans	17,578	1,002,762	6,903	1,013,437
2	Debt Securities	-	567,994	465	567,529
3	Off-balance sheet exposures	-	188,699	509	188,190
<b>4</b>	<b>Total</b>	<b>17,578</b>	<b>1,759,455</b>	<b>7,877</b>	<b>1,769,156</b>

- 5.2.2. 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 unlikelihood to pay. When such events occur, CNB carefully considers whether the event should result in treating the customer as defaulted or not.
- 5.2.3. CNB defines an exposure as being past due when any amount due (i.e. interest, principal and/or fees), as per the contractual terms, has not been received in full when it was due. The definition of "Past-Due" is the same from both a regulatory and accounting perspective and therefore all exposures past-due for more than 90 days will be considered Impaired and consequently in "Default". However from an accounting perspective "Impaired" is defined as a financial instrument being 90 days past due on its contractual payments and therefore all "Impaired" accounts will be "Defaulted" but not all "Defaulted" accounts will be "Impaired".

- 5.2.4. 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 first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to other income.
- 5.2.5. Table 10 shows the movement in defaulted loans between 31 March 2024 and 30 September 2024. The decrease in defaulted loans from KYD 20.05 million reported as at 31 March 2024 to KYD 17.58 million reported as at 30 September 2024, is mostly due to KYD 1.17 million financial assets that have been written off since the last reporting period, as well as KYD 2.38 million of accrued/unearned interest accumulated over the loan non-accrual period.

**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-24
<b>1</b>	<b>Defaulted loans and debt securities at end of the previous reporting period (31 March 2024)</b>	<b>20,050</b>
2	Loans and debt securities that have defaulted since the last reporting period	768
3	Returned to non-defaulted status	(301)
4	Amounts written off	1,166
5	Other changes	(2,375)
<b>6</b>	<b>Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)</b>	<b>17,578</b>

- 5.2.6. 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.
- 5.2.7. 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.

- 5.2.8. 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.
- 5.2.9. 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.
- 5.2.10. 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**

- 5.2.11. 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.
- 5.2.12. 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**

- 5.2.13. 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**

- 5.2.14. 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%.

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

**Table 11:** CRB – Impaired Exposures by Geographical Region

<b>Credit Quality of Assets: Exposures by Geographical Region</b>					
<b>30 September 2024</b>					
<b>KYD ('000)</b>					
<b>Country</b>	<b>Gross Exposure</b>			<b>Impairments</b>	<b>Write-Offs since 30-Sep-2023</b>
	<b>Total</b>	<b>Un-Impaired</b>	<b>Impaired</b>		
Cayman Islands	1,233,190	1,221,907	15,019	3,736	1,238
United States	385,921	385,850	71	-	-
Canada	175,820	175,819	1	-	-
Europe	59,325	59,021	305	1	-
Trinidad and Tobago	60,092	60,092	-	-	-
Other	160,676	160,676	-	-	-
<b>Total</b>	<b>2,075,024</b>	<b>2,063,365</b>	<b>15,396</b>	<b>3,737</b>	<b>1,238</b>

**Table 12:** CRB – Impaired Exposures by Industry

<b>Credit Quality of Assets: Exposures by Industry</b>					
<b>30 September 2024</b>					
<b>KYD ('000)</b>					
<b>Industry</b>	<b>Gross Exposure</b>			<b>Impairments</b>	<b>Write-Offs since 30-Sep-2023</b>
	<b>Total</b>	<b>Un-Impaired</b>	<b>Impaired</b>		
Agriculture	1,333	1,331	2	-	-
Construction	74,186	74,170	56	40	209
Distribution	5,755	5,557	337	139	-
Energy and mining	480	480	-	-	-
Electricity and Water	856	856	-	-	-
Government & Government Bodies	410,005	410,005	-	-	-
Financial Sector	458,333	458,328	6	1	-
Hotel and Restaurant	1,044	1,043	1	-	-
Manufacturing	25,116	25,098	70	52	27
Other Services	132,545	132,527	368	350	85
Personal	662,422	654,418	11,157	3,153	837
Real Estate	134,662	132,139	2,524	1	-
Retail Lending	107,854	107,279	576	1	80
Transport storage and communication	60,433	60,134	299	-	-
<b>Total</b>	<b>2,075,024</b>	<b>2,063,365</b>	<b>15,396</b>	<b>3,737</b>	<b>1,238</b>

5.2.16. 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

<b>Credit Quality of Assets: Distribution of Exposures by Residual Maturity</b>									
<b>30 September 2024</b>									
<b>KYD ('000)</b>									
	<b>Sight - 8 Days</b>	<b>8 days - 1 Month</b>	<b>1 - 3 Months</b>	<b>3 - 6 Months</b>	<b>6 - 12 Months</b>	<b>1 - 5 Years</b>	<b>Over 5 Years</b>	<b>No Maturity</b>	<b>Total</b>
<b>Gross Exposure</b>	135,079	86,053	175,062	74,159	126,613	290,863	854,468	336,464	<b>2,078,761</b>

**Table 14:** CRB – Past-due Exposures Ageing Analysis

<b>Credit Quality of Assets: Past-due Exposures Ageing Analysis</b>								
<b>30 September 2024</b>								
<b>KYD ('000)</b>								
	<b>Sight - 8 Days</b>	<b>8 days - 1 Month</b>	<b>1 - 3 Months</b>	<b>3 - 6 Months</b>	<b>6 - 12 Months</b>	<b>1 - 5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
<b>Gross Exposure</b>	10,605	16,623	7,794	1,616	1,805	5,222	1,264	<b>44,929</b>

5.2.17. CNB occasionally makes modifications to the original terms of retail loans and mortgages agreements, which may include a modification of terms or conditions such as, but not limited to, a reduction in the interest rate from the one originally agreed, amendment to the contractual maturity or payment frequency, a reduction in the relevant principal amount due or forgiveness, deferral or postponement of a principal amount, interest amount or fees due. CNB distinguishes between modifications that take place in the normal course of business (i.e. “Renegotiations”) and those that take place as a result of financial distress and/or difficulties on the part of the borrower (i.e. “Restructures”).

5.2.18. Restructures can take place as a response to the borrower’s financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. These distressed modifications (i.e. restructures or forbore exposures) 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, request for loan payment deferrals, 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 restructuring of the terms.

5.2.19. Restructured loans are carefully monitored and amounted to KYD 4.3 million as at 30 September 2024, of which only 16.33% were impaired, as noted in Table 15 below.

**Table 15:** CRB – Restructured Exposures

<b>Credit Quality of Assets: Restructured Loans Breakdown between Impairment Status</b>			
<b>30 September 2024</b>			
<b>KYD ('000)</b>			
	<b>Total</b>	<b>Impaired</b>	<b>Not-Impaired</b>
<b>Commercial and Corporate Lending</b>	-	-	-
<b>Retail Loans</b>	150	-	150
<b>Residential Mortgages</b>	4,112	696	3,416
<b>Total</b>	<b>4,262</b>	<b>696</b>	<b>3,566</b>

### 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, cash, business assets and land.
- 5.3.3. Collateral, unless repossessed, is not recorded on CNB’s 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. CNB requires updated valuations of real estate and land every five years for performing loans over CI\$250,000 and every three years for impaired loans. Furthermore, values of investment portfolios held for collateral is updated quarterly with current market valuations.
- 5.3.4. Table 16 provides an overview of CNB’s CRM techniques as at 30 September 2024. There was a significant KYD 67.58 million increase in total exposures since 31 March 2024, mostly due to the overall growth in the CNB’s loan portfolio over the same period. In particular, Debt Securities increased from KYD 565.97 million reported as at 31 March 2024 to KYD 567.53 million reported as at 30 September 2024, with Loans

increasing from KYD 947.42 million to KYD 1,013.44 million over the same period.

**Table 16:** CR3 – Credit Risk Mitigation Techniques

CR3: Credit Risk Mitigation Techniques - Overview								
30 September 2024 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	35,843	977,594	977,594	3,017	1,379	-	-
2	Debt securities	567,529	-	-	-	-	-	-
<b>3</b>	<b>Total</b>	<b>603,372</b>	<b>977,594</b>	<b>977,594</b>	<b>3,017</b>	<b>1,379</b>	-	-
4	Of which defaulted	632	16,946	16,946	-	-	-	-

#### 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 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, which did not change since the previous reporting period.
- 5.4.2. Table 17 details the mapping that CNB uses between the main ECAIs, and the credit quality used to determine the risk weighting applied to rated counterparties.

**Table 17:** ECAI Mapping

ECAI Mapping			
Credit Quality	Fitch	Moody's	S&P
1	AAA to AA-	Aaa to Aa3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below

5.4.3. Table 18 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 2024 in terms of RWA Density on both an aggregate or individual asset class basis. On an aggregate basis the RWA Density increased from 37.23% reported as at 31 March 2024 to 37.71% reported as at 30 September 2024. The largest movement on an individual asset class basis relates to "Corporates" where the on-balance sheet exposure marginally increased from KYD 180.32 million reported as at 31 March 2024 to KYD 180.47 million whereas the RWA Density decreased from 51.57% to 48.03% over the same period.

**Table 18:** CR4 – Credit Risk Exposure and CRM Effects

<b>CR4: Standardised Approach - Credit Risk Exposure and CRM Effects</b>							
<b>30 September 2024 KYD ('000)</b>		<b>a</b>	<b>b</b>	<b>c</b>	<b>d</b>	<b>e</b>	<b>f</b>
		<b>Exposures before CCF and CRM</b>		<b>Exposures post-CCF and CRM</b>		<b>RWA and RWA density</b>	
	<b>Asset classes</b>	<b>On- balance sheet amount</b>	<b>Off-balance sheet amount</b>	<b>On-balance sheet amount</b>	<b>Off-balance sheet amount</b>	<b>RWA</b>	<b>RWA Density</b>
1	Sovereigns and their central banks	306,299	-	306,299	-	9,931	3.24%
2	Non-central government public sector entities	32,019	-	32,019	-	22,164	69.22%
3	Multilateral development banks	71,612	-	71,612	-	2,573	3.59%
4	Banks	307,010	-	307,010	-	82,521	26.88%
5	Securities firms	-	-	-	-	-	0.00%
6	Corporates	180,465	159,121	180,465	4,903	89,036	48.03%
7	Regulatory retail portfolios	77,867	29,578	77,867	11	64,482	82.80%
8	Secured by residential property	720,082	-	720,082	-	269,559	37.43%
9	Secured by commercial real estate	123,248	-	123,248	-	122,707	99.56%
10	Past-due exposures	13,839	-	13,839	-	13,836	99.98%
11	Higher-risk categories	-	-	-	-	-	0.00%
12	Other assets	57,621	-	57,621	-	37,834	65.66%
<b>13</b>	<b>Total</b>	<b>1,890,062</b>	<b>188,699</b>	<b>1,890,062</b>	<b>4,914</b>	<b>714,643</b>	<b>37.71%</b>

5.4.4. Table 19 provides a breakdown of CNB's credit risk exposures by asset class and risk weight. There was an overall increase in credit exposure due to the growth in the Loan portfolio over the same period. In particular, the Loan portfolio with asset classes "Secured by Residential Property" and "Secured by Commercial Real Estate", in the 35% and 100% respective risk weights, grew significantly. The largest movement on

both an individual asset class and risk weight basis, relates to the 35% risk weighted “Secured by Residential Property” exposures, which increased from KYD 625.9 million reported as at 31 March 2024 to KYD 672.52 million reported as at 30 September 2024.

**Table 19:** CR5 – Exposures by Asset Class and Risk Weights

<b>CR5: Standardised Approach - Exposures by Asset Class and Risk Weights</b>											
<b>30 September 2024 KYD '(000)</b>		<b>a</b>	<b>b</b>	<b>c</b>	<b>d</b>	<b>e</b>	<b>f</b>	<b>g</b>	<b>h</b>	<b>i</b>	<b>j</b>
<b>Asset classes</b>	<b>Risk Weight</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>35%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	<b>150%</b>	<b>Others</b>	<b>Total credit exposure amount (post CCF and post CRM)</b>
	1	Sovereigns and their central banks	276,998	-	24,213	-	-	-	5,088	-	-
2	Non-central government public sector entities	-	-	11,587	-	1,172	-	19,260	-	-	<b>32,019</b>
3	Multilateral development banks	58,745	-	12,867	-	-	-	-	-	-	<b>71,612</b>
4	Banks	-	-	236,615	-	70,395	-	-	-	-	<b>307,010</b>
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	57,589	-	94,988	-	32,791	-	-	<b>185,368</b>
7	Regulatory retail portfolios	4,742	-	-	-	-	34,618	38,518	-	-	<b>77,878</b>
8	Secured by residential property	1,994	-	-	672,516	-	45,572	-	-	-	<b>720,082</b>
9	Secured by commercial real estate	541	-	-	-	-	-	122,707	-	-	<b>123,248</b>
10	Past-due exposures	-	-	-	-	-	-	13,839	-	-	<b>13,839</b>
11	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
12	Other assets	18,641	-	1,433	-	-	-	37,547	-	-	<b>57,621</b>
<b>13</b>	<b>Total</b>	<b>361,661</b>	<b>-</b>	<b>344,304</b>	<b>672,516</b>	<b>166,555</b>	<b>80,190</b>	<b>269,750</b>	<b>-</b>	<b>-</b>	<b>1,894,976</b>

## **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. As further discussed in paragraphs 7.1.3, 7.1.10 and 7.1.11 below, CNB’s Liquidity Risk Management framework (including but not limited to its Liquidity Risk Strategy, Policies and Practices) is defined by its Treasury Risk and Investment Management Policy (“TRIM Policy”) and Treasury Risk and Investment Management Procedure (“TRIM Procedure”), both of which are managed and communicated through CNC’s ALCO, as outlined in paragraphs 7.1.3 below. CNB operates within various Board approved limits, which furthermore provides a representation of CNB’s Liquidity Risk Tolerance. CNC’s ALCO has representation across business lines as it consists of the CNC CEO and CNB President, CNC Executive Vice President (“EVP”) – Wealth Management and Treasury, CNC EVP - Chief Operating Officer, CNC EVP – Service Delivery and Premier Banking, CNB Senior Vice President – Personal and Business Banking, CNC Executive Vice President – Chief Financial Officer, CNC Senior Vice President – Risk Management.
- 7.1.3. CNB’s TRIM Policy and TRIM Procedure, which both define the framework for managing liquidity, ultimately falls under the authority of the CNC Board, who in turn assigns authority for its formulation, monitoring and revision to CNC’s ALCO. ALCO is primarily responsible for actively monitoring and managing CNC’s liquidity profile. The day-to-day liquidity management is conducted by the Treasury Department with oversight from the ALCO and the Executive Committee.
- 7.1.4. 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.

7.1.5. CNB's funding strategy is centralized and managed by CNC's ALCO. CNPH, CNB's property holding subsidiary, may require funding to meet expenses and to acquire property. CNPH currently meets its day-to-day funding needs from surplus cash from its operation, however funding can also be provided from its shareholder through an equity injection if required. Table 20 provides a breakdown of the tenor of CNB's funding sources:

**Table 20:** Deposit Maturity Breakdown

Deposit Maturity Breakdown					
Funding by Product (%)	Up to 3 months	3-6 months	6-12 months	1-2 years	2-3 years
Term Deposits	28.31%	8.10%	7.09%	1.99%	2.81%
Savings Accounts	29.61%	-	-	-	-
Current Accounts	22.09%	-	-	-	-
<b>Total Deposits Portfolio</b>	<b>80.01%</b>	<b>8.10%</b>	<b>7.09%</b>	<b>1.99%</b>	<b>2.81%</b>

7.1.6. CNB manages its funding concentration or its excessive reliance on any single source by imposing a Top 10 to Total Deposits ratio limit for both local currency and USD. CNB's prime source of funding is depositor funding and therefore the bank has established a Top 10 deposit concentration limit of less than or equal to 15% of the banks total deposit portfolio. CNB mitigates any concentration that exceeds the 15% limit by holding additional HQLAs, as described in the TRIM Procedure.

7.1.7. 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.

7.1.8. 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 CNC 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.

- 7.1.9. 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.
- 7.1.10. CNB's TRIM Policy and TRIM Procedure govern 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) Regulatory Limits – Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR");
  - b) Top 10 Deposits to Total Deposits;
  - c) Total Loans to Total Deposits;
  - d) Total Performing Loans to Total Assets; and
  - e) Non-performing Loans to Total Loans.
- 7.1.11. CNC's ALCO holds at least 10 meetings annually to review the prospective liquidity risk positions and monitor against policy limits as per CNC'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; and
  - f) CNB Funding Profile - an overview of CNB's deposit products.
- 7.1.12. Liquidity Risk is a material risk to CNB, but holding capital against Liquidity Risk is not a viable solution. Any capital held against Liquidity Risk would not assist the bank in the event of a liquidity event. The only way a bank can protect against a liquidity event is to hold sufficient liquidity. As such, CNB monitors various liquidity ratios and metrics.
- 7.1.13. Table 21 outlines key metrics that CNB use to assess its liquidity position on a monthly basis. The cumulative liquidity gap over a 12-month period ("12 Month Gap"), the stock of high-quality liquid assets ("HQLA") and Net Cash Flows, all of which inform either the demand or availability of funding.

**Table 21:** Liquidity Measurement Tools

Liquidity Measurement Tools		
Metric	30-Sep-23	30-Sep-24
12 Month Gap (KYD' million)	(\$120.40)	(\$83.23)
HQLA (KYD' million)	\$355.62	\$479.90
Net Cash Flows (KYD' million)	\$261.35	\$299.32

7.1.14. CNB's has developed a cash flow projection model to analyze and forecast cash movements within the bank and to ensure the bank maintains sufficient liquidity to fund its operations and avoid liquidity issues. This includes a weekly and a six-monthly cash flow projection.

7.1.15. The LCR and NSFR ratios are regulatory requirements from CIMA and are the two liquidity ratios that are most closely monitored. CNB uses the LCR (which projects immediate cash outflows based on applicable run off rates) to inform future liquidity positions. In assessing CNB's liquidity position by monitoring these ratios, CNB also conducts stress testing of these ratios on a monthly basis. It is important to note that both the LCR and NSFR are calculated taking into account factors that are already designed based on a stress event. As such, CNB's stress on these ratios is over-and-above the inherent stress in the calculation of the ratio. These stresses assist CNB in determining whether its liquidity position is adequate.

7.1.16. CNB's LCR and NSFR is assessed under the following stress scenarios and assumptions. This assessment provides a pro-active measure of sensitivity of the regulatory liquidity ratios for changes in the CNB funding portfolio and is presented to CNC's ALCO on a monthly basis.

**Table 22:** Liquidity Stress Testing Scenario Descriptions

Scenario Name	Scenario Description
<b>Stress (A)</b>	A 5% reduction in Non-Maturity Demand and/or Term Deposits (Retail and Small Business Customers)
<b>Stress (B)</b>	A 10% reduction in Operational Deposits (All Counterparties)
<b>Stress (C)</b>	A 10% reduction in Non-Operational Deposits (All Counterparties)
<b>Stress (D)</b>	A 5% reduction in Secured Funding consisting of: Undrawn Committed Credit and Liquidity Facilities (All Counterparties) and other contingent funding obligations
<b>Stress €</b>	A 5% reduction in Non-Maturity Demand and/or Term Deposits (Retail and Small Business Customers) and a 10% reduction in Operational and Non-Operational Deposits (All Counterparties)
<b>Stress (F)</b>	Top 3 Depositors - Instantaneous Withdrawal
<b>Stress (G)</b>	Top 3 Depositors - Instantaneous Withdrawal (Excluding Government)

Scenario Name	Scenario Description
<b>Stress (H)</b>	Top 5 Depositors - Instantaneous Withdrawal
<b>Stress (I)</b>	Top 5 Depositors - Instantaneous Withdrawal (Excluding Government)
<b>Stress (J)</b>	Top 10 Depositors – Demand Deposits Withdrawal
<b>Stress (K)</b>	Top 10 Depositors – Demand & Term Deposits (≤ 30 Days) Withdrawal

## **7.2. Liquidity Coverage Ratio – LIQ1**

- 7.2.1. The LCR is designed to ensure that a bank has sufficient unencumbered HQLA that can be converted into cash to meet its liquidity needs for a 30-calendar day liquidity stress scenario. Table 23 below provides a breakdown of CNB’s LCR as at 30 September 2024, which has been derived by using the simple average of month end balances for July 2024, August 2024 and September 2024.
- 7.2.2. CNB’s total HQLA of KYD 419.32 million consists of KYD 290.08 million of Level 1 HQLA, KYD 75.58 million of Level 2A HQLA and KYD 53.66 million of Level 2B HQLA. 41.19% of funding is attributable to Retail Deposits, 26.27% to Small Business Customers, 12.30% to Sovereign deposits, 9.05% to Banks, 6.98% to Other Financial Institutions and 4.21% to Non-Financial Institutions. 94.7% of HQLA is denominated in USD, 2.7% in KYD, 2.5% in GBP and 0.1% in EUR. 55.7% of Total Net Cash Outflows is denominated in KYD, 40.1% in USD, 1.7% in GBP, 1.1% in JPY, 0.7% in CAD, 0.7% in EUR and 0.0% in CHF.
- 7.2.3. CNB’s average LCR ratio decreased from 185% reported as at 30 June 2024 to 157% reported as at 30 September 2024, due to HQLA assets retracting at a faster rate than the payout of deposits. HQLA assets were used to fund growth in the loan portfolio.

**Table 23:** LIQ1 – Liquidity Coverage Ratio as at 30 September 2024

<b>LIQ1: Liquidity Coverage Ratio ("LCR")</b>			
<b>30 September 2024 KYD ('000)</b>		<b>a</b>	<b>b</b>
		<b>Total unweighted value</b>	<b>Total weighted value</b>
<b>High-quality liquid assets</b>			
<b>1</b>	<b>Total HQLA</b>		<b>419,322</b>
<b>Cash Outflows</b>			
2	Retail deposits and deposits from small business customers, of which;	<b>988,666</b>	<b>74,415</b>
3	Stable deposits	-	-
4	Less stable deposits	988,666	74,415
5	Unsecured wholesale funding, of which:	<b>479,320</b>	<b>257,758</b>
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	152,408	38,102
7	Non-operational deposits (all counterparties)	326,912	219,656
8	Unsecured debt	-	-
9	Secured wholesale funding		-
10	Additional requirements, of which:	<b>182,276</b>	<b>8,203</b>
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	157,813	7,891
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	24,463	312
16	<b>TOTAL CASH OUTFLOWS</b>		<b>340,376</b>
<b>Cash Inflows</b>			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	-	-
19	Other cash flows	132,728	72,928
20	<b>TOTAL CASH INFLOWS</b>	<b>132,728</b>	<b>72,928</b>
			<b>Total adjusted value</b>
21	<b>Total HQLA</b>		<b>419,322</b>
22	<b>Total net cash outflows</b>		<b>267,448</b>
23	<b>Liquidity Coverage Ratio (%)</b>		<b>157%</b>

### 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 24 below provides a breakdown of CNB’s NSFR as at 30 September 2024.

**Table 24:** LIQ2 – Net Stable Funding Ratio as at 30 September 2024

LIQ2: Net Stable Funding Ratio ("NSFR")						
30 September 2024 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	
<b>Available stable funding (ASF) Item</b>						
1	<b>Capital:</b>	<b>244,982</b>	-	-	-	<b>244,982</b>
2	<i>Regulatory capital</i>	244,982	-	-	-	244,982
3	<i>Other capital instruments</i>	-	-	-	-	-
4	<b>Retail deposits and deposits from small business customers:</b>	-	<b>922,778</b>	<b>52,177</b>	<b>6,645</b>	<b>884,104</b>
5	<i>Stable deposits</i>	-	-	-	-	-
6	<i>Less stable deposits</i>	-	922,778	52,177	6,645	884,104
7	<b>Wholesale funding:</b>	-	<b>494,201</b>	<b>61,498</b>	<b>70,252</b>	<b>286,351</b>
8	<i>Operational deposits</i>	-	142,181	-	-	71,090
9	<i>Other wholesale funding</i>	-	352,020	61,498	70,252	215,260
10	<b>Liabilities with matching interdependent assets</b>	-	-	-	-	-
11	<b>Other liabilities:</b>	-	<b>11,786</b>	-	<b>25,745</b>	<b>25,745</b>
12	<i>NSFR derivative liabilities</i>	-	-	-	-	-
13	<i>All other liabilities and equity not included in the above categories</i>	-	11,786	-	25,745	25,745
14	<b>Total ASF</b>	<b>244,982</b>	<b>1,428,764</b>	<b>113,674</b>	<b>102,642</b>	<b>1,441,181</b>
<b>Required Stable Funding (RSF) Item</b>						
15	<b>Total NSFR high-quality liquid assets (HQLA)</b>					<b>79,6440</b>
16	<b>Deposits held at other financial institutions for operational purposes</b>	-	-	-	-	<b>27,853</b>
17	<b>Performing loans and securities:</b>	<b>83</b>	<b>257,308</b>	<b>107,218</b>	<b>937,842</b>	<b>792,771</b>
18	<i>Performing loans to financial institutions secured by Level 1 HQLA</i>	-	-	-	-	-
19	<i>Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions</i>	-	138,210	52,500	5,411	52,392
20	<i>Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions</i>	-	83,275	37,102	327,146	305,913
21	<i>With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk</i>	-	18	-	161,745	105,143

LIQ2: Net Stable Funding Ratio ("NSFR")						
30 September 2024 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	
22	<i>Performing residential mortgages, of which:</i>	-	7,568	8,480	533,734	354,951
23	<i>With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk</i>	-	7,568	8,480	533,734	354,951
24	<i>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</i>	83	28,255	9,137	71,551	79,514
<b>25</b>	<b>Assets with matching interdependent liabilities</b>	-	-	-	-	-
<b>26</b>	<b>Other assets:</b>	-	<b>7,855</b>	<b>9</b>	<b>54,428</b>	<b>62,292</b>
27	<i>Physical traded commodities, including gold</i>					-
28	<i>Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs</i>		-	-	-	-
29	<i>NSFR derivative assets</i>		-	-	-	-
30	<i>NSFR derivative liabilities before deduction of variation margin posted</i>		-	-	-	-
31	<i>All other assets not included in the above categories</i>		7,855	9	54,428	62,292
<b>32</b>	<b>Off-balance sheet items</b>		-	-	-	<b>32,777</b>
<b>33</b>	<b>Total RSF</b>					<b>995,332</b>
<b>34</b>	<b>Net Stable Funding Ratio (%)</b>					<b>145%</b>

7.3.2. The NSFR ratio decreased marginally from 148% reported as at 31 March 2024 to 145% reported as at 30 September 2024. This decrease is mostly due to available stable funding not growing at the same pace of the required stable funding. HQLA assets were used to fund the growing loan book.

## **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 CNC'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 25 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 25, all of CNB’s regulatory capital requirement for Market Risk is due to Foreign Exchange Risk.

**Table 25:** MR1: Market Risk – Standardised Approach

<b>MR1: Market risk under the standardised approach</b>		
<b>KYD ('000)</b>		<b>30-Sep-24 RWA</b>
	<b>Outright products</b>	
1	Interest rate risk (general and specific)	-
2	Equity risk (general and specific)	-
3	Foreign exchange risk	221
4	Commodity risk	-
	<b>Options</b>	
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	<b>Total</b>	<b>221</b>

## **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. IRRBB arises largely from mismatched maturity and re-pricing dates between CNB’s assets and liabilities. While these mismatches are inherent to any bank’s role as a financial intermediary, CNB’s philosophy is to manage its IRRBB exposure. CNB does not use specific hedging products such as derivatives to hedge IRRBB, but rather matches larger deposits with assets of a similar tenor and establishes limits on repricing buckets to mitigate such.
- 9.1.2. CNC’s TRIM Policy and TRIM Procedure define the framework for managing IRRBB. This framework ultimately falls under the authority of the CNC Board, who in turn assigns authority for its formulation, monitoring and revision to CNC’s ALCO. The CNC TRIM Procedure 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. The primary tools currently in use are gap analysis, interest rate sensitivity analysis, exposure limits for financial instruments (defined in terms of amount, term, issuer, depositor and country).
- 9.1.3. CNC’s ALCO is ultimately responsible for the monitoring of CNB’s TRIM Policy and CNC TRIM Procedure, 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.
- 9.1.4. The Board also reviews a quarterly basis, yield analysis to monitor its cost of funds and repricing risk as appropriate. IRRBB measures are monitored monthly through the RAS and presented to EXCO, ALCO, the Group Risk Assessment Committee, the CNB Board and the CNC Board on at least a quarterly basis.
- 9.1.5. In order to assess CNB’s sensitivity to IRRBB, CNC’s ALCO monitors the interest rate risk exposures via in-depth analysis of monthly interest rate gaps per currency. The

GAP is calculated as rate sensitive assets minus rate sensitive liabilities. Noting that a rate sensitive asset/liability is one whose yield/cost varies with base interest rate fluctuations. The impact on net interest income of changes in interest rates depends on the sign (and size) of the GAP, along with the ultimate direction of expected (or unexpected) interest rate changes. When the GAP is positive, CNB is protected from increasing interest rates. When the GAP is negative, CNB gains from decreasing interest rates (assuming they fall below the expected level). Thereby ultimately empowering ALCO to implement specific risk management strategies for managing the structural balance sheet positions, based on anticipated interest rate movements.

- 9.1.6. 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 CNC ALCO. In this regard key assumptions for categorizing both assets and liabilities into interest rate buckets are highlighted in the TRIM Procedure. In particular, the bucketing of assets and liabilities are based on the next repricing date or maturity as applicable; non-maturity deposits are assumed to be repriced within three months (which is a conservative approach); and as a form of conservatism prepayments are not considered effectively assuming a longer repricing of assets.
- 9.1.7. There is a risk that the value of an asset or liability could change due to a change in term structure of interest rates or due to interest rate volatility. As such CNC ALCO monitors the estimated impact that interest rate shocks could have on Net Interest Income ("NII") and/or Economic value of Equity ("EVE") on a monthly basis. CNB utilizes an internal approach based on the shock scenarios (as per the table below) and scenario parameterisations as prescribed in the Interest Rate Risk in the Banking Book Standards (effective 15 December 2019) issued by the Basel Committee on Banking Supervision. CNB is committed to refining and defining these tools to be in line with international best practice.

**Table 26:** Interest Rate Shock Scenarios

IRRBB – Interest Rate Shock Scenarios		
Scenario Name		Description
1	Parallel up	a constant parallel shock up across all time buckets
2	Parallel down	a constant parallel shock down across all time buckets
3	Steepener	short rates down and long rates up
4	Flattener	short rates up and long rates down
5	Short up	shock up that is greatest at the shortest tenor midpoint
6	Short down	shock down that is greatest at the shortest tenor midpoint

9.1.8. Tables 27 and 28 reflect the increase/decrease in CNB's EVE and NII for upward and downward interest rate shock scenarios as at 30 September 2024.

**Table 27:** Economic Value of Equity

Economic Value of Equity		
	Scenario Name	ΔEVE/CET1(%)
1	Parallel up	2.40%
2	Parallel down	-2.40%
3	Steeper	-0.75%
4	Flattener	4.07%
5	Short up	3.89%
6	Short down	-2.65%

**Table 28:** Net Interest Income

Net Interest Income		
	Scenario Name	ΔNII/Total NII
1	Parallel up (1%)	-0.88%
2	Parallel down (1%)	0.88%
3	Parallel up (2%)	-1.77%
4	Parallel down (2%)	1.77%

9.1.9. 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 19.79% of Regulatory Capital as at 30 September 2024.

## **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 212,874.00 during the three financial years between 30 September 2022 and 30 September 2024, as noted in Table 29 below. CNB continues to contain its operational risk losses to a minimum, with the majority of losses being attributable to External Fraud events in the Card Services Business Line.

**Table 29:** Operational Risk Losses

Operational Risk Losses - 3 Year Summary				
KYD ('000)	30 September 2022	30 September 2023	30 September 2024	Average
<b>Operational Risk Loss</b>	205	202	231	213

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 30 below provides a breakdown of CNB's Operational Risk Capital Requirement as at 30 September 2024.

**Table 30:** Operational Risk: Basic Indicator Approach

Operational Risk: Basic Indicator Approach – 30 September 2024				
KYD ('000)	Gross Income	α Factors	Weighted Income	Capital Requirement
First Year	102,479	15%	15,372	<b>11,636</b>
Second Year	70,423		10,563	
Third Year	59,816		8,972	

## 11. SECURITISATION

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

## **12. REMUNERATION**

### **12.1. Remuneration disclosures – REM**

- 12.1.1. Within CNB, 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 a bonus. CNB also provides its staff with additional benefits such as preferential interest rates on lending and reduced banking fees, additionally Senior level employees and members of the Board are entitled to participate in a Share Purchase Scheme.
- 12.1.2. CNB's approach to remuneration is recommended by a Governance and Nomination Committee ("GNC"), and then approved by the Board of Directors. The composition of the GNC includes 4 Non-Executive Directors. The GNC is required to meet a minimum of two times per annum but held five meetings during the 2023/2024 financial year. The total financial remuneration paid to its members during this period totaled CI\$ 39,000
- 12.1.3. The key features and objectives of CNB's remuneration policy statements ensure that CNB is compliant with all relevant Laws, Acts and Regulations, that staff performance and productivity is efficiently maximized, that there is equality with respect to remuneration and that CNB remains competitive as an employer in the industry and jurisdiction. The GNC reviewed the remuneration policy statements during the past year, and there were no changes.
- 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. At this time, CNB adjusted its remuneration structure given the findings of this consultation. In 2022, McConnell HR Consulting were commissioned to advise on the remuneration levels at the Executive Vice President level and above. Based on the consultant's recommendations, the discretionary bonus levels for the Executive Vice President level were adjusted.
- 12.1.5. 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.

- 12.1.6. The Performance Management process results in an individual employee receiving one of the following Performance Ratings: Exceptional Performance, Outstanding Performance, Meets Expectations, or Requires Improvement. An employee's Performance Rating will be evidence for any potential changes to remuneration. Each year, the GNC makes a recommendation, based on a recommendation by Executive Management, on the percent increase that is tied to each Performance Rating level, and that recommendation is then subject to approval by the Board of Directors. The GNC and Executive Management considers the financial performance of the bank when making this decision.
- 12.1.7. All employees with a Performance Rating of Requires Improvement are considered weak performers. Employees with a Requires Improvement Performance Rating do not receive a salary increase and are not awarded a discretionary cash bonus.
- 12.1.8. An annual discretionary cash bonus is the only form of variable remuneration that the bank utilizes. The number of employees that received a variable remuneration award during the financial year was 307. There were no guaranteed bonuses, sign-on bonuses, or severance payments made during the financial year.
- 12.1.9. Employees who are considered risk takers include the following:
- a) President,
  - b) Executive Vice Presidents,
  - c) Senior Vice President (Personal & Business Banking),
  - d) Vice President (Personal Banking & Mortgage Business),
  - e) Vice President (Business Banking),
  - f) Vice President (Commercial Banking),
  - g) Vice President (Support & Compliance), and
  - h) Assistant Manager - Treasury Operations.
- 12.1.10. The key risks that the bank considers when implementing remuneration measures includes: future operating costs, long-term affordability, and overall percentage of salaries as part of operating costs. Portfolio risks are not taken into account in the remuneration process.
- 12.1.11. All employees in the organization, including risk and compliance employees, are remunerated independently of the businesses they oversee as there is no remuneration based on business targets.
- 12.1.12. CNB does not defer or vest variable remuneration and remuneration is not adjusted to take into account longer-term performance. As such, there is no outstanding deferred remuneration and no deferred remuneration was paid out in the financial year. There are zero outstanding deferred remuneration and retained remuneration exposed to ex

post explicit and/or implicit adjustments. There were no reductions during the financial year due to ex post explicit adjustments.

12.1.13. Table 31 below provides a breakdown of the remuneration awards for the financial year.

**Table 31:** Remuneration rewards for the financial year

Remuneration Awards – 2023/2024 Financial Year			
Fixed or Variable	Deferred or Non-Deferred	Type	Total Amount
Fixed Remuneration	Non-deferred	Basic Salary – Cash	\$26,786,195
Fixed Remuneration	Deferred	None	
Variable Remuneration	Non-deferred	Discretionary Bonus - Cash	\$2,321,607
Variable Remuneration	Deferred	None	

### 13. ASSET ENCUMBRANCE

#### 13.1. Asset Encumbrance - ENC

13.1.1. As can be seen from Table 32 below, all of CNB's assets are unencumbered. Furthermore, there have been no changes in classification since the prior reporting period.

**Table 32: ENC:** Asset Encumbrance – 30 September 2024

ENC: Asset Encumbrance			
30 September 2024 KYD ('000)	a	c	d
	Encumbered assets	Unencumbered assets	Total
Cash on hand	-	14,469	14,469
Due from banks	-	101,952	101,952
Advances	-	1,008,690	1,008,690
<i>Retail lending</i>	-	34,375	34,375
<i>Commercial &amp; Corporate     lending</i>	-	356,491	356,491
<i>Mortgages</i>	-	583,957	583,957
<i>Overdrafts</i>	-	20,119	20,119
<i>Credit Cards</i>	-	13,748	13,748
Investment securities	-	708,120	708,120
<i>Equities and mutual funds</i>	-	83	83
<i>Government securities</i>	-	326,407	326,407
<i>Corporate     bonds/debentures</i>	-	237,213	237,213
<i>Placements over 3     months</i>	-	144,417	144,417
Investment interest receivable	-	6,736	6,736
Investment property	-	98	98
Premises and equipment	-	22,279	22,279
Right-of-use assets	-	9,750	9,750
Intangible Assets	-	4,172	4,172
Other assets	-	5,417	5,417
<b>Total assets</b>	-	<b>1,881,683</b>	<b>1,881,683</b>