Market Discipline
Basel II- Pillar 3 disclosure requirements

31 December 2022

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Executive Summary

Introduction

This report presents the Pillar 3 disclosures of VBT Bank & Trust, Ltd. as required under the Basel II regulatory framework issued by the Basel Committee on Banking Supervision ("BCBS") applicable to all banks incorporated in the Cayman Islands and regulated by the Cayman Islands Monetary Authority ("CIMA").

The purpose of Pillar 3 is to combine the minimum capital requirements (Pillar 1) with the process of prudent management (Pillar 2) aiming the promotion of transparency and encouraging a market discipline by identifying a series of disclosure requirements that make available to the market participants information on regulatory capital, risk exposure and capital adequacy.

This report uses the figures as of 31 December 2022.

Business background

VBT Bank & Trust, Ltd. ("VBT" or "the Bank") was incorporated as an exempted company under the Companies Act of the Cayman Islands on 23 March 1987 and is a wholly owned subsidiary of VBT Holdings, Ltd., which is also incorporated in the Cayman Islands. VBT holds a category 'B' Banking and Trust license under the Banks and Trust Companies Act, a Mutual Fund Administrator's license under the Mutual Funds Act, as well as a Securities Investment Business license under the Securities Business Investment Act of the Cayman Islands.

VBT is also member of VISA International and SWIFT and was granted with a Broker Membership in the Cayman Islands Stock Exchange, limited by two conditions:

(1) that it provides no securities advice or discretionary management services and
(2) that it deals only with the securities of VBT Holdings, Ltd.

Scope of application

The disclosures and analysis provided herein below are solely in respect of VBT Bank & Trust, Ltd. in the context of local regulatory requirements, as there are no subsidiaries of the Bank.

Overview of Risk Management and Risk Weight Assets (RWA)

Risk management approach

The Bank's principal objectives are to attract a qualified group of depositors, to maintain the existing group of depositors, to offer a selected range of services, and to invest their money in a carefully selected pool of investments, as secure as the market circumstances permit.

The Bank utilizes an integrated approach to risk management to ensure that all material classes of risks are considered and that its risk management and capital management strategies are aligned with its overall business strategy and with its risk appetite, which was set out as "Moderate"

The Bank risk appetite provides a common set of measures for senior management and the Board to clearly indicate the level of risk we are willing to take.

The primary governance of the Bank rests with the Board of Directors who also has ultimate responsibility for risk management and to maintain an adequate internal control structure to identified and mitigate any risk that the Bank might be exposed.

Procedures for monitoring the appropriateness and effectiveness of the implemented controls are embedded within the normal operations of the Bank and are carried out by management as part of their day-to-day responsibilities.

Additionally, through the appointed committees, proactive identification and monitoring is made facilitating the monitoring, reporting and escalation of any risk concerns from business units upwards to the Board:

- Accounts Committee
- Credit Committee
- Treasury Committee
- Trust Committee
- Operational Committee
- Prevention and Control of Money Laundering and Terrorist Financing Committee
- Technology Committee
- Internal Audit

From the above-mentioned committees, the treasury and the internal audit committees have a crucial role in supporting the Board to meet its risks management obligations.

The treasury committee has a primary responsibility in the key risks that the Bank face, therefore certain duties have been delegated by the Board to this committee, such as, the formulation and review of the institution's investment strategy and objectives as well as the monitoring of the Bank's capital adequacy, assets and liabilities mismatches, liquidity implications and investments portfolio to assess the Bank's exposure and tolerance to market movements.

Through the internal audit committee, a strong collaborative feedback takes place between the Board and independent members with appropriate range of skill and experience covering all the business units and functions of the Bank.

Overview of Risk Weight Assets (RWA)

The Bank utilizes the stipulated standardized approaches under the Basel II framework, which stipulate the application of risk-weights to each exposure based on credit rating grades that are broadly aligned with the respective counterparty.

The following table summarized the risk-weighted assets and the capital requirements for each type of risk at years-end 2022 and 2021. The capital requirement amounts have been obtained applying 15% of the corresponding risk-weighted assets:

		OV1: Overview of RWA		
		a	b	c
		RWA		Minimum capital requirements
		2022	2021	2022
1	Credit risk (excluding counterparty credit risk) (CCR)	126,086,275	175,897,842	18,912,941
2	Securitisation exposures	-	-	-
3	Counterparty credit risk			
4	Of which: current exposure method	-	-	-
5	Of which: standardized method	-	-	-
6	Market risk	17,491,168	23,997,869	2,623,675
7	Of which: Equity risk	-	-	-
8	Operational risk	-	-	-
9	Of which: Basic Indicator Approach	17,815,761	23,612,963	2,672,364
10	Of which: Standardised Approach	-	-	-
11	Of which: Alternative Standardised	-	-	-
12	Total (1+2+3+6+8)	$ 161,393,204	$ 223,508,674	$ 24,208,981

The table above reflects a decrease in total RWA in 2021 compared to the previous year. This movement is the result of the reduction of the total investment portfolio and forward foreign currency contracts that contribute to hedge against currency exchange rate risk and the total market risk in accordance with the standardized approach under the Basel II framework.

Linkages between financial statements and regulatory exposures

The following table provides the differences between carrying values presented in our financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and our regulatory exposures.

	Carrying values as reported in published financial statements	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	*If applicable* - Explanation on items that are subject to regulatory capital charges in more than one risk category.
Assets							
Cash and cash equivalents	$ 6,061,869	$ 1,230,862	$ -	$ -	$ 301,283	$ 4,529,724	
Investments	$ 195,643,074	$ 195,643,074	$ -	$ -	$ 28,627,184	$ -	Certain investments are also subject to market risk due to its foreign exchange risk
Derivative financial instruments	$ 10,560,876	$ -	$ -	$ -	$ 8,668,376	$ 1,892,500	
Interest receivable	$ 1,356,410	$ -	$ -	$ -		$ 1,356,410	
Other receivables	$ 1,015,195	$ -	$ -	$ -		$ 1,015,195	
Loans and advances	$ 13,940,913	$ -	$ -	$ -		$ 13,940,913	
Total assets	**$ 228,578,337**	**$ 196,873,936**	**$ -**	**$ -**	**$ 37,596,843**	**$ 22,734,742**	
Liabilities							
Derivative financial instruments	$ 10,787,069	$ -	$ -	$ -		$ 10,787,069	
Demand deposits	$ 102,598,343	$ -	$ -	$ -	$ 2,634,282	$ 99,964,061	
Time deposits	$ 35,486,936	$ -	$ -	$ -		$ 35,486,936	
Interest payable	$ 155,313	$ -	$ -	$ -		$ 155,313	
Accounts payable and accrued expenses	$ 246,522	$ -	$ -	$ -		$ 246,522	
Provisions for operational expenses	$ 2,728,725	$ -	$ -	$ -		$ 2,728,725	
Total liabilities	**$ 152,002,908**	**$ -**	$ -	**$ -**	**$ 2,634,282**	**$ 149,368,626**	
Shareholders' equity							
Share capital	$ 22,500,000	$ -	$ -	$ -		$ 22,500,000	
Additional paid in capital	$ 4,734,730	$ -	$ -	$ -		$ 4,734,730	
Retained earnings	$ 49,340,699	$ -	$ -	$ -		$ 49,340,699	
Total shareholders' equity	**$ 76,575,429**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 76,575,429**	
Total liabilities and shareholders' equity	**$ 228,578,337**	**$ -**	**$ -**	**$ -**	**$ 2,634,282**	**$ 225,944,055**	
					$ 34,962,561		

Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		Total	Items subject to:			
			Credit risk framework	Securitisation framework	Counterparty credit risk	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)[1]	205,843,595	196,873,936	-	-	37,596,843
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)[1]	2,634,282	-	-	-	2,634,282
3	Total net amount under regulatory scope of consolidation	-	-	-	-	-
4	Off-balance sheet amounts	-	-	-	-	-
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	Exposure amounts considered for regulatory purposes	208,477,877	196,873,936	-	-	40,231,125

Our banking book regulatory carrying values reflect US$26,627,184 related to investments that are subject to credit risk and to market risk as they are in a currency different than United States Dollar.

Capital

The Bank has a simple capital structure of common equity exclusively and is fully issued in amount of US$22,500,000.00 divided into 22,500,000 shares of a nominal or par value of US$1.00 each with power as it permitted by law.

The table below provides the composition of the capital according with the capital adequacy framework (Basel II).

Composition of regulatory capital	
	USD
Tier 1 Capital	
Minimum CAR	**15%**
Paid up capital	22,500,000
Reserves	54,075,429
Minority Interests in the equity of subsidiaries	-
Qualifying innovative instruments	-
Other capital instruments	-
Regulatory calculation differences deducted from Tier 1 capital	-
Other amounts deducted from Tier 1 capital, including goodw ill	-
Investments	-
Total amount of Tier 2 and Tier 3 capital	**76,575,429**
Other deductions from capital	-
Total eligible capital	**76,575,429**
Capital requirements for credit risk	-
Portfolios subject to standardized or simplified standardized approach	18,912,941
Securitization exposures	-
Capital requirements for market risk	
Standardized approach	2,623,675
Capital requirements for operational risk Requirement	-
Basic indicator approach	2,672,364
Standardized approach	-
Alternative Standardized approach	-
Total and Tier 1 capital ratio	**24,208,980**

The bank has adopted the stipulated standardized approach for calculation of the Basel II Pillar I minimum capital requirement adopted by CIMA.

The adequacy of the capital is monitored by the Board of Directors through the Treasury Committee to ensure that the capital is more than adequate to support the Bank business activity and that is aligned with its overall business strategy.

The Bank seeks to minimize any associated risk in order to preserve its capital with a moderate growth, maintaining at the same time safety and soundness, even under adverse scenarios.

Additionally, as part of the capital adequacy measures, an Internal Capital Assessment Process ("ICAAP") is prepared on annual basis to determine its appropriateness taken into consideration current and future risks as well how the Bank intends to mitigate those risks.

Credit Risk

The Bank defines Credit Risk as the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Bank in respect of loans or other financial instruments. Credit risk comprises default risk, recovery risk, counterparty risk, the credit risk in securitization, cross border (or transfer) risk, credit concentration risk and settlement risk.

The Bank has in place an extensive credit policy, which governs the provision of credit and its inherent risks. The policy document includes (but is not limited to):

- the identification of the main credit risks inherent to the Bank's activities and how these should be managed and assessed;
- standard procedures for credit approval and review;
- the parameters governing the credit portfolio held by the Bank, and
- pre-determined credit authority lines.

As part of the credit granting process an analysis is made by the Credit Committee taken into consideration among other factors, the borrowers background, the industry where operates, the purpose of the loan, the value and type of assets placed as collateral and also required a revision by the Compliance Unit to ensure that the loan has a legitimate purpose and is consistent with the applicant profile; and that the parties involved are not designated persons listed on sanction lists or involved on money laundering, terrorism financing, proliferation financing and/or corrupt activities.

Notwithstanding the Credit Policy, the Bank is mainly involved in investment transactions with very limited lending activity to third parties, which are, fully collateralized and collectible.

In regards to the Bank's fixed income portfolio, all securities must be rated investment grade by either S&P or Moody's and should be fully marketable and able to meet modest capital demands with minimal effect on market valuation. Non-investment grade instruments could only be purchased with very limited exposure and with prior approval of the Treasury Committee.

The following tables analyze the Bank's credit risk exposure as at 31 December 2022. It is important to note that there are not defaulted or missed contractual obligations on loans and debt securities exposures:

		CR1: Credit quality of assets			
		Gross carrying values of:		Allowances / impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	$ -	$ 13,940,913	$ -	$ 13,940,913
2	Debt Securities	$ -	$ 153,084,699	$ -	$ 153,084,699
3	Private investment funds	$ -	$ 18,879,781	$ -	$ 18,879,781
4	Mutual funds units participations	$ -	$ 16,733,477	$ -	$ 16,733,477
5	Equity Securities	$ -	$ 6,945,117	$ -	$ 6,945,117
6	Off-balance sheet exposures	$ -	$ -	$ -	$ -
	Total		$ 209,583,987	$ -	$ 209,583,987

		CR3: Credit risk mitigation techniques – overview						
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	$ -	$ 13,940,913	$ -	$ -	$ -	$ -	$ -
2	Debt Securities	$ 153,084,699		$ -	$ -	$ -	$ -	$ -
3	Private investment funds	$ 18,879,781		$ -	$ -	$ -	$ -	$ -
4	Mutual funds units participations	$ 16,733,477		$ -	$ -	$ -	$ -	$ -
5	Equity Securities	$ 6,945,117		$ -	$ -	$ -	$ -	$ -
6	Off-balance sheet exposures	$ -		$ -	$ -	$ -	$ -	$ -
	Total	**$ 195,643,074**	**$ 13,940,913**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
4	Of which defaulted	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Credit Concentration Risk

Concentration risk is considered as a significant factor in assessing the exposures of concentrated loan and investments portfolios. Through the treasury and credit committee, ongoing monitoring is made to identify any aggregated balance that can represent a large concentration and that may adversely impact due to economic factors or asset quality.

The investment portfolio is diversified so no more than 4% of the portfolio (at time of purchase) is invested in any one issuer.

The policy of the Bank in offering and approving loans is also very selective. Revision of the loan portfolio is made on weekly basis by the Treasury Committee. Additionally, monthly follow up of current loans interest accrual, payment and collateral pledge of the loans are performed by the Credit Committee determined that all loans are collectible and as of 31 December 2022 there are not pass due loans.

Credit exposures by type of exposure

	Exposure carrying amount
Corporate bonds	81,566,237
Mortgage and asset-backed obligations	59,376,817
Private investment funds	18,879,781
Mutual funds participations units	16,733,477
Soverign	8,920,713
Equity securities	6,945,117
Multilateral Development Bank	2,660,754
Municipal Bonds	560,178
Loan	13,940,913
Total	**209,583,987**

Credit exposures by geographical area

	Exposure carrying amount
United States	122,654,215
Europe	40,056,772
Cayman Islands	23,064,721
Asia	3,142,275
Other	5,514,708
Canada	1,210,383
Venezuela	13,940,913
Total	**209,583,987**

Credit exposures by residual maturity

	Less than three months	Between three months and one year	More than one year
Loans	1,941,363	11,999,550	-
Debt Securities	1,753,012	10,953,744	140,377,943
Total	**3,694,375**	**22,953,294**	**140,377,943**

Standardized approach- Credit Risk Exposure and Credit Risk Mitigation effects

The Bank adopts the Standardized approach to calculate its capital requirement for credit risk. The following table sets out the total regulatory capital requirement under Pillar I for credit risk.

		CR4: Standardised approach – credit risk exposure and CRM effects					
		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	8,920,713	-	8,920,713	-	204,396	-
2	Non-central government public sector entities	581,291	-	581,291	-	143,704	-
3	Multilateral development banks	2,660,754	-	2,660,754	-	532,151	-
4	Banks	25,630,576	-	25,630,576	-	12,140,442	-
5	Securities firms	59,464,656	-	59,464,656	-	24,733,625	-
6	Corporates	62,586,190	-	62,586,190	-	52,358,939	-
7	Retail portfolios	479,679	-	479,679	-	359,759	-
8	Secured by residential property	-	-	-	-	-	-
9	Secured by commercial real estate	-	-	-	-	-	-
10	Past-due exposures	-	-	-	-	-	-
11	Higher-risk categories	-	-	-	-	-	-
12	Other assets	36,138,474	-	36,138,474	-	35,613,258	-
13	**Total**	**196,462,333**		**196,462,333**		**126,086,274**	

Standardized approach- exposures by asset class and risk

		CR5: Standardised approach – exposures by asset class and risk									
	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	8,511,922	-	-	-	408,792	-	-	-	-	
2	Non-central government public sector entities	-	-	560,178	-	-	-	-	21,113	-	
3	Multilateral development banks	-	-	2,660,754	-	-	-	-	-	-	
4	Banks	-	-	2,249,485	-	23,381,091	-	-	-	-	
5	Securities firms	-	-	21,490,297	-	35,913,327	-	1,225,292	835,740	-	
6	Corporates	-	-	11,777,111	-	2,897,566	-	46,625,070	1,286,442	-	
7	Retail portfolios	-	-	-	-	-	479,679	-	-	-	
8	Secured by residential property	-	-	-	-	-	-	-	-	-	
9	Secured by commercial real estate	-	-	-	-	-	-	-	-	-	
10	Past-due exposures	-	-	-	-	-	-	-	-	-	
11	Higher-risk categories	-	-	-	-	-	-	-	-	-	
12	Other assets	525,216	-	-	-	-	-	35,613,258	-	-	
13	**Total**	**9,037,138**	**-**	**38,737,825**	**-**	**62,600,776**	**479,679**	**83,463,620**	**2,143,295**	**-**	

Leverage ratio

The Bank is subject to leverage ratio requirements under Basel III framework.

This ratio was introduced by CIMA as a simple, transparent, non-risk-based ratio that supplement the capital requirements rules of Pillar I. Banks are required to maintain a minimum ratio of 3%.

The following tables present the components of the ratio as of 31 December 2022 and 2021.

		Summary comparison of accounting assets vs leverage ratio exposure measure	
		2022	2021
1	Total consolidated assets as per published financial statements	228,578,337	268,910,159
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	-10,787,069	-6,978,026
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)	-	-
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-	-
12	Other adjustments	-	-
13	**Leverage ratio exposure measure**	217,791,268	261,932,133

		Leverage ratio common disclosure	
		2022	2021
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	217,791,268	261,932,133
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)	-	-
6	(Asset amounts deducted in determining Basel III Tier 1 capital and regulatory adjustments)	-	-
7	**Total on balance sheet exposures** (excluding derivatives and SFTs) (sum of rows 1 to 6)	**217,791,268**	**261,932,133**
Derivative exposures			
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	10,787,069	6,978,026
9	Add on amounts for potential future exposure associated with all derivatives tranactions	88,589	52,228
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)	-	-
13	**Total derivative exposures** (sum of rows 8 to 12)	**10,875,658**	**7,030,254**
Securities financing transaction exposures			
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	-	-
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	-	-
20	(Adjustments for conversion to credit equivalent amounts)	-	-
21	(Specific and general provisions associated with off balance sheet exposures deducted in determining Tier 1 capital)	-	-
22	**Off-balance sheet items** (sum of rows 19 to 21)	-	-
Capital and total exposures			
23	**Tier 1 capital**	**76,575,429**	**92,368,139**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**228,666,926**	**268,962,387**
Leverage ratio			
25	**Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	**33.49%**	**34.34%**
25a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	-	-
26	**National minimum leverage ratio requirement**	**3.00%**	**3.00%**
27	**Applicable leverage buffers**		

At the end of 2022, the Bank's leverage ratio amounted to 33.49% well above the minimum threshold, also reflecting a lightly decrease with respect to 2021 figures due to the increment of foreign exchange currency contracts during the period.

It is worth to note that this comfortable level is explained by the limited use by the Bank of derivatives instruments.

Liquidity Risk

Liquidity risk is defined by the Bank as the risk of experiencing difficulty in facing the Bank assets and meeting its contractual payment obligations or to be only able to do so at an unacceptable cost.

The Bank manages this risk by investing primarily on listed stocks and listed instruments of fixed income, which must be rated investment grade by either S&P or Moody's, and should be fully marketable and able to meet modest capital demands with minimal effect on market valuation.

Also, the Bank´s treasury department manages its cash flow to maintain an adequate cash position to meet liquidity demands from customers. This position could change if the liabilities structure varies as well.

Based on the treasury department's expectations on interest rates and other market factors the Treasury Committee approves an investment strategy that defines the duration and structure of the Bank´s assets and liabilities.

The liquidity of the Bank is managed and monitored by the Treasury Committee and the Board. The investment policy states that:

- VBT primarily invest in listed stocks and listed instruments of fixed income. All the trades should be executed through an exchange, or in the case of an investment in the primary market, directly with the issuer;
- VBT's fixed income are fully marketable and in their majority are rated investment grade by either S&P or Moody's;
- Up to 75% of money market investments shall be rated A1 or P1 (or equivalent) by either S&P or Moody's, with the remainder not less than A3 or P3;
- VBT´s treasury department manages to maintain an adequate cash position that allows the Bank to meet liquidity demand from customers. This position could change if our liabilities structure varies as well.

Continuous monitoring of the investments is performed to evaluate the adequacy of the assets and their risk as well to assess how earnings can be affected by future market conditions.

The table below presents an overview of the Bank's balance sheet items broken down into maturity buckets and the resultant liquidity gaps.

	Less than three months	Between three months and one year	More than one year	No stated maturity	Total
Assets					
Investments	1,753,012	10,953,744	140,377,943	42,558,375	195,643,074
Cash and cash equivalents	6,061,869	-	-	-	6,061,869
Derivatives financial instruments	1,892,500	8,668,376	-	-	10,560,876
Loans and advances	1,941,363	11,999,550	-	-	13,940,913
Interest receivable	1,356,410	-	-	-	1,356,410
Other receivables	1,015,195	-	-	-	1,015,195
Total assets	**14,020,349**	**31,621,670**	**140,377,943**	**42,558,375**	**228,578,337**
Liabilities					
Derivatives financial instruments	(1,928,203)	(8,858,866)	-	-	(10,787,070)
Demand deposits	(102,598,343)	-	-	-	(102,598,343)
Time deposits	(28,889,666)	(6,092,270)	(505,000)	-	(35,486,936)
Interest payable	(155,313)	-	-	-	(155,313)
Accounts payable and accrued expenses and provisions for operational expenses	-	-	-	(2,975,247)	(2,975,247)
Total liabilities	**(133,571,525)**	**(14,951,136)**	**(505,000)**	**(2,975,247)**	**(152,002,908)**
Total liquidity gap	**(119,551,176)**	**16,670,534**	**139,872,943**	**39,583,128**	**76,575,429**
Cumulative gap	**(119,551,176)**	**(102,880,642)**	**36,992,301**	**76,575,429**	

Market Risk

Market risk is defined by the Bank as the risk of loss in the Bank's income or net worth arising from potential adverse change in interest rates, exchange rates or other market prices.

The Bank's Investment Guidelines sets out the formal exposure limits for trading and operations, in addition to the monitoring and reporting procedures. It is the Bank's policy to use investment tools in order to increase or diminish the volatility of the price, interest rate or any other factor that could influence the valuation of their investments. Derivative products such as forwards, swaps and options among others, could be used to control the risk and yield of the portfolio as well as asset-liability mismatches. Any breaches of the exposure limits identified by the Bank are reported to the Treasury Committee outlining the nature of the breach, the circumstances surrounding the occurrence together with the corrective actions being taken. The Bank monitors effectively foreign exchange exposures to minimize its risk.

The table below presents an overview of the Bank's market risk under standardized approach as at December 31, 2022.

		MR1: Market risk under the standardised approach
		RWA
	Outright products	
1	Interest rate risk (general and specific)	
2	Equity risk (general and specific)	
3	Foreign exchange risk	17,491,168
4	Commodity risk	
	Options	
5	Simplified approach	
6	Delta-plus method	
7	Scenario approach	
8	Securitisation	
9	**Total**	17,491,168

Operational Risk

The Bank defines Operational Risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events and outsourcing arrangements. In the case of legal and contractual risk, this includes the risk of loss due to litigation arising from errors, omissions, and acts by the Bank in the conduct of its business.

The Board of Directors has analyzed the Operational Risk in three stages. In the first instance, they analyze the risks identified in CIMA's Guidance and Basel II, as detailed below. Subsequently, they assess other elements of Operational Risk on an individual basis, e.g. fraud risk. Finally, they consider any operational risk that is particular to the Bank, its size and its functionality within the Bank.

Type of Risks	Bank Assessment
Reputation Risk	The Bank defines Reputation Risk as being "the risk arising from adverse perception of the Bank's image on the part of customers, counterparties, stockholders, investors or regulators". The Bank has identified Reputation Risk to be a significant risk but notes that it has strong corporate governance measures in place to help mitigate the risk.
Regulatory Risk	The Bank defines Regulatory Risk as being "the risk arising from a failure to comply with the laws, regulations or codes applicable to the financial services industry in the Cayman Islands".
Pension Risk	As required by the Pensions Law of the Cayman Islands, the Bank has established for its employees a defined contribution pension scheme with a third party pension provider. Payments are made to an independent administered fund; therefore, the pension risks are considered minimal or nonexistent.
Business and Strategic Risk	The Bank defines Business and Strategic Risk as "the risk of loss due to uncertainty in profits or revenue that damages the brand or operational economics of the business. It includes volatility caused by changes in the competitive environment, new markets entrants, new products or failure to develop and execute a strategy or anticipate or mitigate related risk". The Bank has identified Business and Strategic Risk to be a non-significant risk for the Bank, given that the Bank is primarily a deposit taking institution.

The Bank has also analyzed other common sub-types of operational risk which include internal and external fraud, workplace safety, employee dependency and business disruption and system failures to enable a thorough assessment to be made of risks inherent within the business.

Operational Risks	
Type of Risks	**Bank Assessment**
Internal Fraud	▪ During the reported period no incidents of internal fraud were identified. ▪ Insurance cover is in place for fraud.
External Fraud	▪ Procedures are in place through enhanced sign-off requirements. Annual Know Your Customer/Anti Money Laundering/Anti Bribery Corruption trainings are provided to the staff.
Control Risk	▪ The Bank provides regular reports to senior management and the Board of Directors detailing specific risks and any material control breakdowns. ▪ The Bank's senior management ensures that controls are followed in line with the Bank's policies and procedures.
Workplace safety	▪ An employers' liability insurance policy is in place. ▪ Fire would be a significant incident but all necessary precautions have been taken and are observed. ▪

Clients	▪ The Bank continuously review the processes to ensure the clients get the best service. ▪ A dedicated email address is in place for complaints and information requests. The email account is monitored to ensure that an appropriate follow up action is taken.
Business practices and products	▪ Management or other third parties have not identified any business issues and internal audit revisions are in place covering all the relevant business areas.
Business disruption and system failures	▪ A business continuity plan is in place and the business performs regular tests to ensure the appropriateness of the plan. No issues have been highlighted.
Damage to physical assets	▪ These are insured events for which the Bank has proper insurance coverage.
Information processing and communication	▪ Third party service providers are contracted to support information processing and communication within the Bank.
Employee Dependency	▪ The Board of Directors is aware that there are certain key individuals whose presence is necessary for the proper functioning of the Bank and that it may be difficult to find replacements for these individuals, especially in the short-term, however, a succession plan is in place to ensure the continuation of their position in the event of unplanned or extended absence.

The Bank adopts the Basic Indicator Approach to calculate capital requirements for operational risk.

The following table sets out the total regulatory capital requirement under Pillar I for operational risk.

Operational Risk Capital Charge	Minimum regulatory capital	Operational risk capital charge as a % of minimum regulatory capital
$ 17,815,761	$ 1,425,261	8%

Interest Rate Risk in the Banking Book

Interest rates are one of the most important underlying factors in the movement of bond prices and are closely monitored on a monthly basis by the Treasury Committee. Duration and Modified duration concepts are uses on the Bank's bond portfolio to prepare an interest rates sensitivity analysis. The bigger the duration number, the greater the interest-rate risk or reward for bond prices. Modified duration follows the concept that interest rates and bond prices move in opposite directions. This formula is used to determine the effect that a 200-basis-point (2%) change in interest rates will have on the price of a bond.

Through these analyses, the Treasury Committee has the tools to measure and address different potential scenarios for its fixed-income portfolio valuation due to shifts in interest rates, which will influence its investment decision making process.

In order to evaluate interest rate risk, the Bank carries out sensitivity analysis, calculating the effect of a 200 basis points parallel shift in interest rates on its economic value, which is the present value of the expected net cash flows.

The following tables present the results of a 200bp shift in interest rate, reflecting at 31 December 2022 a total impact of $10,457,117 on economic value, accounting for 13.66% of the Bank's capital base in USD. Management considers that this would not affect the minimum Capital Adequacy Ratio required by CIMA (CAR 15%), because of the surplus of the Bank's eligible capital of $52,366,449.

2022

Other currencies combined (Interest rate Maturing and Re-pricing)									
	Sight – 8 Days	8 Days – 1 Month	1-3 Months	3 – 6 Months	6 – 12 Months	1 – 5 Years	Over 5 Years	Non-Interest Sensitive (Assets & Liabilities)	Total
Assets									
Cash and deposits	6,061,869	-	-	-	-	-	-	-	**6,061,869**
Loans	-	-	1,941,363	6,197,400	5,802,150	-	-	-	**13,940,913**
Investments	-	300,072	1,452,940	5,101,965	5,851,779	95,258,072	45,119,871	42,558,375	**195,643,074**
Derivative financial instruments	-	-	1,892,500	8,668,376	-	-	-	-	**10,560,876**
Other assets	2,371,605	-	-	-	-	-	-	-	**2,371,605**
Total	**8,433,474**	**300,072**	**5,286,803**	**19,967,741**	**11,653,929**	**95,258,072**	**45,119,871**	**42,558,375**	**228,578,338**
Off-balance sheet items	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Assets (including off-balance sheet)	**8,433,474**	**300,072**	**5,286,803**	**19,967,741**	**11,653,929**	**95,258,072**	**45,119,871**	**42,558,375**	**228,578,337**
Liabilities & Equity									
Derivative financial instruments			1,928,203	8,858,866	-	-	-	-	**10,787,069**
Deposits from banks	-	-	-	-	-	-	-	-	**-**
Other deposits	104,260,341	12,539,788	14,687,880	5,073,571	1,018,699	505,000	-	-	**138,085,279**
Interest payable	155,313	-	-	-	-	-	-	-	**155,313**
Other Liabilities	-	-	-	-	-	-	-	2,975,247	**2,975,247**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	76,575,429	**76,575,429**
Total	**104,415,654**	**12,539,788**	**16,616,083**	**13,932,437**	**1,018,699**	**505,000**	**-**	**79,550,676**	**228,578,337**
Off-balance sheet items	-	-	-	-	-	-	-	-	**-**
Total Liabilities (including off-balance sheet)	**104,415,654**	**12,539,788**	**16,616,083**	**13,932,437**	**1,018,699**	**505,000**	**-**	**79,550,676**	**228,578,337**
Net Position	**(95,982,179)**	**(12,239,716)**	**(11,329,280)**	**6,035,304**	**10,635,230**	**94,753,072**	**45,119,871**	**(36,992,301)**	-
Weighting (shock move 200 basis points)	**0.08%**	**0.08%**	**0.32%**	**0.72%**	**1.43%**	**5.45%**	**11.57%**	**0%**	-
Weighted Position	**(76,786)**	**(9,792)**	**(36,254)**	**43,454**	**152,084**	**5,164,042**	**5,220,369**	**-**	**10,457,117**

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Other currencies combined (Interest rate Maturing and Re-pricing)									
	Sight – 8 Days	8 Days – 1 Month	1-3 Months	3 – 6 Months	6 – 12 Months	1 – 5 Years	Over 5 Years	Non-Interest Sensitive (Assets & Liabilities)	Total
Assets									
Cash and deposits	7,788,072	-	-	-	-	-	-	-	**7,788,072**
Loans	-	-	350,000	6,845,400	5,692,000	70,000	-	-	**12,957,400**
Investments	1,000,330	919,724	676,955	1,001,920	10,738,176	123,882,913	47,247,675	52,899,384	**238,367,077**
Other assets	-	-	2,861,717	-	-	-	-	-	**2,861,717**
Total	**8,788,402**	**919,724**	**3,888,672**	**7,847,320**	**16,430,176**	**123,952,913**	**47,247,675**	**52,899,384**	**261,974,266**
Off-balance sheet items	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Assets (including off-balance sheet)	**8,788,402**	**919,724**	**3,888,672**	**7,847,320**	**16,430,176**	**123,952,913**	**47,247,675**	**52,899,384**	**261,974,266**
Liabilities & Equity									
Derivative financial instruments			22,208	19,925	-	-	-	-	**42,133**
Deposits from banks	-	-	-	-	-	-	-	-	**-**
Other deposits	133,352,323	11,233,204	8,309,522	10,242,854	835,947	-	-	-	**163,973,850**
Interest payable	1,524	19,356	9,270	88,731	24,644				**143,525**
Repos, Term Debt and other Borrowings	-	-	-	-	-	-	-	-	**-**
Other Liabilities	-	-	-	-	-	-	-	5,446,619	**5,446,619**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	92,368,139	**92,368,139**
Total	**133,353,847**	**11,252,560**	**8,341,000**	**10,351,510**	**860,591**	**-**	**-**	**97,814,758**	**261,974,266**
Off-balance sheet items	-	-	-	-	-	-	-	-	**-**
Total Liabilities (including off-balance sheet)	**133,353,847**	**11,252,560**	**8,341,000**	**10,351,510**	**860,591**	**-**	**-**	**97,814,758**	**261,974,266**
Net Position	**(124,565,445)**	**(10,332,836)**	**(4,452,328)**	**(2,504,190)**	**15,569,585**	**123,952,913**	**47,247,675**	**(44,915,374)**	-
Weighting (shock move 200 basis points)	**0.08%**	**0.08%**	**0.32%**	**0.72%**	**1.43%**	**5.45%**	**11.57%**	**0%**	-
Weighted Position	**(99,652)**	**(8,266)**	**(14,247)**	**(18,030)**	**222,645**	**6,755,434**	**5,466,556**	**-**	**12,304,440**

Remuneration

The guiding principles of the Bank compensation system are aligned with the global business strategy and aimed to encouraging and rewarding performance and to reflect the responsibilities and skills required for each role.

The below information presents, some common factors considered in determine the compensation:

- Board members are compensated based on their attendance to Board meetings;

- Senior management and staff compensation is set among others, upon:

  - Appropriate qualifications, skills and experience
  - Level of responsibilities and its fulfillment
  - Contribution in the achievement of key business goals
  - Competitiveness in accordance with market practices for similar roles and skills
  - Economic condition of the country and working culture
  - Long term commitment, professionalism and attitude towards goals and achievements

The Board of Directors is responsible to actively monitor and oversight the compensation system to ensure that it is operating as intended.