Cayman National Bank
Pillar 3 Disclosure Report
Quarterly

As at 31 December 2022

CAYMAN
NATIONAL

CNB Pillar 3 Disclosure Report - Quarterly

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1. INTRODUCTION

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

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

1.3. This Quarterly CNB Pillar 3 Disclosure Report includes CNB's data as at 31 December 2022 and has been developed to meet the requirements of the Cayman Islands Monetary Authority's ("CIMA") ***Market Discipline Disclosure Requirements (Pillar 3), Rules and Guidelines*** ("CIMA's Pillar 3 Rules"). CNB's consolidated position, inclusive of CNP, is subject to CIMA's Pillar 3 Rules, and as such is included throughout this Quarterly CNB Pillar 3 Disclosure Report.

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

2. CAPITAL MANAGEMENT

2.1 Overview of Risk Weighted Assets – OV1

2.1.1 Table 1 provides an overview of Risk Weighted Assets ("RWA") and Minimum Capital Requirements per risk type. As is evident in Table 1, Total RWA increased by 0.92% from KYD 650 million as at 30 September 2022 to KYD 656 million as at 31 December 2022. The increase in Total RWA was driven by an increase of 0.8% in Credit Risk RWA and an increase of 1.54% in Operational Risk RWA. The increase in Credit Risk RWA is mostly attributable to an increase in exposure against "Claims secured by Higher Risk Categories & Other Assets" partially reduced by a reduction in exposure against "Claims secured by Commercial Real Estate". The increase in Operational Risk RWA is attributable to higher levels of gross income earned for the financial year ended 30 September 2022 in comparison with the financial year ended 30 September 2019.

Table 1: OV1 – Overview of RWA

OV1: Overview of RWA				
KYD ('000)		a	b	c
		RWA		Minimum capital Requirements
		31-Dec-22	30-Sep-22	31-Dec-22
1	**Credit risk (excluding counterparty credit risk) (CCR)**	**538,937**	**534,643**	**80,841**
2	**Securitisation exposures**	-	-	-
3	**Counterparty credit risk**	-	-	-
4	Of which: current exposure method	-	-	-
5	Of which: standardized method	-	-	-
6	**Market risk**	**116**	**227**	**17**
7	Of which: Equity risk	-	-	-
8	**Operational risk**	**117,399**	**115,617**	**17,610**
9	Of which: Basic Indicator Approach	117,399	115,617	17,610
10	Of which: Standardised Approach	-	-	-
11	Of which: Alternative Standardised	-	-	-
12	**Total (1 + 2 + 3 + 6 + 8)**	**656,452**	**650,488**	**98,468**

2.2 Leverage Ratio - LR1 & LR2

2.2.1 The Leverage Ratio regulatory measure is a non-risk based measure to restrict the build-up of leverage in the banking sector. The Leverage Ratio is derived as Tier 1 Capital against a defined measure of exposure. Table 2 provides a reconciliation between the regulatory

exposure measure and the financial statements of CNB.

Table 2: LR1 – Summary comparison of accounting assets vs leverage ratio exposure measure

LR1: Summary comparison of accounting assets vs leverage ratio exposure measure		
	KYD ('000)	**31-Dec-22**
1	Total consolidated assets as per published financial statements	1,490,886
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-
4	Adjustments for temporary exemption of central bank reserves (if applicable)	-
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
6	Adjustments for regular way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustments for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	-
9	Adjustment for securities financing transactions (i.e. repurchase agreements and similar secured lending)	-
10	Adjustment for off balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,800
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	(4,216)
12	Other adjustments	4,603
13	**Leverage ratio exposure measure**	**1,493,073**

2.2.2 The following provides detail on the adjustments identified in Table 2:

a. Row 10 - Off-Balance Sheet items post the Credit Conversion Factor and Credit Risk Mitigation are not reflected on the balance sheet and are therefore an adjustment item reported in row 10 of Table 2 above.

b. Row 11 - CIMA approved capital deduction of related party loans.

c. Row 12 - Other adjustments constitute of unearned loan origination fees and provisions on investments. As unearned loan origination fees are reflected as contra accounts against gross loan balances, and for regulatory purposes, these accounts are reclassed as liability items on balance sheet as gross loan balances, not net loan balances, and are used to calculate the capital adequacy ratio. The investment allowance provision is a contra account against gross investment balance. The capital adequacy ratio is determined on gross investment balance not the net investment balance, hence, provision on investment is shown as a liability on the balance sheet.

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2.2.3 As evident in Table 3 below, the Basel III leverage ratio increased from 10.23% reported as at 30 September 2022 to 10.94% reported as at 31 December 2022.

Table 3: LR2 – Leverage Ratio common disclosure

LR2: Leverage Ratio common disclosure			
KYD ('000)		a	b
		31-Dec-22	30-Sep-22
On-Balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,503,425	1,426,807
2	Gross up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(Specific and general provisions associated with on balance sheet exposures that are deducted from Basel III Tier 1 capital)	(7,391)	(7,746)
6	(Asset amounts deducted in determining Basel III Tier 1 capital and regulatory adjustments)	(4,216)	(3,047)
7	**Total on balance sheet exposures** (excluding derivatives and SFTs) (sum of rows 1 to 6)	**1,491,818**	**1,416,014**
Derivative exposures			
13	**Total derivative exposures** (sum of rows 8 to 12)	**-**	**-**
Securities financing transaction exposures			
18	**Total securities financing transaction exposures** (sum of rows 14 to 17)	**-**	**-**
Other off-balance sheet exposures			
19	Off-balance balance sheet exposure at gross notional amount	183,820	177,396
20	(Adjustments for conversion to credit equivalent amounts)	(182,020)	(175,600)
21	(Specific and general provisions associated with off balance sheet exposures deducted in determining Tier 1 capital)	(545)	(554)
22	**Off-balance sheet items** (sum of rows 19 to 21)	**1,255**	**1,242**
Capital and total exposures			
23	**Tier 1 capital**	**163,274**	**144,936**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**1,493,073**	**1,417,256**
Leverage ratio			
25	**Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	**10.94%**	**10.23%**
25a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	10.94%	10.23%
26	National minimum leverage ratio requirement	3.00%	3.00%
27	**Applicable leverage buffers**	**7.94%**	**7.23%**

2.2.4 The increase in the Leverage Ratio is due to a proportionally larger increase in Total Tier 1 capital in comparison with the increase in Total Exposures. The increase in Tier 1 Capital is attributable to an increase in Retained Earnings and the increase in Total Exposure is largely due to an overall increase in CNB's Investment portfolio and Bank Placement balances.

3. LIQUIDITY RISK

3.1 Liquidity Coverage Ratio – LIQ1

3.1.1 The Liquidity Coverage Ratio ("LCR") is designed to ensure that a bank has sufficient unencumbered high-quality liquid assets ("HQLA") that can be converted into cash to meet its liquidity needs for a 30 calendar day liquidity stress scenario. Table 4 below provides a breakdown of CNB's LCR as at 31 December 2022, which has been derived by using the simple average balances of month end balances for October 2022, November 2022 and December 2022.

Table 4: LIQ1 – Liquidity Coverage Ratio as at 31 December 2022

LIQ1: Liquidity Coverage Ratio ("LCR")			
		a	b
31 December 2022 KYD ('000)		Total unweighted value	Total weighted value
High-quality liquid assets			
1	**Total HQLA**		**243,948**
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which;	869,571	74,212
3	Stable deposits	-	-
4	Less stable deposits	869,571	74,212
5	Unsecured wholesale funding, of which:	344,525	212,875
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	103,866	25,966
7	Non-operational deposits (all counterparties)	240,659	186,909
8	Unsecured debt	-	-
9	Secured wholesale funding		-
10	Additional requirements, of which:	175,373	8,482
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	166,373	8,319
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	9,001	163
16	**TOTAL CASH OUTFLOWS**		**295,569**

LIQ1: Liquidity Coverage Ratio ("LCR")			
31 December 2022 KYD ('000)		a Total unweighted value	b Total weighted value
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	-	-
19	Other cash flows	193,443	140,788
20	**TOTAL CASH INFLOWS**	**193,443**	**140,788**
			Total adjusted value
21	**Total HQLA**		**243,948**
22	**Total net cash outflows**		**154,781**
23	**Liquidity Coverage Ratio (%)**		**158%**

3.1.2 CNB's total HQLA of KYD 243.95 million consists of KYD 207.81 million of Level 1 HQLA, KYD 13.62 million of Level 2A HQLA and KYD 22.52 million of Level 2B HQLA. 39.95% of funding is attributable to Retail Deposits, 31.67% to Small Business Customers, 9.65% to Other Financial Institutions, 6.75% to Sovereign deposits, 6.6% to other Banks and 5.37% to Non-Financial Financial Institutions. 95.30% of HQLA is denominated in USD and 4.53% of HQLA is denominated in KYD. 90.3% of Total Net Cash Outflows is denominated in KYD and 7.4% of Total Net Cash Outflows is denominated in USD. There are some immaterial exposures in other currencies.

3.1.3 CNB's LCR ratio increased from 122% reported as at 30 September 2022 to 158% reported as at 31 December 2022. In this regard it is worthwhile to note that the 122% was derived by only using the as at 30 September 2022 quarter end balance, whereas the 158% was derived by using the simple average balances of month end balances for October 2022, November 2022 and December 2022. Despite the change in methodology the increase is due to an increase in Total HQLA and a decrease in Net Cash Outflows. This is mostly attributable to an increase in longer term non-operational wholesale funding, which was invested proportionally in a mixture of treasury bills and shorter term placements, in order to meet short term obligations whilst taking advantage of the current rising interest rate environment.