

# Additional Regulatory Disclosures (Pillar 3)

*In terms of the Market Discipline Disclosure Requirements (Pillar 3) Rules and Guidelines issued by the Cayman Islands Monetary Authority dated 1 September 2021.*

*For the year ended 30 September 2022*

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# 1 Introduction

## 1.1 Background

This document comprises the Pillar 3 regulatory disclosures implemented by the Cayman Islands Monetary Authority (“CIMA” or the “Authority”) as per the Basel II framework (Pillar 3) issued by the Basel Committee on Banking Supervision (“BCBS”).

NCB (Cayman) Limited (“NCB” or the “Bank”) was incorporated in the Cayman Islands on 23 September 1992 as an exempt company and operates under a Trust licence and an unrestricted category 'A' Non-Retail banking license issued by the Cayman Islands Government. The Bank is a wholly-owned subsidiary of National Commercial Bank Jamaica Limited which is a wholly owned subsidiary of NCB Financial Group Limited (“NCBFG”). Hereinafter, NCBFG and its subsidiaries will be collectively referred to as the “Group”. The Bank’s principal activities consist of the provision of banking and financial services to overseas clients.

The implementation of Pillar 3 disclosures is aimed at promoting market discipline amongst banks by increasing transparency and allowing for independent and timely scrutiny by stakeholders. In turn, NCB’s Board of Directors and Managing Director perform periodic monitoring to ensure alignment of the Bank’s activities and decisions with the interests of stakeholders. Furthermore, it encourages the strengthening of core business practices that mitigate NCB’s exposures to risks in addition to the level of capitalisation. Stakeholders’ interests influence the behavior of the Bank and discourage the Bank’s decision makers from engaging in activities which may result in exposure to undue risk that undermine their interests.

The Pillar 3 disclosures also improve comparability and consistency of disclosures between banks. The use of a common framework introduces the ability of market participants to engage in meaningful comparisons between banks.

All the policies and procedures of NCBFG apply to the Bank and all oversight functions are set up and performed at the Group level, unless otherwise stated. The Bank’s Board of Directors (the “Bank’s Board” or the “Board”) holds ultimate responsibility for the governance of the Bank and, as such, ensures robust communication with the group-level oversight functions.

The quantitative information presented in this document refers to data as at 30 September 2022, and all values are in thousands United States Dollars (“USD”), unless otherwise stated. Minor discrepancies in quantitative information might occur due to rounding.

## 1.2 Publication and verification

The Pillar 3 disclosures have been reviewed by the internal auditors as required under the CIMA Market discipline disclosure requirements and approved by the Bank’s Board.

This Pillar 3 disclosures document as at 30 September 2022 will be published on the Bank’s corporate website.

## 2 Overview of Risk Management and Risk Weighted Assets

### 2.1 Risk Management objectives and policies

**Table OVA - Institution risk management approach**

Row number	Explanation
(a)	<p><u>How the business model determines and interacts with the overall risk profile of the bank and how the risk profile of the bank interacts with the risk tolerance and appetite that has been approved by the Board.</u></p> <p>The Bank's activities expose it to a variety of risks and the Bank considers the identification, acceptance, measurement, monitoring, reporting and management of all of its risks. Taking and managing risk is core to the business, and operational risks are an inevitable consequence of being in business. The Bank accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and investing for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that might fall due. Additionally, the Bank provides commercial and syndicated loans in collaboration with other Group entities, and also residential mortgage loans. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. The principal risks faced by the Bank are identified as credit risk, liquidity risk, operational risk and market risk (including interest rate risk in the banking book and currency risk).</p> <p>The Group's Board has full responsibility for the Group's Enterprise Risk Management Policy ("ERP"), which is also directly applicable to the Bank. In turn, the Group Board assigns authority to the Group's Risk Management Committee for the ERP's oversight and to the Group Risk Management Division for its formulation, revision and administration. The ERP is reviewed by the Group's Risk Management Committee and approved by the Group's Board. The ERP and the risk management framework (whose different components are set out throughout this document), are then cascaded to the Bank and approved by the Bank's Board of Directors.</p> <p>To drive strategic planning and to ensure that business execution occurs within clearly accepted boundaries, the Group Risk Management Division has developed its Risk Appetite Statement, which is then reviewed and approved by the Bank's Board on an annual basis. The Risk Appetite Statement aims to:</p> <ul style="list-style-type: none"> <li>- provide a formal mechanism to assess risk and return objectives;</li> <li>- articulate the type and amounts of risk that the Bank is willing to take in a manner that can be well understood and agreed upon;</li> <li>- provide a framework to determine the adequate level of resources that is required to be employed given its risk appetite; and,</li> <li>- provide a guide to implement the mechanisms and triggers that will ensure that risk taken is consistent with the desired capital levels and credit ratings.</li> </ul>

	<p>The Risk Appetite Statement is then translated into granular metrics for inclusion in the relevant Liquidity, Market, Credit, Operational and Capital risk policies.</p> <p>Furthermore, the Group employs a framework which is used as a mechanism to drive the Bank's Risk Tolerance levels. Limits are established and/or recommended by the 2<sup>nd</sup> Line of Defence teams and approved by the Bank's Board of Directors. While the 2<sup>nd</sup> line of Defence is located at Group level, there is a specific team which specializes in Cayman Islands regulations, dedicated to the Bank's risk management and compliance matters. This team also forms part of the Bank's Risk Management Committee, as detailed in point (b) below. Moreover, this team at Group level is responsible for performing an oversight function with respect to limits monitoring, that is, ensuring that limits are adhered to and reporting on compliance or deviation from the established limits to the relevant committees. Where there are breaches of limits, the respective business unit is responsible for providing an explanation as to why the breach occurred and detail the actions to be taken and the timeframe for regularization. Such breaches are also presented to the Risk Management Committee on a quarterly basis.</p>
(b)	<p><u>Information with respect to the risk governance structure such as the responsibilities and delegation of authority within the Bank, which departments are involved in the risk management process, and how the departments interact with each other.</u></p> <p>The Bank's Board of Directors consists of five Executive Directors and one Independent non-Executive Director. Primary business responsibilities rest with the Bank's Board with the day-to-day governance of the Bank being the responsibility of the Bank's Managing Director. Board meetings at the Bank are held at least four times per year and special Board meetings may be called by the Chairman, as necessary.</p> <p>The Bank's Board of Directors through its Audit Committee maintains oversight over the financial and operational reporting processes, risk management, the system of internal control, the internal and external audit processes, and the Bank's process for monitoring compliance with applicable laws and regulations and the code of conduct. The Audit Committee is comprised of four directors of which the chair is a non-executive director, as follows:</p> <p>Prof Alvin Wint, CD, Chairman  Mr Dennis Cohen, Committee Member  Mr Septimus Blake, Committee Member  Mr Ian Truran, Committee Member</p> <p>The Audit Committee meetings are held at least three times per year, and a special meeting can be convened as circumstances require.</p> <p>Furthermore, the Group employs a Board committee structure to oversee the Group's enterprise risk activities, including those of the Bank. The Group's Board is responsible for the management of the risks of the Bank, providing oversight and direction, and it delegates its responsibility for the ongoing management of the major risks to the Bank's Board members and Senior Management. The Bank has a structure of Management Committees which report directly to the Group's Risk and Compliance Board Committees. The Bank's Management committees include the following:</p>

- **Risk Management Committee:** The purpose of the Risk Management Committee is to assist the Bank's Board in fulfilling its responsibility with respect to oversight of the Bank's risk management framework including risk appetite and the policies and major procedures related to managing credit, market, liquidity, capital, operational and certain other risks determined from time to time. The Committee assists the Bank's Board with respect to the Bank's risk profile and its risk management framework including the significant policies and practices employed to manage risks in the Bank's businesses and the overall adequacy of the Risk Management functions. The Committee also plays a role in the decision-making process around significant risks that are to be undertaken by the Bank. The Risk Management Committee holds quarterly meetings, chaired by the Bank's Managing Director and is attended by Compliance and Senior individuals from the Group's Risk Management functions.
- **Compliance Management Committee:** The purpose of this Committee is to consider and make decisions/recommendations in respect of compliance-related matters that may be escalated to the Committee by the business and/or the compliance team. This Committee is a standing management committee which holds ad hoc meetings as necessary.
- **Investment Management Committee:** The purpose of this Committee is to review the Bank's Balance Sheet trading activity. This Committee meets on a monthly basis and is chaired by the Group Head of Investor Relations, Performance Planning & Monitoring and attended by the Bank's Managing Director and Senior Investment Managers.

The Bank also relies on a number of Group-centralised committees and functions which include the following:

- Group Corporate Governance & Nomination Committee;
- Group Legal and Corporate Services Division;
- Group Risk Management Division;
- Group Operations and Technology Division;
- Group Financial Control Division;
- Group Regulatory and Financial Crimes Compliance Division;
- Group Internal Audit ("GIAD") Division; and
- Group Human Resources and Facilities Division.

The Group employs a tiered approach to the management of its risks, which incorporates the three lines of defence:

***First Line of Defence – Line of Business, Division or Function***

This relates to the Bank’s line of business, unit, division or function, which is responsible for understanding the business and product risks and identifying the emerging risks. The specific responsibilities under this area are as follows:

- To identify and manage risks that originate from day-to-day business activities, such as account opening, loan origination and implementing new systems to support business activities.
- To perform quality assurance on processes by identifying risks or defects and taking the necessary mitigation measures.
- To set control-level policies and procedures to manage program execution within boundaries defined by the Second Line of Defence.
- To create risk transparency by supporting risk reporting activities and timely escalation of key risks.

***Second Line of Defence – Committees and Functions for Oversight***

This refers to the Group’s committees and functions that are employed to provide oversight for the effective operation of the Bank’s First Line of Defence. The responsibilities are as follows:

- To serve as the institutional elevator, escalating issues as they arise in business units or support functions, and driving the Bank’s Board level risk appetite to the front-line.
- To draft the risk management policies (used to govern the control program policies) in line with the overarching principles set by the Bank’s Board.
- To provide quality control on process outcomes.
- To provide governance and challenge functions in day-to-day business activity.
- To create risk transparency by owning risk reporting activities.

***Third Line of Defence – Independent Assurance in Effectiveness***

This refers to the independent assurance regarding the effectiveness of the First and Second Lines of Defence. The responsibilities are as follows:

- To perform independent audit activities for processes and outcomes; and
- To report findings and risk mitigation status to the respective boards and committees.

The First Line of Defence is made up of all employees in the business lines and operational areas. With regards to the Second Line, as mentioned above, the Bank relies on the Group Risk Management and Group Compliance Functions, where a team specializing in Cayman Regulations, is dedicated to the Bank. The Third Line of Defence is performed by the Group’s Internal Audit Function, which undertakes the Bank’s internal audit assessments through a co-sourcing agreement with Deloitte Cayman. Internal Audit findings are reported to the Bank’s Audit Committee, and the Group Risk Committee with detailed reports being shared as necessary.

(c)

Disclosure of channels of communication to describe and enforce risk culture

Risk culture is defined as the system of values and behaviors present throughout the organization which shape risk decisions. The Group's risk culture influences the decisions of Bank's Senior Management and employees, even if they are not consciously weighing risks and benefits.

The Group's risk culture aims to display the following five characteristics:

1. Responsiveness to risk issues which is reflected in:
  - The speed of response to risk issues due to the changing environment
  - The level of care and the high attention to detail in the performance of tasks.
2. Respect for risk which is reflected in:
  - The level of cooperation and coordination between divisions
  - The adherence to policies and procedures.
3. Risk Transparency which is evidenced by:
  - A good level of insight by employees, who have a clear understanding of current and potential risks.
  - An understanding of risk tolerance. Employees must understand the type and magnitude of risks that they are allowed to take in their day-to-day job. Good communication processes such that information about internal and external issues flow quickly to Senior Managers.
4. There should be an acknowledgement of risk:
  - Employees should be confident in what they are doing without being complacent.
  - Employees should have a responsibility culture rather than a blame culture, when dealing with mistakes.
  - Senior Management should encourage their views to be challenged.
5. The establishment of a risk culture that requires all employees:
  - To adhere to risk and compliance rules.
  - To be cognizant of the requirement to serve first the Bank and then shareholders, and not the other way around.
  - To strengthen the Compliance culture within the Bank, AML trainings are carried out at least once per year by the Group Compliance team for all employees of the Bank.



(d)	<p><u>Disclosure on the process of risk information reporting</u></p> <p>An effective risk management process will require risk identification, risk measurement, risk monitoring and risk reporting. The First and Second Lines of Defence play an active role in these risk activities.</p> <p>The Bank acknowledges that risk reporting is critical in assisting management in identifying and creating transparency on important risks. To ensure the usefulness of risk reports in the risk management process, all key risk metrics are reviewed and reported to Senior Management, Investment Management Committee and the Risk Management Committee.</p> <p>The Executives of NCBFG entrusted with oversight for Risk Management are required to report to the Group Risk Committee on the state of the risk and compliance environments throughout the Group. Directives or recommendations advised by the Group Risk Committee are then to be communicated to the relevant executives within the Bank.</p> <p>The Bank's Managing Director as Chair of the Risk Management Committee is also invited to the Group Risk Committee and presents an update on the Bank's risk management status and addresses any concerns raised by the committee members.</p> <p>Risk Management oversight is also facilitated by the Board of Directors of the Bank who receive reports from the Group's Risk Management team which has full oversight of the Bank's Risk Management. Additionally, Internal Audit reports are discussed at the Audit Committee.</p>
(e)	<p><u>Disclosure on the scope and main features of risk measurement systems</u></p> <p>The Bank utilises a variety of tools and forward-looking approaches to proactively identify, measure and prioritize risks as identified below:</p> <ul style="list-style-type: none"> <li>a) Key Risk Indicators/Key Performance indicators</li> <li>b) Business Process Management</li> <li>c) Scenario analysis</li> <li>d) Stress testing</li> <li>e) Back testing</li> <li>f) Special investigations</li> </ul>

(f)	<p><u>Information on the strategies and processes to manage and mitigate risks, as well as on the monitoring of the effectiveness of mitigants.</u></p> <p>Risk mitigation techniques are implemented to reduce the impact of identified risks. These techniques are monitored periodically by senior management and the corresponding Group committees. Additionally, stress testing, back testing and special investigations are carried out by the Bank in order to monitor the effectiveness of mitigants.</p> <p>The most relevant risk management tools the Bank makes use of are:</p> <ul style="list-style-type: none"> <li>- <i>Collateral</i>: such as cash deposits or mortgages over property.</li> <li>- <i>Insurance</i>: This is one of the principal means of risk transfer used by the Bank.</li> <li>- <i>Business Continuity &amp; Disaster Recovery Planning (“BCDRP”)</i>: BCDRP is critical to the Bank’s ability to survive under adverse circumstances and is dealt with in the Bank’s Business Continuity Plan. More information on the Business Continuity Policy can be found in the Operational Risk Section (under Table OPR).</li> </ul>
(g)	<p><u>Information on the stress testing methodology</u></p> <p>In order to assess the capital adequacy, the Bank performs extreme yet plausible stress tests. The Bank considers both market-wide and idiosyncratic stress scenarios. More information about stress testing is included in the Capital Section of these Disclosures (under Table CAP3 – Capital Adequacy).</p> <p>Some stress scenarios that have been performed to evaluate the Bank’s resilience include:</p> <ul style="list-style-type: none"> <li>• Deterioration in asset quality driven by a general decline in the economic activity which impacts borrowers’ repayment capabilities or results in declining house prices.</li> <li>• Lower profitability by assuming the Bank is unable to remain competitive and loses market share.</li> <li>• Interest rate risk as a result of a deterioration in the interest spread.</li> <li>• Liquidity risk explained by loss in the confidence in the Bank which results in sudden deposit withdrawals (explained in more detail in Section 7: Liquidity – LIQA: Liquidity risk management (Qualitative disclosures) points d and e).</li> </ul> <p>The results of this exercises help identify the necessary capital requirements to serve as a buffer to shocks which the Bank may be exposed to, and to set potential action plans or risk mitigation actions.</p>

## 2.2 Overview of Risk Weighted Assets (RWA)

**Table 1: OV1 - Overview of Risk Weighted Assets (RWA)**

		a	C
			Minimum capital requirements
		T	T
1	Credit risk - Excluding counterparty credit risk (CCR)	253,142	30,377
2	Securitisation exposures	-	-
3	Counterparty credit risk	-	-
4	Of which: current exposure method	-	-
5	Of which: standardized method	-	-
6	Market risk	539	43
7	Of which: Equity risk	-	-
8	Operational risk	14,745	1,180
9	Of which: Basic Indicator Approach	14,745	1,180
10	Of which: Standardised Approach	-	-
11	Of which: Alternative Standardised Approach	-	-
<b>12</b>	<b>Total (1+2+3+6+8)</b>	<b>268,426</b>	<b>31,600</b>

### 3 Linkages Between Financial Statements and Regulatory Exposures

**Table 2: LI1 – Differences between the accounting scope and the scope of prudential consolidation and mapping of financial statement categories with regulatory risk categories**

	A,b	c	d	E	f	g
	Carrying values of items:					
	Carrying values as reported in published financial statements	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
<b>Assets</b>						
Cash Items	75,219	52,512	-	-	52,512	22,707
Items in the course of collection from other banks	-	-	-	-	-	-
Investments – Held-to-maturity	-	-	-	-	-	-
Financial assets at fair value	132,565	132,565	-	-	132,565	-
Derivative financial instruments	-	-	-	-	-	-
Loans and advances to banks	-	-	-	-	-	-
Loans and advances to customers	47,832	47,832	-	-	47,832	-
Reverse repurchase agreements and other similar secured lending	15,646	15,646	-	-	15,646	-
Available for sale financial investments	-	-	-	-	-	-
Other assets	4,212	-	-	-	4,212	-
<b>Total assets</b>	<b>275,474</b>	<b>248,555</b>	<b>-</b>	<b>-</b>	<b>252,767</b>	<b>22,707</b>

<b>Liabilities</b>						
Deposits from banks	-	-	-	-	-	-
Items in the course of collection due to other banks	-	-	-	-	-	-
Customer accounts	203,168	-	-	-	203,168	-
Repurchase agreements and other similar secured borrowings	6,923	-	-	-	6,923	-
Trading portfolio liabilities	-	-	-	-	-	-
Financial liabilities designated at a fair value	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Other liabilities	3,955				3,955	
<b>Total liabilities</b>	<b>214,046</b>	-	-	-	<b>214,046</b>	-

Note: the reason why a single item attracts capital charges in more than one risk category framework, is because the item is reported in all columns that it attracts a capital charge. As a consequence, the sum of amounts in columns (c) to (g) may be greater than the amount in column (a,b).

**Template LI2 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements**

**Table LIA - Explanations of differences between accounting and regulatory exposure amounts**

There are no differences between regulatory exposure amounts and carrying values in financial statements. Therefore, tables LI2 and LIA are not applicable to the Bank.

## 4 Capital

Table CAP1 - Scope

Row number	Explanation
(a)	<p><u>Name of the top corporate entity in the Group to which these rules and guidelines apply:</u></p> <p>NCB (Cayman) Limited.</p>
(b)	<p><u>Outline of differences in the basis of consolidation for accounting and regulatory purposes</u></p> <p>All assets and liabilities reported in published financial statements are under the scope of regulatory consolidation.</p> <p>The Bank has one wholly-owned subsidiary incorporated under the laws of the Cayman Islands: NCB Trust Company (Cayman) Limited (formerly NCB Investments (Cayman) Limited), which holds a trust (controlled subsidiary) license (effective September 2015).</p>
(c)	<p><u>Restrictions, or other major impediments, on transfer of funds or regulatory capital within the group</u></p> <p>There are no legal impediments to the transfer of funds or regulatory capital within the Group.</p>
(d)	<p><u>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.</u></p> <p>This section is not applicable to the Bank.</p>
(e)	<p><u>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.</u></p> <p>This section is not applicable to the Bank.</p>
(f)	<p><u>The aggregate amounts (e.g. current book value) of the firm's total interests in insurance entities</u></p> <p>This section is not applicable to the Bank.</p>

**Table 3: CAP2 – Capital Structure**

The Bank's capital consists of Tier 1 & 2 capital, being paid up capital, retained earnings and other upper Tier 2 instruments.

<b>Tier 1 Capital</b>	
Paid up capital	5,000
Disclosed reserves:	56,428
- Share premium	-
- Retained earnings	60,591
- Current year's earnings (audited)	7,222
- General reserves	(11,385)
- Foreign currency translation adjustments	-
Paid up perpetual non-cumulative preferences shares	-
Eligible innovative instruments	-
Minority interest	-
Other Tier 1 Capital	-
<b>Total Tier 1 Capital</b>	<b>61,428</b>
<b>Deductions from Tier 1 Capital</b>	
Goodwill	-
Intangible assets	-
Increase in equity capital resulting from a securitisation exposure	-
50/50 pro rata basis deduction	(25)
Unrealised Losses on AFS Equity Securities	-
Other Tier 1 Deductions	-
<b>Total Deductions from Tier 1 Capital</b>	<b>(25)</b>
<b>Net Tier 1 Capital</b>	<b>61,403</b>
<b>Tier 2 Capital</b>	
Perpetual cumulative preferences shares	-
Perpetual cumulative subordinated debt	-
Excess on innovative instruments	-
General provisions	-
Asset revaluation reserves	-
Other upper Tier 2 instruments	7,233
<b>Total Tier 2 Instruments</b>	<b>7,233</b>
<b>Deductions from Tier 2 Capital</b>	
50/50 pro rata basis deduction	(25)
Other Tier 2 Deductions	-
<b>Total Deductions from Tier 2 Capital</b>	<b>(25)</b>
<b>Net Tier 2 Capital</b>	<b>7,208</b>
<b>Tier 3 Capital</b>	<b>-</b>
<b>Total Eligible Capital</b>	<b>68,611</b>

**Table CAP3 – Capital Adequacy**

Row number	Explanation
(a)	<p><u>A summary of the Bank’s approach to assessing the adequacy of its capital to support current and future activities.</u></p> <p>As part of the Internal Capital Adequacy Assessment Process (“ICAAP”), the Bank ensures that its capital allocation addresses the most significant risks and confirms that it holds enough capital to cover its current and projected business activities. During this annual process, the Bank identifies actions to strengthen its internal controls and risk management framework and to strengthen its capital base as necessary.</p> <p>As part of this ICAAP, the Bank conducts capital planning and capital adequacy assessments relative to its entire risk profile by taking into consideration its institution-specific characteristics and uncertainties. The Bank adopts the minimum capital requirement approach, that is, a capital adequacy assessment process based on the Pillar I minimum capital requirements together with the assessment of extra capital requirements proportionate to the non-Pillar I risks.</p> <p>The actual calculation and allocation of internal capital is supplemented by sufficiently robust qualitative procedures, measures and provisions to identify, manage, control and monitor all risks. Based on the Bank’s projections, the Capital Adequacy Ratio will be above the 12% requirement over the next three years, considering both its Pillar I and Pillar II projected capital requirements.</p> <p>Stress testing is a fundamental component of the risk management framework. It is designed to evaluate the Bank’s capital resilience and key metrics performance under highly unlikely, yet plausible scenarios with a high negative impact. The Bank uses stress testing results as a diagnostic tool and as a forward-looking tool within the internal capital adequacy assessment. NCB considers both market-wide and idiosyncratic stress scenarios over a multi-year horizon. These scenarios aim to test different features of the business and take into account main risks faced by the Bank. Some of the scenarios tested include a deterioration in asset quality, a decline in market share and hence lower profitability and narrower interest rate margins impacting the funding and borrowing capacity and sudden withdrawals of deposits. These results help to identify the necessary capital requirements to serve as a buffer to shocks. Moreover, action plans are developed accordingly to manage and mitigate risks in the case these events were to occur. A contingency plan describes the necessary remediation actions to be taken as well as the timeframe and responsibility levels required in such situations. A description of the scenarios and underlying assumptions as well as the final results and conclusions are submitted to the Risk Management Committee. This Committee uses these results to recommend changes, if necessary, in the risk appetite or different risk policies of the Bank.</p>



**Table 4: CAP3 – Capital Adequacy**

As shown in the table below, the Bank's capital adequacy ratio is well above the 12% threshold set by CIMA. The Regulatory capital is mainly internally generated through accumulated profits.

<b>Capital Requirements</b>	
Credit Risk	30,377
Market Risk	43
Operational Risk	1,180
<b>Total</b>	<b>31,600</b>

<b>Tier 1 Capital Ratio</b>	<b>23%</b>
<b>Total Capital Ratio</b>	<b>26%</b>

## 5 Credit Risk

### 5.1 Credit risk

**Table CRA: General qualitative information about credit risk**

Row number	Explanation
(a)	<p><u>How the business model translates into the components of the Bank's credit risk profile</u></p> <p>The Bank offers a full range of banking and other financial products and services. The loan portfolio consists mainly of commercial and syndicated loans with other Group entities, as well as residential mortgage loans. The main credit risks that the Bank is exposed to are 'Default risk' and 'Concentration risk'. Additionally, the Bank holds investments in equities, debt securities and reverse repurchase agreements. These will expose the Bank to Price risk, Default risk and Concentration risk.</p>
(b)	<p><u>Criteria and approach used for defining the credit risk management policy and for setting credit risk limits</u></p> <p>The Bank's Credit Risk Strategy is embedded within the Group's overall strategy. The Credit Risk Strategy is one of the Bank's most important aspects of Credit Risk Management as it defines how, where, with whom and when to extend credit. By having a well-established and realistic Credit Risk Strategy with adequate filtering parameters, the Bank is able to optimize capital allocation, preserve shareholder's capital and avoid future credit problems and losses. The Credit Risk Strategy guides the establishment of the credit risk appetite and the way that credit exposure is extended so that the business' revenue goals will be achieved, and shareholders' capital will be rewarded.</p> <p>The Credit Risk Strategy, therefore, starts in a very early stage of the credit process and defines the following for the achievement of an established revenue goal:</p> <ul style="list-style-type: none"> <li>- Amount of credit risk exposure that is appropriate relative to the Bank's capital at the time.</li> <li>- Quality profile of the desired credit risk exposure (as measured by the Obligor Risk Rating).</li> <li>- Industries and obligors (Target Market) that the Bank may consider, to extend credit exposure based on qualitative and quantitative parameters and products (Risk Acceptance Criteria) that will generate those credit risk exposures.</li> <li>- Credit risk losses expected as a result of having such level of credit risk exposure.</li> <li>- Amount of Accumulated Loan Loss Reserves ("ALLR") needed to absorb those credit losses.</li> <li>- Bank capital (Tier 1) required to support the strategy, which must be feasible and realistic.</li> <li>- Shareholder capital reward (risk/reward), that is, minimum spreads per risk rating, or total client revenues/total assets. This may include credit assets and equivalent credit assets which are exposed to market and operational risks.</li> </ul>

The Credit Risk Strategy is established as part of the preparation of the annual budget, as the credit revenue goal, level of assets, ALLR and expected credit losses are all interdependent. The Bank's Risk Management Committee reviews and approves this strategy annually and presents it to the Group Risk Committee.

The diversification principle is vital to the establishment of a good Credit Risk Strategy. Therefore, the Bank considers the characteristic of a geographic area and its natural resources and business aptitude. The Head of the Group Risk Management division recommends an ideal credit exposure distribution, so as to mitigate the adverse effect in case of an economic deterioration. This diversification principle is then reflected in the Bank's Risk appetite which is annually reviewed and approved by the Bank's Board.

The Bank's Board of Directors is responsible for ensuring that there is an established system for Credit approvals and lending limits, and the monitoring and implementation compliance thereof. The Bank's Risk Management Committee is responsible for the approval of facilities within the limits set by the Bank's Board of Directors and for discussing major credit risk exceptions approvals.

In order to achieve the goals defined in the Credit Risk Strategy while at the same time maintaining a healthy and diversified portfolio, the risk appetite establishes certain thresholds in terms of loan growth and concentration:

- Any loan sector that exceeds 20% growth per year or grows significantly faster than competitors will require Board Risk Management Committee approval for future growth.
- All sector exposures across all business lines exceeding 130% of capital will be subject to enhanced monitoring and reporting standards.

The Bank has in place a system of credit risk approval grids showing the approval levels required according to the businesses lines, exposure amounts and risk rating or scoring results.

Limits for total credit facilities are established as follows:

- **Total credit facilities to any single borrower** (except for another bank): may not exceed in the aggregate 20% of the Bank's capital base and, if any portion of such credit facilities is unsecured, that portion shall not exceed 5% of the Bank's capital base;
- **Total credit facilities to any economic group/related parties**: may not exceed in the aggregate 40% of the Bank's capital base and, if any portion of such credit facilities is unsecured that portion shall not exceed 10% of the Bank's capital base;
- Credit facilities to any (single) connected party or person to acquire and/or hold investments shall not exceed in the aggregate 10% of the Bank's capital base, and for all connected parties or persons, shall not exceed in the aggregate 20% of the Bank's capital base.

Therefore, the Credit Risk Strategy and the related credit limits are the basis of establishing the Bank's Credit policy.

(c)	<p><u>Structure and organisation of the credit risk management and control function</u></p> <p>The Bank's Board of Directors has ultimate responsibility for the credit risk framework and policies of the Bank. However, the Bank's credit risk management oversight function is handled by the Group's Risk Management function with assistance from the Bank's Risk Management Committee. Everyone participating in the approval of a credit exposure is responsible for managing the credit risk, from the analyst to the highest credit authority approving such a credit.</p>
(d)	<p><u>Relationships between the credit risk management, risk control, compliance and internal audit functions</u></p> <p>The Bank adopts a tiered approach to the management of its risks, which incorporates the three lines of defence, as outlined in Table OVA above.</p> <p>These three lines do not operate in isolation of each other as there is two-way communication between the three lines. From a credit risk management point of view, the Second Line is involved in the credit risk approval process following recommendations from the First Line (these being the Client Services Team and Manager, and the Operations Manager and the Private Banking Officer). Additionally, the Third Line of Defence, undertakes ad-hoc reviews and risk-based audit cycles covering both the business risks (First Line) and risk oversight and monitoring (Second Line). Any internal audit findings are discussed with the First and Second Lines of Defence as appropriate and followed up for resolution. This approach allows for a free flow of information and ideas between the lines of defence.</p>
(e)	<p><u>Scope and main content of the reporting on credit risk exposure and on the credit risk management function to senior management and the Board</u></p> <p>Risk monitoring and reporting is an essential component of the risk management framework of the Bank. It falls under the responsibilities of the Risk Management Committee to assess, identify and mitigate risks as well as oversee the development of new relevant product and portfolio reviews on an aggregate basis. In order to comply with this, the Risk Management Committee receives periodic reports on the current state of the principal risks faced by the Bank. The Bank also has a set of indicators (based on the criteria set out in item (b), above) to periodically monitor the performance of the portfolio. The main findings and conclusions are communicated to the relevant Committees and eventually to the Board of Directors.</p>

**Table 5: CR1 - Credit quality of assets**

		a	b	c	d
		Gross carrying values of:		Allowances / impairments	Net values (a + b - c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	10,098	38,032	298	47,832
2	Debt Securities	-	148,211	-	148,211
3	Off-balance sheet exposures	-	-	-	-
<b>4</b>	<b>Total</b>	<b>10,098</b>	<b>186,243</b>	<b>298</b>	<b>196,043</b>

The Bank adopts the Basel II definition of default which states that a default will occur if either or both of the following happen:

- When the obligor is past due more than 90 days on any material credit obligation to the banking group. Overdrafts are considered to be past due once the customer has breached an advised limit or been advised of a limit smaller than the current outstanding; and / or
- When the Bank considers that the obligor is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realising security (if held), collecting against a guarantee or other form of support, or filing a claim against the insurer.

**Table 6: CR2 - Changes in stock of defaulted loans and debt securities**

		a
<b>1</b>	<b>Defaulted loans and debt securities at the end of the previous reporting period</b>	<b>8,431</b>
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-defaulted status	-
4	Amounts written off	-
5	Other changes	1,667
<b>6</b>	<b>Defaulted loans and debt securities at end of the reporting period (1 + 2 - 3 - 4 ± 5)</b>	<b>10,098</b>

The increase in the amount of defaulted loans when compared with the previous reporting period is due to an increase in the carrying value of already defaulted loans.

**Table CRB: Additional disclosure related to the credit quality of assets – Qualitative disclosures**

Row number	Explanation
(a)	<u>Definition of “past due” and “impaired” exposures used for accounting purposes and the difference, if any, between the definition of “past due” and “default” for accounting and regulatory purposes.</u>

	<p>An exposure is considered <b>past due</b> where any amount due under the contract (interest, principal, fee or other amount) has not been paid in full at the date when it was due. Overdrafts are considered to be <b>past due</b> once the customer has breached an advised limit or been advised of a limit smaller than the current outstanding.</p> <p>An exposure is <b>impaired</b> if the carrying amount is higher than the present value of estimated future cash flows. If there is objective evidence of impairment, the amount of the loss is measured as the difference between the loans carrying amount and the present value of the estimated future cash flows, discounted at the loans original effective interest rate.</p> <p>There is no difference between the accounting and regulatory definitions for 'past due' and 'default' exposures.</p>
(b)	<p><u>The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this</u></p> <p>As mentioned in the previous section, past due exposures (more than 90 days) are considered impaired with no exceptions.</p>
(c)	<p><u>Description of methods used for determining impairments</u></p> <p>The Bank has a credit classification process which establishes defined categories that indicate the degree of risk of individual credit exposures. The Categories defined by the Bank are:</p> <ol style="list-style-type: none"> <li>1. Standard</li> <li>2. Potential Problem Credit / Special Mention</li> <li>3. Substandard</li> <li>4. Doubtful</li> <li>5. Loss</li> </ol> <p>Any classification other than 'Standard' will be considered an Adverse Classification. These classifications, if adverse, trigger specific internal remedial management and reporting processes. Adverse classifications are assigned to facilities, not to obligors. That is, certain facilities to an obligor may be Adversely Classified or Troubled Debt and others may remain classified as Standard.</p> <p>While the payment status is normally the first reference point in establishing classification (whether payments of principal and interest are in delinquency or not), other criteria are considered on an equal basis in determining ultimate credit classification. Other criteria considered in addition to payment status include financial condition of the borrower, status of collateral, credit documentation, borrower's industry and economic environment, overdraft in excess of approved limits, renegotiated or rescheduled credits and forward-looking conditions.</p> <p>In order to establish an adequate ALLR for anticipated loan and other credit-related losses, a minimum provision is to be established for each credit classification category at least quarterly following review of the portfolio. The minimum levels for such Provisions for Loan and Other Credit Losses are as follows:</p>

	<ul style="list-style-type: none"> <li>• <b>General Provision:</b> a General Provision is established for all credit classified as Standard or Potential Problem Credit as well as against those credits classified as Substandard or Doubtful which are not subject to Specific Provisions (referred to below). The General Provisions required are 0.5% for "Residential Mortgages to owner occupier Credits" and 1% for the rest of credits.</li> <li>• <b>Specific Provision:</b> a Specific Provision is established against the estimated net loss in respect of each credit classified Substandard, Doubtful and Loss as follows: <ul style="list-style-type: none"> <li>▪ <i>Substandard:</i> the greater of 1% of total credit or 20% of estimated net loss.</li> <li>▪ <i>Doubtful and Loss:</i> the greater of 1% of total credit or 20% of estimated net loss.</li> </ul> </li> </ul> <p>For Substandard, Doubtful and Loss credits, the estimated net realizable value of collateral is deducted from the credit balance due. The provision percentage is applied against the net exposure remaining after each deduction.</p>
(d)	<p><u>Definition of "restructured exposure" and "forborne exposure"</u></p> <p>Forbearance applies to borrowers unable to meet their obligations in compliance with the original terms agreed.</p> <p>In the course of workout arrangements with customers, it might become necessary to alter the repayment arrangements of credit facilities. Forborne exposures are credits which have been subject to refinancing, rescheduling, renewal, or other modifications resulting from a weakness in the borrower's financial position and/or inability to repay.</p> <p>A renegotiation of the original terms is only allowed subject to certain conditions which have to be met. Such conditions include an assessment of the capacity of the debtor to service the credit facility under the new conditions, a minimum credit classification category of the credit, a threshold on the renegotiated interest rate and the number of times a credit facility can be renegotiated over the life of the original facility.</p> <p>As per the date of this report, the Bank did not hold any forborne exposures.</p>

**Table CRB: Additional disclosure related to the credit quality of assets – Quantitative Disclosures**

**Table 7: CRB (a) – Breakdown of loans by geographical area, industry and residual maturity**

<b>Geographical area</b>	
Barbados	9,923
St Lucia	9,700
Bahamas	9,505
Jamaica	7,844
Trinidad and Tobago	6,300
Peru	2,395
Cayman Islands	1,636
<b>Total amount</b>	<b>47,303</b>
<b>Industry</b>	
Distribution	9,700
Public Sector	15,805
Electricity, Water, Gas	9,997
Construction	1,636
Personal	242
Tourism	9,923
<b>Total amount</b>	<b>47,303</b>
<b>Residual Maturity</b>	
< 1 month	10,098
1-3 months	9,700
3-12 months	-
1-5 years	18,452
Over 5 years	9,053
<b>Total amount</b>	<b>47,303</b>



**Table 8: CRB (b) – Amounts of impaired exposures and related allowances and write-offs**

<b>Geographical area</b>	<b>Non-Performing Loans</b>	<b>Expected Credit Loss</b>
Barbados	9,923	90
St Lucia	-	-
Bahamas	-	-
Jamaica	175	131
Trinidad and Tobago	-	-
Peru	-	-
Cayman Islands		
<b>Total amount</b>	<b>10,098</b>	<b>221</b>
<b>Industry</b>	<b>Non-Performing Loans</b>	<b>Expected Credit Loss</b>
Distribution	-	-
Public Sector	-	-
Electricity, Water, Gas	-	-
Construction	-	-
Personal	175	131
Tourism	9,923	90
<b>Total amount</b>	<b>10,098</b>	<b>221</b>

**Table 9: CRB (c) – Ageing analysis of accounting past-due loans**

<b>Ageing</b>	<b>Non-Performing Loans</b>
< 1 month	-
1-3 months	-
3-12 months	-
1-5 years	9,923
Over 5 years	175
<b>Total amount</b>	<b>10,098</b>

Figures reported in tables CRB (a), CRB (b) and CRB (c) exclude provisions, accrued interests and premium or discount on loans, and have been so presented in this report as it is the data used for monitoring by the Bank. The expected credit loss reported in table CRB (b) represents the portion of ECL covering the defaulted loans.

**Table CRB (d) – Breakdown of restructured exposures between impaired and not impaired exposures**

As per the date of this report, the Bank did not hold any restructured exposures.

**Table CRC: Qualitative disclosure requirements related to Credit Risk Mitigation (“CRM”) techniques**

The Bank does not apply any Credit Mitigation Techniques. Therefore, this section is not applicable.

**Template CR3: Credit risk mitigation techniques – overview**

The Bank does not apply any Credit Mitigation Techniques. Therefore, all the exposures reported in table CR1 would be classified as ‘Exposures unsecured’ for the purposes of template CR3.

**Table CRD: Qualitative disclosures on banks’ use of external credit ratings under the standardised approach for credit risk**

Row number	Explanation
(a)	<p><u>Name of the external credit assessment institutions (ECAIs) used, and the reasons for any changes over the reporting period.</u></p> <p>The Bank rates its exposures using ratings by S&amp;P, Moody’s, Fitch and CariCRIS.</p>
(b)	<p><u>Asset classes for which each ECAI is used</u></p> <p>ECAI ratings are used whenever the counterparty is rated.</p>
(c)	<p><u>Description of the process used to transfer the issuer to issue credit ratings onto comparable assets in the banking book</u></p> <p>The Bank does not have any investments in issues which have an issue-specific assessment available. Therefore, this section is not applicable to the Bank.</p> <p>However, as mentioned above, the Bank uses ECAIs in all instances where the counterparty is rated. If more than one rating is available for a certain counterparty, the Bank primarily considers the one which is most recently updated. If more than one updated rating is available, the Bank takes a conservative approach and considers the worst rating available.</p> <p>If the counterparty is not externally rated, the Bank uses an internal rating system, consisting of different ratios and scores to assess the counterparty risk.</p>

**Table 10: CR4 - Standardised approach – credit risk exposure and CRM effects**

	Asset classes	a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA Density
1	Sovereigns and their Central Bank	63,466	-	63,466	-	44,499	70%
2	Non-central government public sector entities	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-
4	Banks	90,649	-	90,649	-	84,980	94%
5	Securities firms	-	-	-	-	-	-
6	Corporates	68,599	-	68,599	-	75,875	111%
7	Regulatory retail portfolios	-	-	-	-	-	-
8	Secured by residential property	70	-	70	-	24	34%
9	Secured by commercial real estate	47,763	-	47,763	-	47,763	100%
10	Past-due exposures	-	-	-	-	-	-
11	Higher-risk categories	-	-	-	-	-	-
12	Other assets	-	-	-	-	-	-
13	<b>Total</b>	<b>270,546</b>		<b>270,546</b>		<b>253,142</b>	<b>94%</b>

**Table 11: CR5 - Standardised approach – exposures by asset class and risk**

		A	b		d	e	f	g	h	i	j
Risk weight		0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposure amount (post CCF and CRM)
Asset classes											
1	Sovereigns and their Central Bank	9,880	3,440	12,671	-	-	-	37,476	-	-	63,466
2	Non-central government public sector entities	-	-	-	-	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-	-	-	-	-
4	Banks	-	-	-	-	11,336	-	79,312	-	-	90,649
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	2,127	-	49,793	16,679	-	68,599
7	Regulatory retail portfolios	-	-	-	-	-	-	-	-	-	-
8	Secured by residential property	-	-	-	70	-	-	-	-	-	70
9	Secured by commercial real estate	-	-	-	-	-	-	47,763	-	-	47,763
10	Past-due exposures	-	-	-	-	-	-	-	-	-	-
11	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
12	Other assets	-	-	-	-	-	-	-	-	-	-
<b>13</b>	<b>Total</b>	<b>9,880</b>	<b>3,440</b>	<b>12,671</b>	<b>70</b>	<b>13,463</b>	<b>-</b>	<b>214,344</b>	<b>16,679</b>	<b>-</b>	<b>270,546</b>

## 5.2 Counterparty credit risk

NCB is not exposed to counterparty credit risk, therefore, the Bank does not deem this section of the disclosures to be applicable.

## 6 Leverage Ratio

**Table 12: LR1 – Comparison of accounting assets vs leverage ratio exposure measure**

		a
1	Total consolidated assets as per published financial statements	275,474
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)	17,446
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	(50)
<b>13</b>	<b>Leverage ratio exposure measure</b>	<b>292,870</b>

The difference between the total consolidated assets as published in the audited financial statements and the leverage ratio exposure measure is mainly due to the holding of securities as collateral for reverse repurchase agreements.

**Table 13: LR2 – Leverage ratio common disclosure**

As indicated below, the Bank reported a leverage ratio of 20.97%, as at 30 September 2022. This is well above the minimum of 3% required by the Authority.

		a	b
		T	T-1
<b>On-balance sheet exposures</b>			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	275,474	300,528
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)	(50)	(50)
7	Total on balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	275,424	300,478
<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)	-	-
13	Total derivative exposures (sum of rows 8 to 12)	-	-
<b>Securities financing transaction exposures</b>			
14	Gross SFT assets (with no recognition of netting), after adjustment for sale accounting transactions	17,446	17,446
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)	17,446	17,446
<b>Other off-balance sheet exposures</b>			
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)	-	-
<b>Capital and total exposures</b>			
23	<b>Tier 1 capital</b>	61,403	55,000
24	<b>Total exposures (sum of rows 7, 13, 18 and 22)</b>	292,870	317,944
<b>Leverage ratio</b>			
25	<b>Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)</b>	20.97%	17.30%
25 a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	-	-
26	<b>National minimum leverage ratio requirement</b>	3%	3%
27	<b>Applicable leverage buffers</b>	-	-



## 7 Liquidity risk

**Table LIQA – Liquidity risk management (Qualitative disclosures)**

Row number	Explanation
(a)	<p><u>Disclosure of the Governance of liquidity risk management (structure and responsibilities, internal reporting, policies and practices)</u></p> <p>Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The Bank is exposed to daily calls on its available cash resources from maturing deposits. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.</p> <p>Liquidity risk is broken down into sub risks:</p> <ul style="list-style-type: none"> <li>• <b>Funding liquidity risk:</b> the risk that a financial entity will be unable to settle its obligations with immediacy over a specific time horizon.</li> <li>• <b>Market Liquidity risk:</b> the risk of being unable to unwind assets with immediacy due to inadequate market activities or unavailable market prices without incurring a loss on liquidation. Market spreads and volumes are to be monitored to gauge this particular risk.</li> <li>• <b>Funding risk:</b> is the requirement to replace net cash outflows as a result of unexpected withdrawals/non-renewal of wholesale and retail deposits. This will be managed by monitoring the funding concentrations and the pattern of cash movements into and out of funding accounts.</li> <li>• <b>Time risk:</b> considers the requirement to compensate for the non-receipt of anticipated/contractual cash inflows, as a result of previously performing assets becoming non-performing assets. This is monitored by tracing the asset quality via market indicators and risk rating assessments.</li> <li>• <b>Call risk:</b> arises when contingent liabilities crystallize and result in insufficient liquid funds to take advantage of profitable opportunities when they arise. Such liabilities are to be closely monitored.</li> </ul> <p>Liquidity and funding management activities are in accordance with regulatory requirements and standards of best practice, and in line with the risk appetite and tolerance of the Bank. In order to do so, the Group has implemented a framework which comprises structures, controls and limits designed to manage the Bank's liquidity and funding exposure, thereby ensuring that it can consistently meet its projected daily cash commitments without prejudice.</p> <p>The Bank's liquidity management process includes:</p> <ol style="list-style-type: none"> <li>(a) monitoring expected future cash flows and liquidity on a regular basis. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure funding if required;</li> <li>(b) maintaining a portfolio that is predominantly of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruptions to cash flows; and</li> <li>(c) monitoring statement of financial position liquidity/solvency ratios against internal and regulatory requirements.</li> </ol>

The matching of the maturities and interest rates of assets and liabilities is fundamental to the liquidity management of the Bank.

The liquidity risk management responsibilities within the Group's structure (also covering the management of the Bank's liquidity risk) are summarized as follows:

- a) The Board and the Risk Management Committee receive and discuss liquidity risk reports.
- b) The Investment Management Committee
  - Provides oversight on the liquidity risk management strategies
  - Reviews and receives reports from the Risk Management Committee on liquidity risk management issues.
- c) Independent Risk Management function:
  - Establishes liquidity risk policies and guidelines.
  - Ensures adherence to liquidity risk limits and policies.
- d) Investment/portfolio management unit:
  - Identifies and manages liquidity risks that originate from day-to-day business activities.
  - Establishes control-level liquidity policies and procedures to manage program execution.
  - Creates liquidity risk transparency by supporting risk reporting activities and timely escalation of key liquidity risks.

As already mentioned in previous sections, the Independent Risk Management function is performed at Group level by a specialized team dedicated to the Bank.

The Group has also established a liquidity policy that is monitored by the Bank's Risk Management Committee and the Investment Management Committee. The policy includes the following objectives:

- Maintain the Bank's stability such that the Bank has available a stable and diverse source of funding as it relates to instrument type maturity and deposit/counterparty type and maturity;
- Maintain the Bank's solvency such that the Bank has an available source of liquid assets that can be liquidated immediately without any significant price discounts;
- Ensure the Bank is not compromised and forced to raise funds at a premium rate of interest or through the forced sale of assets or invest at rates lower than market rates of interest; and
- Meet statutory liquidity and reserve requirements.

This is achieved through procedures implemented to identify, measure, monitor and control the Bank's liquidity and funding exposure. The procedures include:

- Review and management of the Bank's cash flows and liquidity gaps in the context of new funds, maturing funds, early fund encashment, loan extension and loan non-repayment;
- Retain and grow a stable deposits base; and
- Identify and establish funding sources in the event of liquidity shortfalls.

(b)	<p><u>Funding Strategy</u></p> <p>The Bank has a Funding Strategy in place that follows the guidelines established in the Group’s Liquidity Policy. Funding is driven by the Business' marketing efforts to attract new deposits while at the same time complying with the following goals defined in the risk appetite statement of the Bank:</p> <ul style="list-style-type: none"> <li>- A minimum liquidity ratio should be maintained at all times. If there are insufficient deposits, loans are not taken on. The maximum Loan to Deposit ratio is 75%;</li> <li>- All regulatory liquidity ratios should be at a minimum of 200 basis points above the regulatory minimum ratios; and</li> <li>- Investment portfolios must incorporate securities which trade actively in the secondary market to meet unanticipated liquidity demands.</li> </ul>
(c)	<p><u>Liquidity Risk Mitigation Techniques</u></p> <p>Some of the limits and controls implemented by the Bank to manage its liquidity exposure include:</p> <ul style="list-style-type: none"> <li>- <b><u>Cash flow forecasting</u></b>: the Bank forecasts its liquidity requirement by major/significant currency under various stress scenarios, incorporating both maturing on- and off-balance sheet assets and liabilities, large cash flows and other expected cash flows in order to provide a basis for the measurement and monitoring of their liquidity exposure. The level of liquid assets and contingency funding necessary to manage net cash flow exposures under both normal business conditions as well as idiosyncratic and market wide crisis is included in the forecast.</li> <li>- <b><u>Measurement of net funding gaps</u></b>: the Group calculates cumulative surplus or deficits of funds at selected maturity dates. Cash flows are placed in different time bands based on the contractual behaviour of assets and the projected behaviour of liabilities and off-balance sheet items. The difference between cash inflows and outflows in each time band is used as a determination of the Group’s liquidity profile.</li> <li>- <b><u>Establishment of funding limits and controls</u></b>: the Bank sets a funding benchmark by monitoring large exposures and establishing a core liquidity asset ratio limit that is continuously monitored. There are also strategies implemented to attract new deposit/investment business and minimize incidences of high fund withdrawals.</li> <li>- <b><u>Key liquidity ratios</u></b>: liquidity ratios are used as indicators of the Bank’s liquidity. These include loans to total assets, loans to core deposits and liquid assets to volatile liabilities. These ratios are calculated on a monthly basis.</li> </ul>
(d), (e)	<p><u>Stress Testing and Contingency Funding plans</u></p> <p>The Bank is exposed to the risk of sudden deposit withdrawals. This could be driven by loss of confidence in the Bank. In order to evaluate its ability to cope with a sudden surge of withdrawals, the Bank undertakes stress testing on an annual basis, as part of the ICAAP process, where it assumes that the Bank faces five consecutive days of significant outflows which need to be financed through the utilisation of the Bank’s cash and liquidation of short-term investments. It is also assumed that the Bank does not suffer any reduction on the value of such assets when liquidated. This assumption is considered plausible given the nature of the Bank’s investment portfolio, which primarily consists of investments in fairly liquid (level 2 fixed income securities).</p>

	<p>The five scenarios that are considered are: customer deposits decline by 1%, 2%, 3% 4% and 5% per day for five consecutive days. The test is deemed to be passed if the value of assumed outflows is less than the value of cash and short-term investments as at the beginning of the test.</p> <p>To date the results of this stress test indicated that the Bank’s cash and highly liquid short-term investments, are enough to meet even the most onerous liquidity needs that are modelled (i.e. the assumed 5% daily withdrawal). Should the results be negative the Bank will discuss the possibility of acquiring additional liquid assets in order to ensure these are enough to cover any sudden withdrawal in deposits.</p> <p>The Liquidity crisis scenario tested involves the following:</p> <ul style="list-style-type: none"> <li>• An examination of the Banks’s liquidity under three scenarios: <ul style="list-style-type: none"> <li>a) Global systemic crisis</li> <li>b) Local systemic crisis</li> <li>c) NCB (Cayman) specific crisis.</li> </ul> </li> <li>• Assessing the impact on the Bank’s liquidity, under each scenario based on assumptions made in respect of: <ul style="list-style-type: none"> <li>a) Liquid assets</li> <li>b) Cash flows</li> <li>c) Central Bank borrowing</li> <li>d) Non-core liquid assets</li> </ul> <p>The validity of such assumptions is reviewed half yearly or as circumstances require.</p> </li> <li>• Determining the timeframe for asset liquidation and the Bank’s ability to manage its liquidity.</li> </ul> <p>The Bank’s liquidity contingency planning incorporates stress testing and development of a contingency plan which addresses the actions to be taken in the event of a potential or actual liquidity crisis.</p>
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**Table LIQA – Quantitative disclosures**

The following are the liquidity measurement tools adopted by the Bank:

**Table 14: LIQA (a) - Cumulative Gap**

<b>a. Cumulative Gap</b>	<b>T</b>
Core Liquid Assets (> 15 days)	80,660
Core Liquid Assets (> 30 days)	25,696
15-day Cumulative gap	(12,610)
30-day Cumulative gap	(14,204)
Core liquid assets / 15-day Cumulative gap	640%
Core liquid assets / 30-day Cumulative gap	181%

**Table 15: LIQA (b) - Liquidity Gap**

<b>Assets</b>	<b>Up to 1 month</b>	<b>1 to 3 Months</b>	<b>3 to 12 Months</b>	<b>1 to 5 Years</b>	<b>Over 5 Years/n on-maturity</b>	<b>Total</b>
Cash and deposits	75,219	-	-	-	-	75,219
Fixed Deposits	-	-	-	-	-	-
Reverse Repurchase Agreements	7,560	-	8,086	-	-	15,646
Investment fair value through other comprehensive income and amortised cost, excluding provisions	499	7,792	9,880	37,966	66,439	122,576
Investment fair value through profit and loss, excluding provisions	-	-	-	-	9,988	9,988
Loans and advances	19,603	-	9,705	8,972	9,850	48,130
Other assets	3,259	-	-	-	-	3,259
<b>Total assets (excluding provisions, fixed and other assets)</b>	<b>106,140</b>	<b>7,792</b>	<b>27,671</b>	<b>46,938</b>	<b>86,277</b>	<b>274,818</b>
<b>Liabilities</b>	<b>Up to 1 month</b>	<b>1 to 3 Months</b>	<b>3 to 12 Months</b>	<b>1 to 5 Years</b>	<b>Over 5 Years/n on-maturity</b>	<b>Total</b>
Customer deposits	114,270	25,390	55,805	7,703	-	203,168
Repurchase agreements	1,302	5,621	-	-	-	6,923
Other liabilities	3,131	-	-	-	-	3,131
<b>Total liabilities (excluding other liabilities)</b>	<b>118,703</b>	<b>31,011</b>	<b>55,805</b>	<b>7,703</b>	<b>-</b>	<b>213,222</b>
<b>Net Liquidity gap</b>	<b>(12,563)</b>	<b>(23,219)</b>	<b>(28,134)</b>	<b>39,235</b>	<b>86,277</b>	<b>61,596</b>

**c. Ten largest deposits**

As of 30 September 2022, principal and interest balances of the deposits of the ten customers holding the largest balances represented 61.05% of the Bank's deposit (and accrued interest) portfolio.

**LIQ1: Liquidity Coverage Ratio and LIQ2: Net Stable Funding Ratio**

Given that the Bank is a Category 'A' Non-Retail bank, it is not required to abide by the Liquidity Coverage Ratio and Net Stable Funding Ratio requirements as per the Liquidity Risk Management Rules and guidelines issued by the Cayman Islands Monetary Authority, dated February 2022. To this end, the LIQ1 and LIQ2 are not applicable to the Bank. However, as at 30 September 2022, the Bank's Minimum Liquidity Ratio (MLR) amounted to 33.8% which is substantially higher than the minimum requirement of 15%.

## 8 Securitisation

NCB does not hold securitisation positions in the regulatory banking book. Therefore, the Bank does not deem this section of the disclosures to be applicable.

## 9 Market risk

**Table MRA - Qualitative disclosure requirements related to market risk**

Row number	Explanation
(a)	<p><u>A description of the institution's strategies and processes to manage market risk, including:</u></p> <ul style="list-style-type: none"> <li>• <u>An explanation of management's strategic objectives in undertaking trading activities</u></li> <li>• <u>The processes implemented to identify, measure, monitor and control the institution's market risks</u></li> </ul> <p>Adverse movements in equity prices, interest rates and currencies are different types of market risk. The Bank considers that market risk is limited since the Bank does not have a trading book.</p> <p>Market risk, however, arises from foreign exchange exposures. Certain customer transactions generate foreign exchange gains or losses, however, customer deposits are primarily tied to the USD and the Bank has minimal exposure to such transactions.</p> <p>The Bank defines two specific types of Foreign Exchange risk:</p> <ul style="list-style-type: none"> <li>• <b>Foreign Exchange Risk:</b> the risk that the Bank may suffer losses as a result of exchange rate movements.</li> <li>• <b>Foreign Exchange Structural Risk:</b> occurs when there are currency mismatches between the Bank's assets and liabilities.</li> </ul> <p>In order to manage Foreign Exchange Risk, the following strategies are employed by the Group:</p> <ol style="list-style-type: none"> <li>1) <b>Forward contracts:</b> purchase or sell a certain amount of a currency at a specified period at an agreed upon rate to a specified counterparty.</li> <li>2) <b>Short the currency:</b> the Bank may hedge a long position by shorting the currency.</li> </ol> <p>Measures are also put in place to manage the settlement risk associated with foreign exchange risk transactions:</p> <ol style="list-style-type: none"> <li>1) Settlement of transactions for non-financial customers is to occur on a delivery vs. payment basis unless otherwise specified.</li> <li>2) Establishment of counterparty limits with respect to foreign exchange exposures to each counterparty.</li> </ol>
(b)	<p><u>A description of the structure and organisation of the market risk management function, including a description of the market risk governance structure established to implement the strategies and processes of the institution discussed in row (a) above, and that describes the relationships and the communication mechanisms between the different parties involved in market risk management.</u></p>

	<p>The Group’s organization structure incorporates independent market risk management functions such that there is separation of the market risk execution function from the market risk transactions recording function and the market risk measurement, monitoring and reporting functions. The division of responsibilities within this structure is summarized as follows:</p> <ul style="list-style-type: none"> <li>a) The Board and Risk Management Committee receive and review market risk reports.</li> <li>b) The Investment Management Committee: <ul style="list-style-type: none"> <li>• Provides oversight on the market risk management strategy.</li> <li>• Reviews and receives reports from the Risk Management Committee on market risk management related issues.</li> </ul> </li> <li>c) Independent risk management functions: <ul style="list-style-type: none"> <li>• Establish market risk policies and guidelines.</li> <li>• Ensure adherence to market risk limits and policies.</li> </ul> </li> <li>d) Investment/portfolio management units: <ul style="list-style-type: none"> <li>• Identify and manage market risks that originate from day-to-day business activities.</li> <li>• Establish control level policies and procedures to manage program execution, within boundaries set by their independent risk management function.</li> <li>• Create market risk transparency by supporting risk reporting activities and timely escalation of key market risks.</li> </ul> </li> </ul> <p>As already mentioned in earlier sections, the Independent Risk Management function is performed at Group level by a specialized team dedicated to the Bank.</p>
(c)	<p><u>Scope and nature of risk reporting and measurement systems</u></p> <p>As noted in the section above, market risk is limited given the nature of the Bank’s portfolio. However, the Bank closely follows the Foreign Exchange Net Position between assets and liabilities to ensure that there are no significant currency mismatch exposures. Additionally, sensibility exercises are carried out to quantify the impact on net profit given a depreciation or appreciation scenario.</p> <p>As noted in the previous section, Investment Units and the Risk Management functions are responsible for the reporting activities and timely escalation of key market risks to the Investment Management Committee and Risk Committee.</p>



**Table 16: MR1 - Market risk under the standardised approach**

		a
		RWA
	<b>Outright products</b>	
1	Interest rate risk (general and specific)	-
2	Equity risk (general and specific)	-
3	Foreign exchange risk	539
4	Commodity risk	-
	<b>Options</b>	
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
<b>9</b>	<b>Total</b>	<b>539</b>

## 10 Operational risk

**Table OPR (a) - Qualitative information on operational risk**

Row number	Explanation
(i)	<p><u>Description of the operational risk management strategies and processes</u></p> <p>The Bank defines operational risk as the risk arising from potentially inadequate information systems, operational problems and breaches in internal controls that result in unexpected losses. Operational risk is inherent to the Bank's business and can potentially result in financial loss, regulatory sanctions, and damage to the Bank's reputation.</p> <p>The failure of any process, systems, people or the external environment can result in events that cause losses. The Bank's Operational Risk Management is therefore a process of identifying and mitigating potential events which may give rise to losses. These events are classified in accordance with Basel II and are as follows:</p> <ul style="list-style-type: none"> <li>○ Internal fraud;</li> <li>○ External fraud;</li> <li>○ Employee practices and workplace safety;</li> <li>○ Clients, products and business practices;</li> <li>○ System failure;</li> <li>○ Business disruption;</li> <li>○ Execution, delivery and process management; and</li> <li>○ Damage to physical assets</li> </ul> <p>The Bank's Board has an Operational Risk Management Policy and, by extension, the Operational Risk Management program, to:</p> <ul style="list-style-type: none"> <li>○ Raise awareness of operational risk at all levels by implementing a firm-wide consistent approach to operational risk;</li> <li>○ Formally identify and evaluate operational risks;</li> <li>○ Enable scarce resources to be focused on the key/material risks;</li> <li>○ Ensure that appropriate systems are in place to prevent major incidents and losses;</li> <li>○ Assist continual improvement in the control environment via ongoing reviews and learning experience; and</li> <li>○ Enable compliance with regulations.</li> </ul> <p>In order to comply with the Operational Risk Policy and Operational Risk program, the Bank incorporates key risk indicators, operational risk loss reporting and an ongoing review and development of the program. A key component of this program is the Security Risk Assessment, a formal process used by the Bank to identify threats and the associated vulnerabilities that have the potential to negatively impact the business and security of critical information.</p> <p>Given their characteristics and potential impact, the Bank's Board has approved separate policies, to identify, assess and mitigate certain types of Operational risks:</p> <ul style="list-style-type: none"> <li>○ <b>Cybersecurity risk:</b> a particularly heightened risk due to the digitalization agenda of the Bank. The framework is intended to properly detect cybersecurity risks and provide a framework to respond and recover</li> </ul>

appropriately. In order to do so, the Bank has created a Cyber Security Incident Response Team (“CSIRT”) and a Security Incident Management Process Flow that represents the series of steps that will be followed by the members of the CSIRT for the resolution of security incidents. Furthermore, Security Incident Response Plans (“SIRP”) for specific incidents are in place, such as malware, internet banking or a website hack. Training of teams is key to ensure that CSIRT and the rest of the Bank’s staff are aware of their respective roles and responsibilities.

- **Legal & Compliance risk:** the Bank’s policies and procedures are always done within the framework of existing laws and regulations. Compliance or Business teams escalate to the Compliance Management Committee any risk arising from day-to-day business. This Committee, in turn, elevates any concerning issues to the Bank’s Audit Committee or the Bank’s Board.
- **Business continuity plan:** the Bank has developed a Continuity Policy to manage main disruption events. The main purpose of this policy is to provide guidance to the Bank for the restoration of critical business functions and systems relating to its Head Office operations. The Bank uses a scenario-based approach to Business Continuity Planning. The main goals of this Plan are the following:
  - To minimize interruptions to normal operations;
  - To limit the extent of disruption and damage;
  - To minimize the economic impact of the interruption;
  - To establish alternative means of operation in advance; and
  - To provide for rapid restoration of service.
- **Fraud risk:** the Group has a Fraud Prevention & Investigation Policy which establishes a framework which the Bank has utilised to set up its own fraud management procedures to manage this significant operational risk.

The Bank follows several steps to measure its operational risks. A brief description of the process is as follows:

- Identification of the risks associated with the process.
- Estimation of the possible magnitude of the operational loss. A qualitative rating (Low, Moderate, High, Very High, Significant) and a quantitative score (from 1 to 5) is assigned according to criteria related with financial, customer, operations, legal and reputational exposure.
- Determination of the frequency/likelihood of operational loss. A qualitative rating (Not likely, Moderate likely, Likely, Highly likely, Expected) and a quantitative score (from 1 to 5) is assigned according to an expected certainty and frequency.
- Identification of how the controls work for each activity in the defined process.
- Identification of breaking points for each control to determine whether the controls are sufficient to mitigate the identified risk.
- Estimation of the effectiveness of the control to reduce frequency, severity and overall exposure. A qualitative rating (None, Low, Moderate, High, Very High) and a quantitative score (from 1 to 5) is assigned according to the management assessment over the effectiveness of the controls.
- Document the control effectiveness rationale and derive a Residual risk score (i.e., risk after the controls). The Residual risks score is a combination of the “Magnitude”, “Frequency/Likelihood” and “Control” scores.

	<ul style="list-style-type: none"> <li>- According to the Residual risk score, residual risks are classified as either “Significant”, “High”, “Moderate” or “Low”</li> <li>- Further analysis is done on all residual risks that are classified as “Moderate”, “High” and “Significant” to determine the net marginal benefit of implementing additional controls.</li> <li>- Residual risks that are classified as “Low” are placed on a watch list. These risks are monitored and assessed periodically.</li> </ul>
(ii)	<p><u>Description of the structure and organisation of the operational risk management and control function</u></p> <p>Inherent to the Operational Risk Management Framework is the three lines of defence model for the management of risk in keeping with the overarching Enterprise Risk Management policy. The responsibilities within the structure of the Bank are summarized as follows:</p> <p>An Operational Committee held at Group level provides broad governance and oversight for information technology risks, fraud risks and compliance risks.</p> <p>The Independent Risk Management function is responsible for:</p> <ul style="list-style-type: none"> <li>- ensuring that the operational risk management framework is established within the business;</li> <li>- discussing key risk issues; and</li> <li>- reviewing the effectiveness of the risk control environment.</li> </ul> <p>As already mentioned in earlier sections, the Independent Risk Management function is performed at Group level by a specialized team dedicated to the Bank.</p> <p>The responsibilities of the business units as they relate to Operational risk management include:</p> <ul style="list-style-type: none"> <li>- maintaining an acceptable level of internal control which is commensurate with the scale and nature of their operations;</li> <li>- identifying, assessing, designing controls, and monitoring the effectiveness of these controls; and</li> <li>- ensuring that Operational risk losses are consistently reported and monitored.</li> </ul> <p>The Bank has put both preventative and detective controls in place to monitor, prevent and detect operational risk. Where appropriate, internal audits are performed on operational risk areas and the results are reported to the Bank’s Audit Committee.</p> <p>In addition to the above, the Group Operational Risk function and the Operational Risk Management framework assist the Bank in managing its operational risk.</p>
(iii)	<p><u>Description of the scope and nature of operational risk reporting and measurement systems</u></p> <p>Monitoring and reporting Operational Risks is an essential component of the risk management framework of the Bank. As mentioned above, Business Units are the first responsible for ensuring that Operational risk losses are reported and monitored. Additionally, the Risk Management function prepares operational risk reports and</p>

	escalates operational risk issues to the Risk Management Committee and the Board of Directors, as necessary. Finally, the Group’s Internal Audit Function reports findings and risk mitigation status to the Audit committee, as necessary.
(iv)	<p><u>Disclosure of policies for hedging, transferring and mitigating operational risk</u></p> <p>Operational risk management also incorporates methods for safeguarding the Bank against unforeseen events. The two major methods are:</p> <ul style="list-style-type: none"> <li>- <b>Insurance:</b> This is one of the principal means of risk transfer used by the Bank.</li> <li>- <b>Business Continuity &amp; Disaster Recovery Planning (“BCDRP”):</b> BCDRP is critical to the Bank’s ability to survive under adverse circumstances and is dealt with in the Bank’s Business Continuity Plan mentioned in point (i) above. The Plan is approved by the Management of the Bank. It establishes an Emergency Response Team who is responsible for being the first respondents to any emergency that affects the Bank and to disseminate information to their various team members. This team is formed by the Managing Director and the Operations Manager. The Bank uses a scenario-based approach to Business Continuity Planning. Scenario planning enables management and key employees to work through several kinds of business continuity interruptions, to assess the impact of these interruptions, and to determine if all critical recovery requirements have been considered. Scenarios considered to test business continuity are: <ul style="list-style-type: none"> <li>o System failures during the course of a regular business day.</li> <li>o Office evacuation.</li> <li>o Office cannot be accessed at the start of a regular business day.</li> <li>o Office building and all its contents have been destroyed.</li> <li>o Unavailability of multiple key individuals.</li> </ul> </li> </ul>

**Table 17: OPR(b)- Quantitative information on operational risk**

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

	2020	2021	2022
<b>Banking activities</b>			
Net interest income	5,930	5,479	9,021
Fees and commission income	525	322	238
Other Operating Income	20	27	16
Dividend Income	876	611	527
<b>Gross income as per audited financial statements</b>	<b>7,351</b>	<b>6,439</b>	<b>9,802</b>
Average gross income			7,864
Factor			15%
<b>Operational risk capital requirement</b>			<b>1,180</b>

## 11 Interest Rate Risk in the Banking Book

**Table IRR – Qualitative information on Interest Rate Risk in the Banking Book**

Row number	Explanation
	<p><u>Description of the risk management objectives and policies</u></p> <p>The Bank distinguishes between two types of Interest Rate Risk in the Banking Book:</p> <ul style="list-style-type: none"> <li>- <b>Interest Rate Structural Risk:</b> This risk arises when the Bank’s principal and interest cash flows from on- and off-balance sheet items have mismatched repricing dates.</li> <li>- <b>Interest rate risk:</b> This risk reflects the impact on the Bank’s profitability of changes in short- and long-term market interest rates that effect the Bank’s banking book positions.</li> </ul> <p>The size of the Bank’s exposure to interest rate risk is heavily dependent on the direction and degree of interest rate movements in addition to the size and maturity structure of the mismatched position. Managing structural risk involves managing the sensitivity of mismatched positions to changes in the underlying factors that may significantly affect the Bank’s profitability, capital and liquidity. Unanticipated changes in market rates of interest can seriously impact the Bank’s profitability and the market value of its equity as it affects the future cash flows generated from the Bank’s business activities through the impact on interest margins. The short-term impact is experienced on the Bank’s Net Interest income. The long-term impact is felt on the Bank’s Net Worth as the economic value of the Bank’s assets, liabilities and off-balance sheet positions are affected by the potential variation in market interest rates.</p> <p>The Group employs systems to effectively identify its Interest Rate Structural risk exposure to the Bank. The underlying assumptions used in the data capture process are reviewed at a minimum, once per year. The tools used to measure interest rate structural risk essentially focus on the impact of market interest rate changes on the Bank’s annual earnings in addition to economic value. The tool used is the <b>Gap measurement</b>. The method used by the Bank to measure interest rate structural risk involves the development of a series of time buckets and assigning rate sensitive assets and liabilities to these buckets on the basis of their reprice or maturity (if there is no repricing). Off-balance sheet positions are also included in the relevant buckets. The GAP is then defined as the difference between the Banks’s rate sensitive assets and rate sensitive liabilities. A positive gap arises where there exist more rate sensitive assets than liabilities. A negative gap arises where there exist more rate sensitive liabilities than assets. Gap measurements are to be used to carry out sensitivity analyses, establish limits (by currency) in addition to performing scenario and stress testing.</p> <p>It may be difficult or costly to access hedging instruments such as forwards, futures, caps and collar to manage the Bank’s interest rate structural risk. Accordingly, the Bank sets limits on exposure by making projections about the economic environment to determine the impact on future interest rate movements, in addition to reviewing the impact on profitability of past structural positions. The Bank also seeks to maintain a certain level of flexibility by maintaining a mix of fixed and</p>

	<p>variable rate securities of varying maturities. Structural risk limits are established, monitored and reported on to the relevant committees.</p> <p><b>Stress Tests</b></p> <p>The Bank performs extreme yet plausible stress tests. These assess the impact of large movements in interest rates and the impact on the market value of the assets and liabilities. The results of this tests help identify the necessary capital requirements to serve as a buffer to shocks that the Bank may be exposed to.</p> <p>Stress testing involves a combination of techniques such as:</p> <ul style="list-style-type: none"> <li>- Scenario analysis: considers the change in the value of the portfolio if a particular scenario were to occur;</li> <li>- Worst case: considers the change in the value of the portfolio in the event of the most potentially damaging combination of moves of market risk factors; and</li> <li>- Sensitivity analysis: examines the impact on the portfolio value of one or more shocks to a single factor.</li> </ul> <p>A possible scenario that has been tested assume that the Bank is unable to earn higher returns on assets as a result of the changing composition towards a greater proportion of commercial loans. Furthermore, it is assumed that the interest rate on deposits remains low. Hence, the Bank is exposed to the risk that the expected higher interest rates on loans do not materialise, or that rates that need to be offered on deposits increase, or a combination of both negative factors.</p> <p>Specifically, it is assumed that:</p> <ul style="list-style-type: none"> <li>• Interest rates on investments and loans may turn out two hundred basis points lower than forecast;</li> <li>• Interest rates on deposits may turn out two hundred basis points higher than forecast; and</li> <li>• A combination of both factors occurs simultaneously.</li> </ul> <p>The results of this stress test indicate that lower lending rates, higher deposit rates or a combination of both would lead to a solvency ratio which remains above the 12% requirement.</p>
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**Table 18: IRR1 – Impact on Interest Rate changes in Net Interest Income**

	Baseline	Stress Scenario 1	Stress Scenario 2	Stress Scenario 3
Interest Income	13,182	14,532	15,622	16,794
Adjusted return on loans	25.32%	26.65%	26.04%	25.45%
Interest Expense	4,161	4,993	5,368	5,770
Adjusted return on deposits	1.98%	2.16%	2.11%	2.07%
Net Interest income	9,021	9,539	10,254	11,023

## 12 Remuneration policy

NCB (Cayman) Ltd has a compensation framework that mirrors the Group's compensation structure. The Board of Directors is the main body overseeing the remuneration practices of the Bank.

The Bank's compensation framework is comprised of a fixed and variable component which includes:

- A base salary agreed on hire and reviewed on an annual basis to determine, if an increase is warranted.
- Annual merit awards earned based on individual performance.
- Eligibility for annual profit share determined by the business results of the past financial year.

The Bank's compensation framework is designed to support its strategic objectives, attract and retain talents, promote prudent compensation risk management, ensure internal and external equity and to maintain sustainability in the long term.

**Table 19: REM – Quantitative disclosure requirements related to remuneration**

Row	Remuneration Disclosures	a	b
		Number (#)	Amount (USD)
(g)	Number of meetings held by the Board of Directors during the financial year and the total remuneration paid to the members	4	7
(h)	Number of employees having received a variable remuneration award during the financial year	10	
	Total amount of variable remuneration awarded during the financial year:		206
	i. Of which: Guaranteed bonuses	-	-
	ii. Of which: Sign-on awards	-	-
	iii. Of which: Severance payments	-	-
	iv. Of which: Merit payments	8	43
	v. Of which: Profit share	10	163
(i)	Total amount of outstanding deferred remuneration as at year-end:		-
	i. Of which: Cash-based		-
	ii. Of which: Shares and Shared-linked instruments		-
	iii. Of which: Other forms		-
	Total amount of deferred remuneration paid out in the financial year		-
(j)	Total amount of remuneration awarded for the financial year:		918
	i. Of which: Fixed		712
	ii. Of which: Variable		206
	iii. Of which: Deferred		-
	iv. Of which: Non-deferred		-
	v. Of which: Cash-based		918
	vi. Of which: Shares and Shared-linked instruments		-



	vii. Of which: Other forms		-
(k)	Total amount of outstanding deferred remuneration:		-
	i. Of which: exposed to ex post explicit adjustments		-
	ii. Of which: exposed to ex post implicit adjustments		-
	Total amount of retained remuneration:		-
	i. Of which: exposed to ex post explicit adjustments		-
	ii. Of which: exposed to ex post implicit adjustments		-
	Total amount of reductions during the financial year due to ex post explicit adjustments		-

The total remuneration paid to the board of directors as reported in the Table above, represents only the fees paid to the non-executive director. No remuneration is paid to the other board members of NCB.

## 13 Asset Encumbrance

NCB does not hold any encumbered assets. Therefore, the Bank does not deem this section of the disclosures to be applicable.