PROVEN BANK

PROVEN Bank (Cayman) Limited
PILLAR 3 DISCLOSURE REPORT
ANNUAL
As at 31 March 2023

PROVEN BANK

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1. BACKGROUND

1.1 Incorporation and Ownership Information

PROVEN Bank (Cayman) Limited (the Bank), formerly Fidelity Bank (Cayman) Limited is incorporated under the Companies Act, as revised, of the Cayman Islands and is licensed under the Bank and Trust Companies Act, as revised, as a Category A Bank to carry on banking business in the Cayman Islands, subject to certain restrictions contained in the terms of the licence. On 8 February 2022, Fidelity Bank (Cayman) Limited changed its name to PROVEN Bank (Cayman) Limited.

On 7 November 2022, the Bank received a share transfer of 75,213 common shares of Boslil Bank Limited (Boslil), a fully owned subsidiary of PROVEN Group Limited following the completion of a share transfer transaction. On 25 January 2023 Boslil changed its name to PROVEN Bank St. Lucia (PBSL), PBSL is now a fully owned subsidiary of the Bank. Prior to the acquisition, the Bank only operated in the Cayman Islands.

PROVEN Group Limited (the Ultimate Parent), formerly PROVEN Investments Limited, incorporated and domiciled in Saint Lucia under the International Business Companies Act, with registered office at 20 Micoud Street, Castries, Saint Lucia is the ultimate holder of 100.00% of the issued ordinary shares of the Group. The Ultimate Parent acquired the Bank on 31 January 2022. Prior to this, Fidelity Bank & Trust International Limited, a company incorporated in the Commonwealth of The Bahamas (The Bahamas), owned 100.00% of the issued ordinary shares of the Bank.

The registered office of the Bank is situated at Willow House, Cricket Square, 171 Elgin Avenue, George Town, Grand Cayman KY1-1103, Cayman Islands. The Bank changed its financial year end from December 31 to March 31 to align with the Ultimate parent’s financial reporting period.

This disclosure document has been prepared by the Bank on a standardized basis and in accordance with the rules set out in the BCBS standards issued in January 2015 entitled ‘Revised Pillar 3 Disclosure Requirements’ and in March 2017 titled “Pillar 3 Disclosure Requirements – consolidated and enhanced framework” and as adopted by CIMA. Unless otherwise stated, all figures are as at March 31, 2023 and are expressed in United States (US) dollars.

1.2 Licence and Activity Focus

The Bank is licensed and regulated by the Cayman Islands Monetary Authority ("CIMA") as a Category "A" Banking entity.

The Bank and its subsidiaries, collectively referred to as the Group, offer a full range of retail and private banking services, including internet and telephone banking, acceptance of deposits, granting of loans and the provision of foreign exchange services through each of its two (2) operating banks in Grand Cayman and St. Lucia.

1.3 Disclosure Report Application and entity relevance

These disclosures have been prepared on a solo basis, i.e. Proven Bank (Cayman) Limited and its two fully owned property holding entities and excludes Proven Bank (St. Lucia) Limited as there are no consolidated prior year comparatives to be included. The Bank will seek to prepare disclosures on a consolidated basis at its next annual reporting date 31 March 2024.

1.4 Disclosure Report review and approval by the Board of Directors

This Pillar 3 Disclosure Report has been reviewed and approved by the Board of Directors.

2. RISK MANAGEMENT

2.1 Products and Services

Business Segments

The Bank and its subsidiaries offer a broad range of retail banking services in the Islands, offering a variety of products, the key ones of which are highlighted below:

- International banking services (offered by PBSL)
- Mortgages
- Consumer lending products
- Accounts and related services
- Card Products

Competitive Position

Retail Banking

Growth in the financial services sector, which accounts for a significant share of total gross domestic product (GDP), remained relatively robust in 2023, primarily as a result of continued changes in financial services-related legislation. The number of banks in the region has been slowly declining as institutions seek higher efficiency returns through consolidation and restructuring, and due to increasing domestic and international regulatory pressures.

There are a total of ten (10) Category A licensed banks operating within the Islands; six (6) of these including the Bank are classified as 'Retail'. These include:

- Butterfield Bank (Cayman) Limited
- Cayman National Bank Limited
- FirstCaribbean International Bank (Cayman) Limited
- RBC Royal Bank (Cayman) Limited
- Scotiabank & Trust (Cayman) Limited

Target Customer Profile

For each of the business segments, the Bank has identified a target customer profile to which it directs its marketing efforts. Generally, the Bank views its target customers as professionals with stable roles with respected companies. The following are key products and services sold to both segments:

Segment	Target Customer Profile
Retail Banking	Individuals and small businesses.
Corporate Banking	Corporate Businesses and High Net Worth Private Individuals.

- Chequing & Savings Accounts
- High Interest Term Deposits
- Mortgages and Personal Loans
- Debit Cards and Credit Cards
- Wire Transfer Services
- Online Banking

2.2 Market, Structure, Position and Risk Tolerance

Organization Structure

The Bank is a wholly owned subsidiary of the PROVEN Group Limited (the "ultimate Parent"), which is incorporated in St. Lucia and listed on the Jamaica Stock Exchange; its registered office is at 20 Micoud Street, Castries, St. Lucia. Furthermore, the Bank itself directly or indirectly has an interest in the following entities:

Subsidiary	Country of Incorporation	% holding	Activity
PROVEN Properties (Cayman) Limited	Cayman Islands	100%	Investment properties
WBR Properties Limited	Cayman Islands	100%	Property holding
PROVEN Bank (St. Lucia) Limited	St. Lucia	100%	
PBSL Corporate Services Limited	St. Lucia	100%	
PBSL Bond Fund Limited	St. Lucia	100%	
PBSL Equity Funds Limited	St. Lucia	100%	

PROVEN Properties (Cayman) Limited (PPCL) changed its name from Fidelity Properties Limited on 20 June 2022. PPCL and its subsidiary WBR Properties Limited are property holding entities for the Group.

PROVEN Group Limited is 100% listed on the Jamaica Stock Exchange, and no single individual or entity owns or holds 10% or more of the outstanding share capital; therefore, the Group’s Management believes that this structure promotes appropriate incentives while not actively facilitating decisions from management which would result in outsized risk taking or the Bank being exposed to larger issues and concerns.

Strategy & Objectives

The Bank defines its governing objective, also known as its reason for existence, in the following manner:

The Bank's Vision statement is *"to lead the way in premium banking through a people focused approach, delivery of first-class customer experiences and innovative financial solutions."*

The Bank also seeks to maximize shareholder returns whilst maintaining prudent banking practices that are founded on a solid risk management approach, inclusive of a conservative risk appetite and strong corporate governance practices.

With this in mind, the Bank has established the following key focus areas:

- Delivery of personalized customer experience
- Sustained business growth
- Operational effectiveness and control
- Innovative technology
- Driven people

The Bank has established quantitative targets to grow the size of the deposit and lending books during 2023 given the operating environment without incurring any significant decrease in credit quality.

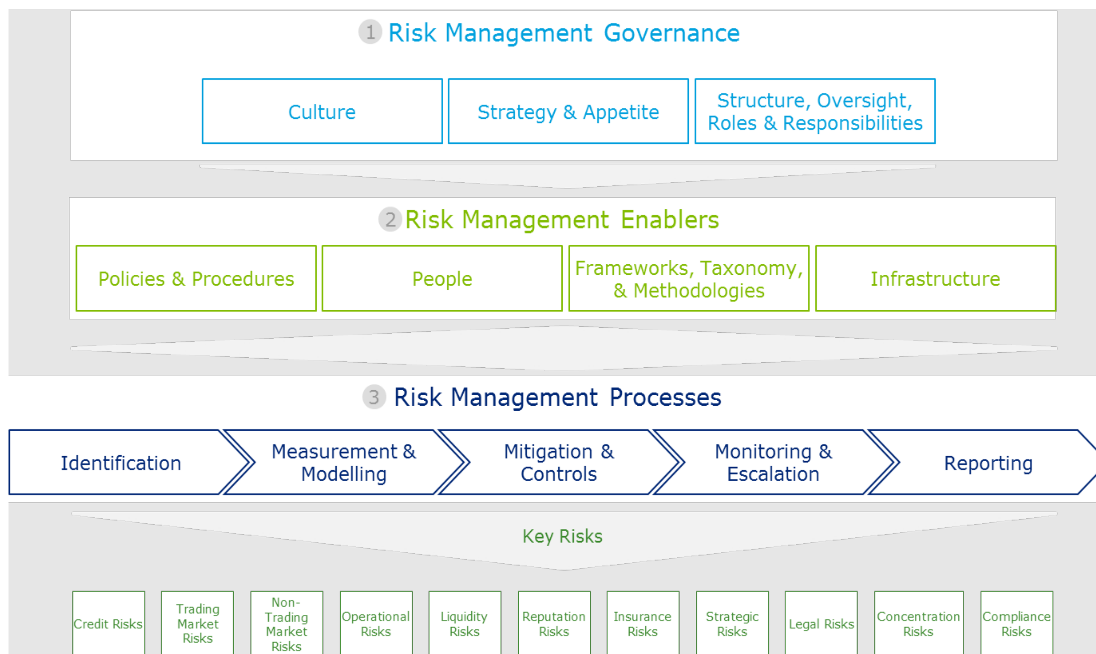
2.3 Roles of the Board, Committees and Risk Management Policies

The Bank views risk management as paramount to the success and on-going viability of the organization. As such, the Bank has established a Risk Management Framework which sets out the Board approved philosophy, principles, strategies and requirements related to risk management on an enterprise-wide basis.

As such, the Bank continues to implement its Risk Management Framework commensurate with the structure, profile, complexity, size and activities delivered by the Bank.

The Policy and Framework are intended to ensure that the Bank maintains an effective distinction between those involved in taking and managing risk, those who establish risk policy, processes, methodologies and rules and those who provide assurance that all significant risks are identified, assessed, mitigated and appropriately monitored and reported.

Below is an overview of the framework in use:



Effective risk management and governance depend upon a clearly defined and understood set of roles and assigned responsibilities. Accordingly, the Bank has established a risk governance structure to administer and implement the risk management framework within the organization through a series of committees and key Senior Management roles.

The Audit and Risk Management Committee ('ARMCO') is accountable to the Board as whole with regard to the oversight of risk management, risk control, risk assurance, as well as the review and assessment of the effectiveness of the Bank's internal control policies and practices.

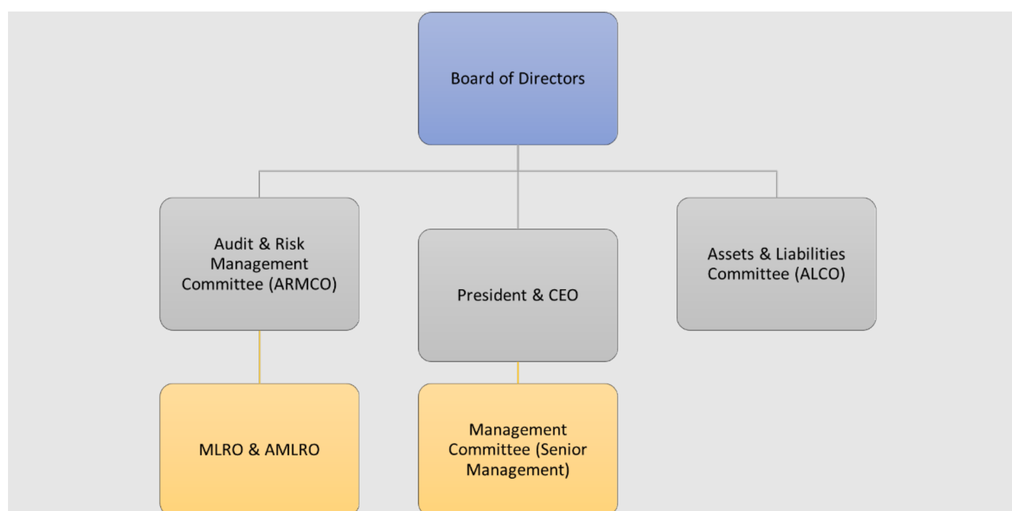
The ARMCO is responsible for the review and challenge of any Internal Capital Adequacy Assessment Process ('ICAAP') documents and/or any other materials which ensure and demonstrate to supervisors and regulators that the Bank's risk and control framework, strategic planning and levels of capital are appropriately integrated and are consistent with the Bank's established risk appetite and profile.

To support the Bank's ICAAP and Capital Management efforts and to ensure appropriate attention and focus was placed on these efforts the Bank has in place an Assets & Liabilities Committee ("ALCO"), which is a Board sub-committee. The membership of the ALCO is outlined below:

MEMBERS OF PROVEN BANK LTD ASSETS & LIABILITIES COMMITTEE	Membership of this committee shall comprise the following officers: ▪ PROVEN Group Deputy CEO (Chairman) ▪ Director, PROVEN Group Limited ▪ Director, PROVEN Group Limited ▪ CEO, PROVEN Bank (Cayman) Limited ▪ Group Chief Finance, Risk & Compliance Officer ▪ Head of Group Treasury & Investments ▪ Head of Group Asset Management ▪ Head of Group Risk & Compliance ▪ Vice President, Private Capital

The ALCO is responsible for:

- Suggesting changes to and receiving reports upon elements of the operation of and adherence to Enterprise Risk Management (ERM) and its Risk Appetite.
- Recommending / approving the Risk Limits and Tolerances within individual businesses, products, functions, etc. to ensure the risk profile of PBC remains within its defined appetite.
- Ensuring that consideration for risk and risk management activities are embedded in the planning and decision-making at the strategic and operational levels.
- Evaluating the risk associated with the bank's assets and liabilities, including execution of the ICAAP and capital management efforts of the Bank and to communicate to management actions to be taken to maintain/improve the Bank's assessment of capital adequacy.



Additionally, the Bank recognizes that for risk management to be effective and for the culture of risk management to be pervasive throughout the Bank, there is a need to establish a clear tone from the top. As such, the Bank's risk management and risk management governance begins with the Board of Directors and their associated oversight responsibilities.

During the period 2022-2023 the Bank's Board of Directors were as follows:

No	Name	Executive/Non-Executive	Independent
1	Garfield Sinclair (Chairman)	Non-Executive	Non-independent
2	Benjamin Freeman (President & CEO)	Executive	Non-independent
3	M. Erik Monsen	Non-Executive	Independent
4	S. Phillip Harrison	Non-Executive	Independent
5	C. Andre Iton	Non-Executive	Independent
6	Johann Heaven	Non-Executive	Non-independent

The Company Secretary is Sherri Murray.

Daily risk management occurs at the business unit level where the processes and infrastructure necessary to measure and manage risk are integrated into business unit goals. Business unit managers, in partnership with risk management leadership, make decisions on how to optimize decision making and ensure risk remains within the Bank's established limits and thresholds.

While daily risk management occurs at the business unit level, the Board, through its two committees which include the ARMCo and the ALCO, is responsible for ensuring that the management set, approve and implement the necessary objectives, limits, thresholds and mandates for the organization.

The ARMCo Chairman is an independent non-executive director, two (2) members are executives within the PROVEN Group and the other is a member is a non-independent Board member. Two (2) are ex-employees of "Big 4" accounting firms and who have both a recognized accounting qualification and the appropriate financial expertise. ARMCo members cannot simultaneously serve on the audit committees of more than two other public companies unless the Board determines that such simultaneous service would not impair the ability of such member to serve effectively on ARMCo.

The purpose and responsibilities of the ARMCo are specified within a written Committee Charter and are summarized as follows:

- Corporate governance responsibilities; and,
- To act as a link between the internal auditors, external auditors, regulators and the Board, and to provide the Board with a level of comfort concerning the controls and accountability within the Bank.

As it relates to risk management, the duties of the ARMCo include:

- Approving the relevant appetites, approaches, mandates, etc.;
- Monitoring and reviewing the Bank's processes for the identification of material risks associated with the conduct of the business of the Bank and its subsidiaries, unless addressed by another Board committee or by the Board itself;
- Monitoring and reviewing the appropriateness of the risk management systems and system of internal control adopted by the Bank to address risks identified in the conduct of the business of the Bank and its subsidiaries, unless addressed by another Board committee or by the Board itself; and,
- Ensuring compliance with regulatory risk management guidelines.

The Management Committee is a permanent committee of the Bank's senior leadership team, and it is under the authority of the Bank's Board of Directors and the day-to-day supervision of the President & Chief Executive Officer who oversees the day-to-day running of the Bank and who delegates preparation of the necessary policies and decisions for the Board and ensures that those approved policies and procedures of the Board are implemented.

The Management Committee has representation from the business lines as well as Finance, Risk and Compliance and meets weekly. Through the President & CEO it is ultimately accountable to the Board and shareholder for monitoring and evaluating all areas of the Bank's performance including risk management.

The broad set of responsibilities assigned to the Management Committee are noted below. Additional details pertaining to specific roles and responsibilities of the Management Committee are contained in the Bank's Risk Management Framework. The Management Committee is responsible for:

- The Bank's operations and decision-making to support its vision, purpose and aims. In this respect, it establishes the fundamental values, ethical principles, strategic direction and risk culture of the Bank;
- Oversight of all risk management and risk-taking activities and managing/addressing all escalations and required risk approvals;
- Compliance with all relevant legal and regulatory requirements, seeking guidance around any uncertainties. Actions by the Bank must also be in line with its governing documents, namely its memorandum and articles of association and relevant policies, procedures, limits and risk appetites;

- Ensuring that all money, property and resources are properly used, managed and accounted for. To effect this, suitable systems must be in place and kept up to date;
- Reviewing, approving and implementing appropriate policies and procedures for staff as well as areas such as stress testing and risk appetite; and
- Ensuring staff are properly managed and supported and incentivized.

The Bank believes that effective risk management begins at the top with a strong tone but also depends upon the exercise of independent risk management judgment at the business unit or operational level. Independent risk management is expected to exist in relation to the existence and magnitude of risks and the effectiveness of the controls which the bank has in place to manage and mitigate such risks. As noted above, the Bank's governance structure is designed and implemented in a manner to best support this principle of independence. As time progresses, the Bank will continue to refine its approach and structure. Currently the Bank supports the principle of independence through:

- The inclusion of a majority of non-executive independent directors on the ARMCo;
- Periodic review and challenge of risk management processes, decisions, etc. by Internal Audit;
- The Head of PROVEN Group Risk & Compliance is responsible for all Risk Management at the Bank; and
- The President & Chief Executive Officer, Head of PROVEN Group Risk & Compliance, Head of Compliance and the Head of Finance all having direct access to the ARMCo.

Management Actions for Stress Scenarios

In order to improve the Bank's capital level if subjected to stress scenarios, the Bank has identified a set of management actions to help ensure capital is effectively and efficiently aligned with regulatory requirements at all times. Furthermore, the Bank has access to a reserve of capital in the case of shortfall and immediate need of capital. The level of capital reserves available will be approved by the Board.

Management actions that may be considered to improve capital levels, to support the capital plan or as an alternative to capital injection by the Parent or a new capital issuance include (but are not limited to):

- Management Actions
- Reduce discretionary spending (e.g. travel, supplies, learning & development)
- Reduce compensation and/or bonus payouts
- Restructure business lines (e.g. merge functions, layoffs, hiring freezes, buyouts)
- Asset contraction (e.g. reducing the size of committed facilities or cancelling credit lines)
- Capital/Liquidity Injections
- Suspension of dividend payments to the Parent Company
- Perform sale and lease back of real estate holdings
- Utilize committed but undrawn facilities
- Restructure liabilities

- Asset Sales
- Sale or securitization of significant investments, portfolios of assets or business units

Risk Appetite

The Bank defines Risk Appetite as the aggregate and individual nature of risks that the Bank considers acceptable in pursuit of its strategy and objectives. The Bank has defined a variety of Risk Appetite statements to assist Management, the Board, and staff as a whole to understand the scope of their activities within the risk-taking process and to clarify the responsibilities, expectations and boundaries as it relates to risk taking for the Bank.

The Bank's maximum capacity as it relates to risk taking is directly related to the available and accessibility of capital. As such, the Bank defines and establishes its risk limits and thresholds with awareness of these and other constraints. Additional supporting details on the framework used to determine the Statements of Risk Appetite and associated governance can be found in the Bank's Risk Appetite Framework and Statements.

The Risk Appetite Statements developed by Management and approved by the Board are expected to serve as guidance for strategic decision making, as well as for the allocation of human and capital resources and more generally in defining the nature and extent of risks which are acceptable to the Bank in pursuit of its strategies, goals and objectives.

In articulating the organization's Risk Appetite and accompanying risk specific Appetite Statements, the Bank leverages an iterative process and considers a variety of inputs regarding its' operations. The Bank reviews, considers and balances the following elements:

- **Governing objective:** establishes the value which the Bank provides to its stakeholders.
- **Risk capacity and constraint:** is the maximum level of risk the Bank is willing to bear or the amount of risk that the Bank is able to support in pursuit of its objectives given the current level/capability of its internal resources.
- **Risk philosophy:** which reflects the Bank's attitude and feelings toward risk-taking which falls along a spectrum from "optimization" to "avoidance".
- **Business strategy and objectives:** represents the short and long term goals and strategic priorities of the Bank.

It is expected that the Risk Appetite Statement(s) will be reviewed, revised and approved at least annually by Management and the Board.

Enterprise Risk Appetite

The following statement communicates the Bank's governing objective:

"The Bank aims to provide diversification, target shareholder returns in the range of 15% to 20%, as well as to deliver a high-level of customer service such that the Bank is recognized as the pre-eminent customer focused provider of retail financial services."

The following statement communicates the Bank's philosophy towards risk:

"The Bank management takes a conservative view in relation to risk-taking. The Bank does not avoid risk taking but rather it takes risks in a manner which is highly focused on the customer and situation, and those which are considered smart and prudent."

The Bank is committed to remaining within the bounds and limits set forth by its Risk Appetite. Compliance with the Bank's Risk Appetite Statement is expected to be managed and monitored proactively across the Bank by Management and the business. The evaluation, management and monitoring is based upon a collection of policies, practices and metrics defined by the Bank. In adhering to the above, the following statement communicates the Bank's Risk Appetite Statement:

"We will focus on our key strengths and continue to work towards establishing ourselves as the pre-eminent customer focused provider of retail financial services while only taking risks which:

1) *fit within the Bank's business strategy;*
2) *do not impede the Bank's ability to deliver a high-level of customer service;*
3) *are simple, can be understood and effectively managed;*
4) *do not expose the Bank to any significant loss events or exposures; and,*
5) *do not pose harm to the reputation or viability of the Bank.*

Risk Appetite Framework

The Bank is committed to remaining within the boundaries of its stated Enterprise Risk Appetite. To manage this pursuit and ensure compliance the Bank has developed Risk Appetite Statements and a series of associated Metrics for each of the eleven individual risk categories which have been deemed by Management and approved by the Board to be key risks. The following framework is intended to communicate a better understanding of how the Bank views and limits each of its key risks.

Risk Governance

The principal types of risk inherent in our business are market, liquidity, credit and operational risks. The Board has overall responsibility for determining the strategy for risk management, setting the Bank's risk appetite and ensuring that risk is monitored and controlled effectively. It accomplishes its mandate through the activities of a dedicated committee, The Audit and Risk Management Committee ("ARMCo").

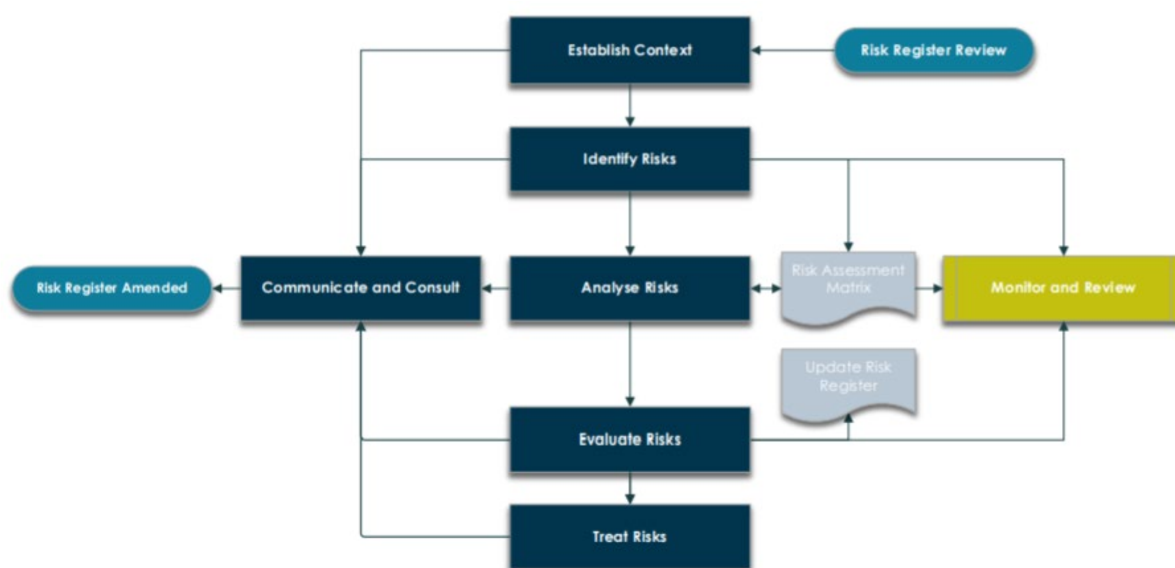
This Committee of the Board assists the Board in fulfilling its responsibilities by overseeing the Bank's risk profile and its performance against approved risk appetites and tolerance thresholds. Specifically, the Committee considers the sufficiency of the Bank's policies, procedures and limits related to the identification, measurement, monitoring and control of activities that give rise to credit, market, liquidity, interest rate, operational, regulatory, compliance, climate and reputational risks, as well as overseeing its compliance with laws, regulations and codes of conduct. Further, it reviews the overall adequacy and effectiveness of the Bank's system of internal controls and

the control environment, including in respect of the risk management process. It reviews recommendations arising from internal and independent audit review activities and management's response to any findings raised.

This committee is chaired by a non-executive independent director.

Risk Management

Risk Management Process



Three Lines of Defense Model

The Bank manages its exposure to risk through the three "lines of defense" model.

The **first** "line of defense" is provided by our business units, which retain ultimate responsibility for the risks they assume and for bearing the cost of risks associated with these exposures.

The **second** “line of defense” is provided by the Bank’s Risk Management and Compliance teams, which work in collaboration with our business units to identify, assess, mitigate and monitor the risks associated with our business activities and strategies. They do this by:

- Making recommendations to the Risk Subcommittee regarding the constitution of the Risk Appetite Framework;
- Setting risk strategies that are designed to manage risk exposures assumed in the course of pursuing our business strategies and aligning them with agreed appetites;
- Establishing and communicating policies, procedures and limits to control risks in alignment with these risk strategies;

- Measuring, monitoring and reporting on risk levels;
- Opining on specific transactions that fall outside delegated risk limits; and
- Identifying and assessing emerging risks.

The functions within the Risk Management and Compliance groups that support our risk management activities are outlined below.

Finance – This unit provides independent oversight of the measurement, monitoring and control of liquidity and funding risks, interest rate and foreign exchange risks as well as the market risks associated with our investment portfolios. It also monitors compliance with both regulatory requirements and our internal policies and procedures relating to the management of these risks.

Risk Management – The risk management function is outsourced to the Group Shared Services. This Shared Service unit is responsible for the oversight of credit and operational risks associated with the Bank's lending and banking activities. It also establishes the parameters and delegated limits within which credit risks may be assumed and promulgates guidelines on how exposures should be managed and monitored. In addition, this unit assesses the effectiveness of our procedures and internal controls in managing our exposure to various forms of operational risk, including those associated with new business activities and processes and the deployment of new technologies. It also oversees (through collaboration with the Bank's Head of Compliance) the incident management processes and reviews the effectiveness of loss data collection activities.

Compliance – This unit provides independent analysis and assurance of our compliance with applicable laws, regulations, codes of conduct and recommended best practices, including those associated with the prevention of financial crime, including money laundering and terrorist financing. It is also responsible for assessing our potential exposure to upstream risks and for providing guidance on the preparations that should be made in advance of these changes coming into effect.

The **third** "line of defense" is provided by our Internal Audit function, which performs oversight and ongoing review, and challenges the effectiveness of the internal controls that are executed by both the business, Risk Management and Compliance.

PROVEN BANK

3. LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

3.1 Differences between scopes of consolidation – LI1

Table 1: LI1 Differences between carrying value of assets in the financial statements and under scope of regulatory consolidation

	a	b	c	f
	Carrying values as reported in published financial statements	**Carrying values under scope of regulatory consolidation**	Carrying values of items:	
			Subject to credit risk framework	**Subject to the market risk framework**
Assets				
Cash items	$48,989,602	$48,956,743	$48,956,743	-
Items in the course of collection from other banks	-	$8,078	$8,078	-
Investments - Held-to-maturity	$63,284,827	$63,284,827	$63,284827	
Financial assets at fair value	-	-	-	-
Derivative financial instruments	-	-	-	-
Loans and advances to banks	-	-	-	-
Loans and advances to customers	$190,691,801	$197,422,676	$197,422,676	
Reverse repurchase agreements and other similar secured lending	-	-	-	-
Available for sale financial investments	-	-	-	-
Other assets	$9,291,849	$3,808,604	$3,808,604	-
Investment in subsidiaries	$22,889,627	$22,889,627	$22,889,627	-
Total Assets	$335,147,706	$336,370,556	$336,370,556	-
Liabilities				
Deposit from banks	$14,469,333	$14,469,333		
Items in the course of collection due to other banks	-	-		
Customer accounts	$256,523,658	$253,866,361		
Repurchase agreements and other similar secured borrowings	-	-		
Trading portfolio liabilities	-	-		
Financial liabilities designated at fair value				
Derivative financial instruments				
Other liabilities	$4,361,228	$10,765,432		
Total liabilities	**$275,354,219**	**$279,101,126**		

3.2 Differences between Regulatory Exposure Amounts and Carrying Values in Financial Statements

The Bank has a few key differences between reporting of carrying values between the Financial Statements and under regulatory consolidation:

1. Cash items are shown gross of accrued interest on the Financial Statements, whilst under regulatory consolidation accrued interest is shown as other assets.
2. Loans and advances per the Financial Statements included the net effect of accrued interest, deferred loan commitment fees and provisions for loan losses whereas under regulatory consolidation, the values are shown gross.
3. Other assets in the Financial Statements include the Bank's properties at market value whereas for regulatory consolidation purposes, cost is applied. Additionally, accrued interest is included for regulatory consolidation purposes but excluded from other assets per the Financial Statements.
4. Customer accounts per the Financial Statements include accrued interest and managers' cheques, whereas for regulatory consolidation, these are both excluded and included in other liabilities.
5. In addition to point 4 above, other liabilities per the Financial Statements also exclude deferred loan commitment fees and loan loss provisions whereas they are included for regulatory reporting purposes.

Table 2: LI2

Table LI2 below highlights the carrying value of assets and liabilities as per the scope of regulatory consolidation and the exposure amounts considered for regulatory purposes.

		a	b	c	d	e
		Total	**Items subject to:**			
			Credit risk framework	**Securitisation framework**	**Counterparty credit risk framework**	**Market risk framework**
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	$336,370,556	$336,370,556	-	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	$336,370,556	$336,370,556	-	-	-
4	Off-balance sheet amounts	$21,106,067	$21,106,067	-	-	-
5	Differences in valuations					
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7	Differences due to consideration of provisions	-	-	-	-	-
8	Differences due to prudential filters	-	-	-	-	-
9	**Exposure amounts considered for regulatory purposes**	**$357,476,623**	**$357,476,623**	**-**	**-**	**-**

4. CAPITAL MANAGEMENT

4.1 Overview of Risk Weighted Assets Explaining Differences Between Last Two Reporting Periods and Explain Differences

Table OV1 provides an overview of Risk Weighted Assets ("RWA") and Minimum Capital Requirements per risk type. As is evident in Table 4, there was a significant increase between RWA reported as at 31 March 2022 and RWA reported as at 31 March 2023. This increase is mainly due to growth in the Bank's Loans and Advances portfolio over the period by $25M in addition to the Bank's investment in subsidiary, PROVEN Bank (St. Lucia) Ltd.

<u>Table 3:</u> OV1 – Overview of RWA

		a	b	c
		RWA		Minimum capital requirements
		T	T-1	T
1	Credit risk (excluding counterparty credit risk) (CCR)	$186,081,166	$138,031,057	$27,912,175
2	Securitisation exposures			
3	Counterparty credit risk			
4	Of which: current exposure method			
5	Of which: standardized method			
6	Market risk	$29,613	$24,550	$4,442
7	Of which: Equity risk			
8	Operational risk	$25,179,288	$22,924,650	$3,776,893
9	Of which: Basic Indicator Approach	$25,179,288	$22,924,650	$3,776,893
10	Of which: standardized method			
11	Of which: Alternative Standardised			
12	Total (1+2+3+6+8)	$211,290,067	$160,980,257	$31,693,510

Capital Overview – Bank Policy in relation to Capital

Table 4: Capital

The tables below provide qualitative and quantitative disclosures around the Bank's capital.

Qualitative Disclosures	(a)	The name of the top corporate entity in the group to which these rules and guidelines apply.	PROVEN Bank (Cayman) Limited
	(b)	An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (a) that are fully consolidated; (b) that are pro-rate consolidated; (c) that are given a deduction treatment; and (d) from which surplus capital is recognized; plus (e) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).	The differences between the basis of consolidation for accounting and regulatory purposes have been disclosed in table L1 above. The Bank's consolidation process includes two fully owned property holding entities which were incorporated in the Cayman Islands.
	(c)	Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.	There are no restrictions on the transfer of funds or regulatory capital within the group.
Quantitative Disclosures	(d)	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.	$0
	(e)	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.	$0
	(f)	The aggregated amounts (e.g. current book value) of the firm's total interests in insurance entities, which are risk-weighted rather than deducted from capital or subjected to an alternate group-wide method, as well as their name, their country of incorporation or residence, the proportion of ownership interest and, if different, the proportion of voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using the deduction or alternate group-wide method.	$0

Table 5: **Capital Structure and CAP – Scope of Capital**

<table>
<tr><td rowspan="1">Qualitative Disclosures</td><td>(a)</td><td>Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments</td><td>The majority of the Bank’s capital as noted in b) below is share premium and retained earnings which forms part of Tier 1 Capital. The Bank also records $22M as Tier 2 Capital which is its 100% holding in PROVEN Bank (St. Lucia) Limited. The Bank does not hold any complex or hybrid capital instruments.</td></tr>
<tr><td rowspan="4">Quantitative Disclosures</td><td>(b)</td><td>The amount of Tier 1 capital, with separate disclosure of:
- paid-up share capital/common stock;
- reserves;
-minority interests in the equity of subsidiaries;
- qualifying innovative instruments;
- other capital instruments;
- surplus capital from insurance companies;
- regulatory calculation differences deducted from Tier 1 capital;
- other amounts deducted from Tier 1 capital, including goodwill; and
- investments</td><td>Paid up Capital - $4,200,000
Disclosed Reserves of which;
Share premium $10,800,000 and Retained Earnings $15,052,490
General Provisions - $1,628,406
Asset revaluation reserves - $22,889,627
Current net income - $2,962,245</td></tr>
<tr><td>(c)</td><td>The total amount of Tier 2 and Tier 3 capital.</td><td>Tier 2 Capital - $27,480,278</td></tr>
<tr><td>(d)</td><td>Other deductions from capital.</td><td></td></tr>
<tr><td>(e)</td><td>Total eligible capital.</td><td>Total Eligible Capital - $57,532,768</td></tr>
</table>

PROVEN BANK

Table 6: CAP – Capital Adequacy

Qualitative Disclosures	(a)	A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.	The Bank manages its capital position so that its capital is more than adequate to support its business activities and aligns with risk, risk appetite and strategic planning. Additionally, the Bank seeks to maintain safety and soundness at all times, even under adverse scenarios, take advantage of organic growth opportunities, meet obligations to creditors and counterparties, maintain ready access to financial markets, and satisfy current and future regulatory capital requirements. Capital management is integrated into our risk and governance processes, as capital is a key consideration in the development of our strategic plan, risk appetite and risk limits. The Bank conducts an Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis. The ICAAP is a forward-looking assessment of our projected capital needs and resources, incorporating earnings, balance sheet and risk forecasts under baseline and adverse economic and market conditions. Qualitative risk assessments are performed to identify and assess material risks not fully captured in the forecasts or stress tests. Senior management and the Board of Directors approve the ICAAP and attest to the adequacy of our capital guidelines and capital position.
Quantitative Disclosures	(b)	Capital requirements for credit risk: - portfolios subject to standardised or simplified standardised approach, disclosed separately for each portfolio; and - securitisation exposures.	$27,912,175 by way of the Collateral Simplified Approach
	(c)	Capital requirements for market risk: - standardised approach	$4,442 for market risk requirements
	(d)	Capital requirements for operational risk: - basic indicator approach; - standardised approach; and - alternative standardised approach.	Basic Indicator Approach - $3,776,893
	(e)	Total and Tier capital ratio: - for the top consolidated group; and - for significant bank subsidiaries (stand alone or sub-consolidated).	Tier 1 Ratio - 14.22% Total capital Ratio - 27.23%

4.3 Summary comparison of accounting assets vs leverage ratio exposure

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

Table 7 provides a reconciliation between the regulatory exposure measure and the financial statements of the Bank.

Table 7: LR1 – Summary comparison of accounting assets vs leverage ratio exposure measure

		a
1	Total consolidated assets as per published financial statements	$339,226,701
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 exposure that meet the operational requirements for the recognition of risk transference	-
4	Adjustments for temporary exemption of central bank reserves (if applicable)	-
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
6	Adjustments for regular way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustments for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	-
9	Adjustment for securities financing transactions (i.e. repurchase agreements and similar secured lending)	-
10	Adjustment for off balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	$4,221,213
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
13	Leverage ratio exposure measure	8.86%

The adjustment of $4.2M noted above relates to off balance sheet items post the credit conversion factor and credit risk mitigation. These are not reflected on the balance sheet and are therefore treated as an adjustment item.

4.4 Leverage ratio common disclosure

As evident in Table 8 below, the only material movement between reporting periods includes a reduction in “On-balance sheet exposures” from USD$357M reported as of 31 March 2022 to USD $335M reported as of 31 March 2023. This reduction is mainly due to bank placements and investments used to repay deposits between these reporting periods. Additionally, Tier 1 capital increased due to a $3M injection made during the year.

Table 8: LR2 – Leverage Ratio common disclosure

		a	b
		T	T-1
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions, but including collateral)	$335,005,488	$357,088,998
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)		($1,166,057)
7	**Total on balance sheet exposures** (excluding derivatives and SFTS) (sum of rows 1 to 6)	$335,005,488	$355,922,941
Derivative exposures			
13	**Total derivative exposures** (sum of rows 8 to 12)		
Securities financing transaction exposures			
18	Total securities financing transaction exposures (sum of rows 14 to 17)		
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	$22,658,067	$19,570,119
20	(Adjustments for conversion to credit equivalent amounts)	($18,126,454)	($15,656,095)
21	(Specific and general provisions associated with on balance sheet exposures that are deducted from Tier 1 capital)		
22	**Off-balance sheet items** (sum of rows 19 to 21)	$4,531,613	$3,914,024
Capital and total exposures			
23	**Total Tier 1 Capital**	$30,052,490	$25,641,149
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	$339,226,701	$359,836,965
Leverage ratio			
25	**Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	8.86%	7.13%
25a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)		
26	**National minimum leverage ratio requirement**	3.00%	3.00%
27	**Applicable leverage buffers**	5.86%	4.13%

5. CREDIT RISK

5.1 Definition of Credit Risk and Credit Risk Approach

Credit risk is the risk of suffering financial losses should any of the Bank's customers or other counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from loans and advances to customers, including loan commitments arising from such lending activities, and cash at banks and investments in debt securities as part of the Bank's treasury management activities. The Bank seeks to raise its interest margins by obtaining above-average margins, net of provision for loan losses, through lending to commercial and retail borrowers with a range of credit standings. Such exposures comprise loans and advances to customers, as well as off-balance sheet exposures including guarantees and other commitments such as letters of credit.

The Bank's Directors and its Assets and Liabilities Committee (ALCO) are responsible for approving and monitoring the Bank's credit exposure, which is done through review and approval of the Bank's lending policies, and limits on credit exposure to individual borrowers and sectors. Prior to advancing funds, an assessment is made of the credit quality of each borrower. The Bank does not use an automated credit scoring system; exposure to credit risk is managed through regular analysis of the ability of borrowers to meet contractual obligations, performed by branch managers, the central credit underwriting department, the credit committee, and the Directors. It is the Bank's policy to lend responsibly and establish loans that are within a customer's ability to repay rather than relying exclusively on security.

5.2 Credit Risk Appetite

Risk Appetite Statement

The Bank has a medium appetite for credit risk. The Bank's appetite level will be maintained by pursuing a lending strategy and approach which focuses on high quality or low risk borrowers and on the products and markets where it has a high level of knowledge and expertise.

The Bank's business operations are confined to the boundaries of the Islands. The economy is heavily focused on financial services and hospitality related activities. Although focused predominantly on two sectors, historically, the economy and country have been relatively stable and experienced reasonably constant growth.

The Bank is in the business of lending and accordingly, credit risk arises as part of the Bank's everyday activities. As such, the Bank considers credit risk inherent to its operations, however, given the simple nature of the lending products offered, which are mortgages and consumer loans, the Bank has a strong understanding of the exposures it faces.

Credit risk emanates from the default risk associated with its lending counterparties and the valuation of collateral.

The Bank is also exposed to the performance of the broader economy of the Islands, although stable and strong at this time, as well as sovereign risk.

The Bank actively manages its portfolio and limits its exposures by targeting professionals and when it does not target prime borrowers it focuses on those employed with high-quality organizations and are eligible for salary deductions. Furthermore, the Bank places limits on the properties it is willing to lend against within desired ranges.

The Bank does not believe in generating income or revenue at any cost, and follows a thoughtful and balanced approach to underwriting risk which is focused on prudent and smart lending.

5.3 Asset Book and Contributions to the Credit Risk of the Bank

Credit risk is one of the most significant risks facing the Bank and management therefore carefully manages its exposure to credit risk. Impairment provisions are computed for Expected Credit Losses (ECL) as of the date of the Bank's statement of financial position. Significant changes in the economies or sectors that represent a concentration in the Bank's portfolio could result in losses that are different from those provided for as of the date of the Bank's statement of financial position.

The classes of financial instruments to which the Bank is most exposed to credit risk are loans and advances to customers, cash at banks and certain investment securities.

5.4 Credit Rating System

Credit risk ratings are to be based on the borrower's expected performance, i.e., the likelihood that the borrower will be able to service its obligations in accordance with the terms. Payment performance is a future event; therefore, a Lender's credit analysis should focus primarily on the borrower's ability to meet future debt service obligations. Generally, a borrower's expected performance is based on the borrower's financial strength as reflected by its historical and projected balance sheet and income statement proportions, its performance, and its future prospects in light of conditions that may occur during the term of the loan. Expected performance should be evaluated over the foreseeable future —not less than one year. While the borrower's history of meeting debt service requirements must always be incorporated into any credit analysis, risk ratings will be less useful if overly focused on past performance. Credit risk ratings are meant to measure risk rather than record history.

The primary consideration in credit risk assessment is the strength of the primary repayment source. The Bank defines a primary repayment source as a sustainable source of cash. This cash, which must be under the borrower's control, must be reserved, explicitly or implicitly, to cover the debt obligation. In assigning a rating, Lenders must assess the strength of the borrower's repayment capacity, in other words, the probability of default, where default is the failure to make a required payment in full and on time. As the primary repayment source weakens and default probability increases, collateral and other protective structural elements have a greater bearing on the rating.

Credit Risk Evaluation Process

The risk rating process starts with a thorough analysis of the borrower's ability to repay, and the support provided by the structure and any credit risk mitigants. When analyzing the risk in a credit exposure, Lenders must consider:

a. The borrower's current and expected financial condition, i.e., cash flow, liquidity, leverage, free assets;

b. The borrower's ability to withstand adverse, or "stressed", conditions;

c. The borrower's history of servicing debt, whether projected and historical repayment capacity is correlated, and the borrower's willingness to repay;

d. Underwriting elements in the loan agreement, such as loan covenants, amortization, and reporting requirements;

e. Collateral pledged (amount, quality, and liquidity), control over collateral, and any other credit risk mitigants; and

f. Qualitative factors such as the caliber of the borrower's management or character, the strength of the borrower's industry, and the condition of the economy.

In order to properly assess a CRR information about the past and present to quantify expectations about the future and rank the borrower according to the likelihood of their making prompt and uninterrupted repayment of all obligations to the bank is considered.

The CRR is a dynamic assessment of the borrower that must reflect changes in the borrower's financial conditions. The CRR should be reassessed on a regular basis and immediately if there is a material change in the borrower's financial condition. As soon as a CRR is assessed at a 5 (or higher) the account should be monitored closely and may be added to a watch list at the option of the approving authority.

The authority to establish or downgrade the CRR rating rests with the approving authority for the credit. Upgrades, from CRR 5 watch List, CRR 6 or CRR 7 require the approval of levels of senior management depending on the amount of the overall exposure and authorized lending limits.

Borrowers are rated and assessed with a CRR rating from 1 – 8.

5.5 Credit Risk Management and Reporting Channels

The Group's Directors and its Assets and Liabilities Committee (ALCO) are responsible for approving and monitoring the Group's credit exposure, which is done through review and approval of the Group's lending policies, and limits on credit exposure to individual borrowers and sectors.

5.6 Credit Quality of Assets

Table 9: CR1 – Credit Quality of Assets

		a	b	c	d
		Gross carrying values of:			
		Defaulted exposures	Non-defaulted exposures	Allowances/impairments	Net values (a+b-c)
1	Loans	$12,499,067	$184,888,907	$6,883,587	$190,504,387
2	Debt securities		$63,284,827		$63,284,827
3	Off-balance sheet exposures		$21,106,067		$21,106,067
4	**Total**	$12,499,067	$269,279,801	$6,883,587	$274,895,281

Table 10: CR2 – Changes in Stock of Defaulted Loans and Debt Securities

		a
1	**Defaulted loans and debt securities at end of the previous reporting period**	$12,704,911
2	Loans and debt securities that have defaulted since the last reporting period	$3,760,787
3	Returned to non-defaulted status	($2,090,490)
4	Amounts written off	($1,418,551)
5	Other changes	($457,590)
6	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4+/-5)**	$12,499,067

The Bank's reduction in defaulted loans is mainly due to the net effect of write-offs and loans which have subsequently returned to non-default status due to restructurings or regularization of payments.

5.7 Board Approved Policy and Calculating Credit Risk Specific Capital

In accordance with the Bank's approved policy, expected credit losses ("ECL") and non-performing debts are reviewed on a quarterly basis with the relevant action taken as required. The summary below details the Bank's approach to impairment assessment and measurement.

The Bank applies a three (3) stage model for impairment, based on changes in credit quality since initial recognition. A financial asset that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next twelve (12) months (12-month ECL) or until contractual maturity, if shorter. If the Bank identifies a significant increase in credit risk (SICR) since initial recognition, the financial asset is transferred to Stage 2 and its ECL is measured based on a lifetime basis (lifetime ECL), that is, up until contractual maturity but considering expected prepayments.

If the Bank determines that a financial asset is credit-impaired, the financial asset is transferred to Stage 3 and its ECL is measured as a lifetime ECL. For financial assets that are purchased or originated credit-impaired (POCI Assets), the ECL is always measured as a lifetime ECL.

Measurement of ECL involves a methodology that encompasses models and data inputs. Factors that significantly impact ECL calculations include: definition of default, SICR, Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), as defined below, as well as models of macroeconomic scenarios. The Bank reviews its financial assets at amortised cost to assess impairments on a quarterly basis, or more frequently when the need arises, and validates the models and data inputs to reduce differences between ECL estimates and actual credit loss experience.

ECL calculations are measured on a 12-month or lifetime basis, depending on whether credit risk has significantly increased subsequent to initial recognition or whether a financial asset is considered to be credit-impaired. ECLs are the discounted product of the PD, EAD, and LGD.

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next twelve (12) months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. The Bank defines a financial asset as in default, which is consistent with the definition of credit-impaired, when one (1) or more of the following criteria are met:

- EAD is based on the balance of the financial asset expected to be outstanding at the time of default, over the next twelve (12) months (12-month EAD) or over the remaining lifetime (lifetime EAD). For example, for revolving credit facilities, the Bank includes the current drawn balances plus any further amounts that are expected to be drawn up to the current contractual limit by the time of default, should it occur.

- LGD represents the expectation of the extent of loss on an exposure in default. LGD varies based on the nature of the counterparty, the type and seniority of claim, and the availability of collateral or other credit support. LGD is expressed as the percentage loss per unit of exposure at the time of default and is also calculated on 12-month or lifetime bases.

The ECL is determined by projecting the PD, LGD and EAD for future periods and for each individual exposure or collective segment. These three (3) components are multiplied together

and adjusted for the likelihood of survival, which is that the exposure has not prepaid or defaulted in an earlier period. This effectively calculates an ECL for each future period, which is then discounted back to the financial reporting date and summed. The discount rate used in the ECL calculation is the approximation of the original effective interest rate.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

Table 11: CRB – Distribution of Exposures by Residual Maturity

Distribution of Exposures by Residual Maturity	
Time	**Gross Exposure**
Sight - 8 days	$12,584,665
8 days - 1 Month	$1,570,219
1 - 3 Months	$3,524,808
3 - 6 Months	$12,981,062
6 - 12 Months	$37,029,139
1 - 5 Years	$31,788,034
Over 5 Years	$153,779,867
No Maturity	$81,747,697
Total	$335,005,491

Table 12: CRB – Past-due Exposures Ageing Analysis

Past-due Exposures Ageing Analysis	
Time	**Gross Exposure**
Sight - 8 days	$12,481
8 days - 1 Month	$7,548
1 - 3 Months	-
3 - 6 Months	$20,212
6 - 12 Months	$99,461
1 - 5 Years	$1,350,644
Over 5 Years	$16,468,584
No Maturity	$12,536,465
Total	$30,495,395

Table 13: CRB – Impaired Exposures by Industry

Impaired Exposures by Industry				
Industry	**Gross Exposure**			**Impairments**
	Total	**Un-impaired**	**Impaired**	
Retail Lending/Consumer Loans - Households	$64,840,080	$61,450,253	$3,389,827	$2,854,032
Residential Mortgages - Households	$109,599,032	$106,297,814	$3,301,218	$1,420,494
Non-Financial Corporations - Industrial & commercial private sector	$16,966,902	$15,986,247	$980,655	$980,655
Non-Financial Corporations - Commercial Mortgages	$6,016,662	$6,016,662	-	-
Sovereigns	$17,884,920	$17,884,920	-	-
Multilateral Development Banks	$45,399,908	$45,399,908	-	-
Banks and Security Firms	$48,964,821	$48,964,821	-	-
Total	**$309,672,325**	**$302,000,625**	**$7,671,700**	**$5,255,181**

Table 14: CRB – Impaired Exposures by Geographical Region

Impaired Exposures by Geographical Region				
Country	**Gross Exposure**			**Impairments**
	Total	**Un-impaired**	**Impaired**	
Cayman Islands	$208,431,073	$195,504,192	$7,671,700	$5,255,181
North America	$40,768,923	$40,768,923	**-**	**-**
UK & Europe	$24,248,103	$24,248,103	**-**	**-**
Other	$35,809,081	--		-
Total	**$309,257,180**	**$260,521,218**	**$7,671,700**	**$5,255,181**

Per Table 14 above, the Cayman Islands remains the geographical region that the Bank is most exposed to.

Table 15: CRB – Restructured Exposures

The Bank follows a number of specific criteria when determining whether a customer qualifies for the restructuring of an exposure. A few of these include; six months of consecutive payments on the existing loan and evidence of their ability to meet any modified terms and conditions. Restructured loans are placed on a watch list and are carefully monitored for a period of one year or until the Bank has determined that there has been a significant decrease in credit risk. During the year, the Bank modified loans and advances totaling $1.9M per the table below.

Restructured Exposures by Asset Type			
Asset Type	**Gross Exposure**		
	Total	**Un-impaired**	**Impaired**
Residential Mortgages - Households	$1,912,801	$1,912,801	-

5.8 Credit risk mitigation and techniques

Table 16: CR3 – Credit Risk Mitigation Techniques

Table 16 provides an overview of the Bank's CRM techniques as at 31 March 2023. The significant movements since 31 December 2021 included growth of approximately $24M in the Loan portfolio.

		a	b	c
		Exposures unsecured: carrying amount	Exposures secured by collateral : carrying amount	Exposures secured by collateral, of which: secured amount
1	Loans	$26,280,383	$171,107,591	$142,920,420
2	Debt securities	$63,284,828	-	-
3	**Total**	$89,565211	$171,107,591	$142,920,420

5.9 Credit Risk – Regulatory Weighted Assets

Table 17 provides an overview of the regulatory risk weighted assets including the effects of CCF and CRM techniques.

Table 17: CR4 – Credit Risk Exposure and CRM Effects

		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Assets classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA Density
1	Sovereigns and their central banks	$ 17,884,920	-	$ 17,884,920	-	$ 373,488	0.21%
2	Non-central government public sector entities	-	-	-	-	-	0.00%
3	Multilateral development banks	$ 45,399,908	--	$ 45,399,908	-	$ -	0.00%
4	Bank	$ 48,190,767		$ 48,190,767	-	$ 9,979,180	5.48%
5	Securities Firms	-	-	-	-	-	0.00%
6	Corporates	$ 15,986,247	-	$ 15,986,247	-	$ 15,986,247	8.79%
7	Regulatory retail portfolios	$ 60,850,266	-	$ 60,850,266	-	$ 60,736,350	33.38%
8	Secured by residential property	$ 101,420,292	$21,106,607	$ 101,420,292	$4,221,213	$ 36,523,419	20.07%
9	Secured by commercial real estate	$ 6,016,662	-	$ 6,016,662	-	$ 6,016,662	3.31%
10	Past-due exposures	$ 13,149,209	-	$ 7,913,417	-	$ 8,387,647	4.61%
11	Higher-risk categories	$ 30,568,956	-	$ 30,568,956	-	$ 43,949,132	24.15%
12	Other assets	-	-	-	-	-	0.00%
13	**Total**	**$ 339,467,227**	**$21,106,607**	**$ 334,231,435**	**$4,221,213**	**$ 181,952,125**	**100%**

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Table 18 provides a breakdown of the Bank's credit risk exposures by asset class and risk weight.

Table 18: CR5 – Exposures by Asset Class and Risk Weights

		a	c	d	e	f	g	h	i
	Assets classes	0%	20%	35%	50%	75%	100%	150%	Total credit exposure amount (post CCF and post-CRM)
1	Sovereigns and their central banks	$16,017,480	$1,867,440	-	-	-	-	-	$17,884,920
3	Multilateral development banks	$45,399,908	-	-	-	-	-	-	$45,399,908
4	Bank	-	$47,054,013	-	$1,136,755	-	-	-	$48,190,768
6	Corporates	-	-	-		-	$15,986,247	-	$15,986,247
7	Regulatory retail portfolios	$113,916	-	-	-	-	$60,736,350	-	$60,850,266
8	Secured by residential property	-	-	$98,854,499	-	$2,565,793	-	-	$101,420,292
9	Secured by commercial real estate	-	-	-	-	-	$6,016,662	-	$6,016,662
10	Past-due exposures	-	-	-	-	-	$6,964,958	$948,459	$7,913,417
11	Higher-risk categories	-	-	-	-	-	$3,808,604	$26,760,352	$30,568,956
12	Other assets	-	-	-	-	-	--		-
13	**Total**	**$61,531,304**	**$48,921,453**	**$98,854,499**	**$1,136,755**	**$2,565,793**	**$93,512,821**	**$27,708,811**	**$334,231,436**

5.10 Counterparty Credit Risk

The Bank does not currently transact in derivatives, and therefore, is not currently exposed to counterparty credit risk.

6. LIQUIDITY RISK

6.1 Liquidity Risk and Liquidity Management Approach

Liquidity risk is the risk that the Bank is not able to meet its financial obligations as they fall due or can do so only at an excessive cost. The Bank's liquidity risk management policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Bank and to enable it to meet all financial obligations. This is achieved by maintaining a prudent level of liquid assets through management control of the rate of growth of the business and maintaining high levels of capital. The Bank holds a diversified portfolio of investment securities to support payment obligations. The Bank's assets held for managing liquidity risk comprise cash, certificate of deposits, other investments and loans and advances to customers. The Bank would be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources.

The Bank manages daily liquidity risks in accordance with its established Liquidity Risk Management Framework.

Regulatory coverage requirements apply to such ratios and other measurements that are required to be reported to regulators on a regular basis. All submissions to local regulators must be made within the prescribed timelines.

Current minimum liquidity-related thresholds are:

- Liquidity Coverage Ratio (LCR): >100%
- Net Stable Funding Ratio (NSFR) : >100%
- Capital Adequacy Ratio (CAR): >15%

These prescribed minima must be maintained at all times.

Finance is responsible for regulatory reporting output in alignment with regulations. They are also responsible for the production and provision to Management of regulatory liquidity reporting.

Departure from Internal Limits

When limits are exceeded, either the CEO, Head of PGTI or Head of Finance shall ensure that all breaches of approved limits are reported on the date of discovery to ALCO.

Contingency Funding Plan

The Bank will maintain a Liquidity Plan which must be reviewed at least annually by ALCO for appropriateness and alignment to stated risk appetite levels and prescribed regulations. A designate, as determined by ALCO, will review and test the Liquidity Plan. Similarly, a Liquidity Contingency Plan is to be maintained and tested annually by a designate determined by ALCO.

The Bank should periodically review its efforts to establish and maintain relationships with liability holders, to maintain the diversification of liabilities, and aim to ensure its capacity to sell assets. The internal audit function should also periodically review the liquidity management process in order to identify any weaknesses or problems. In turn, these should be addressed by management in a timely and effective manner.

6.2 Policy Details and Governance in place in relation to Liquidity

The ALCO is responsible for monitoring the Bank's liquidity risk profile to ensure it is managed consistently with the Bank's strategic direction, stated risk appetite and regulatory requirements. This includes the regular monitoring of liquidity risk exposures as well as annual review of stressed scenarios, deposit behavior analysis, liquidity contingency plans and assumptions, and funding plans. The ALCO also takes into consideration future funding requirements and deposit pricing strategies, consistent with the Bank and the Banking Group.

6.3 Liquidity Measures and Ratios

Liquidity Coverage Ratio ("LCR") – LIQ1

The LCR is designed to ensure that a bank has sufficient unencumbered high-quality liquid assets ("HQLA") that can be converted into cash to meet its liquidity needs for a 30-calendar day liquidity stress scenario. The table below provides a breakdown of the Bank's LCR as at 31 March 2023.

Net Stable Funding Ratio - LIQ2

The NSFR promotes resilience over a longer-term horizon by requiring funding of its activities with stable sources of funding on an ongoing basis. The table below provides a breakdown of the Bank's NSFR as at 31 March 2023.

Table 19: LIQ1 – Liquidity Coverage Ratio as at 31 March 2023

The Bank's LCR stood at 129% as at 31 March, 2023. Of the Bank's stock of HQLA's totaling $64M, $62M and $2M are designated as Level 1 and Level 2B assets respectively. 33% of the Bank's funding is attributable to retail deposits, 8% to small business customers, 39% to non-financial corporates. 6% to other legal entities and 15% to other financial institutions.

		a	b
		Total unweighted value (average)	**Total weighted value** (average)
High-quality liquid assets			
1	Total HQLA	$ 64,051.00	$ 63,771.00
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:	$ 75,487.00	$ 7,549.00
3	Stable deposits		
4	Less stable deposits	$ 75,487.00	$ 7,549.00
5	Unsecured wholesale funding, of which:	$ 156,522.00	$ 86,027.00
6	Operational deposits (all counterparties) and deposits in network of cooperative banks		
7	Non-operational deposits (all counterparties)	$ 156,522.00	$ 86,027.00
8	Unsecured debt		
9	Secured wholesale funding		
10	Additional requirements, of which:	$ 21,106.00	$ 1,409.00
11	Outflows related to derivative exposures and other collateral requirements		
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	$ 14,026.00	$ 701.00
14	Other contractual funding obligations	$ 7,080.00	$ 708.00
15	Other contingent funding obligations		
16	**TOTAL CASH OUTFLOWS**	$ 253,115.00	$ 94,985.00
Cash inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	$ 50,555.00	$ 45,686.00
19	Other cash flows		
20	**TOTAL CASH INFLOWS**	$ 50,555.00	$ 45,686.00
			Total adjusted value
21	Total HQLA		$ 63,771.00
22	Total net cash outflows		$ 49,300.00
23	Liquidity Coverage Ratio (%)		129%

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Table 20: LIQ2 – Net Stable Funding Ratio as at 31 March 2023

		a	b	c	d	e
		Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1 year	>= 1 year	Weighted Value
Available stable funding (ASF) item						
1	Capital:				**$ 55,904**	**$ 55,904**
2	*Regulatory capital*				$ 55,904	
3	*Other capital instruments*					
4	Retail deposits and deposits from small business customers:		**$ 89,991**	**$ 12,526**	**$ 9,296**	**$ 101,561**
5	*Stable deposits*					
6	*Less stable deposits*		$ 89,991	$ 12,526	$ 9,296	$ 101,561
7	Wholesale funding:		**$ 137,500**	**$ 17,181**	**$ 1,842**	**$ 52,223**
8	*Operational deposits*					
9	*Other wholesale funding*		$ 137,500	$ 17,181	$ 1,842	$ 52,223
10	Liabilities with matching interdependent assets					
11	Other liabilities:		**$ 10,868**	**$ -**	**$ -**	**$ -**
12	*NSFR derivative liabilities*					
13	*All other liabilities and equity not included in the above categories*		$ 10,868			$ -
14	**Total ASF**		**$ 238,359**	**$ 29,707**	**$ 67,042**	**$ 209,688**
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					3351
16	Deposits held at other financial institutions for operational purposes		$ 3,687			$ 1,844
17	Performing loans and securities:					
18	*Performing loans to financial instutions secured by Level 1 HQLA*					
19	*Performing loans to financial instutions scured by non-Level 1 HQLA and unsecured performing loans to financial institutions*					
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loas to sovereigns, central banks and PSEs, of which:*					
21	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*					
22	*Performing residential mortgages, of which:*					
23	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*		$ 1,760	$ 1,814	$ 92,845	$ 62,136
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*					
25	Assets with matching interdependent liabilities					
26	Other assets:					
27	*Physical traded commodities, including gold*					
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*					
29	*NSFR derivative assets*					
30	*NSFR derivative liabilities beore deduction of variation margin posted*					
31	*All other assets not included in the above categories*		$ 57,531	$ 8,264	$ 105,156	$ 133,362
32	Off-balance sheet items		$ 21,106			$ 1,055
33	**Total RSF**					$ 201,748
34	**Net Stable Funding Ratio (%)**					104%

The Bank's NSFR stood at 104% as at 31 March 2023. Of the available stable funding, 42% comprises retail and small business, 36% non-financial corporates and 22% other institutions. Required stable funding comprises of the Banks stock of HQLA's which are predominantly Level 1 assets, loan cash outflows which consists of residential mortgages 52%, other performing loans 43% and non-performing loans 4% and cash deposits of which 10% is considered operational and 90% non-operational.

6.4 LCR and NSFR Measurement and Policy

The LCR and NSFR are calculated on a bi-weekly basis to ensure any potential breaches are immediately captured. Regulatory filings are done on a monthly basis. Management also ensures that any large deals with customers are evaluated against the Liquidity rules to ensure that acceptance of deposits would not result in a deterioration of the liquidity ratios.

7. MARKET RISK

7.1 Market Risk Management Exposures for the Bank

Market risk is risk related to the uncertain market value of a portfolio driven by factors or events in the market itself, and other elements of risk as discussed in the policy. Market risk may also be considered in terms of the volatility that one can expect in an investment portfolio.

7.2 Currency Exposure and Bank Policy

Currency risk is the risk that the fair values and/or amounts realized on sales of financial instruments, or the settlement of financial liabilities may fluctuate due to changes in foreign exchange rates. The Bank is directly exposed to currency risk through its financial instruments and financial activities denominated in currencies other than the KY$. The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

This will give rise to an effective hedge. This balance should be managed on a consistent basis so that adjustments can be made should any discrepancies arise.

The following policy will apply with respect to foreign exchange and money markets:

I. Foreign currency limit exposure in USD:
   a. no tolerance for a short position
   b. no long position limit

II. Net open foreign currency exposures in each of CAD, GBP EUR and JPY are limited to $200,000.

Mismatches may exist and will be corrected as soon as is practicable.

Foreign exchange positions are predominantly a by-product of servicing and managing customer activity, as well as our net asset positions related to USD pegged currencies. As such no material open foreign exchange trading positions exist, and these are managed within established delegated exposure limits which are monitored daily on both an intra-day and end-of-day basis. Exceptions are only permitted with explicit prior approval from the Group Chief Financial Officer.

7.3 Governance of Market Risk within the Bank

The Bank manages its foreign currency risk by ensuring that its liabilities in each currency are matched with corresponding assets in the same currency and these positions are monitored monthly. The US$ is the significantly predominant foreign currency in which the Bank transacts, however this risk is currently mitigated as the KY$: US$ exchange rate is fixed at 1.00:1.20.

7.4 Market Risk-Weighted Assets

Table 21 provides a breakdown of the regulatory capital requirement for Market Risk as calculated based on CIMA's Standardised Approach for Market Risk. As is evident in Table 21, all of the Bank's regulatory capital requirement for Market Risk is due to Foreign Exchange Risk.

Table 21: MR1: Market Risk – Standardised Approach

		a
		RWA
	Outright products	
1	Interest rate risk (general and specific)	-
2	Equity risk (general and specific)	-
3	Foreign exchange risk	$29,613
4	Commodity risk	-
	Options	
5	Simplified Approach	-
6	Delta-plus method	-
7	Scenario Approach	-
8	Securitisation	-
9	**Total**	$29,613

8. INTEREST RATE RISK IN THE BANKING BOOK

8.1 Overview of Interest Rate Risk in the Banking Book

Interest Rate Risk

The Bank will seek to minimize its market risk by investing in investments with managed or minimal volatility and by ensuring that the investments provide payments with a high degree of certainty and/or are sufficiently short in their term that the likelihood of significant fluctuation is minimized.

Interest rate risk is the risk that the future cash flows or the fair values of financial instruments will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow interest rate risks. Interest margins may increase as a result of such changes but may reduce gains or create losses in the event that unexpected movements arise.

The Bank will seek to minimize its interest rate risk by investing in securities with the intent of holding to maturity or by investing over a sufficiently short term such that the likelihood of significant fluctuation is minimized. The Bank will also seek to go long on floating-rate securities in a rising interest rate market, and long on fixed securities in a declining interest rate environment.

8.2 Interest Rate Risk and the Bank's Approach to its Management

The ALCO formulates and approves the asset/liability strategy aligned to fit within the parameters of the Bank's risk framework and appetite. This includes the formulation of tactical decisions and targets in support of the Bank's balance sheet and other strategies. The Committee considers both earnings at risk and economic value at risk along with any other appropriate analysis in its decision-making, including regulatory, capital and liquidity considerations.

Trading Market Risk

Trading Market Risk is defined as the risk of loss in financial instruments, the balance sheet or in earnings, or the risk of volatility in earnings due to adverse or unexpected movements in market factors such as interest and exchange rates, prices, credit spreads, volatilities, correlations, etc. from trading activities.

1) Investment Risk

The risk of loss as a result of the change in due to the performance of securities held in lieu of cash.

2) Interest Rate Risk

The risk of loss or volatility in earnings resulting from unexpected changes in interest rates or in the greater than expected volatility of interest rates. Management manages this risk by monitoring interest rates daily. Floating rate instruments expose the Bank to cash flow interest risk, whereas fixed interest rate instruments expose the Bank to fair value interest risk.

Duration risk is the risk associated with the sensitivity of a bond's price to a one percent change in interest rates. The higher a bond's duration, the greater its sensitivity to interest rates changes.

Changes in interest rates affect earnings by changing net interest income. Changes in interest rates also affect the underlying value of assets, liabilities and off-balance sheet instruments, and consequently the institution's Economic Value of Equity since the present value of future cash flows (and sometimes the cash flows themselves) changes with changes in interest rates. Interest rate dynamics also affect the earnings profile of the institution and are measured through the Bank's Net Interest Income model.

Such risk is a normal part of banking, and exposure to it can be an important source of profitability and shareholder value. Within the Bank this is specifically allocated against interest rate risk in the banking book.

Interest rate risk in the banking book is the potential adverse impact on the Bank's future cash flow from changes in interest rates. Within the Bank this would arise from the mismatching of the dates on which financial instruments mature or the dates on which interest receivable on assets and the income payable on liabilities are next reset to market rates.

To support the management of interest rate risk, quarterly reporting is provided to the Group Chief Financial Officer and the Board of Directors and gives exposures on either side of the balance sheet. Since the transfer of ownership this is reported monthly to ALCO and quarterly to the Board.

In addition, a quarterly gapping report (interest rate mismatch) is produced and reviewed by Finance for any excesses above set limits. This is then distributed to Executive Management for information. The Bank's internal gapping limits are reported quarterly to the Board.

The Bank's Risk Department undertakes stress testing for interest rate risk and would notify Executive Management if any evaluation would result in the Bank's capital resources declining by more than 20%.

The quarterly reporting of interest rate sensitivity (interest rate risk) is based on cumulative positions using defined time periods. At year end, interest rate levels remain low but are expected to rise over the course of the second half of the year to attempt to curb US inflation, which will increase the Bank's sensitivity to interest rate movements.

As outlined above as the Bank is exposed to interest rate risk in its banking book, interest rate stress testing is conducted to consider the impact of a rate shock on both Net Interest Income ('NII') and the Economic Value of Equity ('EVE'). This is achieved by:

(i). Contractually and behaviorally assessing all assets, liabilities and cash flow characteristics to determine their underlying contractual, behavioral, re-pricing and duration characteristics;

(ii). Applying a range of instantaneous rate shocks to all interest-bearing assets and liabilities, including shocks against spot interest rates and related forward curves as at the reporting date;

(iii). Re-examining the modified contractual and behavioral characteristics of assets, liabilities and cash flows to determine the resultant effect on both NII and EVE.

The bank employs the short horizon NII model to balance earnings with rate risk in the short run. Here the model balances the primarily floating rate exposures emanating from the Bank's loan book, and our sticky deposit base with investment exposures of fixed rate nature to partially offset this exposure to rising rates.

The bank does not attempt to hedge specifically against the impact of changes in market interest rates on cash flows and interest margins and relies on the fact that the loan portfolio generally is based on variable interest rates linked to the US$ or KY$ prime rates that generally reset within three (3) months of any change in these rates and has financial liabilities that finance these loans but at lower interest rates, which too are based on US$ or KY$ prime rates and can be reset following the maturity of any deposits.

9. OPERATIONAL RISK

9.1 Operational Risk and the Bank's Approach

Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems, actions or inactions of people, or from external events. By definition, operational risks may arise at every level of the organisation and may impact both our strategic or business processes, including those associated with the management of the credit and market risk exposures we assume.

Risk Appetite Statement

The Bank has a low appetite for operational risk and manages/minimizes its exposures, particularly those impacting its reputation, by focusing on automation, standardized procedures and leveraging shared skills and competencies across the organization.

Unlike other risks, higher levels of operational risk do not necessarily result in higher returns for the Bank. As such, the Bank accepts that while it has and is developing processes and policies to systemically identify, measure, mitigate and monitor its operational risks, the Bank cannot completely eliminate these risks. To the greatest extent possible, the Bank avoids the risks which may be averted and reduces the exposure.

Many of the operational risks noted and assessed by the Bank may result in a high financial or reputational cost to the Bank. The Bank considers the ongoing stability of its financial position and the competitive advantage of its reputation as paramount to the success of the Bank.

In order to understand, evaluate and effectively manage the different aspects of operational risk affecting the organisation, the Bank has developed a coherent, structured risk management framework that is designed to promote and focus attention on the effectiveness of our internal control environment. This consists of the following interrelated components:

(i). An Operational Risk Policy that establishes the Board's minimum expectations regarding the use of internal controls to identify, manage and mitigate operational risks, that clearly articulates managerial roles and responsibilities in satisfying these requirements, and that reinforces the need for employees to understand how their actions (whether intentional or accidental) impact our exposure to risk and support ongoing data collection efforts by filing incident reports whenever they identify that problems have occurred;

(ii). The categorisation of the entirety of the Bank's operations (whether relating to our product offerings or the operational processes that support them) into a range of different activity categories or "Products". These are outlined in greater detail in the Bank's Operational Risk Policy.

(iii). The creation of clear lines of responsibility for the effectiveness of the operational processes lies with senior managers and supervisory personnel being tasked to ensure that employees receive training in and have access to procedural documentation relating to the activities they perform, to work collaboratively with Risk and Internal Audit personnel to understand where deficiencies in the design or execution of internal controls may lead to potential areas

of risk, and to oversee the implementation of remediation to address any shortcomings identified in a timely manner;

(iv). An extensive Business Continuity structure and plans with critical functions being tested, at a minimum, annually and multiple facets of the plan tested throughout the year. These plans and testing procedures ensure a recovery strategy and the required resources for the resumption of critical business functions following a disaster or other business interruption. The key components of the plans include crisis management, business segment recovery plans, applications / data recovery (Disaster Recovery), facilities recovery and human capital and resource allocation management. The results of business continuity tests are reviewed by Internal Audit and the Board;

(v). The completion of periodic independent reviews of the effectiveness of the internal controls executed in the delivery of each Standard Product. Performed by Internal Audit, these consider the content of current procedures documentation, incident and loss data received and the findings from other Internal Audit reports and other quality assurance reviews and assess the degree to which the current control structure satisfies relevant control objectives drawn from the Bank's internal reference framework;

(vi). Ongoing monitoring and reporting of Management's response to losses, incidents, and the findings of the independent analyses undertaken to Executive Management, the Compliance and Internal Control Subcommittee and the Audit, & Risk Management Committee of the Board.

Risk Characteristics

The Bank has adopted the Basic Indicator Approach to operational risk measurement in line with CIMA guidance.

The Pillar 1 capital charge is calculated by applying a Beta Factor of 15% to an adjusted average of annual Gross Revenues over a three-year period. As CIMA requires these figures to be drawn from audited financial statements, these come from the average of Gross Revenues from the 2020 to 2023 financial years and yield a capital requirement of US$3.7M.

The Bank's loss experienced over the last 3 years is negligible. Loss incidents are heavily weighted towards low value, high volume events and are concentrated in our Retail Banking business as would be expected from its highly manual nature.

We believe that the low level of operational risk capital required is reflective of our current operational risk profile when considered in the light of the following:

- The continued development and strengthening of our governance processes.
- The conservatism of our current strategic plan.
- The maintenance of up-to-date management succession plans for a number of key positions in the organisation.

- Enhanced risk reporting delivered to all Executive and Board committees, thereby ensuring greater transparency regarding emerging risk trends and performance against established risk tolerances.
- The continued progress made to increase the resilience of our technology platforms.

The continued focus upon having wide-ranging robust business continuity plans in place for each department as well as the Bank as a whole which, in addition from covering a wide range of scenarios, are regularly reviewed, updated and tested.

9.2 Operational Risk Management

Internal Controls to Manage Operational Risk

One of the mechanisms the Bank manages its exposure to Operational Risk is implementing a sound control environment.

Internal controls are activities designed to accomplish specific goals or objectives. They establish discipline and structure regarding how decisions are reviewed and authorized and how business processes are designed and performed. They direct the actions of our Employees, ensure the timeliness, reliability, and accuracy of the management information they receive, and define the monitoring and oversight activities performed.

Effective internal controls are designed to provide reasonable assurance that the following objectives are being met:

1. That the assets and resources of the Bank are being used efficiently and effectively (i.e., without unintended or excessive cost), and that these assets and resources are being adequately protected from loss, whether due to fraud or error;
2. That the information used to support decision-making processes is relevant, current, and reliable, and;
3. That all business lines within the Bank operate in compliance with applicable laws and regulations, supervisory requirements and the organization's policies and procedures.

9.3 Operational Losses Reporting and Summary

All operational losses are reported monthly to ALCO and on a quarterly basis to the Board of Directors and ARMCO.

During the year ended March 31, 2023, the total operational losses were less than the internal tolerable limit established by the Bank. The internal tolerable limit is US$25,000.

10. SECURITISATION

10.1 Bank's Approach to Securitisation

The Bank currently does not currently engage in securitization transactions.

11. REMUNERATION

11.1 Remuneration Disclosures

PROVEN Bank (Cayman) Limited ensures its remuneration policy is aligned to its enterprise risk management framework, strategy, and values.

The Board oversees the renumeration policy of the Bank. The Board is comprised of six Directors, five of which are non-Executive. This Committee is responsible for establishing formal and transparent procedures for the selection of employees, reviewing the Management Succession Plan, developing, and implementing processes to assess and improve effectiveness, and addressing issues which from time to time may emerge. This Committee is also responsible for reviewing the remuneration, performance, and incentive rewards of staff members to ensure that the remuneration framework is relevant and balanced.

The remuneration principles at the Bank are designed to attract and retain to the Company's management persons that possess relevant skills, industry knowledge and experience to oversee the Bank's achievement of its performance and strategy goals with emphasis on long-term shareholder value creation. The structure of the total renumeration should be aligned with the long-term value of the Bank, the business strategy, financial results as well as to the employee's contribution. Renumeration is based on predetermined and measurable performance and result criteria.

The Bank has an approved fixed bonus structure for the senior management team which is based on the Bank's and employee's performance for the recently completed fiscal year. Bonus payments are subject to review and approval from the Board of Directors and may be amended at the discretion of the Board. A minimum of four meetings are held by the Board of Directors on an annual basis.

Job performance expectations are given to staff at the beginning of each fiscal year. These expectations will be reviewed by management and amended, as necessary. At the time of the performance appraisal, the Bank and employee will review the objectives and the results achieved. Throughout the year, the employee and Bank may refer to job performance expectations documents to track progress made toward objectives, highlight areas of concern, and indicate challenges identified along the way.

The Group Human Resources Department of PROVEN Bank (Cayman) Limited is consulted for compensation and is based on the job responsibilities, experience, and education of the candidate and market rates. The material risk takers for the Bank include all twelve members of the senior level management team as they are charged with governance to plan, direct and implement all strategic business objectives as approved by the Board of Directors.

Variable remuneration consists of cash-based profit share and bonus payments to the senior leadership team, commissions to the client facing employees and pension payments. The risk and compliance employees' renumeration are fixed and are not linked to any commission-based payments tied to the business managed.

The Bank has a Human Resources Policy which encompasses renumeration as well.

The main performance metrics for the bank include, but are not limited to:

1. Achievement of the Bank's annual financial budget; and
2. Meeting and exceeding staff members individual objectives

These bank wide metrics filter down into each staff member's performance appraisal which is assessed on an annual basis or more frequently as required.

The Bank does not have any form of variable remuneration that is vested.

As at 31 March 2023, total staff costs were 36% of revenue and 45% of total Operating Expenses.

12. ASSET ENCUMBRANCE

12.1 Asset Encumbrance

The Bank currently does not have an asset encumbrance.