PROVEN

BANK

PROVEN Bank (Cayman) Limited

PILLAR 3 DISCLOSURE REPORT

SEMI-ANNUAL

AS AT 30 SEPTEMBER 2023

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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 of September 30, 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. 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.

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2. CAPITAL MANAGEMENT

2.1 Overview of Risk Weighted Assets (RWA)

Table OV1 provides an overview of Risk Weighted Assets ("RWA") and Minimum Capital Requirements per risk type. As is evident in Table 1, there was a slight decrease between RWA reported as of 30 September 2023 and RWA reported as at 30 June 2023. This decrease is mainly driven by a decrease of 4% in credit RWA. The decrease in Credit RWA is mainly attributable to the categories "Claims on Banks and Security Firms" and "Claims on Retail Portfolio".

Table 1: OV1 – Overview of RWA

		a	b	c
		RWA		Minimum capital requirements
		30-Sept-23	30-Jun-23	30-Sept-23
1	**Credit risk (excluding counterparty credit risk) (CCR)**	**$182,222,946**	**$189,079,260**	**$27,333,442**
2	**Securitisation exposures**	**-**	**-**	**-**
3	**Counterparty credit risk**	**-**	**-**	**-**
4	Of which: Current Exposure Method	-	-	-
5	Of which: Standardized Method	-	-	-
6	**Market risk**	**$82,538**	**$35,900**	**$12,381**
7	Of which: Equity risk	-	-	-
8	**Operational risk**	**$22,691,313**	**$22,691,313**	**$3,403,697**
9	Of which: Basic Indicator Approach	$22,691,313	$22,691,313	
10	Of which: Standardized Method	-	-	-
11	Of which: Alternative Standardised	-	-	-
12	**Total (1+2+3+6+8)**	**$204,996,797**	**$211,806,473**	**$30,749,520**

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2.2 Capital Overview – Bank's Policy in relation to Capital

Table 2: 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 are mainly due to the treatment of accrued interest on the Bank's cash and cash equivalents and Investments portfolio, in addition to deferred loan commitment fees. 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	$0

		using this method versus using the deduction or alternate group-wide method.	

Table 3: Capital Structure and CAP – Scope of Capital

Qualitative Disclosures	(a)	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	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.
Quantitative Disclosures	(b)	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	Paid up Capital - $4,200,000 Disclosed Reserves of which; Share premium $10,800,000 and Retained Earnings $18,014,734 General Provisions - $1,628,406 Asset revaluation reserves - $22,889,627 Current net income - $3,492,761
	(c)	The total amount of Tier 2 and Tier 3 capital.	Tier 2 Capital - $28,010,794
	(d)	Other deductions from capital.	-
	(e)	Total eligible capital.	Total Eligible Capital - $61,025,528

Table 4: CAP – Capital Adequacy

Qualitative Disclosures	(a)	A summary discussion of the bank's approach to assessing the adequacy of its capital to	The Bank manages its capital position so that its capital is more than adequate to support its business activities and aligns with risk, risk

		support current and future activities.	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.	$27,333,442 by way of the Collateral Simplified Approach
	(c)	Capital requirements for market risk: - standardised approach	$12,381 for market risk requirements
	(d)	Capital requirements for operational risk: - basic indicator approach; - standardised approach; and - alternative standardised approach.	Basic Indicator Approach - $3,403,697

	(e)	Total and Tier capital ratio: - for the top consolidated group; and - for significant bank subsidiaries (stand alone or sub-consolidated).	Tier 1 Ratio - 16.10% Total Capital Ratio - 29.77%

3 CREDIT RISK

3.1 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. Table 5 below shows a detailed view of the credit quality of the Bank's assets. The Bank considers a financial instrument as credit impaired when the borrower becomes 90 days past due on its contractual obligations, such exposures are classified as Stage 3 for the purposes of the Bank's expected credit loss calculations.

3.2 Credit Quality of Assets

Table 5: CR1 – Credit Quality of Assets

30-Sept-23		a	b	c	d
		Gross carrying values of:		**Allowances/ Impairments**	**Net values (a+b-c)**
		Defaulted exposures	**Non-defaulted exposures**		
1	Loans	$10,657,853	$176,682,853	$7,414,112	$179,926,594
2	Debt securities	-	$79,856,563	-	$79,856,563
3	Off-balance sheet exposures	-	$15,159,434	-	$15,159,434
4	**Total**	**$10,657,853**	**$271,698,850**	**$7,414,112**	**$274,942,591**

Table 6: CR2 – Changes in Stock of Defaulted Loans and Debt Securities

		30-Sept-23
1	**Defaulted loans and debt securities at end of the previous reporting period**	**$12,499,067**
2	Loans and debt securities that have defaulted since the last reporting period	$2,406,673
3	Returned to non-defaulted status	($4,111,638)
4	Amounts written off	($55,495)
5	Other changes	($80,754)
6	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4+/-5)**	**$10,657,853**

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

3.3 Credit risk mitigation and techniques

<u>Table 7:</u> CR3 – Credit Risk Mitigation Techniques

Table 7 provides an overview of the Bank's CRM techniques as at 30 September 2023. The significant movements since 31st of March 2023 included a decline of approximately $10M 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	$17,629,388	$169,711,319	$139,982,244
2	Debt securities	$62,209,791	-	-
3	**Total**	**$79,839,179**	**$169,711,319**	**$139,982,244**

Table 8 below provides an overview of the regulatory risk weighted assets and the effects of CCF and CRM techniques. There was a slight reduction in the risk weighted assets density on aggregate asset class basis from 53.76% as of March 31, 2023, to 51.41% on September 30, 2023. This was mainly due to an increase in the AAA – AA- sovereign and central banks assets class exposure which outweighed the lower investment grade exposures in this category. Additionally, there was a slight uptick in the Bank's higher risk categories asset class due to an increase in other assets.

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3.4 Credit Risk – Regulatory Weighted Assets

Table 8 provides an overview of the regulatory risk weighted assets including the effects of CCF and CRM techniques.

Table 8: 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	$43,393,991	-	$43,393,991	-	$ 377,538	0.87%
2	Non-central government public sector entities	-	-	-	-	-	0.00%
3	Multilateral development banks	$35,442,629	-	-	-	-	0.00%
4	Bank	$59,903,986		$59,903,986	-	$12,953,113	21.62%
5	Securities Firms	-	-	-	-	-	0.00%
6	Corporates	$17,297,039	-	$17,296,837	-	$17,296,837	100.00%
7	Regulatory retail portfolios	$56,625,381	$10,343,673	$56,578,230	$2,068,735	$58,525,932	99.79%
8	Secured by residential property	$95,758,108	$4,815,761	$95,758,108	$963,152	$35,815,297	37.03%
9	Secured by commercial real estate	$5,922,641	-	$5,922,641	-	$5,922,641	100.00%
10	Past-due exposures	$12,778,320	-	$7,035,895	-	$7,923,759	112.62%
11	Higher-risk categories	$26,760,352	-	$26,760,352	-	$40,140,528	150.00%
12	Other assets	$3,216,179	-	$3,216,179	-	$3,216,179	100.00%
13	**Total**	**$357,098,626**	**$15,159,434**	**$351,308,848**	**$3,031,887**	**$182,171,824**	**51.41%**

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Table 9 provides a breakdown of the Bank's credit risk exposures by asset class and risk weight.

Table 9: 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	$41,506,301	$1,887,690	-	-	-	-	-	$43,393,991
3	Multilateral development banks	$35,442,629	-	-	-	-	-	-	$35,442,629
4	Bank	-	$56,662,932	-	$3,241,054	-	-	-	$59,903,986
6	Corporates	-	-	-		-	$17,296,837	-	$17,296,837
7	Regulatory retail portfolios	$121,033	-	-	-	-	$56,457,197	-	$56,578,230
8	Secured by residential property	-	-	$91,814,122	-	$3,943,986	-	-	$95,758,108
9	Secured by commercial real estate	-	-	-	-	-	$5,922,641	-	$5,922,641
10	Past-due exposures	-	-	-	-	-	$5,260,168	$1,775,727	$7,035,895
11	Higher-risk categories	-	-	-	-	-	$3,216,179	$26,760,352	$29,976,531
12	Other assets	-	-	-	-	-	-		-
13	**Total**	**$77,069,963**	**$58,550,622**	**$91,814,122**	**$3,241,054**	**$3,943,986**	**$88,153,022**	**$28,536,079**	**$351,308,848**

3.5 Counterparty Credit Risk

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

4 LEVERAGE

4.1 Leverage Ratio – LR1 & LR2

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

Table 10: LR1 – Summary comparison of accounting assets vs leverage ratio exposure measure

		30-Sept-23
1	Total consolidated assets as per published financial statements	$355,656,151
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 recognized 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)	$3,031,887
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
13	**Leverage ratio exposure measure**	**9.28%**

The adjustment of $3M 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.

4.2 Leverage ratio common disclosure

As evident in Table 11 below, the Bank's leverage ratio increased from 8.86% as at March 31, 2023, to 9.28% as at September 30, 2023, due to an increase in "On-balance sheet exposures" from USD$335M to USD $352M. This increase is mainly due to additional bank placements and investments made during the reporting period. Additionally, Tier 1 capital increased due to profits earned during the prior financial year.

Table 11: LR2 – Leverage Ratio common disclosure

		a	b
		30-Sept-23	**31-Mar-23**
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions, but including collateral)	$352,624,264	$365,119,665
2	Gross up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(Specific and general provisions associated with on balance sheet exposures that are deducted from Basel III Tier 1 capital)	-	-
6	(Asset amounts deducted in determining Basel III Tier 1 capital and regulatory adjustments)	-	-
7	**Total on balance sheet exposures** (excluding derivatives and SFTS) (sum of rows 1 to 6)	**$352,624,264**	**$365,119,665**
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	$15,159,434	$13,353,607

		a	b
		30-Sept-23	**31-Mar-23**
20	(Adjustments for conversion to credit equivalent amounts)	($12,127,547)	($10,682,886)
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)	**$3,031,887**	**$2,670,721**
Capital and total exposures			
23	**Total Tier 1 Capital**	**$33,014,734**	**$33,014,734**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**$355,656,151**	**$367,790,386**
Leverage ratio			
25	**Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	**9.28%**	**8.98%**
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**	**6.28%**	**5.98%**

5 LIQUIDITY RISK

5.1 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 30 September 2023.

Table 12: LIQ2 – Net Stable Funding Ratio as at 30 September 2023

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		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:**				**59,397**	**59,397**
2	*Regulatory capital*				59,397	
3	*Other capital instruments*					
4	**Retail deposits and deposits from small business customers:**		**86,498**	**18,897**	**8,608**	**103,464**
5	*Stable deposits*					
6	*Less stable deposits*		86,498	18,897	8,608	103,464
7	**Wholesale funding:**		**161,604**	**10,422**	**-**	**60,708**
8	*Operational deposits*					
9	*Other wholesale funding*		161,604	10,422	-	60,708
10	**Liabilities with matching interdependent assets**					
11	**Other liabilities:**		**7,194**	**-**	**-**	**-**
12	*NSFR derivative liabilities*					
13	*All other liabilities and equity not included in the above categories*		7,194	-	-	-
14	**Total ASF**		**255,296**	**29,319**	**68,005**	**223,569**
Required stable funding (RSF) item						
15	**Total NSFR high-quality liquid assets (HQLA)**					**4,131**
16	**Deposits held at other financial institutions for operational purposes**		**37,143**			**18,572**
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*		1,594	1,639	86,119	57,594
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*		33,452	9,239	103,538	119,876
32	**Off-balance sheet items**		**15,160**			**758**
33	**Total RSF**					**200,930**
34	**Net Stable Funding Ratio (%)**					**111%**

The Bank's NSFR stood at 111% as at 30 September 2023. Of the available stable funding, 39% comprises retail and small business, 39% non-financial corporates and 20% 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 51%, other performing loans 44% and non-performing loans 4% and deposits held at financial institutions of which 62% is considered operational and 38% non-operational.

5.2 NSFR Measurement and Policy

The NSFR is calculated on a bi-weekly basis to ensure any potential breaches are immediately captured. Regulatory filings are done monthly. 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.

6 SECURITISATION

6.1 Bank's Approach to Securitisation

The Bank currently does not currently engage in securitization transactions.

7 MARKET RISK

7.1 Market Risk-Weighted Assets

Table 13 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 13, all the Bank's regulatory capital requirements for Market Risk are due to Foreign Exchange Risk.

Table 13: MR1: Market Risk – Standardised Approach

		30-Sept-23
		RWA
	Outright products	
1	Interest rate risk (general and specific)	-
2	Equity risk (general and specific)	-
3	Foreign exchange risk	$82,538
4	Commodity risk	-

	Options	
5	Simplified Approach	-
6	Delta-plus method	-
7	Scenario Approach	-
8	Securitisation	-
9	**Total**	**$82,538**

8 ASSET ENCUMBRANCE

8.1 Asset Encumbrance

The Bank currently does not have an asset encumbrance.