



Market Discipline
Basel II- Pillar 3 disclosure requirements

31 December 2021

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Executive Summary

Introduction

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

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

This report uses the figures as of 31 December 2021.

Business background

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

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

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

Scope of application

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

Overview of Risk Management and Risk Weight Assets (RWA)

Risk management approach

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

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

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

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

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

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

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

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

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

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

Overview of Risk Weight Assets (RWA)

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

The following table summarized the risk-weighted assets and the capital requirements for each type of risk at years-end 2021 and 2020. The capital requirement amounts have been obtained applying 15% of the corresponding risk-weighted assets:

	RWA		Minimum capital requirements
	2021	2020	2021
Credit risk (excluding counterparty credit risk) (CCR)	175,897,842	233,906,298	26,384,676
Securitisation exposures	-	-	-
Counterparty credit risk			
Of which: current exposure method	-	-	-
Of which: standardized method	-	-	-
Market risk	23,997,869	2,952,698	3,599,680
Of which: Equity risk	-	-	-
Operational risk	-	-	-
Of which: Basic Indicator Approach	23,612,963	16,742,589	3,541,945
Of which: Standardised Approach	-	-	-
Of which: Alternative Standardised	-	-	-
Total (1+2+3+6+8)	\$ 223,508,674	\$ 253,601,585	\$ 33,526,301

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

Linkages between financial statements and regulatory exposures

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

	Carrying values as reported in published financial statements	Carrying values of items:					If applicable - Explanation on items that are subject to regulatory capital charges in more than one risk category.
		Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital	
Assets							
Cash and cash equivalents	\$ 7,788,072	\$ 537,176	\$ -	\$ -	\$ 1510,550	\$ 5,740,346	
Investments	\$ 238,367,077	\$ 238,367,077	\$ -	\$ -	\$ 25,806,282	\$ -	Certain investments are also subject to market risk due to its foreign exchange risk
Interest receivable	\$ 1,438,750	\$ -	\$ -	\$ -	\$ -	\$ 1,438,750	
Other receivables	\$ 1,422,967	\$ -	\$ -	\$ -	\$ -	\$ 1,422,967	
Loans and advances	\$ 12,957,400	\$ -	\$ -	\$ -	\$ -	\$ 12,957,400	
Total assets	\$ 261,974,266	\$ 238,904,253	\$ -	\$ -	\$ 27,316,832	\$ 21,559,463	
Liabilities							
Derivative financial instruments	\$ 42,133	\$ -	\$ -	\$ -	\$ -	\$ 42,133	
Demand deposits	\$ 129,319,679	\$ -	\$ -	\$ -	\$ 3,318,962	\$ 126,000,717	
Time deposits	\$ 34,654,171	\$ -	\$ -	\$ -	\$ -	\$ 34,654,171	
Interest payable	\$ 143,525	\$ -	\$ -	\$ -	\$ -	\$ 143,525	
Accounts payable and accrued expenses	\$ 421,790	\$ -	\$ -	\$ -	\$ -	\$ 421,790	
Provisions for operational expenses	\$ 5,024,829	\$ -	\$ -	\$ -	\$ -	\$ 5,024,829	
Total liabilities	\$ 169,606,127	\$ -	\$ -	\$ -	\$ 3,318,962	\$ 166,287,165	
Shareholders' equity							
Share capital	\$ 22,500,000	\$ -	\$ -	\$ -	\$ -	\$ 22,500,000	
Additional paid in capital	\$ 4,734,730	\$ -	\$ -	\$ -	\$ -	\$ 4,734,730	
Retained earnings	\$ 65,133,409	\$ -	\$ -	\$ -	\$ -	\$ 65,133,409	
Total shareholders' equity	\$ 92,368,139	\$ -	\$ -	\$ -	\$ -	\$ 92,368,139	
Total liabilities and shareholders' equity	\$ 261,974,266	\$ -	\$ -	\$ -	\$ 3,318,962	\$ 258,655,304	

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

	Total	Items subject to:			
		Credit risk framework	Securitisation framework	Counterparty credit risk	Market risk framework
Asset carrying value amount under scope of regulatory consolidation (as per template L11) ¹	240,414,803	238,904,253	-	-	27,316,832
Liabilities carrying value amount under regulatory scope of consolidation (as per template L11) ¹	3,318,962	-	-	-	3,318,962
Total net amount under regulatory scope of consolidation	-	-	-	-	-
Off-balance sheet amounts	-	-	-	-	-
Differences in valuations	-	-	-	-	-
Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
Differences due to consideration of provisions	-	-	-	-	-
Differences due to prudential filters	-	-	-	-	-
Exposure amounts considered for regulatory purposes	243,733,765	238,904,253	-	-	30,635,794

Our banking book regulatory carrying values reflect US\$25,806,282 related to investments that are subject to credit risk and to market risk as they are in a currency different than United States Dollar.

Capital

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

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

Composition of regulatory capital	
	USD
Tier 1 Capital	
Minimum CAR	15%
Paid up capital	22,500,000
Reserves	69,868,139
Minority Interests in the equity of subsidiaries	-
Qualifying innovative instruments	-
Other capital instruments	-
Regulatory calculation differences deducted from Tier 1 capital	-
Other amounts deducted from Tier 1 capital, including goodwill	-
Investments	-
Total amount of Tier 2 and Tier 3 capital	92,368,139
Other deductions from capital	-
Total eligible capital	92,368,139
Capital requirements for credit risk	-
Portfolios subject to standardized or simplified standardized approach	26,384,676
Securitization exposures	-
Capital requirements for market risk	-
Standardized approach	3,599,680
Capital requirements for operational risk Requirement	-
Basic indicator approach	3,541,945
Standardized approach	-
Alternative Standardized approach	-
Total and Tier 1 capital ratio	33,526,301

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

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

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

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

Credit Risk

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

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

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

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

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

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

The following tables analyze the Bank's credit risk exposure as at 31 December 2021. It is important to note that there are not defaulted or missed contractual obligations on loans and debt securities exposures:

	CR1: Credit quality of assets			
	Gross carrying values of:		Allowances / impairments	Net values (a+b-c)
	Defaulted exposures	Non-defaulted exposures		
Loans	\$ -	\$ 12,957,400	\$ -	\$ 12,957,400
Debt Securities	\$ -	\$ 185,467,693	\$ -	\$ 185,467,693
Private investment funds	\$ -	\$ 21,916,732	\$ -	\$ 21,916,732
Mutual funds units participations	\$ -	\$ 20,289,737	\$ -	\$ 20,289,737
Equity Securities	\$ -	\$ 10,692,915	\$ -	\$ 10,692,915
Off-balance sheet exposures	\$ -	\$ -	\$ -	\$ -
Total		\$ 251,324,477	\$ -	\$ 251,324,477

CR3: Credit risk mitigation techniques – overview							
	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
Loans	\$ -	\$ 12,957,400	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Securities	\$ 185,467,693		\$ -	\$ -	\$ -	\$ -	\$ -
Private investment funds	\$ 21,916,732		\$ -	\$ -	\$ -	\$ -	\$ -
Mutual funds units participations	\$ 20,289,737		\$ -	\$ -	\$ -	\$ -	\$ -
Equity Securities	\$ 10,692,915		\$ -	\$ -	\$ -	\$ -	\$ -
Off-balance sheet exposures	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -
Total	\$ 238,367,077	\$ 12,957,400	\$ -	\$ -	\$ -	\$ -	\$ -
Of which defaulted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Credit Concentration Risk

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

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

The policy of the Bank in offering and approving loans is also very selective. All granted loans must be fully secured and collateralized. Monthly follow up of current loans interest accrual, payment and collateralization of the loans are performed by the Credit Committee. Therefore as of 31 December 2021 there are not pass due or uncovered loans.

Credit exposures by type of exposure

	Exposure carrying amount
Corporate bonds	134,823,570
Mortgage and asset-backed obligations	38,475,045
Private investment funds	21,916,732
Mutual funds participations units	20,289,737
Equity securities	10,940,479
Sovereign	9,703,233
Multilateral Development Bank	1,667,173
Municipal Bonds	551,108
Loan	12,957,400
Total	251,324,477

Credit exposures by geographical area

	Exposure carrying amount
United States	147,518,331
Europe	54,996,524
Cayman Islands	26,230,769
Asia	4,997,756
Other	3,324,753
Canada	1,298,944
Venezuela	12,957,400
Total	251,324,477

Credit exposures by residual maturity

	Less than three months	Between three months and one year	More than one year
Loans	350,000	12,537,400	70,000
Debt Securities	2,597,009	11,740,095	171,130,589
Total	2,947,009	24,277,495	171,200,589

Standardized approach- Credit Risk Exposure and Credit Risk Mitigation effects

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

CR4: Standardised approach – credit risk exposure and CRM effects							
	Asset classes	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA Density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA Density
1	Sovereigns and their central banks	9,703,233	-	9,703,233	-	676,741	-
2	Non-central government public sector entities	583,321	-	583,321	-	158,540	-
3	Multilateral development banks	1,667,173	-	1,667,173	-	333,435	-
4	Banks	26,679,756	-	26,679,756	-	12,359,318	-
5	Securities firms	20,555,109	-	20,555,109	-	9,242,217	-
6	Corporates	137,232,978	-	137,232,978	-	110,844,954	-
7	Regulatory retail portfolios	-	-	-	-	-	-
8	Secured by residential property	-	-	-	-	-	-
9	Secured by commercial real estate	-	-	-	-	-	-
10	Past-due exposures	-	-	-	-	-	-
11	Higher-risk categories	-	-	-	-	-	-
12	Other assets	42,282,635	-	42,282,635	-	42,282,635	-
13	Total	238,704,205		238,704,205		175,897,840	

Standardized approach- exposures by asset class and risk

CR5: Standardised approach – exposures by asset class and risk												
	Asset classes	Risk weight*										Total credit exposure amount (post CCF and post CRM)
		0%	10%	20%	35%	50%	75%	100%	150%	Others		
1	Sovereigns and their central banks	8,797,305	-	-	-	458,372	-	447,555	-	-	-	
2	Non-central government public sector entities	-	-	551,109	-	-	-	-	32,213	-	-	
3	Multilateral development banks	-	-	1,667,173	-	-	-	-	-	-	-	
4	Banks	-	-	3,268,531	-	23,412,223	-	-	-	-	-	
5	Securities firms	-	-	3,451,125	-	17,103,984	-	-	-	-	-	
6	Corporates	-	-	21,153,223	-	19,764,583	-	95,481,481	833,691	-	-	
7	Regulatory retail portfolios	-	-	-	-	-	-	-	-	-	-	
8	Secured by residential property	-	-	-	-	-	-	-	-	-	-	
9	Secured by commercial real estate	-	-	-	-	-	-	-	-	-	-	
10	Past-due exposures	-	-	-	-	-	-	-	-	-	-	
11	Higher-risk categories	-	-	-	-	-	-	-	-	-	-	
12	Other assets	-	-	-	-	-	-	42,282,635	-	-	-	
13	Total	8,797,305	-	30,091,161	-	60,739,162	-	138,211,671	865,904	-	-	

Leverage ratio

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

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

The following tables present the components of the ratio as of 31 December 2021 and 2020.

		Summary comparison of accounting assets vs leverage ratio exposure measure	
		2021	2020
1	Total consolidated assets as per published financial statements	261,974,266	325,510,745
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-	-
4	Adjustments for temporary exemption of central bank reserves (if applicable)	-	-
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-
6	Adjustments for regular way purchases and sales of financial assets subject to trade date accounting	-	-
7	Adjustments for eligible cash pooling transactions	-	-
8	Adjustments for derivative financial instruments	-42,133	-1,336,734
9	Adjustment for securities financing transactions (i.e. repurchase agreements and similar secured lending)	-	-
10	Adjustment for off balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-	-
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-	-
12	Other adjustments	-	-
13	Leverage ratio exposure measure	261,932,133	324,174,011

		Leverage ratio common disclosure	
		2021	2020
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	261,932,133	324,174,011
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)	261,932,133	324,174,011
Derivative exposures			
8	Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	6,978,027	27,469,647
9	Add on amounts for potential future exposure associated with all derivatives transactions	52,228	266,419
10	(Exempted central counterparty (CCP) leg of client cleared trade exposures)	-	-
11	Adjusted effective notional amount of written credit derivatives	-	-
12	(Adjusted effective notional offsets and add on deductions for written credit derivatives)	-	-
13	Total derivative exposures (sum of rows 8 to 12)	7,030,255	27,736,066
Securities financing transaction exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sale accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	Counterparty credit risk exposure for SFT assets	-	-
17	Agent transaction exposures	-	-
18	Total securities financing transaction exposures (sum of rows 14 to 17)	-	-
Other off-balance sheet exposures			
19	Off-balance balance sheet exposure at gross notional amount	-	-
20	(Adjustments for conversion to credit equivalent amounts)	-	-
21	(Specific and general provisions associated with off balance sheet exposures deducted in determining Tier 1 capital)	-	-
22	Off-balance sheet items (sum of rows 19 to 21)	-	-
Capital and total exposures			
23	Tier 1 capital	92,368,139	95,163,621
24	Total exposures (sum of rows 7, 13, 18 and 22)	268,962,387	351,910,078
Leverage ratio			
25	Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	34.34%	27.04%
25a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	-	-
26	National minimum leverage ratio requirement	3.00%	3.00%
27	Applicable leverage buffers		

At the end of 2021, the Bank's leverage ratio amounted to 34.34% well above the minimum threshold, also reflecting an increase with respect to 2020 figures due to the reduction of foreign exchange currency contracts during the period.

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

Liquidity Risk

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

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

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

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

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

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

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

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

	Less than three months	Between three months and one year	More than one year	No stated maturity	Total
Assets					
Investments	2,597,009	11,740,095	171,130,589	52,899,384	238,367,077
Cash and cash equivalents	7,788,072	-	-	-	7,788,072
Derivatives financial instruments	-	-	-	-	-
Loans and advances	350,000	12,537,400	70,000	-	12,957,400
Interest receivable	1,438,750	-	-	-	1,438,750
Other receivables	1,422,967	-	-	-	1,422,967
Total assets	13,596,798	24,277,495	171,200,589	52,899,384	261,974,266
Liabilities					
Derivatives financial instruments	(22,208)	(19,925)	-	-	(42,133)
Demand deposits	(129,319,679)	-	-	-	(129,319,679)
Time deposits	(23,575,370)	(11,078,801)	-	-	(34,654,171)
Interest payable	(113,375)	(30,150)	-	-	(143,525)
Accounts payable and accrued expenses and provisions for operational expenses	-	-	-	(5,446,619)	(5,446,619)
Total liabilities	(153,030,632)	(11,128,876)	-	(5,446,619)	(169,606,127)
Total liquidity gap	(139,433,834)	13,148,619	171,200,589	47,452,765	92,368,139
Cumulative gap	(139,433,834)	(126,285,215)	44,915,373	92,368,139	

Market Risk

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

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

The table below presents an overview of the Bank's market risk under standardized approach as at December 31, 2021.

	MR1: Market risk under the standardised approach
	RWA
Outright products	
Interest rate risk (general and specific)	
Equity risk (general and specific)	
Foreign exchange risk	23,997,869
Commodity risk	
Options	
Simplified approach	
Delta-plus method	
Scenario approach	
Securitisation	
Total	23,997,869

Operational Risk

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

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

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

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

Operational Risks	
Type of Risks	Bank Assessment
Internal Fraud	<ul style="list-style-type: none"> ▪ During the period under review no incidents of internal fraud were identified. ▪ Insurance cover is in place for fraud.
External Fraud	<ul style="list-style-type: none"> ▪ Procedures are in place through enhanced sign-off requirements. Annual KYC/AML/ABC training is provided to staff.
Control Risk	<ul style="list-style-type: none"> ▪ The Bank provides regular reports to senior management and the Board of Directors detailing specific risks and any material control breakdowns. ▪ The Bank's senior management ensures that controls are followed in line with the Bank's policies and procedures.
Workplace safety	<ul style="list-style-type: none"> ▪ An employers' liability insurance policy is in place. ▪ Fire would be a significant incident for us but all necessary precautions have been taken and are observed.
Clients	<ul style="list-style-type: none"> ▪ We are continuously reviewing our processes to ensure our clients get the best service.

	<ul style="list-style-type: none"> ▪ A dedicated email address is in place for complaints and information requests. The email account is monitored to ensure that an appropriate follow up action is taken.
Business practices and products	<ul style="list-style-type: none"> ▪ Management or other third parties have not identified any AML or any other business issues. An internal audit reviewing these areas is performed.
Business disruption and system failures	<ul style="list-style-type: none"> ▪ A business continuity plan is in place and the business performs regular tests to ensure the appropriateness of the plan. No issues have been highlighted.
Damage to physical assets	<ul style="list-style-type: none"> ▪ These are insured events for which the Bank has proper insurance coverage.
Information processing and communication	<ul style="list-style-type: none"> ▪ Third party service providers are contracted to support information processing and communication within the Bank.
Employee Dependency	<ul style="list-style-type: none"> ▪ The Board of Directors is aware that there are certain key individuals whose presence is necessary for the proper functioning of the Bank and that it may be difficult to find replacements for these individuals, especially in the short-term, however, a succession plan is in place to ensure the continuation of their position in the event of unplanned or extended absence.

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

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

Operational Risk Capital Charge	Minimum regulatory capital	Operational risk capital charge as a % of minimum regulatory capital
\$ 23,612,963	\$ 1,889,037	8%

Interest Rate Risk in the Banking Book

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

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

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

The following tables present the results of a 200bp shift in interest rate, reflecting at 31 December 2021 a total impact of \$12,304,440 on economic value, accounting for 13.32% of the Bank's capital base in USD. Management considers that this would not affect the minimum Capital Adequacy Ratio required by CIMA (CAR 15%), because of the surplus of the minimum capital requirement of \$58,841,838.

2021

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

2020

Other currencies combined (Interest rate Maturing and Re-pricing)									
	Sight – 8 Days	8 Days – 1 Month	1-3 Months	3 – 6 Months	6 – 12 Months	1 – 5 Years	Over 5 Years	Non-Interest Sensitive (Assets & Liabilities)	Total
Assets									
Cash and deposits	8,597,853	-	-	-	-	-	-	-	8,597,853
Loans	-	-	400,000	1,075,000	1,583,000	-	-	-	3,058,000
Investments	-	1,396,044	1,918,765	3,417,715	8,991,357	188,301,730	57,503,890	49,510,698	311,040,199
Derivative financial instruments	-	-	750	-	-	-	-	-	750
Other assets	-	-	2,813,943	-	-	-	-	-	2,813,943
Total	8,597,853	1,396,044	5,133,458	4,492,715	10,574,357	188,301,730	57,503,890	49,510,698	325,510,745
Off-balance sheet items	-	-	-	-	-	-	-	-	-
Total Assets (including off-balance sheet)	8,597,853	1,396,044	5,133,458	4,492,715	10,574,357	188,301,730	57,503,890	49,510,698	325,510,745
Liabilities & Equity									
Derivative financial instruments	-	-	1,187,553	149,181	-	-	-	-	1,336,734
Deposits from banks	-	-	-	-	-	-	-	-	-
Other deposits	187,760,120	10,603,690	9,948,576	9,529,623	1,126,164	1,978,000	-	-	220,946,173
Interest payable	21,308	5,581	8,558	16,789	4,286	38,360	-	-	94,882
Repos, Term Debt and other Borrowings	-	-	-	-	-	-	-	-	-
Other Liabilities	-	-	-	-	-	-	-	7,969,335	7,969,335
Equity	-	-	-	-	-	-	-	95,163,621	95,163,621
Total	187,781,428	10,609,271	11,144,687	9,695,593	1,130,450	2,016,360	-	103,132,956	325,510,745
Off-balance sheet items	-	-	-	-	-	-	-	-	-
Total Liabilities (including off-balance sheet)	187,781,428	10,609,271	11,144,687	9,695,593	1,130,450	2,016,360	-	103,132,956	325,510,745
Net Position	(179,183,575)	(9,213,227)	(6,011,229)	(5,202,877)	9,443,907	186,285,370	57,503,890	(53,622,258)	-
Weighting (shock move 200 basis points)	0.08%	0.08%	0.32%	0.72%	1.43%	5.45%	11.57%	0%	-
Weighted Position	(143,347)	(7,371)	(19,236)	(37,461)	135,048	10,152,553	6,653,200	-	16,733,386

Remuneration

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

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

- Board members are compensated based on their attendance to Board meetings;
- Senior management and staff compensation is set among others, upon:
 - Appropriate qualifications, skills and experience;
 - Level of responsibilities and its fulfillment;
 - Contribution in the achievement of key business goals;
 - Competitiveness in accordance with market practices for similar roles and skills;
 - Economic condition of the country and working culture;
 - Long term commitment, professionalism and attitude towards goals and achievements.

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