



FirstCaribbean
International Bank

FirstCaribbean International Bank (Cayman) Limited
Market Discipline Disclosures (Pillar 3)
For the period ended October 31, 2022

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1. Overview and Purpose¹

This document contains the Market Discipline Disclosures (Pillar 3) for the period ended October 31, 2022, in respect of capital and risk management for FirstCaribbean International Bank (Cayman) Limited (“the Bank”).

The information contained in this Pillar 3 disclosure has been prepared in accordance with the Market Discipline Disclosure Requirements (Pillar 3) Rules and Guidelines (September 1, 2021) issued by the Cayman Islands Monetary Authority.

The aim of Pillar 3 is to encourage market discipline by allowing market participants to access key pieces of information regarding capital adequacy and risk management of institutions through a prescribed set of disclosure requirements.

These disclosures were reviewed and approved internally in line with our Board approved disclosure policy. The level of internal control processes for these disclosures are similar to those applied to the Bank’s annual Financial Reports.

All amounts in this document are in thousands of United States dollars, unless otherwise stated.

¹ The information contained in this disclosure has not and is not required to be audited by the Group’s external auditors and does not constitute any form of financial statement. The information should not be relied on in the making any judgement on the Group.

2. Overview of Risk Management and Risk Weighted Assets (RWA)

2.1 OVA - Bank Risk Management Approach

Provides a description of the Bank's strategy and how senior management and the Board assess and manage risks, giving a clear understanding of the Bank's risk tolerance/appetite in relation to its main activities and all significant risks.

Risk Management Governance and Structure

Regional Risk Function

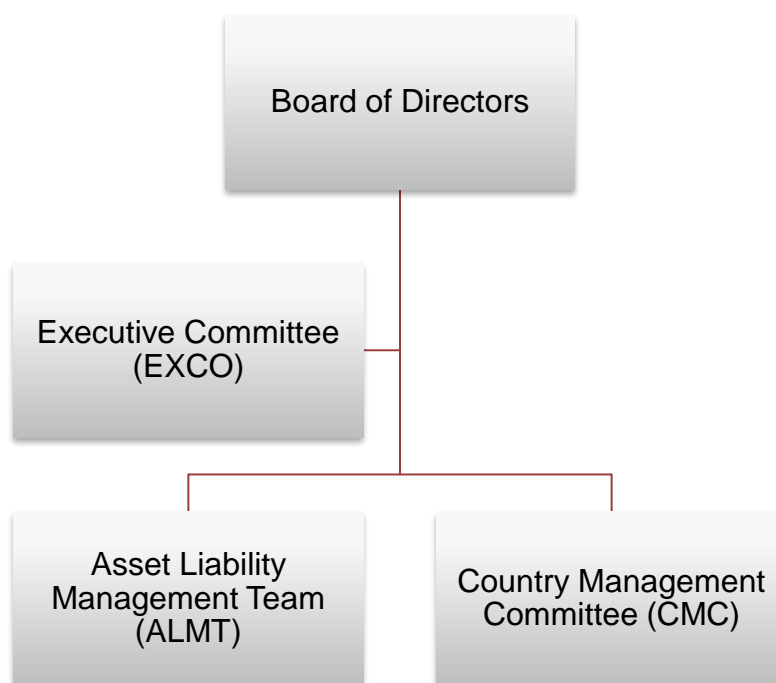
FirstCaribbean International Bank Limited ("the Parent") has a dedicated central Risk function, headed by the Chief Risk Officer, which is responsible for the risk management framework for FirstCaribbean International Bank Limited and its subsidiaries (the "Group"). This includes developing risk policies and procedures and provides independent oversight, analysis and adjudication through centrally based teams which manage credit risk, market risk and operational risk. The Risk Management Department is made up of sub-functions covering financial and non-financial risks. It is independent from the businesses in order to provide appropriate oversight and balance in risk/return decisions. The Risk function operates in line with the three lines of defence model.

The approach to risk management is based on sound banking principles and a robust governance structure. Risk is managed within tolerance levels established by our management committees and approved by the Board of Directors and its committees (the Board). This is achieved through a comprehensive framework of measurement, monitoring and control policies, procedures and processes.

Primary responsibility for the identification and assessment of risk lies with line management in our various strategic business units. The risk management policies and procedures are designed to identify and analyse these risks, to set appropriate risk limits and to monitor and enhance risk management practices to reflect changes in markets, products and evolving best practice.

A robust control and governance structure is embedded within each strategic business unit. Representatives from Risk Management interact with the senior leadership of each strategic business unit in order to identify and manage risks in the respective businesses. This approach is supported by comprehensive enterprise-wide reporting.

Group Governance Support for Subsidiaries



The Risk and Control Governance Framework sets out the structure and tone for the risk and control environment within the Bank. It states the allocation of authority and responsibilities from the Board level, Executive Management and staff, and documents how the Bank's Risk and Control Management Activities are structured. The Risk Appetite Statement (RAS), defined by management, and approved by the Board of Directors, is the cornerstone for the Bank's approach to risk management and guides all risk-taking activities.

Key assumptions on which the Risk and Control Governance Framework have been established are:

- Maintain sufficient capital relative to all material risks;
- The Bank's risk appetite, including supporting operating metrics for evaluation of risk profile against risk appetite, must be clearly defined and communicated and reflect the Bank's mission, vision and values; and
- Ensure the Bank's activities are consistent with the business strategy, risk appetite, values and policies approved by the Board.

The Bank's Risk Appetite Statement (RAS) defines how the bank will conduct business; it includes targets, limits and measures for evaluating performance and the bank's risk profile, primarily in the following areas: Credit Risk, Capital Risk, Operational Risk, Market Risk, Liquidity Risk and Regulatory Risk. It is the cornerstone of our approach to risk management and control, with the key element being that all material risks are considered (with both qualitative and quantitative elements used to define an acceptable risk level within the Bank's risk capacity). We manage risk and related balance sheet resources to achieve the metrics established in our RAS, with this process being evaluated on an ongoing basis.

The Bank's approach to risk management aligns with the three lines of defence model:

- 1st line of defence - defined as management control and risk owners, this is the Bank's Line of Businesses (LOBs) and corporate functions who are responsible for identifying and managing all risks associated with their activities;
- 2nd line of defence - this is the Bank's oversight functions which are responsible for independent oversight and the effective challenge of the group-wide risks inherent in the bank's business activities;
- 3rd line of defence - defined as an independent third party assessment, this function is performed by the Internal Audit Unit and provides an independent assessment of the design and operating effectiveness of the controls for the identification, measurement, monitoring and control of risks.

The following key principles guide the Bank's Risk Appetite:

- The approach to risk appetite should reflect leading industry practices and relevant regulatory guidance;
- The Bank's vision, mission and values as well as its strategy and objectives should be reflected in the risk appetite;
- The approach should engage both top down senior management and Board leadership and bottom up involvement of employees at all levels;
- Risk appetite considerations should be embedded in both strategic and day-to-day decisions and supported by a reinforced risk culture;
- The approach should facilitate control over risk taking in the pursuit of business objectives and strategic goals; and
- The approach should be forward looking and enable adaptation to changing business and market conditions; it should also consider the potential impacts of stressed conditions.

Measures to ensure the Bank's activities are aligned with its risk appetite and the desired risk culture is achieved:

- Setting the appropriate "tone at the top" by clearly communicating its risk appetite and expected behaviors with respect to risk taking including risk identification, measurement, monitoring and control activities across the organisation;
- Apply the three lines of defence model to the management of risks;
- Require that risk appetite be given due consideration in key decisions in avoiding business activities that are not aligned with the risk appetite, the Bank's values or that do not provide an appropriate balance of risk and reward; and in assessing business opportunities, including new business/ segments/markets and acquisitions;
- Integrate risk appetite with strategic, financial and capital plans to ensure they are aligned;
- Promote shared accountability for risk identification, management and mitigation, where all employees feel responsible for identification and proactive management of risks;
- Cultivate an environment of transparency, open communication and robust discussions of risk, including enabling challenges of the effectiveness of risk mitigation strategies and proactive identification and discussions of negative risk trends;
- Regularly measure and monitor its risk profile to ensure compliance with the risk appetite targets and limits;
- Identify behaviors that are and are not aligned with risk appetite and reinforce appropriate behaviors, including linking into performance management, compensation programs and assessments that give appropriate consideration to the alignment of risk taking; and

- Conduct Risk Appetite training for all employees as part of the annual Corporate Mandatory Testing and Training (CMTT) module.

The Bank's risk and control systems are designed to ensure the achievement of three categories of objectives:

- **Effective Operations** - The operations of the Bank are effective in meeting its strategic objectives;
- **Reliable Reporting** - The financial reports provided to shareholders and other external stakeholders are accurate and reliable in all material respects; and
- **Regulatory Compliance** - The conduct and actions of the bank's Board of Directors, executives, employees and contingent workers comply with all applicable laws and regulations.

The key departments involved in the risk management process include;

- **Corporate Credit Risk Management** - Responsible for sanctioning Corporate Credit and Contingent Credit Facilities lines, and exposures relative to trading and investment securities as well as hedging activities, in accordance with delegated limits. Sanctioning includes confirming the risk grade for each borrower/counterparty; overseeing the credit portfolio quality to ensure it is in line with risk appetite, including metrics established to control credit risk
- **Personal Credit Services** - Responsible for sanctioning Retail and Business Banking, Wealth loans, revolving credit lines other credit and contingent credit facilities, in accordance with delegated limits; and overseeing the credit portfolio quality, to ensure it is in line with the Bank's risk appetite, including metrics established to control credit risk.
- **Special Loans Unit** - Responsible for direct management of non-performing loans primarily in the Business/Corporate/Wholesale Banking segment, as well as effective management (remediation and recovery) of designated higher risk loans, originated in the Corporate segment.
- **Property Sector** - Responsible for monitoring all aspects of the residential property and commercial/non-residential property markets for all the countries within the Bank's regional footprint.
- **Client Credit Management** - Responsible for effective management (remediation and recovery) of Retail, International Banking and Private Wealth delinquent as well as non-performing loans in these segments and Business Banking.
- **Operational Risk** - Responsible for ownership, management and maintenance of the following enterprise-wide operational risk assessment programmes:
 - Operational Risk Profiles;
 - Risk and Control Quarterly Assertion Process;
 - Change Initiatives Risk Assessment Process;
 - Management Key Control Testing Programme;
 - Deficiency Management;
 - Operational Loss Management; and
 - Corporate Insurance Programme.

In addition, the team performs second line of defence responsibilities, relationship based advice and guidance to all Line of Business (LOBs).

- **Compliance Unit** - responsible for establishing and maintaining control processes to ensure compliance with AML/ATF regulations and legislations, regulatory compliance framework as well as governance of insider trading, anti-bribery and anti-corruption, whistleblower and privacy and data protection.
- **Regulatory Affairs** - responsible for maintaining the primary relationship with the Regulators, as well as act as the subject matter expert on all regulatory compliance activities. The unit partners with the business leaders throughout the various business functions to ensure full compliance with all Risk and regulatory requirements.
- **Risk Management Services** - Responsible for the following;
 - **Market Risk Management** - This Team assumes enhancement and administering of the Bank's market risk policies, measurement, monitoring and controls, as well as, the application of the middle office procedures and independent controls over the activities of the Bank's trading rooms, including foreign exchange (forex) & derivatives sales (FDS) and treasury.
 - **Risk Reporting** - This includes the credit risk provisioning process, inclusive of accurate calculations and update of risk management models, and provision of key management information.
 - **Risk Policy & Projects, Risk Management** - This includes that the Bank's policies are fit for purpose and are socialized, as well as the efficient and effective operation of the Risk Management Unit by managing the following business function pillars namely Financial and Expense Management; Strategic Risk Project Management; Communication; Risk Human Resource Management.

Risk culture dissemination channels

Annually, the Risk team will work with the various business unit heads as well as other key stakeholders across the Bank to determine the appropriate level of risk (metric) that can be accepted, taking into account the following;

- The current macro-environment
- Historical performance
- Industry best practices
- The Bank's strategic plans/objectives
- Any other relevant qualitative factors

After the appropriate metrics have been prepared, the Risk Appetite Statement is submitted to the Board for approval.

Quarterly, the actual results are submitted to the Board in conjunction with the metrics, highlighting breaches and corrective measures.

Risk Reporting Process

On a quarterly basis the Board is appraised of all risks that currently affect the Bank as well as any potential emerging risks in the Risk Committee (RC) Meeting. The Risk Committee reviews the Bank's RAS, Investment Lending Authority, loan loss provisioning, investments, Non-Performing Loans (NPLs), Early Warning Lists (EWLs), concentrations by country and product, credits in excess of the Credit Committee Limit, stress scenarios, market risk limits, liquidity horizon and structural liquidity ratios as well as the Capital Plan.

Senior Management is updated more frequently through the use of the following;

- Monthly Asset Liability Management Teams meeting - where Liquidity and Market Risk targets are tracked
- Monthly preparation of Management Information decks
- Monthly Country Management Committee (CMC) meetings
- Monthly Executive Committee meetings

Risk Management Systems

As outlined above, the risks which the Bank faces are continuously measured against the approved metrics and reported to the Board on a quarterly basis. The scope and main features of the risk measurement systems include the Bank striving to be a relationship-oriented bank for the modern world with sound risk management practices creating enduring values for its stakeholders:

- Build a strong client focused culture;
- Have effective control environment to ensure sound risk management, supported by strong capital and funding positions;
- Deliver consistent, sustainable earnings over the long term, growing systematically where we have or can build competitive business and risk management capabilities.

This is supported by the nine guiding principles;

What we are doing:

- Maintaining a balance of risk and reward
- Sharing responsibility for risk management
- Making business decisions that are based on an understanding of risk
- Being customer centric; providing suitable services that are understood by our clients
- Using good judgement and common sense
- Enhancing governance and accountability
- Safeguarding the Bank's Reputation and brand
- Escalating issues on a timely basis to the appropriate risk, governance or control function
- Not following a tick the box mindset, when managing the client and risk

Risk Mitigation Strategies

As mentioned above, the Risk and Control Governance Framework sets out the structure and tone for the risk and control environment within the Bank, from the identification, management and reporting of risks.

Stress Testing Methodology

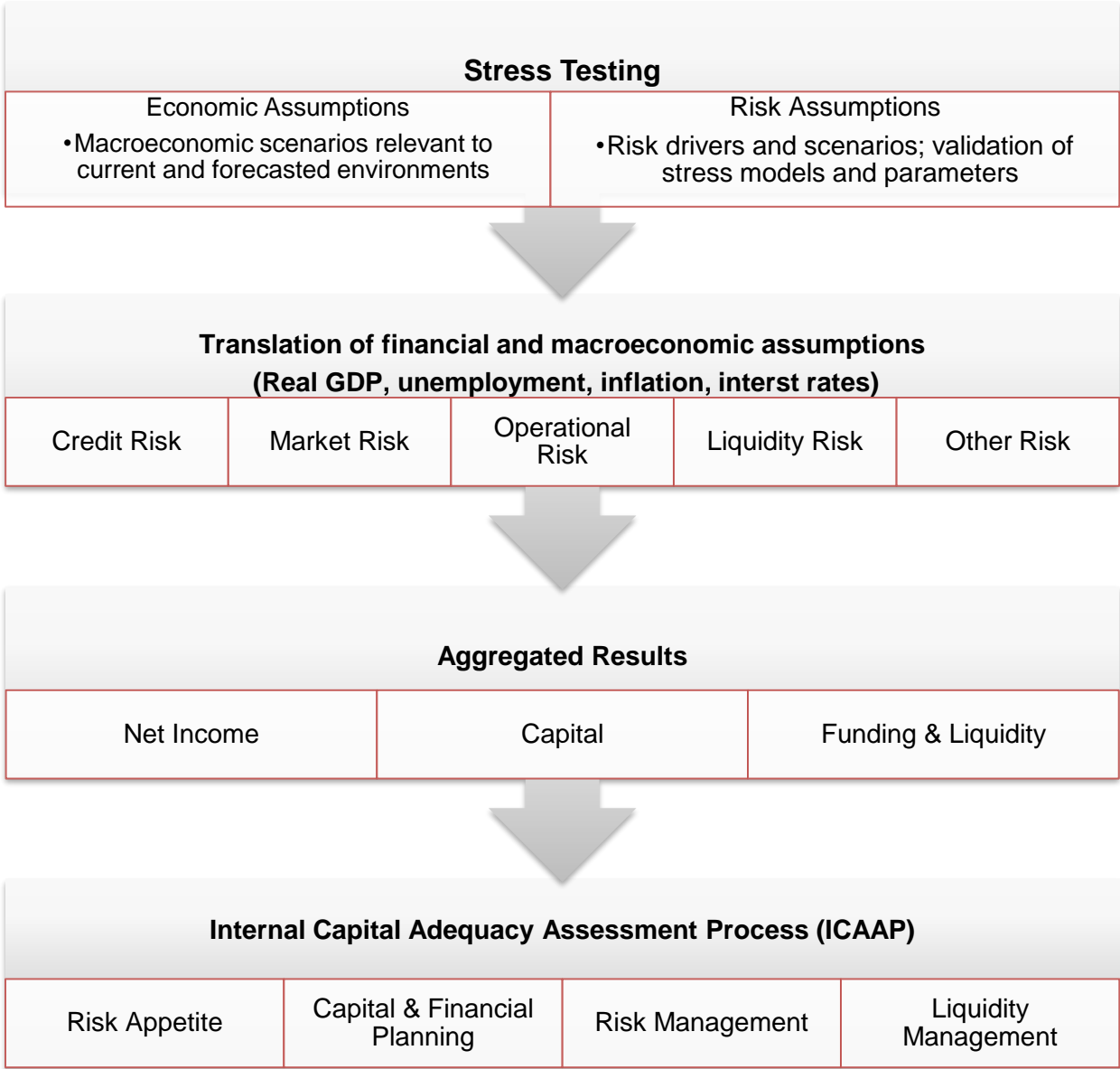
The Bank performs stress tests and scenario analyses to gain a better understanding of the significant risks the bank potentially faces under extreme conditions and to provide important input into the determination of related regulatory and economic capital requirements. Stress testing refers to shifting

the values of individual parameters that affect our financial position and determining the effect on the business. Scenario analysis refers to a wider range of parameters being varied at the same time.

Stress testing in the Bank covers credit, market, liquidity and financial/capital risks. Stress testing supplements the other risk and control management activities by providing an estimate of losses in the event of a particular scenario becoming a reality.

The Bank’s Probability of Default Models and the methodology applied are independently validated. In turn, the Bank developed enterprise-wide stress scenarios which are employed for the capital adequacy review. The stress testing models are developed by the Bank based on the premise of worsening economic conditions. The Stress Testing Model for the Bank is based on economic variables that we believe account for most of the loan loss variations in the Caribbean including the unemployment rate, GDP growth and inflation.

Stress Testing Model



2.2 OV1 - Overview of Risk Weighted Assets

The Risk Weighted Assets (RWA) are categorized under various risk frameworks and are calculated based on regulatory requirements.

Template OV1		a	b	c
US\$'000		RWA		Minimum capital requirements
		Oct-22	Jul-22	Oct-22
1	Credit risk (excluding counterparty credit risk) (CCR)	2,127,360	2,174,711	297,831
2	Securitisation exposures	-	-	-
3	Counterparty credit risk	6,498	3,368	910
4	Of which: current exposure method	6,498	3,368	910
5	Of which: standardized method	-	-	-
6	Market risk	15,994	15,938	2,239
7	Of which: Equity risk	-	-	-
8	Operational risk	246,346	246,346	34,488
9	Of which: Basic Indicator Approach	246,346	246,346	34,488
10	Of which: Standardised Approach	-	-	-
11	Of which: Alternative Standardised	-	-	-
12	Total (1+2+3+6+8)	2,396,198	2,440,363	335,468

Decrease in the Risk Weighted Assets for credit risk exposures was driven by lower balances held with other Banks and an increase in loan repayments.

3. Linkages between Financial Statements and Regulatory Exposures

3.1 LI1 - Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories

Template LI1

US\$'000

	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				Not subject to capital requirements or subject to deduction from capital
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	
Assets							
Cash and balances with Central Banks	119,043	118,543	118,543	-	-	92,446	-
Due from Banks	988,061	990,207	990,207	-	-	181,425	-
Derivative financial instruments	9,751	9,751	9,751	-	-	-	-
Other assets	20,015	35,510	35,510	-	-	886	-
Taxation recoverable	128	128	128	-	-	128	-
Securities	539,435	537,192	537,192	-	-	-	-
Loans and advances to customers	2,215,212	2,233,831	2,233,831	-	-	157,917	-
Property and equipment	35,234	35,234	35,234	-	-	7,720	-
Deferred tax assets	700	700	700	-	-	700	-
Intangible assets	50,436	50,436	-	-	-	-	50,436
Total assets	3,978,015	4,011,532	3,961,096	-	-	441,222	50,436
Liabilities							
Derivative financial instruments	7,914	7,914	-	-	-	-	7,914
Customer deposits	3,413,384	3,403,339	-	-	-	-	3,403,339
Other liabilities	27,023	70,585	-	-	-	-	70,585
Deferred tax liabilities	604	604	-	-	-	-	604
Retirement benefit obligations	3,155	3,155	-	-	-	-	3,155
Total liabilities	3,452,080	3,485,597	-	-	-	-	3,485,597

The Assets are subject to multiple risk framework for example foreign currency loans will fall under the credit risk and market risk frameworks.

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

Provides information on the main sources of differences (other than due to different scopes of consolidation) between the financial statements' carrying value amounts and the exposure amounts used for regulatory purposes.

Template LI2
US\$'000

		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)	4,011,532	4,011,532	-	-	441,222
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	4,011,532	4,011,532	-	-	441,222
4	Off-balance sheet amounts	189,037	189,037	-	-	-
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	4,200,569	4,200,569	-	-	441,222

3.3 LIA - Explanations of differences between accounting and regulatory exposure amounts

The difference between the carrying values in columns (a) and (b) in section 3.1 above are due to reclassifications and differences in the presentation of certain assets and liabilities on the financial statements and the prudential returns.

Differences include, but are not limited to:

- Reclassification of accrued interest receivable to other assets for regulatory reporting purposes
- Assets with negative balances are reclassified to liabilities.

4. Capital

4.1 CAP - Details on the Bank's Capital, including specific Capital Instruments

The top corporate entity to which these rules and guidelines apply is FirstCaribbean International Bank (Cayman) Limited

Entities within the Bank include the following, which are all fully consolidated:

- ***FirstCaribbean International Bank (Cayman) Limited:*** a wholly owned subsidiary of FirstCaribbean International Bank Limited (“the Parent”), a company incorporated in Barbados. The major shareholder and ultimate parent of the Parent is CIBC, a company incorporated in Canada.

The entity holds a Category “A” Banking Licence issued under the Banks and Trust Companies Act of the Cayman Islands, an Insurance Agent’s Licence under the Insurance Law, and a Securities Investment Business Licence issued under the Securities Investment Business Act (Revised). The entity is principally engaged in the provision of full retail and corporate banking services in the following markets: Cayman Islands, Curacao, St. Maarten and the British Virgin Islands. The entity also offers Investment Advisory services in Curacao and Cayman.

- ***FirstCaribbean International Bank (Curacao) N.V.:*** a wholly owned subsidiary of FirstCaribbean International Bank (Cayman) Limited

The entity holds a Banking License issued under the National Ordinance on the Supervision of Banking and Credit Institutions. The entity is principally engaged in the provision of offshore corporate banking, wealth management and investment advisory services.

- ***FirstCaribbean International Finance Corporation (Netherlands Antilles) Limited:*** a wholly owned subsidiary of FirstCaribbean International Bank (Cayman) Limited.

The entity is a special purpose entity used to provide intercompany United States Dollar (“USD”) funding between the branches of the Bank.

- ***FirstCaribbean International Bank (Cayman) Nominees Company Limited:*** a wholly owned subsidiary of FirstCaribbean International Bank (Cayman) Limited.

The entity acts as a custodian of securities in its capacity as nominee agent on behalf of the parent company.

There are no differences in the basis of consolidation applied for accounting and regulatory purposes.

There are no restriction or other major impediments, on transfer of funds or regulatory capital, subject to applicable regulatory requirements.

The profile consists of standard equity components (Paid up Capital, Reserves and Retained Earnings) adjusted by components of the balance sheet as called for by prevailing regulatory guidelines. There are no complex or hybrid capital instruments in the Bank’s capital profile.

Overall, the Bank seeks to employ a strong and efficient capital structure while optimizing return on equity profile and capital utilisation. The Bank's capital profile and related exposures are managed to ensure that prescribed regulatory requirements are met at all times including during periods of mild and severe economic stress based on internal models.

The Bank utilises a formal Internal Capital Adequacy Assessment Process (ICAAP) in assessing its capital needs annually. This process incorporates projected earnings and financial results over a three year planning horizon, assessment of all relevant key risks and stress testing to ensure the adequacy of the capital profile to satisfy business growth objectives, unplanned losses if any and minimum regulatory requirements.

Capital utilisation is continually monitored and evaluated to ensure that strategic business objectives and regulatory requirements are satisfied. Capital profiles and risk exposures are routinely analysed, measured and reported internally within the organisation with focused discussions held monthly at formal management meetings. Capital metrics are reported to the Board of Directors quarterly.

The Bank is subject to a Minimum Capital Requirement set out in the Cayman Islands Monetary Authority's Rules, Conditions and Guidelines on Minimum Capital Requirements.. The Minimum Capital Requirement principally comprises of Credit Risk, Market Risk and Operational Risk requirements.

The table below highlights the composition of capital, minimum capital required and capital adequacy ratios.

Capital Composition

US\$'000	FirstCaribbean International Bank (Cayman) Limited - Consolidated			FirstCaribbean International Bank (Cayman) Limited - Unconsolidated			FirstCaribbean International Bank (Curacao) N.V.		
	Oct-22	Jul-22	Apr-22	Oct-22	Jul-22	Apr-22	Oct-22	Jul-22	Apr-22
Tier 1 Capital									
Paid up capital	294,790	294,790	294,790	294,790	294,790	294,790	8,000	8,000	8,000
Disclosed Reserves									
Share Premium	307,800	307,800	307,800	307,800	307,800	307,800	-	-	-
Retained Earnings	209,458	214,537	219,537	128,649	133,727	138,727	101,227	110,984	107,552
General Reserves	(365,397)	(365,397)	(365,397)	(365,397)	(365,397)	(365,397)	21,971	21,971	21,971
Contributed surplus	16,999	16,999	16,999	16,999	16,999	16,999	-	-	-
Total Tier 1 Capital	463,650	468,729	473,729	382,841	387,919	392,919	131,198	140,955	137,523
Deductions from Tier 1 Capital									
Goodwill	50,436	50,436	50,436	50,436	50,436	50,436	-	-	-
50/50 pro rata basis deduction	-	-	-	4,000	4,000	4,000	-	-	-
Total Deductions from Tier 1 Capital	50,436	50,436	50,436	54,436	54,436	54,436	-	-	-
Net Tier 1 Capital	413,214	418,293	423,293	328,405	333,483	338,483	131,198	140,955	137,523
Tier 2 Capital									
General Provisions	29,952	27,618	30,773	27,580	23,540	28,531	2,866	4,079	4,594
Asset Revaluation Reserve	(4,610)	(4,624)	(4,236)	(4,319)	(4,508)	(4,103)	(646)	(258)	-
Current year's earnings	70,128	50,969	33,592	96,449	67,665	46,406	-	-	-
Total Tier 2 Capital	95,470	73,963	60,129	119,710	86,697	70,834	2,220	3,821	4,594
Deduction from Tier 2 Capital									
50/50 pro rata basis deduction	-	-	-	4,000	4,000	4,000	-	-	-
Total Deductions from Tier 2 Capital	-	-	-	4,000	4,000	4,000	-	-	-
Net Tier 2 Capital	95,470	73,963	60,129	115,710	82,697	66,834	2,220	3,821	4,594
Available Capital Base	508,684	492,256	483,422	444,115	416,180	405,317	133,418	144,776	142,117

Minimum Capital Required

Credit Risk	297,831	304,460	307,393	297,386	303,111	305,795	21,658	22,539	26,550
Market Risk	2,239	2,231	2,245	2,239	2,148	2,245	4,568	4,695	5,158
Operational Risk	34,488	34,488	34,488	29,865	29,865	29,865	2,569	2,656	2,723
Total	334,558	341,179	344,126	329,490	335,124	337,905	28,795	29,890	34,431

Capital Adequacy Ratios

Tier I	17.2%	17.1%	17.2%	13.9%	13.9%	14.0%	36.5%	37.7%	32.0%
Total Tier I & II	21.2%	20.2%	19.6%	18.8%	17.4%	16.8%	37.1%	38.8%	33.0%

As seen in the table above the main driver for the increase in the available capital base was the profits earned during the year. The current year's earnings for FirstCaribbean International Bank (Curacao) N.V. are included in with the Retained Earnings in Tier 1 as required under Central Bank of Curacao & St Maarten's Basel II/III guidelines.

5. Credit Risk

5.1 CRA - Credit Risk

Effective management of credit risk is critical to the Bank's success as credit losses are a key driver of bank profitability and earnings volatility. Credit risk arises from the Bank's lending, investment, trading and hedging activities. Credit risk is defined as "the risk of financial loss due to a borrower or counterparty failing to meet its contractual obligations in accordance with terms." Credit risk is a fundamental part of the Bank's business and it is one of the core aspects of our business operations.

The Bank's credit risk management strategy is a function of our risk appetite and overall business strategy. Risk appetite and business strategy are approved by the Bank's Board.

Credit risk management starts with the establishment of sound credit risk management principles and an effective framework for managing credit risk, including an appropriate organisational structure and documented policies, standards and guidelines, processes, procedures and controls.

The purpose of the Credit Risk Management Policy ("this Policy") is to set out the Bank's over-arching, enterprise-wide principles and requirements for credit risk management that form the foundation for segment-specific policies, standards and guidelines, processes, procedures and controls all in alignment with the Bank's Risk Appetite Statement (RAS) and Risk and Control Governance Framework, and also to comply with the respective laws and regulations in the jurisdictions in which the Bank operates.

This Policy and the supporting standards, guidelines, processes, procedures and limits are intended to:

- Promote a disciplined approach to risk taking, and to ensure that we manage credit risk in a manner that is consistent with our approved risk appetite and business strategy;
- Facilitate sound decision making by all those involved in originating, adjudicating and monitoring credit risk;
- Prevent adverse concentrations of credit risk on a portfolio basis; and
- Comply with the relevant laws and regulations in the jurisdictions in which the bank operates.

Credit risk limits are established for all loans (mortgages, personal, business & sovereign) for the purposes of diversification and managing concentration. Limits are also established for individual borrowers, groups of related borrowers, industry sectors, individual countries and geographic regions and also for products and portfolios. Such risks are monitored on a revolving basis and the limits are subject to an annual or more frequent review. The exposure to any one counterparty including banks and brokers is further restricted by sub-limits, which include exposures not recognised in the consolidated statement of financial position, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral including corporate and personal guarantees.

The criteria and approach used for defining the credit risk management policy and for setting credit risk limits include:

- applicable regulatory guidance and banking best practices,

- risk ratings, scores,
- risk appetite statement and
- subject matter expertise (informed by knowledge, expertise and experience).

In managing credit risk the Bank is guided by its Board approved Risk Appetite Statement and metrics particularly its regulatory, strategic, credit risk metrics.

The credit risk management process contains measurement, monitoring and control of credit risk by credit process, necessary to deliver against the Bank's lending principles and is structured as follows;

- Origination - All credit requests require a documented credit application that identifies and assesses the level of credit risk associated with the proposed transaction. Each individual credit exposure must be risk rated, manually assessed and/or scored using the Bank's approved methodology. An appropriate and risk-based level of due diligence and risk assessment is required for each transaction. All risk rated business and government loans require a documented assessment of known or potential environmental risk, in compliance with the Credit and Investment Standards and Guidelines for Corporate and Investment Banking.
- Adjudication - New exposures are only be approved where the risk is considered acceptable. Adjudication criteria are the sole accountability of Risk Management. Methodologies for risk rating and for scoring must be independently approved. Objective and systematic reviews including backtesting, population distribution and stability, factor analysis and performance monitoring of credit scoring and rating systems will be performed by Risk Reporting & Analytics Unit. Documented standards must clearly set out situations where adjudicators may override an automated scoring or rating system to authorize exceptions to the standard approach. These rules must include the requirement to identify responsible employees and to separately track the performance of exceptions.
- Account Monitoring - All credit exposures must be monitored on an ongoing basis to ensure compliance with the terms and conditions of the credit, including limits and repayment terms, and to permit the early identification of deteriorating accounts. Account monitoring systems must allow for monitoring of current exposures against authorized limits on a daily basis. Scored exposures are tracked regularly, at least annually, and performance factors such as delinquency and utilisation are used to identify specific treatments such as collection activities. When it is necessary to extend the terms of an existing credit to assist a borrower through a period of temporary financial difficulty, proper credit risk management processes will be followed. Standards, guidelines and procedures documents for each portfolio must set out requirements for:
 - A reassessment of the borrower's capacity to repay;
 - Approval authorities and reporting; and
 - Minimum tenure of the account, delinquency level and the number of re-agings per facility.

Default and impairment must be recognized in accordance with the requirements of the Provisioning and Write-off Policy.

- Collateral Management - Collateral pledged in support of credit facilities is managed to ensure that its risk mitigation effects can be fully recognized and exercised. To that end, it is the Bank's policy to have:

- Documented policies and standards regarding collateral management, including valuation, re-valuation and verification requirements;
- Standardised processes, methods and controls to ensure consistent application of collateral management requirements including legal certainty requirements;
- Data collection and IT systems that capture key information regarding the taking, management, valuation, maintenance and realization of collateral.

To accurately quantify the risk involved in a secured transaction, the valuation of collateral must take into account all relevant factors including, but not limited to type, quality, liquidity, location, volatility, any correlation between the collateral value and the borrower or counterparty's performance and prior charges or liens.

- Portfolio Management - At a bank-wide level, credit exposures are managed to promote alignment to the Risk Appetite Statement established by the Bank, maintain the target business mix and ensure that there are no undue concentrations of risk. These activities are key to the achievement of the Bank's strategic objectives, such as reductions in earnings volatility.

Portfolio quality measures, including delinquency, score band and risk rating distribution, economic losses and capital and default levels, are used to track the performance of credit portfolios throughout the year against targets established via annual planning processes.

Portfolio management requirements also include:

- Monitoring compliance with credit portfolio limits;
 - Reviewing changes in the credit risk segmentation of credit portfolios to identify adverse trends such as undue concentrations, higher default probabilities, increased volatility of expected and unexpected losses and shifts in product mix;
 - Monitoring industry, demographic and economic trends to proactively identify risks/opportunities and incorporate into credit risk management activities;
 - Identifying and monitoring for potential events that could impact the level of credit risk of specific portfolios and trigger a reassessment of the portfolio as necessary; and
 - Stress testing portfolios to determine expected impact of extreme but plausible events and analyse the impact of extreme economic events.
- Monitoring/Oversight Mechanism - Risk Committee assists the Board in its review and monitoring of credit and other risks of the Bank including review of management reports on compliance, or material deficiencies of policies relating to the management of credit risks. The RC also provides oversight by its annual review and approval of the Group's Investment and Lending Authority.

Segment Heads and Heads of Line of Business (LOBs) operationalize the credit risk management principles and requirements articulated herein by documenting and implementing segment-specific standards and procedures governing credit activities along with appropriate oversight and controls to ensure adherence.

The Chief Risk Officer (CRO) oversees and evaluates proposed changes to credit risk policies and standards and/or risk rating systems to determine potential impacts, including risks and benefits. Changes must be approved by the officer(s) or governance body with the appropriate authority. The CRO also develops reports, with an appropriate distribution protocol, in order to facilitate delivery against the Portfolio Management requirements documented herein.

Risk Management's Operational Risk Unit provides advice and assistance to management on the design, implementation, and maintenance of internal controls based on specialist knowledge of the current state of internal controls, risk management and governance processes as it relates to credit risk management. In executing against its independent mandate approved by the Board, Internal Audit regularly conducts risk-based audits. As part of these audits, Internal Audit assesses and opines on the overall effectiveness of management's control environment within the scope of the engagement, including testing management controls in executing and monitoring compliance to this policy.

Country Management Committee is apprised of the credit risk exposure monthly through Management Information presentations which outline the portfolio, current risk areas as well as potential risk from an exposure, industry, sovereign or concentration level. The Board is made aware of all key potential risks on a quarterly basis.

5.2 CR1 - Credit Quality of Assets

Provides information on the credit quality of the bank's (On and Off Balance Sheet) Assets. Defaulted assets are defined in section 5.4 below.

Template CR1

US\$'000

Item	Gross carrying values of:		Allowances/im pairments (c)	Net values (a+b-c) (d)
	Defaulted exposures (a)	Non-defaulted exposures (b)		
1 Loans	33,190	2,232,872	37,368	2,228,694
2 Debt Securities	-	541,252	1,817	539,435
3 Off-balance sheet exposures	-	541,016	3,717	537,299
4 Total	33,190	3,315,140	42,902	3,305,428

5.3 CR2 - Changes in Stock of Defaulted Loans and Debt Securities

Provides information on the changes in the bank's stock of defaulted exposures, the flows between non-defaulted and defaulted exposure categories and reductions in the stock of defaulted exposures due to write-offs.

Template CR2

US\$'000

Items	Changes During The Period (a)
1 Defaulted loans and debt securities at end of the previous reporting period	32,359
2 Loans and debt securities that have defaulted since the last reporting period	3,707
3 Returned to non-defaulted status	(549)
4 Amounts written off	(3,809)
5 Other changes	1,482
6 Defaulted loans and debt securities at end of the reporting period	33,190

5.4 CRB - Additional disclosure related to the Credit Quality of Assets

The scope and definition of "past due" and "impaired exposures" used for accounting and regulatory purposes are defined as follows;

- Past Due - the Bank considers a financial instrument past due, if contractually payment is due and none is made. Instruments will remain performing from 1-89 days past due unless other factors determined they should be impaired.
- Impaired Exposure - The Bank considers a financial instrument defaulted/impaired and therefore credit-impaired for Expected Credit Loss (ECL) calculations in all cases when the borrower becomes 90 days past due on its contractual payments. As it relates to debt securities, when one of the rating agencies (Moody's & S&P) downgrades the debt securities to default status or the counterparty declares their inability to repay (self-identified default).

Past due exposure (greater than 90 days) that are not considered to be impaired amounted to \$330K as at October 31, 2022. These exposures are credit cards which go up to 180 days past due. All credit cards are placed in stage 1 and are written off after 180 days. However, to be prudent, an overlay for credit cards is included in the quarterly ECL.

The Bank uses several quantitative and qualitative measures to determine impairment of a financial instrument, but it is all governed under IFRS9. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the counterparty indicating default or near-default;
- The counterparty requesting emergency funding from the Bank;
- The counterparty having past due liabilities to public creditors or employees;
- A material decrease in the counterparty's turnover or the loss of a major customer;
- A covenant breach not waived by the Bank; and
- The counterparty (or any legal entity within the counterparty's group) filing for bankruptcy application/protection.

Expected Credit Loss 3 Stages of Classification

Stage 1 (Performing): Low credit risk or no significant increase in credit risk since initial recognition (12-month ECL).

Stage 2 (Under Performing): Significant increase in credit risk since initial recognition (Lifetime ECL).

Stage 3 (Non-Performing): Default (Lifetime ECL).

Restructured Exposure - A loan is considered to have been restructured when the Bank grants a concession, for economic or legal reasons related to the borrower's financial difficulty, that it would not otherwise consider. Concessions may include:

- A reduced interest rate;
- Uncompensated deferral or extension of principal repayments or interest payments;
- Forgiveness of a portion of principal or previously accrued interest;
- Acceptance of assets other than cash in settlement of a large amount of the loan than is represented by the estimated net proceeds from sale of the assets;
- Other concessions which would not be considered in the absence of the weakened condition of the borrower.

When a performing loan is restructured, the recorded investment in the loan must be reduced as of the date of restructuring to the amount of the net cash flows receivable under the modified terms,

discounted at the loan's original effective interest rate. The reduction, if any, in the recorded impairment should be recognized as a charge for loan impairment in the statement of income in the period in which the loan is restructured.

Forborne Exposure - The Bank considers an exposure forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions.

It is the Bank's policy to monitor forborne exposures to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

When the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk. The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum probation period according to the regulatory guidance. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing
- The probation period has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due

Credit exposures by Maturity

US\$'000

	0-3 months	3-12 months	1-5 years	Over 5 years	Total
Loans	379,667	93,264	639,142	1,153,989	2,266,062
Debt Securities	139,468	141,952	238,890	19,125	539,435
Off-balance sheet exposures	135,592	50,396	84,738	270,290	541,016
Total	654,727	285,612	962,770	1,443,404	3,346,513

Credit exposures by Geographical Area

US\$'000

	Cayman	BVI	St Maarten	Curacao	Total
Loans	1,461,706	197,142	225,357	381,857	2,266,062
Debt Securities	437,333	-	-	102,102	539,435
Off-Balance Sheet Exposures	407,254	51,624	15,796	66,342	541,016
Total	2,306,293	248,766	241,153	550,301	3,346,513

Credit exposures by Sector Groups

US\$'000

Sectors	Loans	Debt Securities	Off-balance sheet exposures	Total
Sovereigns and Central Banks	238,880	132,239	27,558	398,677
Public Sector Entities (PSEs)	290,420	122,757	73,305	486,482
Multilateral Development Banks (MDBs)	-	220,242	-	220,242
Other Banks	1	43,878	-	43,879
Industrial & commercial private sector	963,216	20,319	360,455	1,343,990
Financial intermediaries & auxiliaries	32,173	-	-	32,173
Households	717,153	-	79,698	796,851
Other loans and advances	24,219	-	-	24,219
Total	2,266,062	539,435	541,016	3,346,513

Impaired Loans by Geographical Area and Industry

US\$'000

Sector	Impaired Loans					Provisions for Impairments
	Cayman	BVI	St Maarten	Curacao	Total	
Agriculture	130	-	-	-	130	-
Construction	60	2	4,892	-	4,954	1,237
Distribution	-	-	1,148	222	1,370	1,029
Electricity, Gas and Water Supply	115	-	-	54	169	58
Fishing	-	-	45	-	45	7
Hotels and Restaurants	-	1	293	-	294	294
Individuals and Individual Trusts	4,991	2,084	6,708	4,730	18,513	7,440
Other Financial Corporations	2	-	-	-	2	2
Real Estate, Renting and Other Business Activities	1,207	356	5,844	306	7,713	977
Total	6,505	2,443	18,930	5,312	33,190	11,044

Aging of Past Due Loans

US\$'000

Country	1-30 Days	31-60 Days	61-90 Days	Total
Cayman	9,421	15,343	10,859	35,623
BVI	2,716	1,469	3,711	7,896
St Maarten	10,389	15,009	8,620	34,018
Curacao	966	1,511	299	2,776
Total	23,492	33,332	23,489	80,313

Included in the loan portfolio are US\$35.8MM restructured loans, of which US\$35.2MM are unimpaired and US\$0.6MM are impaired.

5.5 CRC - Credit Risk Mitigation (CRM) Techniques

The Bank does not make use of on and off balance sheet netting, but, will ensure to hold adequate collateral for credit exposures.

Collateral Evaluation and Management

Collateral pledged in support of credit facilities is managed to ensure that its risk mitigation effects can be fully recognized and exercised and it is the Bank's policy to have:

- Documented policies and standards regarding collateral management, including valuation, re-valuation and verification requirements;
- Standardised processes, methods and controls to ensure consistent application of collateral management requirements including legal certainty requirements;
- Data collection and IT systems that capture key information regarding the taking, management, valuation, maintenance and realization of collateral.

To accurately quantify the risk involved in a secured transaction, the valuation of collateral must take into account all relevant factors including, but not limited to type, quality, liquidity, location, volatility, any correlation between the collateral value and the borrower or counterparty's performance and prior charges or liens.

Both the initial valuation of collateral and further inspections and verifications are documented in full. Only the Bank approved appraising entities and methodologies are used in assessing the value of collateral. These may vary depending on the estimated value and the risk profile of the collateral. Rules regarding real estate appraisals are captured in the Property Sector Policy Commercial Real Estate (PSP-CRE) and the Property Sector Policy Residential Real Estate (PSP-RRE).

A risk-based approach to determine the frequency and method to inspect and verify the collateral and its value may be used. Characteristics of the underlying asset, such as volatility and location, are considered in establishing segment specific requirements.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances to customers are:

- Mortgages over residential properties
- Charges over business assets such as premises, inventory, accounts receivable and equipment
- Charges over financial instruments such as debt securities and equities

In certain circumstances the Bank may use third-party guarantees to mitigate risk. The Bank also obtain insurance to reduce the risk in our real estate secured lending portfolios. The maximum guaranteed amount will cover in accordance with the loan documentation. The performance of the entity, the backing from guarantor and the preparation and review of the Guarantee document provides the overall comfort with holding this type collateral.

The credit risk management policies include requirements relating to collateral valuation and management, including verification requirements and legal certainty. Valuations are updated

periodically depending upon the nature of the collateral. Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its periodic review of loan accounts in arrears. Policies are in place to monitor the existence of undesirable concentration in the collateral supporting the credit exposure. As at October 31, 2022, 90% of stage 3 impaired loans were either fully or partially collateralised (2021: 87%).

5.6 CR3 - Credit Risk Mitigation Techniques

Disclose the extent of use of Credit Risk Mitigation (CRM) techniques

Template CR3

US\$'000

	Item	Exposures unsecured: carrying amount (a)	Exposures secured by collateral (b)	Exposures secured by collateral, of which: secured amount (c)	Exposures secured by financial guarantees (d)	Exposures secured by financial guarantees, of which: secured amount (e)	Exposures secured by credit derivatives (f)	Exposures secured by credit derivatives, of which: secured amount (g)
1	Loans	210,831	2,017,863	2,017,863	803,459	803,459	-	-
2	Debt securities	539,435	-	-	-	-	-	-
3	Total	750,266	2,017,863	2,017,863	803,459	803,459	-	-
4	Of which defaulted	3,276	29,914	29,914	5,893	5,678	-	-

5.7 CRD - Bank's use of External Credit Ratings under the Standardised Approach for Credit Risk

Currently the Bank uses Fitch Rating Inc., Moody's Corporation and Standard and Poor's (S&P Global) as its External Credit assessment institutions (ECAIs). These rating agencies continue to provide frequent updates on the credit worthiness of current and potential exposures. There have been no changes year over year of the Bank's ECAIs.

Fitch Rating Inc., Moody's Corporation and Standard and Poor's are used for the following;

- Sovereign Loans
- Multi-Development Banks investments
- Debt Securities
- Treasury Bills
- Derivatives

The Bank implements the following process:

- The rating of an asset is obtained from the external credit assessment agencies and this rating is aligned to an internal rating which corresponds to similar type of risks.
- The Relationship Manager along with the front-line onboarding team evaluates this rating, with the current circumstances of the counterparty and provide a similar rating or adjusted rating.

- Credit Risk Management department independently reviews the rating proposed by the front line and re-assesses, to confirm or adjust the rating accordingly based on current variables.
- All similar facilities are then provided a similar rating.

5.8 CR4 - Standardised Approach - Credit Risk Exposure and CRM effects

This disclosure illustrates the effect of CRM (comprehensive and simple approach) on standardised approach capital requirements' calculations. The risk weighted assets (RWA) density provides a synthetic metric on riskiness of each portfolio. The RWA reported reflects the reallocation of the risk due to the credit risk mitigations that were applied.

Template CR4
US\$'000

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA Density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	
1	Sovereigns and their central banks	471,639	-	471,639	-	32,883	7%
2	Non-central government public sector entities	415,817	-	415,817	-	277,370	67%
3	Multilateral development banks	223,309	-	223,309	-	-	0%
4	Banks	1,033,218	-	1,033,218	-	219,813	21%
5	Securities firms	-	-	-	-	-	0%
6	Corporates	871,166	483,004	871,166	183,165	1,049,826	100%
7	Regulatory retail portfolios	103,682	58,012	103,682	5,872	79,667	73%
8	Secured by residential property	704,646	-	704,646	-	352,323	50%
9	Secured by commercial real estate	44,534	-	44,534	-	44,534	100%
10	Past-due exposures	20,770	-	20,770	-	22,896	110%
11	Higher-risk categories	-	-	-	-	-	0%
12	Other assets	122,751	-	122,751	-	48,048	39%
13	Total	4,011,532	541,016	4,011,532	189,037	2,127,360	51%

There was a decrease in total exposures and by extension the RWA during the period of April 2022 and October 2022 due to reduction in balances held with other banks and repayments on the loan portfolio.

There was no major variation in the RWA density when compared to the previous period.

5.9 CR5: Standardised Approach - Exposures by Asset Class and Risk

Provides Information on the breakdown of credit risk exposures under the standardised approach by asset class and risk weight (corresponding to the riskiness attributed to the exposure according to the standardised approach).

Template CR5
US\$'000

	Asset classes	Risk weight*									Total credit exposure amount (post CCF and post-CRM)
		a	b	c	d	e	f	g	h	i	
		0%	10%	20%	35%	50%	75%	100%	150%	Others	
1	Sovereigns and their Central Banks	408,120	-	8,584	-	47,537	-	7,398	-	-	471,639
2	Non-Central Government Public Sector Entities	60,372	-	97,595	-	-	-	257,850	-	-	415,817
3	Multilateral Development Banks	223,309	-	-	-	-	-	-	-	-	223,309
4	Banks	-	-	989,320	-	43,898	-	-	-	-	1,033,218
5	Securities Firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	4,484	-	28	-	-	-	1,049,819	-	-	1,054,331
7	Regulatory Retail Portfolios	3,331	-	-	-	-	106,223	-	-	-	109,554
8	Secured by Residential Property	-	-	-	-	704,646	-	-	-	-	704,646
9	Secured by Commercial Real Estate	-	-	-	-	-	-	44,534	-	-	44,534
10	Past-due Loans	-	-	-	-	-	-	16,516	4,254	-	20,770
11	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
12	Other Assets	72,212	-	3,113	-	-	-	47,426	-	-	122,751
13	Total	771,828	-	1,098,640	-	796,081	106,223	1,423,543	4,254	-	4,200,569

Decrease in total exposures during the period of April 2022 and October 2022 was due to reduction in balances held with other banks and repayments on the loan portfolio.

6. Counterparty Credit Risk

6.1 CCRA - Counterparty Credit Risk (CCR)

The main objective of risk management as it relates to Counterparty Credit Risk is to ensure the Bank is protected from any losses. In cases where this is not possible, we seek to minimize the impact as much as possible.

The Risk Management objectives:

- Maintain a disciplined approach to risk taking while managing risk in a manner consistent with approved risk appetite and business strategy;
- Facilitate sound decision making by all those involved in originating, adjudicating and monitoring;
- Prevent adverse concentrations of risk on a portfolio basis; and
- Comply with the relevant laws and regulations.

The Bank does not have a CCR specific policy, however, there are policies which are related to counterparty credit risk. These policies include:

- Credit Risk Management Policy
- Investment and Lending Authority Resolution
- Delegated Lending Authority (DLA) Standard
- Residential Mortgage Underwriting Policy
- Client Credit Management Guide
- Credit and Investment Banking Standards and Guidelines for Corporate Investment Banking
- Country Risk Policy
- High Risk Guide
- Industry Concentration Policy
- Property Sector Policy Commercial Real Estate (PSP-CRE)
- Property Sector Policy Residential Real Estate (PSP-RRE)
- Single Name/Common Risk Policy
- Reputational and Legal Risks Policy
- Pledging Policy
- Investment Policy

Methods used to assign operating limits for counterparty exposures:

- The bank has in place a credit risk management process with well-defined roles and accountabilities for all key functions across the end-to-end process including origination, adjudication, and fulfillment and monitoring.
- Credit risk limits are assigned following completion of reasonable and customary due diligence by business sponsors on proposed exposures and approval thereof by adjudication teams.
- A governance framework is also in place to ensure that exposures above defined thresholds are escalated to progressively senior levels of the organisation for approval, up to and including, the Board of Directors.
- As it relates to derivatives, the size of the contingent exposure for a counterparty is calculated using a Monte Carlo simulation application taking into consideration the specific trade details of the hedge.

Policies relating to guarantees and other risk mitigants:

- Credit Risk Management Policy
- Related Party Policy
- Single Name Common Risk Policy
- Pledging Policy
- Other - operationally, transactions giving rise to CCR are executed on a Delivery Versus Payment (DVP) basis
- Any guarantees or risk mitigants around CCR in derivatives are captured in the Credit Support Annex (“CSA”) of the ISDA document.

Policies with respect to wrong way risk exposures

- Market Risk Management Policy

The Bank does not currently have CCR exposures with collateral requirements that are linked, or subject to, its credit rating.

6.2 CCR1 - Analysis of counterparty credit risk exposure by approach

Provides a view of the methods used to calculate CCR regulatory requirements and the main parameters used within each method.

Template CCR1

US\$'000

	Total Replacement cost/Mark-to-market	Add-on Potential future exposure (PFE)	EAD post-CRM	RWA
1 Current Exposure Method (CEM)	5,710	1,555	7,265	6,498
2 Standardised Method			-	-
3 Simple Approach for credit risk mitigation (for SFTs)			-	-
4 Comprehensive Approach for credit risk mitigation			-	-
5 Total				6,498

6.3 CCR3: CCR Exposures by Regulatory Portfolio and Risk Weights

Provides a breakdown of counterparty credit risk exposures by portfolio (types of counterparties) and by risk weight (riskiness attributed to the standardised approach).

Template CCR3
US\$'000

	a	b	c	d	e	f	g	h	i
Risk weight	0%	10%	20%	50%	75%	100%	150%	Others	Total credit exposure
Regulatory portfolio									
Sovereigns	-	-	-	-	-	-	-	-	-
Non-Central Government Public Sector Entities	-	-	-	-	-	-	-	-	-
Multilateral Development Banks	-	-	-	-	-	-	-	-	-
Banks	-	-	-	-	-	-	-	-	-
Securities Firms	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	7,265	-	-	7,265
Regulatory Retail Portfolios	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	7,265	-	-	7,265

6.4 CCR5 - Composition of collateral for CCR exposure

The Bank currently has no types of collateral posted or received to support or reduce the counterparty credit risk exposures related to derivative transactions.

6.5 CCR6 - Credit derivatives exposures

The Bank currently has no single-name credit default swaps, index credit default swaps or credit options.

7. Leverage Ratio

7.1 LR1 - Summary Comparison of Accounting Assets vs Leverage Ratio Exposure

Reconciliation of the total assets in the financial statements with the leverage ratio exposure measure.

The exposure measure is calculated based on the regulatory requirements and comprises of on and off balance assets.

Template LR1

US\$'000

		Oct-22
1	Total consolidated assets as per financial statements	3,978,015
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	-
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	7,265
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)	189,037
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital ¹	(50,436)
12	Other adjustments ²	33,517
13	Leverage ratio exposure measure	4,157,398

¹ This relates to Goodwill that is deducted from the balance sheet exposures for calculation of the leverage ratio in template LR2.

² Other adjustments consist of:

Reclassification for general provisions on loans - This amount is reported with the assets on the financial statements but are reported with the liabilities on the quarterly prudential returns for regulatory reporting purposes.

Reclassification for other assets - The credit balances for suspense accounts, stale dated cheques and items in course of collection that are reported in the overall other assets on the financial statements are individually identified and reported with the liabilities on quarterly prudential returns for regulatory reporting purposes.

Reclassification for other liabilities - The debit balance for payroll liabilities that is reported in the overall other liabilities on the financial statements is identified and reported with the assets on quarterly prudential returns for regulatory reporting purposes.

7.2 LR2 - Leverage Ratio

The leverage ratio is calculated using regulatory capital and on/off balance sheet figures at a point in time.

The leverage ratio is calculated and monitored in line with regulatory requirements. The bank continues to meet the regulatory requirement as seen below

Template LR2

US\$'000

	Oct-22	Jul-22
On-balance sheet exposures		
1 On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	4,011,532	4,101,270
2 Gross up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-	-
3 (Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
4 (Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5 (Specific and general provisions associated with on balance sheet exposures that are deducted from Basel III Tier 1 capital)	-	-
6 (Asset amounts deducted in determining Basel III Tier 1 capital and regulatory adjustments)	(50,436)	(50,436)
7 Total on balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	3,961,096	4,050,834
Derivative exposures		
8 Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	5,710	2,569
9 Add on amounts for potential future exposure associated with all	1,555	1,578
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)	7,265	4,147
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	537,350	553,534
20 (Adjustments for conversion to credit equivalent amounts)	(348,313)	(362,123)
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)	189,037	191,411
Capital and total exposures		
23 Tier 1 capital	413,214	418,293
24 Total exposures (sum of rows 7, 13, 18 and 22)	4,157,398	4,246,392
Leverage ratio		
25 Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	10%	10%
25a Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	10%	10%
26 National minimum leverage ratio requirement	3%	3%
27 Applicable leverage buffers	-	-

8. Liquidity

8.1 LIQA - Liquidity Risk Management

Overview

The governance of Liquidity risk management is guided by the Bank's Liquidity Risk Management Policy.

The Liquidity Risk Management Policy, in conjunction with the capital position, contribute to the Bank's safety and soundness in times of stress by ensuring that:

- Sufficient and appropriate liquidity is maintained to ensure the Bank is able to meet its financial obligations as they come due, and to sustain its operations under normal and stressed conditions;
- Liquidity risks are effectively and appropriately identified, measured and monitored to ensure they are managed in alignment with the Bank's Risk Appetite Statement (RAS); and
- The Bank has diverse, reliable, and cost-effective funding strategies in all currencies.

The Policy seeks to ensure the Bank's adherence to the Board approved RAS, with consideration to the Basel Committee on Banking Supervision's Sound Principles for Liquidity Risk Management and Supervision.

The Policy also reflects regulatory requirements in regions where the Bank operates

Board Defined Liquidity Risk Tolerance

The Bank's Board of Directors defines an overall liquidity risk appetite which is:

- Appropriate for the Bank's business strategy and its role in the financial system;
- Consistent with the size, sophistication, business objectives, relevant funding markets and overall risk appetite of the Bank;
- Clearly communicated throughout the Bank; and
- Integrated throughout the Bank's liquidity risk management processes

The Bank has established clear roles and responsibilities of key stakeholders in the liquidity management process. Relevant activities include:

- Ongoing reviews and assessments of the liquidity profile by senior management, Asset and Liability Committee (ALCo) and Local Cayman Asset and Liability Management Teams (ALMT); and
- Regular reporting to the Bank's Board of Directors.

The Funding Strategy, including policies on diversification in the sources and tenor of funding and whether the funding strategy is centralised or decentralised

The funding strategy is guided by the Liquidity Risk Management Policy. The Bank's funding needs are satisfied primarily through raising of customer deposits, capital (retained earnings) and short-term inter-company borrowings. Funding strategies are centrally managed within the Treasury Department which works collaboratively with relevant business units to ensure effective execution of fund raising activities. Deposit funding consists of both core demand and term (fixed) deposits which vary in tenors ranging from one week up to five years. Deposit concentration metrics and internal limits are employed to mitigate concentration risks with close monitoring and reporting internally to senior management and the Board.

The bank's funding strategy considers and supports the operating and growth objectives using current and projected liquidity positions.

Funding planning and strategies:

- identifying funding market constraints;
- balancing liquidity risk, balance sheet utilisation and profitability;
- determine impacts of liquidity positioning on the bank's liquidity risk profile under the various funding alternatives;
- Considering funding markets, products, and strategies such that the Bank can continue to fund itself in the normal course of business without posing undue stress in the market; and
- Monitoring and ensuring that the funding sources are diverse across multiple dimensions such as:
 - wholesale funding instruments or product types;
 - maturity profile;
 - Secured and unsecured funding channels; and
 - Region.

Liquidity risk mitigation techniques

Liquidity risk mitigation techniques are outlined in the Group Liquidity Policy and include risk assessment, funding planning, liquidity metrics adherence, liquid asset management, collateral management, contingency funding planning, monitoring and oversight

An explanation of how stress testing is used

Liquidity stress testing applies name-specific and market-wide stress scenarios. This process allows the Bank to assess the amount of available liquidity required to satisfy anticipated obligations as they become due. Results from stress testing are reviewed at the Bank ALMT to ensure surplus buffers are maintained at all times.

Outline of the bank's contingency funding plans

The Contingency Funding Plan (CFP) sets out the strategies for addressing liquidity shortfalls in emergency and unexpected situations. The CFP sets out the requirements necessary to manage a range of stress conditions, establishes clear lines of responsibility and articulates invocation and escalation procedures. It is tested and updated annually to ensure it is operationally robust and is aligned to the Risk Appetite Statement. The ALMT reviews and provides input in advance of recommendation to the Risk Committee which approves the CFP annually.

The CFP considers activity at the full operating company level and as such includes its subsidiary FirstCaribbean International Bank (Curacao) N.V. and branches in Curacao, St. Maarten and the British Virgin Islands.

Foreign currency metrics - USD, GBP, EUR, CAD & KYD are assessed on a consolidated basis and local currencies assessed separately.

Liquidity exposures are managed within regulatory and operational limits for individual legal entities and subsidiaries in the Bank.

The table below analyses the assets, liabilities and commitments, guarantees and contingent liabilities of the Bank into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date.

US\$'000

	0-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash and balances with Central Banks	119,043	-	-	-	119,043
Due from banks	946,511	41,550	-	-	988,061
Derivative financial instruments	1,339	(1,237)	5,842	3,807	9,751
Other assets	20,015	-	-	-	20,015
Securities	139,468	141,952	238,890	19,125	539,435
Loans and advances to customers	328,817	93,264	639,142	1,153,989	2,215,212
Total assets	1,555,193	275,529	883,874	1,176,921	3,891,517
Liabilities					
Derivative financial instruments	1,688	(1,249)	5,473	2,002	7,914
Customer deposits	3,041,813	295,167	76,120	284	3,413,384
Other liabilities	21,603	1,103	4,317	-	27,023
Total liabilities	3,065,104	295,021	85,910	2,286	3,448,321
Net assets/(liabilities)	(1,509,911)	(19,492)	797,964	1,174,635	443,196
Commitments, guarantees and contingent liabilities	135,592	50,396	84,738	270,290	541,016

Assets and liabilities without any contractual maturity date were excluded from the table above. These include property and equipment, deferred tax assets/liabilities, Intangible assets and retirement benefit obligations.

8.2 LIQ1 - Liquidity Coverage Ratio (LCR)

Outlines the details of a bank's cash outflows and cash inflows, as well as its available high-quality liquid assets (HQLA), as measured and defined according to the LCR standard.

Template LIQ1

US\$'000

		Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets			
1	TOTAL HQLA		515,729
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:		
3	Stable deposits	-	-
4	Less stable deposits	666,398	55,695
5	Unsecured wholesale funding, of which:		
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	1,277,570	319,392
7	Non-operational deposits (all counterparties)	1,035,147	833,887
8	Unsecured debt	-	-
9	Secured wholesale funding		-
10	Additional requirements, of which:		
11	Outflows related to derivative exposures and other collateral requirements	221	221
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	252,140	19,804
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	-	-
16	TOTAL CASH OUTFLOWS		1,228,999
Cash inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	993,673	858,614
19	Other cash flows	6,686	6,686
20	TOTAL CASH INFLOWS		865,300
			Total adjusted value
21	Total HQLA		515,729
22	Total net cash outflows (line 16 amount less line 20)		363,699
23	Liquidity Coverage Ratio (%) (line 21 amount divided by line 22)		142%

The Bank's exposure to liquidity risk is governed by a Liquidity Management Policy and Framework approved by the FirstCaribbean International Bank Limited's Board of Directors. The Asset and Liability Management Team is responsible for monitoring liquidity risk and adherence to the Liquidity Management Policy. Day-to-day management of liquidity is handled by the Treasury team. The Treasury team performs stress tests and scenario analysis to evaluate the impact of stresses on the Bank's liquidity

position. The results are reported to the Board of Directors quarterly. The ratio remained above regulatory requirements and management thresholds.

The average Liquidity Coverage Ratio (LCR) as of October 31, 2022, was recorded at 142%. The Bank maintains a stable pool of high-quality liquid assets reflecting the strength of its balance sheet and adequate short-term placements to cover cash flows under stress.

Profile of HQLAs as at October 30, 2022

Asset	Percentage
Level 1	81%
Level 2A	19%
Level 2B	1%

LCR for each month in quarter

US\$'000

	Aug-22	Sep-22	Oct-22
HQLA	526,156	481,748	539,284
Outflows	1,154,720	1,225,641	1,306,637
Inflows	885,678	863,788	846,435
Net outflows	269,042	361,853	460,202
Adjustment to cap Inflows to 75% of Outflows	19,638	-	-
Ratio	182%	133%	117%

Average LCR Ratio for the quarter

US\$'000

	Oct-22	Jul-22	Variance
HQLA	515,729	519,526	(3,797)
Outflows	1,228,999	1,245,117	(16,118)
Inflows	865,300	901,307	(36,007)
Net outflows	363,699	343,810	19,889
Ratio	142%	151%	-9%

The ratio decreased by 9 percentage points over the period under review due to:

- Decrease in cash inflows as a result of lower financial institution placement balances.

The Bank's foreign currency portfolio is deployed predominantly in HQLA.

The entity monitors the concentration of funding through large deposit exposures which are all within management thresholds and are monitored closely by the Asset and Liability Management Team. There are no significant currency mismatches.

8.3 LIQ2 - Net Stable Funding Ratio (NSFR)

The Net Stable Funding Ratio is a liquidity standard requiring the Bank to hold enough stable funding to cover the duration of the long term assets. The NSFR is defined as the amount of available stable funding (ASF) relative to the amount of required stable funding. The ratio should be equal to at least 100% on an ongoing basis. Available stable funding is defined as the portion of capital and customer deposits expected to be reliable over the time horizon which extends to one year. The required stable funding (RSF) is based on the liquidity risk profile of the Bank's exposures.

Template LIQ2
US\$'000

Item	Unweighted value by residual maturity				Weighted value (e)
	No maturity (a)	< 6 months (b)	6 months to < 1 year (c)	≥ 1 year (d)	
Available stable funding (ASF) item					
1	Capital:				
2	Regulatory capital	-	-	-	559,128
3	Other capital instruments	-	-	-	-
4	Retail deposits and deposits from small business customers:				
5	Stable deposits	-	-	-	-
6	Less stable deposits	-	588,832	45,947	25,940
7	Wholesale funding:				
8	Operational deposits	-	1,212,130	-	-
9	Other wholesale funding	-	1,379,538	118,393	66,902
10	Liabilities with matching interdependent assets				
11	Other liabilities:				
12	NSFR derivative liabilities	-	-	-	-
13	All other liabilities and equity not included in the above categories	-	-	-	-
14	Total ASF	-	-	-	2,141,725
Required stable funding (RSF) item					
15	Total NSFR high-quality liquid assets (HQLA)				38,806
16	Deposits held at other financial institutions for operational purposes	-	-	-	-
17	Performing loans and securities:				
18	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	858,880	15,000	36,751
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	335,162	73,247	1,805,732
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	-	-	-	-
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	7,998	-	40,548
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 before deduction of variation margin posted	-	-	-	-
31	All other assets not included in the above categories	-	2,357	217	76,726
32	Off-balance sheet items	-	537,383	-	-
33	Total RSF	-	-	-	1,859,083
34	Net Stable Funding Ratio (%)				115%

72% of the available stable funding ratio is made up of capital and wholesale funding. Between April 2022 and October 2022, the available stable funding decreased by US\$67,171,000 and the required stable funding decreased by US\$82,179,000. This resulted in marginal increase in the net stable funding ratio.

9. Market Risk

9.1 MRA - Market Risk

Market risk arises from positions in securities and derivatives as well as from our core retail, wealth and corporate businesses.

The Bank classifies market risk exposures into trading and non-trading and virtually all of the positions fall into the latter. Due to the relatively small size of the trading portfolio, the key types of measures used for market risk are not segregated from the non-trading book therefore the following sections give a comprehensive review of the entity's entire exposures.

The key risks to the Bank are foreign exchange and interest rate with a moderate amount of credit spread risk and immaterial commodity risk. The hard currencies are managed by the business units and although the local currencies are handled in their respective regions these are still monitored, measured and controlled centrally from a market risk perspective.

The Bank has three main measures of market risk:

- Outright position, used predominantly for foreign exchange;
- Sensitivity to a 1 basis point downward move in a curve, used for both interest rate and credit spread risk;
- Stress scenarios based upon a combination of theoretical situations and historical events.

Market risk measures are monitored with differing degrees of frequency dependent upon the relative risk and speed with which the risk changes. Foreign exchange positions, credit spread exposure and stress tests are all measured daily whereas others such as Profit & Loss measures and the traded credit are performed on a monthly basis. Detailed market risk compliance reports are produced and circulated to senior management on a daily, weekly and monthly basis and a summary version is included in the quarterly Chief Risk Officer's Consolidated Risk Report supplied to the Board of Directors.

Stress testing and scenario analysis are designed to add insight to possible outcomes of abnormal (or tail event) market conditions and to highlight where risk concentrations could be a concern.

For the hard currency testing, position sensitivities are subjected to a suite of measures that the parent company has developed. The stress testing measures the effect on our hard currency portfolio values over a wide range of extreme moves in market prices. The stress testing methodology assumes no actions are taken or are able to be taken during the event to mitigate the risk, reflecting the decreased liquidity that frequently accompanies market shocks. The scenario analysis approach for the Bank's hard currency exposures simulates an impact on earnings of extreme market events up to a period of one month. Scenarios are developed using actual historical data during periods of market disruption, or are based upon hypothetical occurrence of economic or political events or natural disasters and are designed by economists, business leaders and risk managers. Examples of these would include the 1998 Russian led crisis, Fed Reserve tightening of 1994 and potential effects of revaluation of the Chinese currency.

The local currency stress tests are designed on a similar but smaller scale. For interest rate stresses, Market Risk in conjunction with Treasury consider the market data over approximately the last 10 years and identify the greatest curve or data point moves over both sixty and single days. These are then

applied to the existing positions/sensitivities of the Bank. This is performed daily and reported on a monthly basis in the Asset and Liability Management Teams (ALMT) report. The stress results do not tend to change rapidly. For foreign exchange stresses, the Bank calculates the effect of either a revaluation or devaluation of the main currencies on the earnings of the Bank. This is backed by reviews of historical data and considers the worst case that the Bank would be unable to exit the position rapidly. For credit spread risk, historical worst case widening over 60 days, as seen in 2008, is applied to the positions and takes into consideration, the market segment of the bond, the location and the issuer.

The Bank adheres to the Market Risk Management Policy related to the identification and to the measurement, monitoring and control of those risks. This policy is reviewed and approved every two years by the Board of Directors. The Board limits, which are approved annually, are used by the Bank to establish explicit risk tolerances expressed in terms of the main risk measures mentioned above. There is a three-tiered approach to limits at the Bank. The highest level is set at the Board of Directors. The second tier is delegated by the Chief Risk Officer and the third tier to the Business Unit, which limits traders to specific products and size of deals. These limits are documented through a formal delegation letter and monitored using the treasury system.

9.2 MR1: Market Risk under the Standardised Approach

Displays the components of the capital requirement under the standardised approach for market risk.

Template MR1

US\$'000

		Oct-22
		RWA
	Outright products	
1	Interest rate risk (general and specific)	-
2	Equity risk (general and specific)	-
3	Foreign exchange risk	15,994
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	Total	15,994

10. Operational Risk

10.1 OPR - Operational Risk

Operational risk is the risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events. Operational risks are inherent in all activities within the Bank, including outsourced activities and all interactions with external parties. Our comprehensive Operational Risk Management Policy, supported by policies, tools, systems and governance structure, is used to mitigate operational risks. We continuously monitor our operational risk profile to ensure we are operating within the Bank approved risk appetite.

Governance and management

Operational risk is managed through the three lines of defence model and articulated in the Operational Risk Management Policy.

(i) The first line of defence, the Bank's Lines of Business (LOBs) and functional groups own the risks and are accountable and responsible for identifying and assessing risks inherent in their activities in accordance with the bank's risk appetite. In addition, they establish and maintain controls to mitigate such risks.

Within the Bank, the first line is divided into two groups: **1a** and **1b**. The **1a** line would be the first gatekeepers for risk management, that is, those persons who are the risk takers and would be faced with making decisions on a day to day basis with the Bank's policies and risk appetite in mind. Therefore the **1a** group would be the first line to accept or decline a transaction/relationship. The **1b** line is accountable to **1a** management but has the authority to challenge the risk management processes and decisions of the business.

(ii) The second line of defence, defined as the Bank's oversight functions, is independent from the first line of defence and provides an enterprise-wide view of specific risk types, guidance and effective challenge to risk and control activities.

Risk Management may leverage or rely on Business Control Support Groups i.e. subject matter expertise of other groups to better inform their independent assessments, as appropriate

(iii) The third line of defence, the Bank's internal audit function provides reasonable assurance to senior management and the Audit Committee of the Board on the effectiveness of the Bank's governance practices, risk management processes, and internal control as part of its risk-based audit plan and in accordance with its mandate.

A strong risk culture and communication between the three lines of defence are important characteristics of effective risk management.

The Operational Risk Management team within the Risk Management Group oversees the enterprise-wide operational risk assessment programmes for identifying, monitoring and controlling operational risks. The team, through the Director, Operational Risk provides relationship based advice and guidance to the business units in managing their operational risks and control related issues.

The Director, Operational Risk maintains line of sight of the Specialist Support units responsible for Operational Risk programs like Information Security, including cybersecurity; Business Continuity Management; Corporate Security; Fraud Management; and Outsourcing.

The Chief Risk Officer chairs the Operational Risk and Control Committee (ORCC), which serves as a forum for management information sharing, discussion and input on the design and assessment of the Bank's internal control, emerging operational risk and operational risk management programs and tools. The ORCC is a supporting Committee of the bank's Executive Committee. The Director, Operational Risk is responsible for supporting the Chair and the Committee.

Operational Risk Management Approach

Information transparency, timely escalation, clear accountability and a robust internal control environment are the principles forming the basis of the Operational Risk Management Policy, which supports and governs the processes of identifying, measuring, mitigating, monitoring, and reporting operational risks. The Bank's loss prevention program (which includes manuals, policies, guidelines and procedures) combines loss prevention principles designed for daily operations with specific techniques to prevent losses.

Regular review of our risk governance structure ensures clarity of, and ownership in, key risk areas.

Risk Assessment

The Bank's business units regularly conduct reviews of operational risks inherent in their products, services or processes and assess ways to mitigate and manage them in alignment with the bank's risk appetite. These reviews include operational risk profile reviews for LOBs, audit findings, past internal and external loss events, change initiative risk assessments etc. Under the three lines of defence model, the Operational Risk unit and oversight functions challenge business lines' risk assessments and mitigation actions.

Operational loss is one of the key operational risk metrics informing us of areas of heightened risk. We collect and analyse internal operational loss event data for themes and trends. The occurrence of a material or potential material loss triggers an investigation to determine the root causes of the incident and the effectiveness of existing mitigating controls, as well as the identification of any additional mitigating actions. Additionally, we monitor the external environment for emerging or potential risks. The analysis of material operational risk events is performed by the first line of defence and the outputs of the analysis are subject to formal independent challenge by our second line of defence. The analysis of material operational risk events forms one component of our ongoing operational risk reporting to senior management and the Board.

The business units conduct change initiative risk assessment on risks inherent to the initiatives (for example, new product launches or major system changes). Identified inherent risks of the change initiative and related mitigation actions are challenged by the Operational Risk unit and other relevant second line of defence groups, as well as business control support groups, to ensure residual risks remain within the approved risk appetite.

The bank uses the basis indicator method to quantify our operational risk exposure in the form of operational risk regulatory capital, as agreed with local regulators.

Risk Mitigation

Our primary tool for mitigating operational risk exposure is a robust internal control environment. The bank's internal control environment outlines key principles, structure and processes underpinning the Bank's approach to managing risks through effective controls. All key controls are subject to ongoing testing and review to ensure they effectively mitigate our operational risk exposures. In addition, our corporate insurance program affords extra protection from loss while our enterprise-wide business continuity management program ensures that under conditions of interruption or crisis, the Bank's critical business functions could continue to operate and normal operations are restored in a highly effective and efficient manner.

The Bank's Market Risk Policy governs the management of Interest Rate Risk in the Banking Book (IRRBB). Hedges are used to mitigate IRRBB against specific risk limits aligned to the Bank's Risk Appetite Statement. The Bank's IRRBB exposures are measured, monitored, reported, and managed within established management and Board approved risk limits. Hedging strategies are designed to ensure that risk exposures remain within established policy limits. Effectiveness of the hedges utilized to mitigate risk is assessed independently of the front office with periodic reporting to the Asset Liability Committee (ALCo) on the use of derivatives and results of hedge effectiveness testing.

Risk Monitoring and Reporting

The first and second lines of defence are responsible for the ongoing monitoring of risk to facilitate compliance. Additionally LOBs and functional groups are responsible for the design and implementation of internal controls within their area of accountability and must capture any business environment factors (i.e. external events, regulatory and industry reviews) and internal control factors as identified through the bank's Quarterly Assertion process.

Our risk monitoring processes support a transparent risk-reporting program, informing both senior management and the Board of our control environment, operational risk exposures, and mitigation strategies.

The Bank incurred average annual operational risk losses of US\$467,000 over the last three years.

Operational Risk Losses

US\$'000

Oct-22	Oct-21	Oct-20	Average
300	550	551	467

Basic Indicator Approach for Operational Risk

The Bank currently applies the Basic indicator Approach as required by the Cayman Island Monetary Authority in its calculation of risk weighted assets for operational risk and the capital charge for operational risk.

Basic Indicator Approach for Operational Risk

US\$'000

Year	Total gross income	Total gross income (after negative GI adjustment)	Alpha	Capital charge
2019-10-31	152,113	152,113	15%	22,817
2020-10-31	125,361	125,361	15%	18,804
2021-10-31	116,680	116,680	15%	17,502
Number of years with positive total gross income				3
Basic Indicator approach capital charge				19,708
Operational Risk Equivalent Assets				246,346
Minimum Capital Requirements				34,488

11. Interest Rate Risk in the Banking Book

11.1 IRR - Interest Rate Risk in the Banking Book

Objectives and Standards for Managing Interest Rate Risk in the Banking Book

Non-trading interest rate risk (Banking Book) consists primarily of a combination of the risks inherent in asset and liability management activities and the activities of the core retail, wealth and corporate businesses. Interest rate risk results from differences in the maturities or re-pricing dates of assets both on and off balance sheet. The Bank has no trading interest rate risk.

The Bank measures the interest rate sensitivity of its entire balance sheet for the effect of a one basis point (1bp) parallel move down in the underlying yield curve (DV01). The Bank has contractual-based exposures which are interest rate sensitive as well as exposures and products which are non-interest rate sensitive in nature. Products such as core deposits, current accounts and card balances do not have defined maturity or repricing profiles; as a result, term structures must be assumed. Similar assumptions are required for the investment of common equity and retained earnings. These structural assumptions are designed to balance earnings sensitivity with exposure to changes in economic value.

The Bank uses post structural values for calculating its interest rate sensitivity and for input into its own stress models.

The structural interest rate risk positions of the balance sheet are managed by Treasury against the benchmarks set, through structural assumptions.

The periodicity of the calculation of the bank's IRRBB measures, and a description of the specific measures that the bank uses to gauge its sensitivity to IRRBB

IRRBB is measured and monitored daily within the Market Risk Management and Treasury Departments at a consolidated level for FirstCaribbean Group. Management monitors exposures on a monthly basis at the Group Asset and Liability Committee ("ALCo") against established risk limits. The Bank's Interest Rate Risk Sensitivity is measured as the economic gain or loss in value to its assets and liabilities following a 1 basis point decline in yields.

A description of the interest rate shock and stress scenarios that the bank uses to estimate changes in the economic value and in earnings

Stress scenarios are designed at the currency level with various shocks applied to each currency's yield curve. Hard Currency Stress test scenarios are based on historical events and replicate the immediate changes in the yield curves during these market events. The Hard Currency stress scenario employed replicates the shocks to yields during the Federal Reserve 94 Tightening. Stress Testing is performed daily and monthly and reported at Asset Liability Management Team meetings on a monthly basis.

The scope and nature of risk reporting and/or measurement systems

Management monitors Interest Rate Risk Sensitivity exposures on a monthly basis at the Group ALCo against limits. Stress Testing is performed daily and monthly and reported at Asset Liability Management Team meetings on a monthly basis.

Policies for hedging and/or mitigating IRRBB as well as the associated accounting treatment and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants

Where the Bank deploys hedges, it uses the "dollar offset" approach to demonstrate on a prospective or retrospective basis that a hedge relationship is expected to be effective. This is performed monthly and/or on occurrence. Treasury is then advised of the results. The Bank follows IFRS 9, where recognition of any ineffectiveness in a hedge relationship flows through income even if it is effective overall. If a transaction is determined to be ineffective, the derivative will be marked to market without any P&L offset from the underlying instrument. Currently, there are no ineffective hedges.

A description of key assumptions, including assumptions regarding loan prepayments and behaviour of non-maturity deposits, and any other assumptions

Assumptions are applied regarding the life of non-maturing deposits. This is done at the currency level. USD and KYD non-maturing deposits, which represent a significant component of the exposure, are assumed to have a life of 3 years. The other significant component is the ANG non-maturing deposits, which are assumed to have a life of 5 years. No assumptions are made regarding loan prepayments.

Interest Rate in the Banking Book Economic Value Sensitivity

US\$'000

Curve Change	Short Rate (bps)	Long Rate (bps)	Total
Parallel shifts			
- 1 bps instantaneous shift	-1	-1	(77)
- 200 bps instantaneous shift	-200	-200	(15,430)
+ 200 bps instantaneous shift	+200	+200	15,430

12. Remuneration

12.1 REM - Remuneration

Bodies overseeing remuneration

The Bank delegates oversight of the compensation process to the Compensation Committee. The Committee is comprised of individuals who are all members of the Board of Directors of FirstCaribbean International Bank Limited, the immediate parent of the Bank. The Committee oversees the compensation process for all entities within the FirstCaribbean Group, including the Bank. The Executive Committee also maintains a Compensation Philosophy, and reviews country specific base salary scales and merit increases, as well as incentive compensation annually. These responsibilities include:

- Establishing the compensation governance process;
- Determining incentive compensation funding and allocations to the business units;
- Approving incentive compensation plans or changes to existing material plans; and
- Reviewing the Bank's adherence to risk appetite and the underlying risks associated with business performance.

The Chief Administrative Officer (CAO) has ongoing responsibility for the compensation strategy and process, with aspects of the role delegated to the Director, HR Centralized Services. Roles covered by a collective labour agreement (CLA) are agreed in collaboration with our Union partners.

External advice is sought from McLagan, a company within the Aon Group, in the form of an annual salary survey/market analysis for the region. They are commissioned by the Director, HR Centralized Services on behalf of the CAO in collaboration with our major competitors across the region.

The compensation philosophy and approach provide the framework for remuneration across all territories in the region, all segments, and all levels of executive and employee.

The Bank's Compensation Philosophy covers all employees including material risk takers (MKTs) and aim to strike a balance between short and long-term business performance and reward employees across all business units while meeting our legal and regulatory requirements. Remuneration, including any variable remuneration, is linked to business performance, and assessed against financial and non-financial criteria including risk management related metrics. To ensure that salaries reflect individuals' skills and experience, the Bank conducts research to determine competitive market rates in the regions in which we operate.

The Bank sees MRTs as individuals whose professional activities have a material impact on the company's risk profile. These are limited to our executive management and senior leadership team. As at October 31, 2022 this group comprised 8 employees.

Information relating to the design and structure of the remuneration processes

The objectives of the remuneration approach are set out in our Compensation Philosophy which:

- Supports the Bank's ability to attract, motivate and retain the right talent
- Pay for performance and encourage alignment with the Company's behaviours of Agility, Collaboration, Integrity, Ownership and Urgency

- Align with the Bank's business strategy, risk appetite and the creation of sustainable shareholder value

Key features include: Base salary; variable incentive compensation based on Company, business unit and individual performance; other benefits (Employee Share Purchase Plan, Pension, Health and Life)

The remuneration approach has been reviewed during the past year at the Executive Committee level, in particular salary scales/market analysis and incentive compensation. These are reviewed every year.

These processes are centralised within HR. Risk and Compliance provide feedback on the process as part of the annual incentive compensation process for risk and compliance and individuals as a whole for the Bank wide Senior Leadership Team via the Chief Risk Officer's membership and attendance at the Executive Committee compensation sessions.

Description of the ways in which current and future risks are taken into account in the remuneration processes

The Bank considers remuneration risk in its approach, base salary is not incentivised and as part of the year-end compensation review process, the Risk and Compliance units report to the Executive Committee on any activities, incidents or events that warrant consideration in making compensation decisions. Individuals are not involved in setting their own remuneration.

Incentive Compensation (IC) and Long-Term Incentive Programmes (LTIP) for eligible employees are non-contractual and are linked to the Bank's performance as well as personal performance. Personal performance includes monitoring based on adherence to the Bank's behaviours and values as well as other aspects.

The Bank has an immaterial commission-based awards related to client facing positions who can also earn additional payments. Two (2) individuals within the Bank hold positions which are predominantly commission based. All employees have clearly identified levels of delegated authority which vary by role and segment. These are shared with individuals and their acknowledgement of this is confirmed.

We review our approach for appropriateness on a regular basis. Salary scales are reviewed on an annual basis with adjustments made in locations where we are seen to below market. Our measures for appropriateness are reviewed regularly.

While employees are compensated based on their performance, they are required to adhere to the risk management practices of the Bank. Remuneration practices do not provide undue incentives for short-term planning or short-term financial rewards, do not reward unreasonable risk and provide a reasonable balance between the many and substantial risks inherent within the Bank's services.

Future business performance impacts the final payouts as measured by Bank's absolute business performance relative to its long-term financial plans.

Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration

A formal process of Performance Management and Monitoring takes place throughout the year for all employees, regardless of level of seniority.

Employees work with their direct managers to agree a set of objectives at the start of the year based on their role profile and requirements for the position. These objectives are both role based and behavioural

based. Employees are monitored against performance throughout the year including formal meetings at 6 months and at the end of the period. This culminates in an employee grading being awarded. Incentive Compensation amounts available are percentage based within a range that varies depending on grade and performance.

Incentive compensation is linked to both Bank wide and individual performance which includes the Bank's behaviours. Bank wide performance determines the monies available for incentive compensation.

Description of the ways in which the Bank seeks to adjust remuneration to take account of longer-term performance

The most senior grades within the Bank may, subject to both Bank and personal performance, receive a portion of Incentive Compensation in the form of a Long-Term Incentive Performance payment.

These payments are awarded as part of our annual year end compensation process and vest for a 3 year period. Final awards are subject to business performance factors during the vesting period and paid provided the employee remains in active employment.

The deferred amounts vary between 25-50% of total Incentive Compensation paid at year end, depending on the grade of the employee.

Claw-back clauses apply to Incentive Compensation and Long-Term Incentive Programme awards in relation to performance (negligence or failure to comply with policies or procedures) and/or misconduct that results in significant loss.

Description of the different forms of variable remuneration that the Bank utilises and the rationale for using these different forms

Variable remuneration is as follows:

- Incentive Compensation - year end Incentive Compensation and Long Term Incentive Compensation
- Commission based payments - sales staff only and represents a small portion of total compensation in the vast majority of cases.

All other aspects of remuneration are not variable. Whilst a share plan exists this is not variable. It is based on set percentages an employee may wish to contribute where the Bank will provide a certain level of matching. It is optional.

Incentive Compensation - as described earlier in this document. Incentive Compensation amounts available differ depending on the performance measure achieved by an employee and by the grade of the employee. More senior employees have the potential to earn a larger percentage of Incentive Compensation.

Incentive compensation is linked to both Bank wide and individual performance which includes the Bank's behaviours. Bank wide performance determines the monies available for incentive compensation.

Commission based payments -rewards staff for sales performance and successful referrals. All sales staff have the ability to earn an element of commission. This is a small proportion of remuneration for the vast majority of staff.

Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its members

The Board and relevant sub-committees meet quarterly. Executive Committees take place weekly with remuneration being the topic of discussion circa 4 times per year. The members of our executive committee are not remunerated solely for the purpose of this role.

Variable remuneration award, guaranteed bonus, sign-on awards and severance payments

During the financial year 262 employees received variable remuneration for the period ended October 31, 2022. No guaranteed bonuses were awarded during the financial year and sign on bonuses only apply to the most senior positions.

There were 6 severance payments made during the period ended October 31, 2022, with a total value of US\$562,000.

Deferred remuneration

Deferred remuneration would only apply to our most senior positions.

Breakdown of amount of remuneration awards for the financial year

- Total amount spent on remuneration - US\$22,817,000
- Fixed = US\$19,361,000
- Variable (including payments to ESPP) = US\$3,456,000

Quantitative information about employees' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. claw-backs or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration

For senior employees for whom Long Term Incentive applies, 100% of payments are subject to explicit adjustment in a situation of clawback (e.g. misconduct or relevant performance issues).

13. Asset Encumbrance

13.1 ENC - Asset Encumbrance

An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralize or credit enhance any transaction from which it cannot be freely withdrawn. The encumbered assets represent balances held as liquidity and cash reserve requirements with the Central Bank of Curacao and St. Maarten and funds placed with other FCIB entities that were pledged for credit support.

Template ENC

US\$'000

Assets	Encumbered	Unencumbered	Total
Cash and balances with Central Banks	53,226	65,817	119,043
Due from Banks	115,280	872,781	988,061
Derivative financial instruments	-	9,751	9,751
Other assets	-	20,015	20,015
Taxation recoverable	-	128	128
Securities	-	539,435	539,435
Loans and advances to customers	-	2,215,212	2,215,212
Property and equipment	-	35,234	35,234
Deferred tax assets	-	700	700
Intangible assets	-	50,436	50,436
Total assets	168,506	3,809,509	3,978,015

14. Glossary

<u>Term</u>	<u>Definition</u>
ALCo	Asset and Liability Committee
ALMT	Asset and Liability Management Teams
CAO	Chief Administrative Officer
CCF	Credit Conversion Factor
CCR	Counterparty Credit Risk
CFP	Contingency Funding Plan
CRM	Credit Risk Mitigation
CRO	Chief Risk Officer
ECL	Expected Credit Losses
HQLA	High Quality Liquid Assets
LCR	Liquidity Coverage Ratio
NSFR	Net Stable Funding Ratio
ORCC	Operational Risk and Control Committee
RAS	Risk Appetite Statement
RWA	Risk Weighted Assets
SFT	Security Financing Transaction
The Bank	FirstCaribbean International Bank (Cayman) Limited
The Group	FirstCaribbean International Bank Limited (Parent Company)