

Clarien Bank Limited  
Pillar 3 Disclosures  
September 30<sup>th</sup>, 2023



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## 1. Cautionary Statements Regarding Forward-Looking Statements

These Capital and Risk Management Pillar 3 Disclosures as at September 30<sup>th</sup>, 2023 contain certain forward-looking statements with respect to the consolidated financial condition, results of operations and business of Clarien Bank Limited (“Clarien” or “the Bank”). All statements, other than statements of historical facts, included or referenced in this document which address the activities, events or developments that we expect or anticipate will or may occur in the future, are forward-looking statements. The words ‘will’, ‘believe’, ‘expect’, ‘anticipate’, ‘project’, ‘estimate’, ‘predict’ and similar expressions are also intended to identify forward-looking statements. These forward-looking statements may include, among others, statements with respect to our liquidity and capital requirements; business strategy; financial and operating targets or plans; projections of revenues, income, market share or other financial forecasts; expansion and growth of our business and operations; and future capital expenditures.

These statements are based on certain assumptions and analyses we have made in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors believed to be appropriate in the circumstances. However, whether actual results and developments will conform to expectations and predictions is subject to a number of risks and uncertainties that could cause actual results to differ materially from expectations, including, among others, the risks discussed in this disclosure document.

Consequently, all of the forward-looking statements made in this document are qualified by these cautionary statements and the results or developments that we anticipate may not be realized or, even if substantially realized, they may not have the expected consequences to, or effects on, us or our business or operations. The Bank assumes no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise.

## 2. Introduction

### 2.1 Regulatory Framework for Disclosures

The Bermuda Monetary Authority (“BMA”) supervises Clarien both on an unconsolidated and consolidated basis in accordance with prudential regulatory capital framework established by the Basel Committee on Banking Supervision (“BCBS”) known as Basel III. This is structured around three “pillars”; minimum capital requirements (Pillar 1); supervisory review processes (Pillar 2) and market discipline (Pillar 3) with the overall objective being to raise the quality, consistency and transparency of the capital base, limit the build-up of excess leverage and increase capital requirements for the banking sector.

Basel III came into effect in Bermuda on 1<sup>st</sup> January 2015 upon the publication of the BMA’s “Basel III for Bermuda Banks – Final Rule”, and superseded the BCBS’s Basel II framework which had been in effect in Bermuda since 1<sup>st</sup> January 2009. The Basel III revisions adopted Common Equity Tier 1 Capital (CET1) as the primary and predominant form of regulatory capital with the intention that this should be able to absorb losses such that a bank is able to continue in operation as a going concern. The BMA prescribed the following minimum capital requirements at that time:

- CET1 must be at least 4.5% of Risk-Weighted Assets (“RWA”) at all times.
- Tier 1 capital must be at least 6.0% of RWA at all times, and;
- Total capital (Tier 1 plus Tier 2) must be at least 8.0% of RWA at all times.

These regulatory limits do not include Pillar 2 related capital ratio add-ons, which form part of the BMA’s prudential supervision.

In addition to the above, the Basel III rules also provide for the following additional capital requirements:

- A Capital Conservation Buffer designed to ensure that banks build up and retain capital buffers outside of periods of stress that can be drawn upon in exceptional circumstances if severe losses are incurred. This was set at 2.5% of RWA.
- A Countercyclical Buffer composed of CET1 of up to 2.5% of RWAs during periods in which the BMA assesses there to be excessive credit or other pressures building in the banking sector. No Countercyclical Buffer has been implemented to date.
- A Capital Surcharge for Domestic Systemically Important Banks (“D-SIB”) composed of CET1 of between 0.5% and 3.0% of RWA based on the BMA’s assessment of the size, interconnectedness, substitutability and complexity of each Bermuda bank. The D-SIB is set independently by the BMA for each institution.

The Basel III rules also addressed the areas of leverage and liquidity. The Authority adopted a Liquidity Coverage Ratio (“LCR”) requirement of a minimum of 100% to ensure banks have sufficient stock of unencumbered highly liquid assets (“HQLA”) to survive a significant liquidity stress scenario lasting 30 days. The LCR is calculated as HQLA divided by total net cash outflows (as defined by the Authority) over the period of the next 30 days. In addition, a minimum 5% Leverage Ratio was also introduced. This is calculated as the ratio of CET1 to total on- and off-balance sheet exposure.

During 2022, the BMA issued a number of consultation papers relating to Basel III and other regulatory requirements to which Clarien has provided feedback. The final implementation dates applicable to a number of these proposals has yet to be confirmed, with their impact on Clarien dependent on when this occurs.

Further information regarding the implementation of Basel III can be found on the Bermuda Monetary Authority's website [www.bma.bm](http://www.bma.bm).

## 2.2 Basis of Disclosure

This disclosure document has been prepared by Clarien on a standardized basis in accordance with the standards issued by BCBS entitled "Revised Pillar 3 Disclosure Requirements" (January 2015) and by the BMA entitled "Pillar 3 Disclosure Requirements – Consolidated and Enhanced Framework" (March 2017).

All figures are expressed in Bermuda dollars in thousands as at September 30<sup>th</sup>, 2023 unless specified otherwise. Certain tables in this report may not sum due to rounding. While the disclosures were prepared in accordance with regulatory capital adequacy concepts and rules, they were not subject to external audit.

## 2.3 Scope of Application

The Bank's Consolidated Financial Statements as of September 30<sup>th</sup>, 2023 include the results of operations for the following subsidiary companies, all of which are, all were, wholly owned:

Legal entity	Activity
First Bermuda Group Limited	Holding Company
Onshore Nominees Limited	Nominee Company of First Bermuda Group Limited
Offshore Nominees Limited	Nominee Company of First Bermuda Group Limited
Clarien Investments Limited ("CIL")	Investment management
Clarien Brokerage Limited	Brokerage Services; Subsidiary of CIL
Clarien BSX Services Limited	Listing Sponsor of Bermuda Stock Exchange; Subsidiary of CIL
Clarien Trust Limited	Trust administration
Clarien Corporate Services Limited	Corporate administration services

The Bank has no capital deficiencies, nor are there any restrictions, practical or legal impediments to the transfer of funds between the Bank and any of its subsidiaries.

All risk disclosures made for Clarien a consolidated legal entity in line with regulatory returns made to the BMA with the exception of those relating to Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and Interest Rate Risk in the Banking Book (IRRBB) as they apply solely to its banking business.

## 2.4 Media and Location

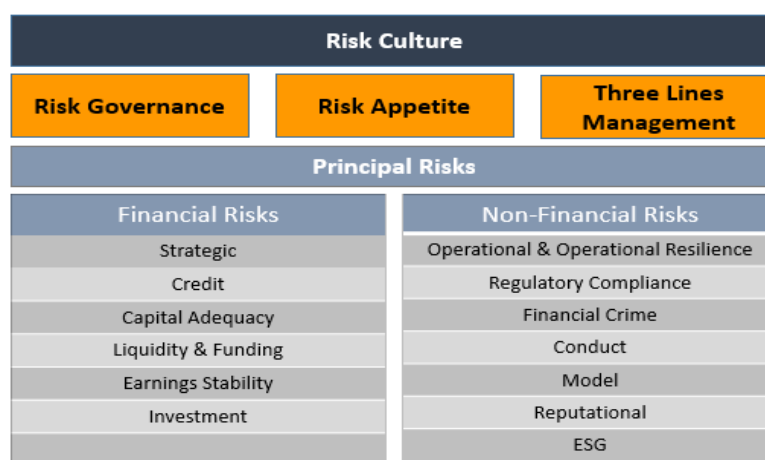
A copy of these Pillar 3 disclosures may be accessed on the Bank's website [www.clarienbank.com](http://www.clarienbank.com). It was published following Board approval.

### 3. Risk Management Objectives And Policies

#### 3.1 Risk Management Framework

Clarien's business strategy, priority-setting and decision-making processes are informed and shaped by an understanding of its risk profile. A comprehensive understanding of what these risk exposures are and how they may be affected by a range of external threats and uncertainties informs risk appetite setting and risk management practices.

Clarien operates an enterprise-wide risk management framework that is designed to embed a strong risk and compliance culture across the organization, promote risk awareness and sound operational decision making, and ensure that the risks it assumes are of a type and level that is consistent with its strategic goals. Its principal elements are shown in the diagram below:



#### 3.2 Risk Culture

Clarien's culture supports risk awareness by encouraging employees to understand how they contribute to the Bank's ability to deliver its strategic objectives and business plans in a safe and sustainable way. It establishes both a collective responsibility and personal accountability for the ownership and management of the risks inherent in the Bank's business activities and promotes a commitment to competence, process and good governance.

The culture begins with Clarien's Board of Directors and executive team, which lead by example with consistent and clear communication of a commitment to manage risk at all levels of the organization. Employees are recruited not only with the core skills, abilities and attitude required to fulfill their role but also for their ability to contribute to this culture. They are provided with training to ensure they develop and maintain required levels of competence and are given to a comprehensive suite of policies, procedure and tools to guide sound decision making and the exercise of good judgement with risk in mind. Risk management is also embedded in employee objective-setting and forms a key component of the annual performance appraisal processes and compensation discussions.

### 3.3 Risk Governance

Clarien's Board of Directors has overall responsibility for determining risk management strategy, setting risk appetites and tolerances and ensuring that risk is monitored and controlled effectively. It accomplishes its mandate through the activities of two dedicated committees:

**The Risk Committee:** This assists the Board in fulfilling its responsibilities by overseeing Clarien's risk profile and its performance against approved risk appetites and tolerance thresholds. Specifically, the committee considers the sufficiency of Clarien's policies, limits and risk management processes through which it identifies, measures, monitors and controls activities that give rise to the various risks shown above, as well as overseeing its compliance with laws, regulations and codes of conduct. It is chaired by the Non-Executive Director of the Board.

**The Audit Committee:** This reviews the overall adequacy and effectiveness of Clarien's system of internal controls and the control environment, including in respect of the risk management process. It reviews recommendations arising from internal and independent auditors and considers the sufficiency and timeliness of the corrective actions taken by management. It is chaired by an Independent Director of the Board.

The Risk Committee and Audit Committee are supported in the execution of their respective mandates by the Boards of Directors of Clarien Investments Limited, Clarien Trust Limited and Clarien Corporate Services Limited, which oversee the sufficiency of the risk management practices established by these subsidiaries and the effectiveness of their systems of internal control implemented by management.

Clarien's executive management team is led by the Chief Executive Officer. The team is responsible for setting business strategy and for monitoring, evaluation and managing risks arising or assumed across the franchise. It is supported by the following management committees:

**The Risk Review Committee:** Chaired by the Chief Risk Officer and comprised of members of its executive and senior management teams, the Committee provides its members with a 360° view of Clarien's risk profile, including (but not restricted to) its exposures to credit, investment, market, capital and liquidity risks; legal, regulatory, fiduciary, conduct and financial crime risks; operational, cybersecurity and third-party risks, and; ESG, insurance and reputational risks. It also assesses the effectiveness of the strategies associated through which these and other emerging risks identified are managed, ensures compliance with applicable laws and regulations, and monitors exposures relative to Board-approved appetites and tolerance thresholds. In doing so, the Committee reviews and recommends Clarien's Capital Assessment & Risk Profile, Recovery and Liquidity Contingency Plans (including related stress tests) as well as a number of key risk policies to the Board for approval every year.

**The Asset and Liability Committee:** Chaired by the Chief Financial Officer and comprised of members of its executive management teams, the Committee is responsible for overseeing the management of Clarien's exposure to liquidity, funding, interest rate and foreign exchange risks, including the effectiveness of the policies through which it manages its investment portfolio and balance sheet structure.



**The Credit Committee:** Chaired by the Chief Risk Officer and comprised of members of its executive and senior management teams, the Committee is responsible for all aspects of credit risk management, including policy development and approval, portfolio review, credit transaction approval, determining delegated credit authority levels and model performance oversight.

**The Information Security Committee:** Chaired by the Head of Compliance & Operational Risk and comprised of members of its executive and senior management teams, the Committee is responsible for formulating and recommending Clarien's information security policy, overseeing its effective implementation, monitoring the threat horizon and providing clear direction and support for security-related initiatives, including those associated with its continued compliance with regulatory requirements.

**The Customer Risk Committee:** Chaired by the Head of Compliance & Operational Risk and comprised of members of its senior management teams, the Committee meets on an as-needed basis to review any proposal that may expose Clarien to elevated levels of reputational risk or require the performance of enhanced levels of customer due diligence.

### 3.4 Risk Appetite

Risk appetite is a key component of Clarien's risk management framework. Clarien's Board of Directors has established a Risk Appetite Statement ("RAS") to provide executive management with top-down direction on the amounts and types of risk the Bank is willing to accept to achieve its strategic objectives and business plan.

The RAS incorporates by specific measures (or tolerances) that set levels to inform and if needed, ultimately constrain risk-taking within a given appetite. The measures are expressed relative to quantitative factors such as financial metrics, risk concentrations, operational limits or customer outcomes.

The Risk Committee of the Board considers reporting on Clarien's alignment with the RAS every quarter, including the actions taken by executive management to address any areas of concern or pressure-points identified and any recommendations it may put forward as to how this should evolve to address new or emerging risks identified.

### 3.5 Risk and Control Management

Clarien manages its exposure to risk through the following "three lines" model.

**First Line Management:** this comprises of all customer-facing business units and the back and middle office functions that support the products and services they deliver. These "first line" functions retain ultimate responsibility for the risks they assume and for bearing the costs associated with these exposures.

**Second Line Management:** this comprises Clarien's Risk Management and Compliance functions, which work in collaboration with First Line Management to identify, assess, mitigate and monitor the risks associated with Clarien's business activities and strategies. They do this by:

- Making recommendations regarding the RAS;

- Establishing, managing and maintaining policies and standards relating to the management of key risks assumed by Clarien.
- Establishing limits and delegations of authority relating to the assumption of these risks, and opining on transactions proposed that exceed them;
- Measuring, monitoring and reporting on risk exposures assumed.
- Surveilling the risk horizon for new or emerging threats and compliance obligations.

**Third Line Management:** This comprises the Internal Audit function, which provides independent assurance of the activities of first and second line management through its ongoing review and challenge of the internal control environment.

### 3.6 Stress Testing

Clarien's stress testing activities are designed to test its business model and enhance its resilience to external shocks. They help the Board and executive management to better understand and mitigate risk and inform decision making about capital levels and liquidity requirements. They also inform Clarien's RAS as well as its Capital Assessment & Risk Profile, Recovery and Liquidity Contingency planning processes, providing insight into the potential outcomes of a range of severe but plausible stresses and enabling executive management to better formulate and recommend strategies to ensure the Bank's resiliency to such events as a going concern.

Scenarios considered can comprise firm-specific stress (idiosyncratic) or market-wide stress (systemic) events or a combination of the two as well as those mandated by the BMA. The outputs assess projected capital and liquidity adequacy and continued regulatory compliance.

Clarien's stress testing program is overseen by its Finance and Risk functions. Results are reported to the Asset and Liability Committee, and Risk Management Committee, the Risk Committee and, in cases where they must be submitted to the BMA, to the Board.

## 4. Key Prudential Metrics

The table below provides an overview of the Bank's key prudential regulatory metrics for the 5 quarters.

KM01 Key Metrics \$'000		Sep-23	Jun-23	Mar-23	Dec-22	Sep-22
1	Common Equity Tier 1 (CET1)	154,872	143,640	144,441	144,441	144,276
2	Tier 1	154,872	143,640	144,441	144,441	144,276
3	Total capital	155,363	144,338	145,040	144,893	144,698
<b>Risk-weighted assets (amounts)</b>						
4	Total risk-weighted assets (RWA)	569,336	584,581	590,083	609,485	615,715
<b>Risk-based capital ratios as a percentage of RWA</b>						
5	Common Equity Tier 1 ratio	27.20%	24.57%	24.48%	23.70%	23.43%
6	Tier 1 ratio	27.20%	24.57%	24.48%	23.70%	23.43%
7	Total capital ratio	27.29%	24.69%	24.58%	23.77%	23.50%
<b>Additional CET1 buffer requirements as a percentage of RWA</b>						
8	Capital conservation buffer requirement	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement	-	-	-	-	-
10	Bank D-SIB additional requirements	1.00%	1.00%	1.00%	1.00%	1.00%
11	Total of bank CET1 specific buffer requirements (row 8 + row 9+ row 10)	3.50%	3.50%	3.50%	3.50%	3.50%
12	CET1 available after meeting the bank's minimum capital requirements	19.20%	16.57%	16.48%	15.70%	15.43%
<b>Basel III Leverage Ratio</b>						
13	Total Basel III leverage ratio measure	1,332,006	1,336,510	1,327,777	1,346,395	1,376,231
14	Basel III leverage ratio (row 2/row 13)	11.63%	10.75%	10.88%	10.73%	10.48%
<b>Liquidity Coverage Ratio</b>						
15	Total HQLA	364,866	362,931	329,026	331,171	340,683
16	Total net cash outflow	208,139	212,518	216,652	236,298	258,376
17	LCR ratio	175%	171%	152%	140%	132%
<b>Net Stable Funding Ratio</b>						
18	Total available stable funding	974,246	961,498	937,451	934,588	922,657
19	Total required stable funding	685,154	692,607	702,083	711,393	712,523
20	NSFR ratio	142%	139%	134%	131%	129%

Available capital (CET1, Tier1 and Total capital) continue to be in line with previous quarters. The leverage, liquidity and NSFR ratios are well above prescribed regulatory thresholds.

LCR ratio shown above is actual at the end of the relevant quarter whereas the figures in the table LIQ01 in the Liquidity section reflects 6 monthly averages.

## 5. Capital Resources

The Bank's regulatory capital is allocated into two tiers.

### 5.1 Total Common Equity Tier 1 Capital

Total Common Equity Tier 1 Capital ("CET 1") includes ordinary shares, contributed surplus, retained earnings and reserves created by appropriations of retained earnings. Within retained earnings, profits are only included where audited or reviewed by external auditors, however, losses must be taken into account, whether reviewed or not. A deduction from CET 1 is made in respect of goodwill. Ordinary shares carry no right to regular dividends.

### 5.2 Tier 2 Capital

Tier 2 Capital comprises of the expected credit losses only related to Stage 1. The table below shows a reconciliation between accounting and regulatory capital.

Reconciliation of accounting capital to regulatory capital	Sep-23	Jun-23
Common share capital	5,000	5,000
Retained earnings	101,895	99,283
Contributed surplus	46,406	46,406
General reserve	10,000	10,000
Accumulated other comprehensive income	(54,960)	(47,717)
<b>Total Shareholder's Equity</b>	<b>108,341</b>	<b>112,972</b>
Regulatory adjustments:		
Goodwill	(8,257)	(8,257)
Comprehensive loss: Unrealized losses on AFS Portfolio	54,960	47,717
Revaluation adjustment	(172)	(172)
Unaudited Earnings	-	(8,620)
<b>Total CET 1 Capital</b>	<b>154,872</b>	<b>143,640</b>

	Sep-23	Jun-23
Total CET1 Capital	154,872	143,640
Tier 1 Capital	154,872	143,640
Loan Loss Provision -Stage 1	491	698
<b>Total Capital available</b>	<b>155,363</b>	<b>144,338</b>

As at 30<sup>th</sup> September 2023, the CET1, Tier 1 and Total capital ratios of the Group were 27.20%, 27.20% and 27.29% respectively.

Table CC1		a
		Amounts
<b>Common Equity Tier 1 capital: instruments and reserves</b>		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	51,406
2	Retained earnings	101,895
3	Accumulated other comprehensive income (and other reserves)	10,000
6	<b>Common Equity Tier 1 capital before regulatory deductions</b>	<b>163,301</b>
<b>Common Equity Tier 1 capital regulatory adjustments</b>		
8	Goodwill (net of related tax liability)	8,257
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	172
28	<b>Total regulatory adjustments to Common Equity Tier 1</b>	<b>8,429</b>
29	<b>Common Equity Tier 1 capital (CET1)</b>	<b>154,872</b>
44	<b>Additional Tier 1 capital (AT1)</b>	<b>-</b>
45	<b>Tier 1 capital (T1= CET1 + AT1)</b>	<b>154,872</b>
<b>Tier 2 capital: instruments and provisions</b>		
50	Provisions	491
58	<b>Tier 2 capital (T2)</b>	<b>491</b>
59	<b>Total regulatory capital (TC = T1 + T2)</b>	<b>155,363</b>
60	<b>Total risk-weighted assets</b>	<b>569,336</b>
<b>Capital ratios and buffers</b>		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	27.20%
62	Tier 1 (as a percentage of risk-weighted assets)	27.20%
63	Total capital (as a percentage of risk-weighted assets)	27.29%
68	Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	19.20%

There are no significant movements in these numbers over the reporting period.

Table CC2	a	b
	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	As at period-end	As at period-end
<b>Assets</b>		
Cash & cash equivalent	136,059	128,219
Investment securities	375,338	385,487
Prepayments, accrued income and other assets	17,449	15,885
Accrued interest on cash, deposits with banks & securities	1,574	-
Loans & advances	743,841	749,350
Goodwill and other intangible assets	22,090	22,090
Of which: goodwill	8,257	8,257
Of which: intangibles (excluding MSRs)	13,833	13,833
Of which: MSRs	-	-
Property, plant and equipment	20,896	20,896
<b>Total assets</b>	<b>1,317,247</b>	<b>1,321,927</b>
<b>Liabilities</b>		
Deposits from banks	-	-
Items in the course of collection due to other banks	-	-
Customer accounts (deposit liabilities)	1,193,991	1,193,991
Accruals, deferred income and other liabilities	14,915	19,104
Provisions	-	-
Retirement benefit liabilities	-	-
<b>Total liabilities</b>	<b>1,208,906</b>	<b>1,213,095</b>
<b>Shareholder's equity</b>		
Paid-in share capital	51,406	47,806
Of which: amount eligible for CET1	51,406	47,806
Of which: amount eligible for AT1	-	-
Retained earnings	111,895	115,986
Accumulated other comprehensive income	(54,960)	(54,960)
<b>Total shareholder's equity</b>	<b>108,341</b>	<b>108,832</b>

Most of the individual differences are due to differences in grouping methodology under financial statements and Regulatory reporting. The total difference is insignificant.

## 5.3 Leverage Ratio

Basel III introduced a non-risk based leverage ratio to supplement the risk based capital requirements. The ratio shows the Tier 1 capital as a proportion of on and off Balance Sheet assets. The BMA leverage ratio framework requires a minimum ratio of 5%.

The table below provides a reconciliation of accounting assets and the leverage exposure measured as at the end of the two quarters, September 2023 and June 2023:

LR1 Ratio Exposure measure amounts in \$'000	Sep-23	Jun-23
Total consolidated assets as per published financial statements	1,317,247	1,328,515
Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-
Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	18,336	17,250
Other adjustments (including Goodwill)	(3,577)	(9,255)
<b>Leverage ratio exposure measure</b>	<b>1,332,006</b>	<b>1,336,510</b>

The Bank's ratio exceeds the minimum requirement as disclosed in the table below as prescribed in the guidance, as at September 30<sup>th</sup>, 2023.

LR2 Leverage Ratio amounts in \$'000	Sep-23	Jun-23
<b>On-balance sheet exposures</b>		
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,317,247	1,328,515
(Asset amounts deducted in determining Basel III Tier 1 capital)	(3,577)	(9,255)
<b>Total on-balance sheet exposures (excluding derivatives and SFTs)</b>	<b>1,313,670</b>	<b>1,319,260</b>
<b>Other off-balance sheet exposures</b>		
Off-balance sheet exposure at gross notional amount	84,675	88,154
(Adjustments for conversion to credit equivalent amounts)	(66,339)	(70,904)
<b>Off-balance sheet items</b>	<b>18,336</b>	<b>17,250</b>
<b>Capital and total exposures</b>		
<b>Tier 1 capital</b>	<b>154,873</b>	<b>143,640</b>
<b>Total exposures</b>	<b>1,332,006</b>	<b>1,336,510</b>
<b>Leverage ratio</b>		
<b>Basel III leverage ratio</b>	<b>11.63%</b>	<b>10.75%</b>

The leverage ratio has increased marginally from the previous quarter due to a decrease in on balance sheet exposures.

## 6. Capital Adequacy

### 6.1 Overview

Capital is held to provide a cushion for unexpected losses. The Board sets the internal level of capital within its risk tolerance articulated in the risk appetite statement with the aim of ensuring minimum regulatory capital levels, as set and monitored by the BMA, are always exceeded.

The Bank's minimum regulatory capital is a combination of the requirements derived from Pillar 1 and Pillar 2 rules, as detailed in section 2.2.

Management of the Bank assesses, measures and documents all risk exposures (Pillar 1 and 2), governance and internal control environment and strategic and capital planning considerations in its CARP which is submitted annually to the BMA. In addition to the annual CARP process, the Bank's Pillar 1 capital requirements are regularly monitored and are formally reported on a quarterly basis to the BMA and the Board.

### 6.2 Regulatory Capital Requirements for Pillar 1

Regulatory ratios for Pillar 1 are calculated by dividing total regulatory capital by risk weighted assets (RWA). RWA are determined according to the varying levels of risk attached to assets and off-Balance Sheet exposures, using Basel guidelines.

The following table shows the Bank's overall minimum Pillar I capital requirement for credit, operational, and market risk, based on an 8% risk weighting:

OV1 Risk Weighted Assets		RWA		Minimum capital requirement
		Sep-23	Jun-23	Sep-23
1	Credit risk (excluding counterparty credit risk)	491,020	506,249	39,282
2	Of which: standardised approach (SA)	491,020	506,249	39,282
6	Counterparty credit risk (CCR)	-	-	-
10	Credit valuation adjustment (CVA)	-	-	-
11	Equity positions under the simple risk weight approach	-	-	-
12	Equity investments in funds - look-through approach	-	-	-
13	Equity investments in funds - mandate-based approach	-	-	-
14	Equity investments in funds - fall-back approach	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the banking book	24	40	2
19	Of which: securitisation standardised approach (SEC-SA)	24	40	2
20	Market risk	-	-	-
23	Capital charge for switch between trading book and banking book	-	-	-
24	Operational risk	78,292	78,292	6,263
25	Amounts below thresholds for deduction (subject to 250% risk weight)	-	-	-
26	Floor adjustment	-	-	-
27	Total	569,336	584,581	45,547



### Difference between regulatory exposure amounts and carrying value in financial statements:

Due to a simple business model and absence of any complex financial instruments such as derivatives etc. the regulatory exposure amounts are similar to carrying values in financial statements, with differences reflected in individual asset/liabilities classes purely driven by grouping/classification methodology.

Table LI1	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:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and cash equivalent	136,059	128,219	128,219	-	-	-	-
Loans and advances	743,841	749,350	749,350	-	-	-	491
Investment securities	376,912	385,487	385,476	-	11	-	-
Goodwill	8,257	8,257	-	-	-	-	8,257
Other Assets	52,178	50,614	50,614	-	-	-	-
Total Assets	1,317,247	1,321,927	1,313,659	-	11	-	8,748
Liabilities							
Deposit Liabilities	1,193,991	1,193,991	-	-	-	-	1,193,991
Items in the course of collection	-	-	-	-	-	-	-
Other Liabilities	14,915	19,104	-	-	-	-	19,104
Repurchase agreements	-	-	-	-	-	-	-
Trading portfolio liabilities	-	-	-	-	-	-	-
Financial liabilities designated at fair value	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Total Liabilities	1,208,906	1,213,095	-	-	-	-	1,213,095

As the difference between the two categories is insignificant, presentation of table LI2 is not required.

## 7. Credit Risk

Credit risk is inherent in the Bank's various lending and business activities. Credit risk is the risk of loss arising from a customer or counterparty failing to meet their financial obligations to the Bank as they fall due. The Bank provides credit through residential and commercial mortgages, secured and unsecured loans and credit cards. The majority of mortgage lending is originated by the Bank and retained and serviced within its personal and business lending units. The Bank also participates in a small number of syndicated loan transactions and club deals, nearly all of which are originated by its parent as lead arranger.

Adverse changes in the credit quality of borrowers or a general deterioration in economic conditions could affect the recoverability and value of Clarien's assets and therefore its financial performance. Comprehensive risk management methods and processes have been established as part of Clarien's overall risk framework to measure, mitigate and manage credit risk within Clarien's risk appetite.

Exposure, as shown in these credit risk disclosures, is defined as the exposure value under the regulatory definitions for capital purposes.

Clarien uses a wide range of techniques to reduce the credit risk of its lending. The most basic of these is performing an assessment of the ability of a borrower to service the proposed level of borrowing without distress. However, the risk can be further mitigated by obtaining security for the funds advanced.

The table below shows the credit quality of assets, broken down by loans and debt securities. This table includes both unsecured and secured exposures, and the value of exposures secured by collateral as at September 30<sup>th</sup>, 2023.

CR1 Credit Quality of Assets		a	b	c	d	e	g
		Carrying values of		Allowances/ impairments	Of which ECL accounting provisions for credit losses on SA exposures		Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category or Specific	Allocated in regulatory category or General	
1	Loans	65,904	707,358	24,403	23,912	491	748,859
2	Debt securities	-	385,487	-	-	-	385,487
3	Off-balance sheet exposures	-	84,675	-	-	-	84,675
4	Total	65,904	1,177,520	24,403	23,912	491	1,219,021

Defaulted exposures refer to the gross carrying value of exposures that are past due for more than 90 days.

Clarien uses the standardized approach for the following credit risk exposure classes and these are displayed in the following tables section 8.4 to 8.6:

- Cash in hand;
- Claims on Sovereigns and Multilateral Development banks;
- Public Sector Entities;
- Corporates (non-financial);
- Banks and Securities Firms;
- Securitizations;
- Retail loans;
- Retail mortgages (secured against residential property);

- Commercial mortgages (secured against property);
- Past due loans;
- Other Balance Sheet exposures; and
- Non market related items.

### 7.1 Credit Risk: Loans and Mortgages

The effective management of credit risk requires the establishment of an appropriate credit risk culture. Key credit risk policies and credit risk management strategies are important elements used to create this culture. The Bank has implemented appropriate internal processes and risk-oriented strategies for actively identifying, managing, monitoring and reporting credit risk on its mortgage and non-mortgage portfolios which are suitable to the nature, scale and complexity of the business. This is supported by policies and controls such as internal approval limits and thresholds.

The Board, through its Risk Committee, and the management Risk Review Committee and Credit Committee, reviews and approves the Bank's credit risk strategy and credit risk policies. The Board adopts credit limits (e.g. LTVs) and risk appetite thresholds within those defined by the BMA always maintaining the regulatory minimums.

The objectives of the credit risk strategy are to ensure that:

- The risk parameters for new underwritings, and for the portfolio as a whole are clearly specified;
- Target markets and product offerings are well defined at both enterprise-wide and business line levels;
- Transactions and limits are managed in a manner that is consistent with the Bank's risk appetite;
- Loans are priced on a risk adjusted basis;
- Loans are appropriately collateralized and collateral is maintained and valued periodically;
- Credit risk is managed from concentration and country risk perspectives; and
- Sufficient information and data is maintained to be able to track and monitor changes over time.

The credit risk policy articulates the credit risk management framework, including:

- Aggregate limits, beyond which credit applications must be escalated to the Bank's Credit Committee and Risk Committee; and
- Single name/aggregation exposures, beyond which exposures must be reported and reviewed by the Credit Committee, with Board oversight.

The Bank's Risk Management team develops the credit risk management framework and policies that detail, among other things, the credit risk rating system and associated parameter estimates; the delegation of authority for granting credit; the calculation of the allowance for credit losses; and the authorization of write-offs. The Risk function is headed by the Chief Risk Officer and the team adjudicates credits, performs credit risk analysis and credit risk reporting to the Credit Committee and Risk Committee.

Credit Risk Management generate multiple risk reports for the Risk Review Committee, Credit Committee and Risk Committee of the Board, highlighting risk analysis, delinquency exposures, counterparty and country risk measures and other aggregate / portfolio effects.

Both commercial credit exposures, as well as residential credit risk, are segmented by purpose codes, collateral and applicable industries. The Bank does not have excessive concentration to any single borrower or related group of borrowers. A review of exposures in excess of 5% of the capital base is conducted by the Risk Committee on a quarterly basis.

An integral part of credit risk management, the Asset Remediation function, is to formally review and monitor past due and potential problem loans to determine which credits, if any, need to be charged off. The allowance for credit impairment losses is reviewed quarterly to determine the amount necessary to maintain an adequate provision for credit losses.

Banking units and the Risk function regularly review the various segments of the loan portfolio to assess the impact of economic trends or specific events on the performance of the portfolio and determine whether corrective action is required. The results of these reviews are reported to the Credit Committee and, when significant, to the Risk Committee of the Board.

The Bank's credit risk rating system utilizes an eight point scale used to differentiate the risk of default of borrowers and the risk of loss on facilities. The Bank's credit risk rating system is subject to a governance and oversight framework. The objectives of this framework are to ensure that:

- Credit risk ratings, methodologies and parameters are appropriately designed and developed, independently validated and regularly reviewed; and
- The review and validation processes represent an effective challenge to the design and development process.

## 7.2 Credit Risk Management

Business groups within the Bank analyze, evaluate and recommend all credit requests and financial restructurings to the CRM function. To ensure that risks are adequately assessed, properly approved, continually monitored and actively managed, CRM provides the independent adjudication function. The decision-making process begins with an assessment of the credit risk of the individual borrower or counterparty. Key factors considered in the assessment include:

- The borrower's debt service ability;
- The borrower's current and projected income, financial results or credit statistics;
- The industry in which the borrower operates;
- Economic trends;
- Collateral risk; and
- An assessment of the borrower's management.

Based on this assessment, a risk rating is assigned at the facility (or counterparty) level, taking into consideration additional factors, such as collateral/security, structure, term and any other forms of credit risk mitigation or credit enhancements that may affect the amount of potential loss in the event of a default. Security typically takes the form of registered mortgages or charges over real estate; or inventory, receivables and operating assets when lending to corporate and commercial borrowers; and cash or treasuries for trading lines such as securities lending, repurchase transactions, and derivatives. The use of such collateral is in line with terms that are usual and customary to standard lending activities in Bermuda. The types of acceptable collateral and related third party valuation processes are documented in risk management policies and manuals. Other forms of credit risk mitigation include third party guarantees and, in the case of derivatives facilities, master netting agreements.

The Credit Committee (depending on the size of the overall exposure) is the final arbiter of internal risk ratings. Individual credit exposures are regularly monitored by the business line units, Finance and Risk Management for any signs of deterioration and losses are re-rated as necessary.

## 7.3 Credit Risk: Interbank Lending and Investment Securities

The Bank engages in short-term lending to other bank counterparties and invests in securities as part of its ongoing liquidity management program. Risks are managed within specific counterparty limits approved by the Credit Committee and limits, asset quality plans and criteria set out in the Bank's Investment Policy Statement, which is approved by the Risk Committee. Furthermore the portfolio will comply with the current Credit Risk Policy and limits approved by the Credit Committee. The Bank uses external credit agency ratings, as detailed in section 7.7, supplemented by internal analysis to manage the risks associated with interbank lending and investment activities.

## 7.4 Average and Total Credit Risk Exposure

The following table sets out asset class exposures as at September 30<sup>th</sup>, 2023. Amounts include on and off-Balance Sheet exposures after applying regulatory credit conversion factors.

Exposures under the standardised approach	Average Exposure	Exposure as at Sep 2023
	\$'000	\$'000
Cash	42,160	40,760
Claims on Sovereigns and multilateral development banks	303,279	322,400
Claims on Public Sector Entities	141,936	143,985
Claims on Corporates	106,442	113,696
Claims on Banks and Securities Firms	160,520	149,899
Securitisations	12	11
Retail Loans	29,810	31,398
Residential Mortgages	397,640	387,552
Commercial Mortgages	37,917	30,991
Past Due Loans	45,060	42,362
Other Balance Sheet Exposures	52,135	50,616
Non-market Related Off Balance Sheet Credit Exposures	85,652	84,675
<b>Total exposures under the standardised approach</b>	<b>1,402,563</b>	<b>1,398,345</b>

### 7.5 Standardized Gross Exposure by Geographical Area

The table below shows an analysis of credit risk by geographical location as at September 30<sup>th</sup>, 2023. The geographical area is determined by the country of incorporation for companies and for individuals by the country of residence.

Exposures under the standardised approach	North America	Europe	Australia	Total
	\$'000	\$'000	\$'000	\$'000
Cash	40,760	-	-	40,760
Claims on Sovereigns and multilateral development banks	309,798	11,319	1,283	322,400
Claims on Public Sector Entities	143,985	-	-	143,985
Claims on Corporates	113,696	-	-	113,696
Claims on Banks and Securities Firms	107,923	41,976	-	149,899
Securitisations	11	-	-	11
Retail Loans	31,398	-	-	31,398
Residential Mortgages	387,552	-	-	387,552
Commercial Mortgages	30,991	-	-	30,991
Past Due Loans	42,362	-	-	42,362
Other Balance Sheet Exposures	50,616	-	-	50,616
Non-market Related Off Balance Sheet Credit Exposures	84,675	-	-	84,675
<b>Total exposures under the standardised approach</b>	<b>1,343,767</b>	<b>53,295</b>	<b>1,283</b>	<b>1,398,345</b>

### 7.6 Standardized Gross Exposures by Residual Maturity

The table below sets out an analysis of credit risk by maturity as at September 30<sup>th</sup>, 2023. Residual maturity of exposures is based on contractual maturity dates and not expected or behaviorally adjusted dates. Cash flows receivable over the life of the exposure are not included.

Asset class exposures by residual maturity	Within 1 yr	After 1 but within 5 years	After 5 years	Total
	\$'000	\$'000	\$'000	\$'000
Cash	40,760	-	-	40,760
Claims on Sovereigns and Multilateral Development Banks	158,766	29,523	134,111	322,400
Claims on Public Sector Entities	56,621	60,697	26,667	143,985
Claims on Corporates	39,542	13,324	60,830	113,696
Claims on Banks and Securities Firms	90,964	-	58,935	149,899
Securitisations	-	-	11	11
Retail	10,199	6,525	14,674	31,398
Residential Mortgages	3,118	27,403	357,031	387,552
Commercial Mortgages	1,142	5,278	24,571	30,991
Past Due Loans	12,821	6,532	23,009	42,362
Other Balance Sheet Exposures	5,097	-	45,519	50,616
Non-market Related Off Balance Sheet Credit Exposures	64,721	19,954	-	84,675
<b>Total exposures under the standardised approach</b>	<b>483,751</b>	<b>169,236</b>	<b>745,358</b>	<b>1,398,345</b>

### 7.7 Application of the Standardized Approach for Credit Risk

The standardized approach stipulates that banks should use an External Credit Assessment Institution (“ECAI”), such as a credit rating agency, to determine the risk weighting applied to exposures to certain counterparties.

The Bank uses eligible external ratings from Standard & Poor’s (“S&P”) and Moody’s as its nominated ECAI to assign exposures a credit quality step and thus calculate the credit risk capital requirement for the following classes of exposure: Sovereigns and multilateral development banks (“MDB’s”); Public sector entities; Corporates; and Banks and Securities firms. The Bank does not make material use of on- or off-Balance Sheet netting for all applicable exposure classes.

Where there are assessments by two chosen ECAIs that map to different risk weights, the higher risk weight applies and where no external rating is used in the RWA calculation, the unrated credit quality step applies.

Below table presents the mapping between the external ratings and the Credit Quality Steps (“CQS”).

Credit Quality Step	S&P's assessments	Moody's assessments
1	AAA to AA-	Aaa to Aa3
2	A+ to A-	A1 to A3
3	BBB+ to BBB-	Baa1 to Baa3
4	BB+ to BB-	Ba1 to Ba3
5	B+ to B-	B1 to B3
6	CCC+ and below	Caa and below

All other exposure classes are assigned risk weightings as prescribed in the BMA’s regulatory guidance.

The following table provides, for material segments only, an analysis of exposures by credit quality steps as at September 30<sup>th</sup>, 2023:

	Credit Quality step	Risk weight %	Exposure '000	Exposure after credit risk mitigation '000
Sovereigns and MDB's	1	0%	301,999	301,999
	2	20%	20,401	20,401
	Total		322,400	322,400
Public Sector entities	2	50%	131,276	41,540
	3	100%	12,709	12,709
	Total		143,985	54,249
Corporates	1	20%	15,392	15,392
	3	100%	98,304	76,074
	Total		113,696	91,466
Banks & Securities firms	2	20% / 50%	48,215	48,215
	3	20% / 50%	101,684	101,685
	Total		149,899	149,899

## 7.8 Past Due and Impaired Financial Assets

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit and loss are impaired. Evidence of impairment may include indications that the borrower or group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments or the debt being restructured to reduce the burden on the borrower. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, the disappearance of an active market for a security or other observable data relating to a group of assets such as adverse changes in the payment status of the issuers in the group, or economic conditions that correlate with defaults in the group.

Other than loans, mortgages and credit card receivables, no other financial assets were considered to be impaired as at September 30<sup>th</sup>, 2023.

Collateral obtained to mitigate credit risk is contracted, documented and safely stored.

The Bank's definition of a financial restructure is any change to a loan's terms that are not predicated on financial difficulty and where the Bank is not granting a concession that it would not have otherwise approved (i.e. changes that do not fall into the TDR definition).



### 7.9 Past Due and Impaired Loans

In the opinion of management, a loan or mortgage is considered impaired when there has been deterioration in credit quality of the borrower to the extent that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Secured loans and mortgages where interest or principal is contractually past due 90 days or more are automatically classified as impaired, unless management determines that the loan or mortgage is fully secured, is in the process of collection and the collection efforts are reasonably expected to result in repayment of the loan or mortgage and overdue interest in full. For regulatory reporting purposes, loans are classified as past due after 90 days have passed since a payment is missed. Credit card receivables that are contractually 180 days past due are automatically written off.

	CR2 Changes in defaulted loans and securities amounts in \$'000	September'23
1	Defaulted loans and debt securities at the end of the previous reporting period	45,739
2	Loans and debt securities that have defaulted since the last reporting period	662
3	Returned to non-default status	(2,442)
4	Amounts written off	130
5	Other changes	(1,727)
6	Defaulted loans and debt securities at the end of the reporting period	42,362

Defaulted Loans as per the Table CR1 includes provision allowance amount whereas Table CR2 provides these loan numbers net of allowance. Please see below the reconciliation:

Defaulted Loans as per CR1	65,904
Less: Allowance (on defaulted loans)	(23,542)
Net Defaulted loans as per CR2	42,362

### 7.10 Allowance for Credit Losses on Loans, Mortgages and Credit Card Receivables

The adequacy of the allowance for credit losses on loans, mortgages and credit card receivables is regularly reviewed by management taking into consideration matters such as current and future macroeconomic conditions, past loss experience and individual circumstances which may affect a borrower's future ability to pay. The allowance for credit losses is established by charges against income and a corresponding reduction of the related asset category, based on management's assessment of the estimated amount of losses within the loan, mortgage and credit card portfolios. The allowance for credit losses consists of Stage 1-3 loan loss allowances as determined under the IFRS 9 accounting standard. The loan loss allowance is the amount required to reduce the carrying value of an impaired loan to its estimated realizable amount. Generally, the estimated realizable amount is determined by discounting the expected future cash flows at the loan's original effective interest rate.

Allowances for group of homogeneous loans are established using a formula approach based on historic data. The methodology uses statistical analysis of historical data on delinquency and collateral trends to estimate the probability of default and expected collateral values respectively. The loss given default is then estimated based on the expected collateral values. The estimate of loss arrived at on the basis of historical information is then reviewed to ensure that it appropriately reflects the economic conditions and product mix at the reporting date. Default rates and loss factors are derived from actual loss experience.

The following tables show the past due and impaired loans as well as net impairment loss on financial assets for the period ended September 30<sup>th</sup>, 2023.

Aging	Classification	Gross loan balance	Loan provision			Net loan balance
			ECL Stage I	ECL Stage II	ECL Stage III	
7 to 30 Days	Commercial	3,458	-	-	-	3,458
	Residential	5,995	(14)	-	-	5,981
	Retail & Other	232	(16)	-	-	216
31 to 60 Days	Commercial	887	-	-	-	887
	Residential	3,789	-	(57)	-	3,732
	Retail & Other	-	-	-	-	-
61 to 90 Days	Commercial	3,335	-	(2)	-	3,333
	Residential	1,776	-	(46)	-	1,730
	Retail & Other	370	-	(1)	-	369
Impaired	Commercial	21,743	-	-	(6,730)	15,013
	Residential	40,975	-	-	(13,943)	27,032
	Retail & Other	4,467	-	-	(3,000)	1,467
Not past due	Commercial	284,900	(334)	(131)	-	284,435
	Residential	369,054	(112)	-	-	368,942
	Retail & Other	27,263	(15)	(2)	-	27,246
<b>Total</b>		<b>768,244</b>	<b>(491)</b>	<b>(239)</b>	<b>(23,673)</b>	<b>743,841</b>

	Commercial Mortgage	Residential Mortgage	Retail & Other	Total
	\$'000	\$'000	\$'000	\$'000
Net impairment loss on financial assets for the period ending September 30, 2023 as recorded in the Consolidated Statement of Comprehensive Income	1,277	2,165	116	3,558

All the above loans are originated in North America region.

The following table summarizes the movement in the allowance for expected credit losses for the six month period ended September 30, 2023:

	Stage 1	Stage 2	Stage 3	Total
Balance at March 31, 2023	599	407	24,244	25,250
Net Write offs	-	-	(2,227)	(2,227)
Recoveries	-	-	129	129
Other Adjustments	-	-	(276)	(276)
Provision for credit losses	(108)	(168)	1,803	1,527
<b>Balance at September 30, 2023</b>	<b>491</b>	<b>239</b>	<b>23,673</b>	<b>24,403</b>

During the period from April 1<sup>st</sup>, 2023 to September 30<sup>th</sup>, 2023 \$4.7 million of loans were restructured out of which \$0.9m were considered impaired.

Given the Bank's credit policies and procedures, management does not consider loans past due less than 7 days as delinquent.

## Credit Risk Mitigation

### 7.11 Loans and Mortgages

The effective management of credit risk in the Bank's loan book is supported by relevant policies and guidelines on the role of collateral supporting these obligations. The purpose of taking collateral is to act as a secondary source of repayment of the loan if the borrower defaults and is unable to cure the default by means other than the sale of the collateral.

The Bank relies heavily on the valuation and revaluation of individual collaterals, determination of the value of pledged collateral for secured loans, determination of collateral acceptability for the purposes of credit risk mitigation and collateral enforcement, should the client be in default.

Lending Officers, through their credit underwriting analysis and under the guidance of Risk Management, determine whether and what type of collateral is required and the value of that collateral. The type of collateral held can include, but is not limited to: residential real estate; commercial properties; debentures covering business assets such as receivables and equipment; and pledging of cash deposits and investment securities portfolios. Significant haircuts are made on investment security portfolios minimizing any potential market risks. Clarien has no exposures to credit derivatives. Guarantees from third parties are also obtained in some instances. Independent third party valuations of collateral are monitored.

The following table reflects the split between the Banks secured and unsecured exposures, as at September 30<sup>th</sup>, 2023.

	CR3 CRM techniques	a	b	c	d	e
	Amounts in \$000	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount
1	Loans	72,446	565,418	565,418	111,486	111,486
2	Debt securities	385,487	-	-	-	-
3	Total	457,933	565,418	565,418	111,486	111,486
4	Of which defaulted	2,160	40,202	40,202	-	-

Please note [CR1:1/g] is equal to sum of the [CR3:1/a] + [CR3:1/b] + [CR3:1/d]

### 7.12 Interbank Lending and Investment Securities

Collateral held as security for investment securities is determined by the nature of the instrument. Debt securities and treasuries are generally unsecured, whereas asset-backed securities and similar instruments are secured by pools of financial assets.

### 7.13 Financial Collateral

The overall value of financial collateral used as credit risk mitigation within the Pillar 1 calculations was \$115.87 million against loans and advances to customers as incorporated in the determination of RWA values in Section 6.2 above.

The tables that follow demonstrate the effects of the CRM techniques as at September 30<sup>th</sup>, 2023.

CR4 Credit Mitigation Effects amounts in \$'000s						
Asset classes	Exposures post-CCF and CRM		Exposures post-CCF and CRM		RWA	RWA density
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount		
1 Cash	40,760	-	40,760	-	25	-
2 Sovereigns and their central banks	322,400	-	322,400	-	4,080	1.27%
3 Public sector entities	143,985	16,551	54,249	6,909	34,535	56.47%
4 Multilateral development banks	-	-	-	-	-	-
5 Banks	149,899	-	149,899	-	53,680	35.81%
6 Securities firms	11	-	11	-	24	218.18%
7 Corporates	113,696	23,212	91,466	7,266	85,918	87.02%
8 Regulatory retail portfolios	31,398	41,184	29,434	2,310	26,990	85.02%
9 Secured by residential property	387,552	3,728	386,417	1,851	141,461	36.43%
10 Secured by commercial real estate	30,991	-	30,195	-	30,195	100.00%
11 Equity	2	-	2	-	2	100.00%
12 Past-due loans	42,362	-	42,347	-	63,520	150.00%
13 Higher-risk categories	-	-	-	-	-	-
14 Other assets	50,614	-	50,614	-	50,614	100.00%
<b>Total</b>	<b>1,313,670</b>	<b>84,675</b>	<b>1,197,794</b>	<b>18,336</b>	<b>491,044</b>	<b>40.38%</b>

There are no significant changes to the above numbers over the reporting period.

CR5 Exposures by class and RWA amounts in \$'000s									
Asset classes	Risk weight								Total credit exposures amount (post CCF and post-CRM)
	0%	20%	35%	50%	75%	100%	150%	Others	
1 Cash	40,635	125	-	-	-	-	-	-	40,760
2 Sovereigns and their central banks	301,999	20,401	-	-	-	-	-	-	322,400
3 Public sector entities	-	-	-	48,449	-	12,709	-	-	61,158
4 Multilateral development banks	-	-	-	-	-	-	-	-	-
5 Banks	-	70,899	-	79,000	-	-	-	-	149,899
6 Securities firms	-	-	-	-	-	6	-	5	11
7 Corporates	-	15,392	-	1,000	-	82,340	-	-	98,732
8 Regulatory retail portfolios	-	-	-	-	19,006	12,738	-	-	31,744
9 Secured by residential property	-	-	373,537	1,302	13,429	-	-	-	388,268
10 Secured by commercial real estate	-	-	-	-	-	30,195	-	-	30,195
11 Equity	-	-	-	-	-	2	-	-	2
12 Past-due loans	-	-	-	-	-	-	42,347	-	42,347
13 Higher-risk categories	-	-	-	-	-	-	-	-	-
14 Other assets	-	-	-	-	-	50,614	-	-	50,614
<b>Total</b>	<b>342,634</b>	<b>106,817</b>	<b>373,537</b>	<b>129,751</b>	<b>32,435</b>	<b>188,604</b>	<b>42,347</b>	<b>5</b>	<b>1,216,130</b>

There are no significant changes to the above numbers (other than movements between investment asset classes to some extent) over the reporting period.

#### 7.14 Counterparty Credit Risk for Derivative Contracts

The Bank may use derivative instruments to hedge its exposure to market risk, for example foreign exchange and interest rate risk. Counterparty Credit Risk (“CCR”) is the risk that the counterparty to a transaction could default before the final settlement of the transaction’s cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default. Unlike exposure to credit risk through a loan, where the exposure to credit risk is unilateral and only the lending bank faces the risk of loss, CCR creates a bilateral risk of loss whereby the market value for many different types of transactions can be positive or negative to either counterparty. The market value is uncertain and can vary over time with the movement of underlying market factors.

Currently the Bank does not have any exposure to derivative transactions and has very insignificant counterparty credit risk. Clarien has an exposure to the Bermuda Stock Exchange, as a central counterparty (CCP). Clarien BSX Limited is a direct member of a CCP for local equity securities. The exposure to the exchange is typically short dated and overnight.

In the case where these transactions take place liquidity is held for both additional collateral that would have to be posted in the event of a credit rating downgrade and adverse movements in market rates. Collateral requirements following downgrade are assessed on a contractual basis, whereas liquidity for changes in market rates is assessed using historic market rate volatility.

“Wrong-way risk” may occur when exposure to a counterparty is negatively correlated with the credit quality of that counterparty. Hence, there is a tendency for the exposure to increase as the creditworthiness decreases. This risk is managed through the Investment Policy, which governs the requirements for eligible collateral.

Counterparty limits are approved by Credit Risk Management function.

### 7.15 Securitizations

The Bank's only exposure to securitizations is through investment in third party securities, the holding at September 30<sup>th</sup>, 2023 amounted to \$11k.

SEC2 Securitizations amounts in \$'000									
	Bank acts as originator			Bank acts as sponsor			Bank acts as investor		
	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
Retail (total) - of which	-	-	-	-	-	-	11	-	11
Residential Mortgage	-	-	-	-	-	-	11	-	11

SEC4 Capital Requirements amounts in \$'000	Exposure values (by RW bands)					Exposure	RWA	Capital Charge
	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW	SA/SSFA	SA/SSFA	SA/SSFA
Total exposures	-	-	-	-	-	-	-	-
Traditional securitisation	-	-	-	-	-	-	-	-
Of which securitisation	-	-	6	5	-	5	24	2
Of which retail underlying	-	-	6	5	-	5	24	2
Of which wholesale	-	-	-	-	-	-	-	-
Of which re-securitisation	-	-	-	-	-	-	-	-
Of which senior	-	-	-	-	-	-	-	-
Of which non-senior	-	-	-	-	-	-	-	-

## 8. Liquidity Risk

Liquidity risk is the risk that the Bank is not able to meet its financial obligations as they fall due, or can only do so at excessive cost. The Bank's policy is to ensure that sufficient funds are available to meet its ongoing and future commitments to customers and counterparties, both with respect to the demand for loans and the repayment of deposits, and to maintain the confidence of the marketplace in which the Bank operates.

The Bank's Treasury department is responsible for managing liquidity for the Bank on a day to day basis. The Finance function provides various liquidity related reports on a daily/monthly basis, reflecting measurement and close monitoring of the liquidity position of the Bank. Apart from this regular reporting to the senior management, ALCO provides direct oversight on this function and reports to the Risk Review Committee from a governance perspective. Management has recommended internal limits on various benchmarks such as LCR, Loan/Deposit ratio, open Foreign Exchange (FX) positions, NSFR etc. which are always conservative compared to the prevalent Regulatory requirements.

The Bank manages liquidity based on current and forecasted movements in deposits, loans and other related portfolios including off Balance Sheet exposure based on demand, contractual commitments and customer behaviors. This is achieved by (i) adhering to Board approved loan to deposit guidelines (ii) adherence to regulatory mandated liquidity mismatch guidelines with respect to the amount of potential projected cash outflow, looking out one month, as a percentage of total deposits and (iii) maintaining holdings of high quality liquid assets and short maturity interbank placements.

Currently the Bank maintains a portfolio of high quality and liquid assets in the investment portfolio with more than 50% of the portfolio made up of US Treasuries. The Bank's LCR which is a measure of liquidity is above 130% reflecting the very conservative liquidity policy. NSFR for the past few quarters has been around 130% with a Loan/Deposit ratio of around 62.30%. As at September 30, 2023, the Bank holds cash and investments worth approx. BMD \$511 million which is 38.82% of its total Balance Sheet size and 42.83% of its deposit obligations.

The Bank has a formalized and Board approved liquidity contingency plan which highlights the roles and responsibilities and actions to be taken in five stages i) business-as-usual, ii) mild stress, iii) moderate stress, iv) severe stress, and v) adverse stress. This includes events with liquidity crises that can impact the Bank's funding and liquidity position severely.

As part of the annual Capital Assessment and Risk Profile (CARP), the Bank uses the BMA LCR calculations as a base for a stress scenario. The LCR retention ratios on both cash inflows and cash outflows are intended to reflect a 'Stressed Liquidity Event'. The Bank further stresses these factors by a further 25%.

The Bank relies mainly on customer deposits as a funding source, which has been steady and stable historically. Notwithstanding the continued stability of the Bank's deposit funding, the Bank has established external repurchase facilities as a contingency funding plan. The Bank maintains a very sound investment portfolio consisting of US Treasuries and high quality corporate bonds, which places the Bank in a good position to raise necessary funding in a very short timeframe to meet any adverse liquidity conditions. Acquisition of the Bank's holding company by NCB Financial Group in December 2017 also provides the Bank with additional avenues of support from its affiliate banking institution in Jamaica, National Commercial Bank Jamaica, should such adverse conditions occur.

The Bank operates only in Bermuda and does not have any foreign branches or operations. The Bank transacts only a small number of FX positions, predominantly spot transactions for customer flow. As a result the Bank has no substantial net exposure to foreign exchange rate fluctuations.

Liquidity profile of the Bank's Liabilities as at September 30<sup>th</sup>, 2023 is as follows:

	Carrying amount	Gross nominal	Repayable on demand	Up to 3 mths	3-6 mths	6-12 mths	1-5 yrs	>5 yrs
Total Due to Depositors	1,187,187	(1,210,011)	(731,444)	(100,806)	(60,331)	(197,237)	(120,193)	-
Accrued Interest	6,804							
Accts Payable & Accrued Liabilities	6,890	(6,890)	(6,890)	-	-	-	-	-
Due to Clients	326	(326)	(326)	-	-	-	-	-
Lease Liabilities	7,288	(9,376)	-	(243)	(264)	(485)	(3,212)	(5,172)
<b>Total</b>	<b>1,208,495</b>	<b>(1,226,603)</b>	<b>(738,660)</b>	<b>(101,049)</b>	<b>(60,595)</b>	<b>(197,722)</b>	<b>(123,405)</b>	<b>(5,172)</b>
Unrecognized Loan Commitments	-	(45,453)	(2,708)	(12,621)	(475)	(12,403)	(14,591)	(2,655)
LOC	-	(3,259)	-	(301)	(1,958)	(1,000)	-	-
<b>Total Financial Liabilities</b>	<b>1,208,495</b>	<b>(1,275,315)</b>	<b>(741,368)</b>	<b>(113,971)</b>	<b>(63,028)</b>	<b>(211,125)</b>	<b>(137,996)</b>	<b>(7,827)</b>

Please Note: We have excluded Deferred Income because this is not considered as a financial liabilities.

### 8.1 Liquidity Coverage Ratio (LCR)

Please see below LCR details based on past 6 months data. Please note the following:

- The Bank has a LCR ratio of 174% reflecting a very healthy liquidity position.
- The Bank's HQLA is comprised predominantly of US sovereign debt and high quality liquid investments.
- There are no significant intra period movements.
- The Bank's main source of funding continues to be customer deposits.
- The Bank has an insignificant foreign currency exposure and hence currency mismatch is not material.
- The Bank has captured all the relevant cash flows for this calculation.

Currently the Bank does not have any borrowings from capital markets or wholesale funding sources, hence there are no concentration limits on funding sources or collateral pools.



LIQ1	a	b
	Total unweighted value (average)	Total weighted value (average)
<b>High-quality liquid assets</b>		
1 Total HQLA		359,788
<b>Cash outflows</b>		
2 Retail deposits and deposits from small business customers, of which:	361,068	36,107
3 Stable deposits	-	-
4 Less stable deposits	361,068	36,107
5 Unsecured wholesale funding, of which:	361,271	228,820
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7 Non-operational deposits (all counterparties)	361,271	228,820
8 Unsecured debt	-	-
9 Secured wholesale funding		-
10 Additional requirements, of which:	46,582	9,159
11 Outflows related to derivative exposures and other collateral requirements	-	-
12 Outflows related to loss of funding of debt products	-	-
13 Credit and liquidity facilities	46,582	9,159
14 Other contractual funding obligations	3,311	166
15 Other contingent funding obligations	5,021	5,021
16 TOTAL CASH OUTFLOWS		279,273
<b>Cash inflows</b>		
17 Secured lending (eg reverse repo)	-	-
18 Inflows from fully performing exposures	10,744	5,372
19 Other cash inflows	66,702	66,702
20 TOTAL CASH INFLOWS	77,446	72,074
		<b>Total adjusted value</b>
21 Total HQLA		359,788
22 Total net cash outflows		207,198
23 Liquidity coverage ratio (%)		174%

## 8.2 Net Stable Funding Ratio (NSFR)

The NSFR requires banks to maintain a stable funding profile in relation to the composition of their assets and Off-Balance Sheet activities, looking over a one year horizon. The BMA requirement is 100% coverage.

Please see below NSFR workings based on September 30<sup>th</sup>, 2023.

- The Bank has a NSFR ratio of 142% which is in line with previous periods with no significant movements.
- Customer deposits continue to be the main source of funding for the Bank.
- The Bank has a very simple Balance Sheet comprising of deposits and loans and does not have any significant amount of interdependent assets/liabilities.

LIQ2		a	b	c	d	e
		Unweighted value by residual maturity				Weighted value
		No maturity*	<6 months	6 months to <1 year	≥1 year	
Available stable funding (ASF) item						
1	Capital:	-	-	-	137,228	137,228
2	Regulatory capital	-	-	-	137,228	137,228
4	Retail deposits and deposits from small business customers:	-	530,596	173,023	86,146	719,403
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	-	530,596	173,023	86,146	719,403
7	Wholesale funding:	-	365,553	17,196	21,431	110,825
8	Operational deposits	-				
9	Other wholesale funding	-	365,553	17,196	21,431	110,825
11	Other liabilities:	-	-	-	-	-
13	All other liabilities and equity not included in the above categories	-	17,723	324	6,628	6,790
14	Total ASF					974,246
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					17,866
16	Deposits held at other financial institutions for operational purposes	56,777	-	-	5,450	33,838
17	Performing loans and securities:	11,778	22,776	47,943	691,438	531,698
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	-	-	-	10,033
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:	11,775	19,705	46,718	-	33,212
21	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	-	1,566	68	262,334	196,414
22	Performing residential mortgages, of which:	-	-	-	-	-
23	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	-	1,505	1,157	370,159	241,934
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	2	-	-	58,945	50,105
26	Other liabilities:	-	21,733	5,450	74,568	101,751
27	Physical traded commodities, including gold	-				-
31	All other assets not included in the above categories	-	21,733	5,450	74,568	101,751
32	Off-balance sheet items		-	-	84,675	2,273
33	Total RSF					687,426
34	Net Stable Funding Ratio (%)					142%

\*Items to be reported in the "no maturity" time bucket do not have a stated maturity. These may include, but are not limited to, items such as capital with perpetual maturity, non-maturity deposits, short positions, open maturity positions, non-HQLA equities and physical traded commodities.

## 9. Market Risk

Market risk is the potential adverse change in the Bank's income or in the value of the Bank's holdings of financial instruments arising from movements in interest rates, foreign exchange rates or equity prices. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return on risk.

The Bank's exposure to market risk is governed by a policy approved by the ALCO and ratified by the Risk Committee. The policy sets out the nature of risk which may be taken, and applicable maximum risk limits. Compliance with the Bank's risk limits and the Bank's exposure to market risks are reviewed at monthly meetings of ALCO and quarterly meetings of the Risk Committee. Since the Bank does not engage in propriety trading activities, its market risk exposure principally arises from its regular banking activities.

Day-to-day monitoring and management of market risk is undertaken by the Treasury Department. Exposure to market risk can be managed by using hedging instruments or by utilizing natural hedges existing within the variety of financial instruments the Bank holds.

The Bank has submitted a policy statement to the BMA declaring its activities as non-trading and has obtained a *de minimis* exemption from holding market risk capital due to the nature of its operations.

### 9.1 Interest Rate Risk

#### Qualitative Disclosures of IRRBB

This section contains qualitative disclosures providing a description of the risk management objective and policies concerning IRRBB.

#### a) Definition of IRRBB for the purposes of risk control and measurement.

The Bank defines IRRBB as Risk of losses, or reduced income, due to timing mismatches in the sensitivity of the Banks assets and liabilities to interest rate movements within the Banking Book.

A sufficiently high level of IRRBB could pose a significant threat to the Bank's capital and/or future earnings if not managed appropriately. Changes in interest rates can affect both the underlying economic value of the Bank's assets, liabilities and off-Balance Sheet instruments and its net interest income.

IRRBB comprises:

**Repricing risk (mismatch risk)** - timing difference in the maturity and repricing of bank assets, liabilities and off-Balance Sheet positions.

**Basis Risk** - imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics.

**Option Risk** – the risk related to interest-related options embedded in Bank products. Such embedded optionality may exist, where the Bank or its customers can make elections such as prepayment of a loan or early redemption of a deposit that alter the timing and amount of their cash flows.

**b) The Bank's IRRBB management and mitigation strategies.**

IRRBB is managed within the Bank's market risk framework. The Board of Directors retains ultimate responsibility for the effective management of IRRBB. Through the Risk Committee the Board has delegated its responsibility for the management of IRRBB to ALCO. At management level, the Bank's ALCO proactively oversees the management of IRRBB.

The appropriate risk limits have been established, managing a robust risk control and reporting process. Both economic value (EVE) and earning based measurements are used to measure IRRBB and monitor this risk against the limits. Compliance with these limits is measured and reported to ALCO and the Board.

ALCO's functions include: reviewing the framework to identify, measure, evaluate, control and monitor IRRBB in the Bank's Balance Sheet.

Hedging – The Bank primarily maintains its risk position within the desired levels through adjustments to balance composition and does not intend as a matter of normal course to fully hedge the interest rate risk. However, if or when a hedge is concluded to be executed the proper documentation is maintained and accounting is done as per relevant IFRS standards.

Conduct of Stress Testing – The Bank currently conducts stress tests for net interest income variation, by assessing the impact of various interest rate shocks on the Bank's earnings. In addition, EVE stress tests are required by the Basel Committee's guidelines which have been adopted by the Bank.

Model Validation – The Bank has an established model validation framework that covers IRRBB models. All new models and any revisions to existing models will be presented to ALCO for approval.

The role of independent audit – Internal Audit function is responsible for periodically reviewing the robustness of the IRRBB management framework by assessing the reliability of reporting effectiveness and efficiency of the IRRBB policy and framework.

**c) The Periodicity of the calculation of the Bank's IRRBB measures.**

The Bank undertake its IRRBB measurement on a monthly basis during the normal course of business. The Bank employs various analytical techniques to measure interest rate sensitivity monthly within the Banking Book on both an earnings and economic-value basis. This includes an interest rate repricing profile analysis, a simulated modelling of the Bank's earnings at risk and economic value for a standard interest rate shock, and stress testing of earnings and economic value for multiple stressed interest rate scenarios. These analyses include the application of both parallel and non-parallel interest rate shocks.

Earnings Approach (Earnings at risk): This is defined by the impact of changes in interest rate on the Bank's earnings. This is measured by changes in net interest income assuming a constant Balance Sheet, where maturing or repricing cash flows are replaced by new cash flows with identical features with regards to amount, repricing period and spread components.

Economic Value Approach (EVE): EVE sensitivity is computed with the assumption of a run-off Balance Sheet, where the existing interest sensitive positions in the Banking Book are amortized based on their repricing cash flow and are not replaced by any new business. EVE measures the change in the present value of the assets and liabilities. The measure therefore depicts the change in economic equity resulting from an interest rate shock.

**d) Interest rate shock and stress scenarios.**

The Bank has applied the six interest rate shock scenarios as prescribed in the Basel guidance (namely parallel up, parallel down, short rate up, short rate down, flattener and steepener).

While all scenarios are applied for  $\Delta$  EVE computations, only the parallel shocks are utilized to compute the  $\Delta$  NII using the income approach.

**e) Modelling assumptions.**

The modelling assumptions used in the Bank's IRRBB report have been adopted for internal capital adequacy purposes from 1<sup>st</sup> January 2018.

**f) IRRBB hedging.**

The Bank does not fully hedge interest rate risk but targets to maintain its IRRBB position at a desired level, within the risk appetite, through strategic planning of Balance Sheet composition including an appropriate tenor and repricing mix of fixed and floating rate products.

Within the Bank's ALCO policies, Treasury is permitted from time to time to carry out fair value and cash flows hedges to hedge interest rate risk on particular assets and liabilities in order to maintain risk and return parameters within appetite and plan. Currently there are no such hedges.

**g) Key modelling assumptions.**

The modelling assumptions considered for the computation of  $\Delta$  EVE and  $\Delta$  NII:

- For  $\Delta$  EVE commercial margins and other spread components have been included in the cash flows used in the computation and discount rate.
- Non-maturity deposits (NMD's) have been split in Retail and Wholesale deposits. The Bank has adopted the results of the non-maturity deposit study developed by an external service provider. The behavioural analysis study was based on historical data to establish set levels of core, non-core and non-stable deposits. For both Retail and Wholesale NMDs identified as non-stable, these have been taken to reprice in the overnight bucket, and core deposits have been assigned the longest repricing maturity between 8 to 10 years with an average life of 4 to 5 years.
- Management has conducted a historical analysis on the level of fixed rate loan prepayments experienced over a five-year historical period (2018-2022) up to 31<sup>st</sup> December 2022. Given the low value result of the analysis, Management has deemed this risk immaterial to the IRRBB model and will continually assess the risk going forwards.
- The Bank has significant currency exposure in base currency, BMD and also USD (which is pegged to the Bermuda Dollar). Exposures in all foreign currencies (FCY) are immaterial as they are less than 5.1% of assets and liabilities. The Bank has included FCY exposures in the base currency with the conversion rate as on the reporting date. Accordingly, significant interest rate correlations between different currencies are not applicable for the Bank's current portfolio.

### Quantitative Disclosures of IRRBB

BMD \$'000	Δ EVE*		Δ NII**	
	Sep-23	Jun-23	Sep-23	Jun-23
Parallel up	(3,676)	(3,063)	1,856	2,017
Parallel down	5,405	4,884	(3,286)	(3,698)
Steepener	(7,833)	(8,278)		
Flattener	6,826	7,524		
Short rate up	4,327	5,137		
Short rate down	(4,548)	(5,412)		
Maximum	(7,833)	(8,278)	(3,286)	(3,698)
Period	Sep-23		Jun-23	
Tier 1 Capital	147,035		136,737	

\*Δ EVE: Change in Economic Value of Equity due to interest rate shocks

\*\*Δ NII: Change in Net Interest Income due to interest rate shocks

\*\*\*IRRBB disclosures are on Solo basis

With most of the Loan book being variable in nature, Bank's Balance Sheet is more sensitive to Asset book rather than Deposit book, which contains both variable and fixed rate liabilities. The Bank's strategy is to continue to closely monitor the duration of the investment book, to ensure the Bank is sufficiently hedged against the sensitivity to a – 200 bps shock scenario.

Loan disbursements with corresponding sale and maturing T-bills, interbank and investments plus movements in the deposit mix contributes to the movements in both EVE and NII.

## 10. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It arises in Clarien's day-to-day operations and is relevant to every aspect of its business.

Clarien has established a robust framework of processes, systems and authority structures to minimize its exposure to operational failures of this kind. This includes:

- The development of an operational risk taxonomy which establishes thirteen sub-categories of risk that Clarien will manage, monitor and mitigate through its operational risk management program.
- The publication of a comprehensive framework of policies and procedures to inform and guide employees as they execute their roles and responsibilities in respect of these risks.
- A commitment to competence through the provision of both technical and soft skills training.
- The implementation of cascading authority structures, separations of duties and maker-checker rules.
- The implementation of systems and processes that capture and enable the interrogation of operational losses, customer complaints, and other "near miss" incidents. This includes the reporting of any loss incurred for an amount of \$10,000 or more to the Risk Review Committee which oversee the sufficiency of the corrective actions taken by management to prevent recurrence.
- The completion of independent testing and quality assurance processes to confirm the performance of key controls.
- A change management risk assessment process to ensure projects do not cause serious disruption or create processing inefficiencies.
- Processes that monitor the resiliency of critical I.T. systems, including the readiness of Clarien's business continuity and disaster recovery capabilities.
- The monitoring of material outsourcing and vendor relationships.

### 10.1 Capital Calculation Methodology

The Bank has adopted the Revised Standardized Approach for calculating its Pillar 1 operational risk capital which is based on Basel's revised operational risk standard which came into effect starting 1<sup>st</sup> January 2023. This approach consists of two main items, a business indicator component (BIC) (a measure of a bank's income) and a loss component (LC), from which an internal loss multiplier (ILM) is derived, a measure of a bank's historical losses. The minimum (pillar 1) operational risk capital (ORC) requirement is the product of the BIC and the ILM, with risk weighted assets for operational risk being the capital requirement multiplied by 12.5.



## Clarien Bank Limited

### Principal Offices and Subsidiaries

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