

# TENET BANK LTD.

## PILLAR 3 DISCLOSURE 2024

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## 1. INTRODUCTION

Tenet Bank Ltd. (the “**Bank**”), formerly known as Prova One Bank Ltd., was incorporated on 12 July 2022 and changed its name to Tenet Bank Ltd. on 14 March 2023. On 28 March 2023, the Bank was granted a Category “B” Banking Licence pursuant to the Banks and Trust Companies Act (2021 Revision) (the “**Act**”) by the Cayman Islands Monetary Authority (the “**Authority**”). On 30 October 2023, the Bank commenced operations.

In September 2021, the Authority introduced the Market Discipline Disclosure Requirements (Pillar 3), Rules and Guidelines (the “**Pillar 3 Rules**”) for all banks incorporated in the Cayman Islands and regulated by the Authority under the Act. This Pillar 3 Disclosure Report (the “**Report**”) is provided by the Bank as at 30 June 2024 to meet the requirements of the Pillar 3 Rules.

The Report has been reviewed and approved by the Board of Directors (the “**Board**”).

## 2. OVERVIEW OF RISK MANAGEMENT AND RISK WEIGHTED ASSETS (RWA)

The Bank is a banking institution that takes in client deposits and has a simple treasury and banking book. The Bank does not have a trading book and does not have any exposures to derivatives, counterparty credit risk, securitisation, or regulatory market risk exposure. The Bank’s functional currency is United States Dollars, and does not have any exposure or transactions in foreign currencies. The Bank does not perform lending, and limits mismatches between assets and liabilities. All client deposits have matching assets with the same time horizon. The Bank operates a straightforward, liquid banking model without exposure to trading, lending, derivatives, or foreign currencies.

The Bank’s risk management approach starts with the Corporate Governance Policy. This policy sets out the Board’s responsibilities, objectives, and governance structure necessary to ensure effective oversight and management of the Bank. The Board’s key responsibilities include providing prudent oversight, setting strategic goals, ensuring legal and regulatory compliance, and maintaining an appropriate Board and senior management structure that aligns with the Bank’s size, complexity, and risk profile.

The Board has also established a Risk and Audit Committee (the “**RAC**”). The responsibilities of the RAC are to review the risk management activities of the Bank, ensure an appropriate enterprise risk management framework commensurate to the size, complexity, and risk profile of the Bank, serve as an independent body to monitor the Bank’s compliance with legal, regulatory, and risk assessment requirements, hold management accountable for establishing and maintaining effective internal control system and processes, and submit any recommendations to the Board.

Risk management at the Bank is the identification, evaluation, and prioritisation of risks followed by coordinated and economical application of resources to minimise, monitor and control the probability or impact of unfortunate events or to maximise the realisation of opportunities. Risk assessment is an integral function to risk management as it helps identify gaps for improvements, make more informed decisions about risk appetite, allocate resources and technical needs, and implement control efforts.

Risk appetite is the amount and type of risk that the Bank is prepared to pursue, retain or take, in pursuit of stakeholder value. Risk appetite is linked to business decisions to ensure it is relevant to business units on a day to day basis. To evaluate the Bank’s risk appetite, management reviewed list of risks and assessed the appetite for each risk. In general terms, the Bank is conservative in their dealings, and risk appetite is categorised as low.

Furthermore, key risks are governed by their own policies that are reviewed and approved by the Board annually. These policies set the principles, rules, and guidelines to achieve the Bank’s long-term goals, guide decisions, and ensure consistent and appropriate actions across the organisation. These policies

include comprehensive governance frameworks, such as corporate governance policy, cybersecurity framework, internal controls, and business continuity; financial risk management policies, such as credit risk management, interest rate risk management, investment securities risk management, and liquidity risk management; and operational risk management policies, such as compliance manual, enterprise risk management, operational risk management, management succession, and risk assessment.

An overview of total risk weighted assets forming the denominator of the risk-based capital requirements is provided below. The Bank has elected the following approaches:

- Standardised approach for credit risk;
- Standardised approach for market risk; and
- Basic indicator approach for operational risk.

The following table provides the Bank's credit, market, and operational risk weight assets as at 30 June 2024.

**Table: OV1 – Overview of RWA**

		a	b	c
		RWA		Minimum Capital Requirements
		30 June 2024	30 June 2023	30 June 2024
1	Credit risk (excluding counterparty credit risk) (CCR)	11,576,900	-	1,736,535
2	Securitisation exposures	-	-	-
3	Counterparty credit risk	-	-	-
4	Of which: current exposure method	-	-	-
5	Of which: standardised method	-	-	-
6	Market risk	-	-	-
7	Of which: equity risk	-	-	-
8	Operational risk	6,431,774	6,431,774	964,766
9	Of which: basic indicator approach	6,431,774	6,431,774	964,766
10	Of which: standardised approach	-	-	-
11	Of which: alternative standardised	-	-	-
12	<b>Total (1+2+3+6+8)</b>	<b>18,008,674</b>	<b>6,431,774</b>	<b>2,701,301</b>

### 3. CREDIT RISK

The Bank is focused on accumulating client deposits while preserving capital and minimising credit risk exposures. As a result, the Bank operates a simple treasury management programme with exposures currently limited to overnight exposures with investment grade banks and short-term exposures to investment grade sovereigns.

Credit risk management is the timely identification, assessment, and mitigation of credit risk. Credit risk is the potential for loss resulting from the failure of borrowers and other counterparties to meet their obligations and the risk that the collateral held by the Bank does not sufficiently cover these obligations. The Credit Risk Management Policy, which is approved by the Board, outlines a hierarchy of authority to ensure effective management of credit risk.

The Credit Risk Management Policy sets out the factors for credit decisions, the risk assessment process to evaluate credit opportunities, and compliance with clients and credit counterparties. Regular reports would be provided to the Credit and Investment Committee, such as large exposures, exposures by various characteristics (such as maturity, fixed or variable, and country), and non-performance of credit exposures.

**Table: CR1 – Credit quality of assets**

		a	b	c	d
		Gross Carrying Values of:		Allowances/ Impairments	Net Values (a+b+c)
		Defaulted Exposures	Non-Defaulted Exposures		
1	Loans	-	-	-	-
2	Debt securities	-	36,848,364	-	36,848,364
3	Off-balance sheet exposures	-	-	-	-
4	<b>Total</b>	-	<b>36,848,364</b>	-	<b>36,848,364</b>

Debt securities referred to in the table are short-term exposures to liquid investment grade sovereigns.

**Table: CR4 – Standardised approach – credit risk exposure and CRM effects**

		a	b	c	d	e	f
		Exposures Before CCF and CR		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	RWA density
1	Sovereigns and their central banks	36,848,364	-	36,848,364	-	-	0%
2	Non-central government public sector entities	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-
4	Banks	57,116,343	-	57,116,343	-	11,423,269	20%
5	Securities firms	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	-
7	Regulatory retail portfolios	-	-	-	-	-	-
8	Secured by residential property	-	-	-	-	-	-
9	Secured by commercial real estate	-	-	-	-	-	-
10	Past-due exposures	-	-	-	-	-	-
11	Higher-risk categories	-	-	-	-	-	-
12	Other assets	153,631	-	153,631	-	153,631	100%
<b>13</b>	<b>Total</b>	<b>94,118,338</b>	<b>-</b>	<b>94,118,338</b>	<b>-</b>	<b>11,576,900</b>	<b>12.30%</b>

**Table: CR5 - Standardised approach – exposures by assets classes and risk weights**

		a	b	c	d	e	f
Risk weight		0%	20%	50%	100%	150%	Total Credit Exposure Amount (Post CCF and Post CRM)
Asset classes							
1	Sovereigns and their central banks	36,848,364	-	-	-	-	36,848,364
2	Non-central government public sector entities	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-
4	Banks	-	57,116,343	-	-	-	57,116,343
5	Securities firms	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	-
7	Regulatory retail portfolios	-	-	-	-	-	-
8	Secured by residential property	-	-	-	-	-	-
9	Secured by commercial real estate	-	-	-	-	-	-
10	Past-due exposures	-	-	-	-	-	-
11	Higher-risk categories	-	-	-	-	-	-
12	Other assets	-	-	-	153,631	-	153,631
13	<b>Total</b>	<b>36,848,364</b>	<b>57,116,343</b>	<b>-</b>	<b>153,631</b>	<b>-</b>	<b>94,118,338</b>

#### 4. MARKET RISK

Market risk refers to the potential for financial losses due to fluctuations in market prices, such as interest rates, exchange rates, commodity prices, and equity prices. The objective of the Bank is to limit any exposure to market risk. The Bank has not made any investments in commodities, equities, or other securities with intent to trade, and no trading book has been established. The Bank also operates solely in its functionality currency, United States Dollars, and does not have exposure to foreign currencies.

As a result, the Bank does not have regulatory exposure to market risk.

#### 5. OPERATIONAL RISK

Operational risk refers to the potential for loss resulting from inadequate or failed internal processes, people, systems, or external events. The Board manages operational risk through board-approved operational risk policy, enterprise risk management policy, and risk assessment policy. The risk appetite for operational risk is low, and risk assessment policy identifies areas of operational risk, the mitigation mechanism, and subsequent actions if the risk tolerance is exceeded.

Senior management is responsible with the implementation of the operational risk policies. The objective is to actively monitor, report, and control operational risks, as well as to minimise potential operational losses at the Bank.

To measure its regulatory operational risk exposure, the Bank has elected to use the Basic Indicator Approach. The operational risk capital charge is 15%. As the Bank's operations have been conducted for less than one year, in place of positive annual gross income of the previous three years, the sum of net interest income and net non interest income in the business plan for the first year has been used. This amount was 3,430,279 and the operational risk capital charge is 514,542.

The Bank did not incur any operational risk losses during its first year of operation.

## 6. LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

Table: LI1 – Differences between accounting and regulatory scopes of consolidation

	a	b	c	d	e	f	g
	Carrying Values as Reported in Published Financial Statements	Carrying Values Under Scope of Regulatory Consolidation	Carrying Value of Items:				
			Subject to Credit Risk Framework	Subject to Counterpart Credit Risk Framework	Subject to the Securitisation Framework	Subject to the Market Risk Framework	Not Subject to Capital Requirements or Subject to Deduction from Capital
<b>Assets</b>							
Due from banks	57,116,343	57,116,343	57,116,343	-	-	-	-
Investment securities	36,848,364	36,848,364	36,848,364	-	-	-	-
Property and equipment	31,183	31,183	31,183	-	-	-	-
Other assets	122,448	122,448	122,448	-	-	-	-
<b>Total assets</b>	<b>94,118,338</b>	<b>94,118,338</b>	<b>94,118,338</b>	-	-	-	-
<b>Liabilities</b>							
Due to customers	89,504,547	89,504,547	-	-	-	-	-
Other liabilities	226,156	226,156	-	-	-	-	-
<b>Total liabilities</b>	<b>89,730,704</b>	<b>89,730,704</b>	-	-	-	-	-

**Table: LI2 – Main sources of differences between regulatory exposure amounts and carrying values**

		a	b	c	d	e
		Total	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)	94,118,338	94,118,338	-	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	94,118,338	94,118,338	-	-	-
4	Off-balance sheet amounts	-	-	-	-	-
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	<b>Exposure amounts considered for regulatory purposes</b>	<b>94,118,338</b>	<b>94,118,338</b>	-	-	-

## 7. CAPITAL

The Authority sets the minimum capital requirements for credit risk, market risk, and operational risk in the Rules, Conditions and Guidelines on Minimum Capital Requirements (Pillar I). The Bank is subject to a Minimum Capital Adequacy Ratio of 15%.

**Table: CAP – Capital structure**

		a
1	Tier 1 capital	6,000,000
2	Deductions from Tier 1 capital	-
3	Upper Tier 2 capital	-
4	Lower Tier 2 capital	(1,612,365)
5	Deductions from Tier 2 capital	-
6	Total net Tier 1 and net Tier 2 capital (1+2+3+4+5)	4,387,635
7	Tier 3 capital	-
<b>8</b>	<b>Total eligible capital (6+7)</b>	<b>4,387,635</b>

**Table: CAP – Capital adequacy**

		a
<b>Capital Requirement</b>		
1	Credit risk (standardised approach)	1,736,535
2	Market risk (standardised approach)	-
3	Operational risk (basic indicator approach)	964,766
<b>4</b>	<b>Total minimum capital requirement</b>	<b>2,701,301</b>
5	Tier 1 capital	6,000,000
<b>6</b>	<b>Total eligible capital</b>	<b>4,387,635</b>
<b>Capital Ratios</b>		
7	Tier 1 capital adequacy ratio	33.32%
<b>8</b>	<b>Total capital adequacy ratio</b>	<b>24.36%</b>

## 8. LEVERAGE RATIO

In December 2019, the Authority introduced a simple, transparent, non-risk based leverage ratio to supplement its risk-based capital requirements in its Pillar 1: Rules, Conditions and Guidelines on Minimum Capital Requirements.

The leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as a percentage. A bank is required to maintain a minimum leverage ratio of 3% at all times. At its discretion, the Authority may set different leverage ratio requirements on a case-by-case basis.

The Bank is required to maintain a minimum leverage ratio of 3% at all times. As at 30 June 2024, the Bank's leverage ratio was 6.39%. The tables below provide a summary comparison of accounting assets against the leverage ratio exposure measure.

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

		a
1	<b>Total consolidated assets as per published financial statements</b>	<b>94,118,338</b>
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-
4	Adjustments for temporary exemption of central bank reserves (if applicable)	-
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
6	Adjustments for regular way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustments for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	-
9	Adjustment for securities financing transactions (i.e. repurchase agreements and similar secured lending)	-
10	Adjustment for off balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	-
13	<b>Leverage ratio exposure measure</b>	<b>94,118,338</b>

**Table: LR2 – Leverage ratio common disclosure template**

		a	b
		30 June 2024	30 June 2023
<b>On-Balance Sheet Exposures</b>			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	94,118,338	5,989,267
2	Gross up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(Specific and general provisions associated with on balance sheet exposures that are deducted from Basel III Tier 1 capital)	-	-
6	(Asset amounts deducted in determining Basel III Tier 1 capital and regulatory adjustments)	-	-
7	<b>Total on balance sheet exposures</b> (excluding derivatives and SFTs) (sum of rows 1 to 6)	<b>94,118,338</b>	<b>5,989,267</b>
<b>Derivative Exposures</b>			
8	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	-	-
9	Add on amounts for potential future exposure associated with all derivatives transactions	-	-
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	<b>Total derivative exposures</b> (sum of rows 8 to 12)	-	-

<b>Securities Financing Transaction Exposures</b>			
14	Gross SFT assets (with no recognition of netting), after	-	-
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	-	-
<b>18</b>	<b>Total securities financing transaction exposures</b> (sum of rows 14 to 17)	-	-
<b>Other Off-Balance Sheet Exposures</b>			
19	Off-balance balance sheet exposure at gross notional amount	-	-
20	(Adjustments for conversion to credit equivalent amounts)	-	-
21	(Specific and general provisions associated with off balance sheet exposures deducted in determining Tier 1 capital)	-	-
<b>22</b>	<b>Off-balance sheet items</b> (sum of rows 19 to 21)	-	-
<b>Capital and Total Exposures</b>			
23	Tier 1 capital	6,000,000	6,000,000
<b>24</b>	<b>Total exposures</b> (sum of rows 7, 13, 18 and 22)	<b>94,118,338</b>	<b>5,989,267</b>
<b>Leverage Ratio</b>			
25	Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	6.37%	100.18%
25a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	6.37%	100.18%
26	National minimum leverage ratio requirement	3.00%	3.00%
<b>27</b>	<b>Applicable leverage buffers</b>	-	-

## 9. LIQUIDITY

Liquidity risk refers to the risk that a financial institution will not be able to meet its short-term financial obligations due to an inability to convert assets into cash quickly or without significant loss in value.

The Bank manages its liquidity risk through its Liquidity Risk Management Policy, which is approved by the Board. The governance of liquidity risk management at the Bank is structured to ensure robust oversight and effective communication across all levels of the organisation. The Board sets the strategic direction and risk tolerance, while Senior Management manages daily and long-term liquidity risks in line with these guidelines. Internal liquidity reporting occurs regularly, with reports provided monthly to Senior Management and quarterly to the Board, ensuring both are well-informed of the bank's liquidity risk

exposure and compliance. The bank's liquidity strategy, policies, and practices are communicated across business lines, ensuring all personnel understand their responsibilities in managing liquidity risk.

The Bank has low to medium risk appetite for liquidity risk and as a result, maintains a highly liquid asset portfolio. Other than time horizon matched client deposits, the Bank conservatively places deposits that typically have overnight liquidity.

In February 2022, the Authority introduced a comprehensive Liquidity Risk Management framework for banks, including the Minimum Liquidity Ratio (MLR). The MLR states that all Category "A" Non-Retail banks and Category "B" banks shall hold at all times, Liquid Assets, as defined in section 34, denominated in any currency, amounting to no less than 15% of the value of its Qualifying Liabilities, as defined in section 35, denominated in all currencies. requirements define a bank's liability items that qualify for the minimum MLR ratio.

The MLR for the Bank as at 30 June 2024 is significantly greater than 100%.

## 10. INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

Interest rate risk in the banking book (IRRBB) refers to the potential impact on a bank's earnings and economic value due to changes in interest rates that affect the banking book. Interest rate risk is managed by the Interest Rate Risk Management Policy, which is approved by the Board.

The Bank manages interest rate risk by limiting mismatches between assets and liabilities, and all client deposits have matching assets with the same time horizon. The Board sets duration-weighted gap limits consistent and commensurate with the Bank's approach to risk appetite, size, complexity, earnings performance, and capital adequacy. The Bank operates a simple treasury management programme with exposures currently limited to overnight exposures with investment grade banks and short-term exposures to investment grade sovereigns. As a result, a parallel rate shock of 200 basis points results in change of in economic value of \$144,000.

## 11. REMUNERATION

Remuneration refers to the total compensation or payment that an individual receives in exchange for their services or work.

The Bank's Corporate Governance Policy is approved by the Board and sets out the remuneration policies and practices for the Bank. It is the responsibility of the Board to determine base salaries and annual bonuses to senior management after an evaluation of various factors, including:

- Salaries paid to senior management with comparable qualifications;
- Experience and responsibilities at other financial institutions;
- Individual job performance.
- Market conditions; and
- An assessment of the overall financial performance and operating results of the Bank.

Remuneration of employees is set to be compatible with its risk management framework, its strategy, and its values. The remuneration package is determined by several factors, including but not limited to the role, experience, level of responsibility, and competitive industry market rates. The key components to a remuneration package include:

- Fixed salary or remuneration;
- Performance bonuses or performance-based remuneration;

- Pension scheme;
- Other benefits; and
- Severance payment.

## 12. ASSET ENCUMBRANCE

Encumbered assets are assets that the bank is restricted or prevented from liquidating, selling, transferring or assigning due to legal, regulatory, contractual or other limitations.

The Bank does not have any encumbered assets.

## 13. COUNTERPARTY CREDIT RISK

The counterparty credit risk is defined as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

The Bank does not have any counterparty credit exposures.

## 14. SECURITISATION

A securitisation is a structure where the cash flow from an underlying pool of exposures is used to service at least two different stratified risk positions or tranches reflecting different degrees of credit risk.

The Bank does not act as an originator, sponsor, or investor in any securitisation products, nor has any securitisation activities or exposure.