



Heritage International Bank & Trust Limited &

Heritage Bank Limited

Consolidated Market Discipline Disclosures (Pillar 3)

For the period ended December 31, 2025

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Overview and Purpose

This document contains the Market Discipline Disclosures (Pillar 3) for the period ended 31 December 2025 in respect of capital and risk management for Heritage Bank Limited and Heritage International Bank & Trust Limited (“the Bank”).

The information contained in this Pillar 3 disclosure has been prepared in accordance with the Market Discipline Disclosure Requirements (Pillar 3) Rules and Guidelines (31 August 2025) issued by the Central Bank of Belize.

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

These disclosures were reviewed and approved internally in line with our Board approved disclosure internal control processes.

All amounts in this document are in thousands of Belize Dollars.

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

1.1 KM1: Key Metrics (at consolidated group level)

BZD '000's

		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	60,751				
2	Tier 1	600				
3	Total capital	77,604				
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	562,111				
Risk-based capital ratios as a percentage of RWA						
5	CET1 ratio (%)	10.81%				
6	Tier 1 ratio (%)	10.91%				
7	Total capital ratio (%)	13.81%				
Additional CET1 buffer requirements as a percentage of RWA						
12	CET1 available after meeting the bank's minimum capital requirements (%)	4.31%				
Liquidity Coverage Ratio (LCR)						
15	Total high-quality liquid assets (HQLA)	181,052				
16	Total net cash outflow	98,190				
17	LCR ratio (%)	184%				
Net Stable Funding Ratio (NSFR)						
18	Total available stable funding	586,180				
19	Total required stable funding	525,449				
20	NSFR ratio	112%				

OVA: Bank Risk Management Approach

Risk Management Governance and Structure

The Bank's risk management governance structure begins with oversight by the Board of Directors, either directly or through its Audit and Risk Management Committee to ensure that decision-making is aligned with the Banks's risk appetite.

The Risk Appetite Statement, defined by Management, and approved by the Board of Directors, is the cornerstone for the Bank's approach to risk management and guides all risk-taking activities.

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

1. Maintain sufficient capital relative to all material risks
2. The Bank's risk appetite, including supporting operating metrics for evaluation of risk profile

against risk appetite, must be clearly defined and communicated and reflect the Bank's mission, vision and values

3. Ensure the Bank's activities are consistent with business strategy, risk appetite, values and policies approved by the Board.

The Bank's Risk Appetite Statement defines how we will conduct business. It includes targets, limits and measures for evaluating performance and the Bank's risk profile, primarily in the following areas: Capital risk, Operational Risk, Market Risk, Liquidity Risk, and Credit Risk.

The Bank's low risk appetite is set by the Board of Directors with the goal of aligning risk-taking with the statutory requirements, strategic business objectives and capital planning. The Board of Directors and the Managing Director have key roles in the implementation of the Bank's risk appetite by steering the utilization of different forms of financing, funding and liquidity management. They also monitor adherence to the Bank's risk appetite and make necessary changes to capture changes in the Bank's strategic priorities, operating environment, risk profile and product features.

The Board receives regular updates on the key risks of the Bank, and approves key risk policies, limits, strategies, and risk appetite. Authority has been delegated from the Board to the Executive Management to incur risk and to manage risk. This necessitates adherence to certain guidelines and restrictions but with all this, the situation could still become a threat to the continuity of the Bank. Executive Management, as the day-to-day guardians of the organization, will keep the other stakeholders abreast of such situations and seek further assistance, as necessary.

The Bank's Internal Audit department reports independently to the Board (through the Audit and Risk Management Committee) on the effectiveness of the risk governance structure and risk management framework. The Chief Risk Officer maintains independent access to the Board and oversees the activities of risk across the Bank.

To support Heritage Bank's governance systems, the Bank uses the Enterprise Risk Management approach to set common standards for consistent risk management across all risk types.

The Bank's approach to risk management aligns with the three-line-of-defense model. The first line consists of business functions that are responsible for initiating the day-to-day banking transactions and activities in line with their tasks and duties as well as the Bank's policies and procedures. Our guiding principle is that those responsible for executing the transactions are also accountable for managing the associated risks. The second line consists of internal control functions, risk management and compliance providing oversight over and monitoring of the activities undertaken by the first line. The third line consists of an independent internal audit function to test the effectiveness of the activities of both the first line and second line. All three lines play an important role in maintaining an adequate and effective internal control framework.

Although responsibility and accountability for risk management resides at all levels within the Bank,

the Audit and Risk Management Committee and the Managers Risk Committee have remained closely involved in important risk management initiatives, which have focused particularly on preserving appropriate levels of liquidity and capital and effectively managing the risk portfolios.

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

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

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

- **Effective Operations** – The Bank's operations consist of day-to-day routines and activities that enable the Bank to achieve its business objectives. The Bank has organized its operations through processes that are designed to promote efficiency, and to mitigate potential for errors. Whilst we acknowledge that we may not be able to avoid errors and mistakes, well-designed and robust processes support the Bank's internal control framework, reducing the potential for losses and mitigating adverse impact on our reputation. Two critical elements of the internal control framework are (i) the separation of duties and responsibilities and (ii) dual control of critical functions.
- **Reliable Reporting** – The financial reports provided to the shareholders and other internal and external stakeholders are accurate and reliable in all material respects and in accordance with international financial reporting standards.
- **Regulatory Compliance** – The conduct and actions of the Bank's Board of Directors, executive

management, and its employees comply with all applicable laws and regulations.

Risk Culture Dissemination Channels

Annually, the Bank assesses its material risks to determine the appropriate level of risk metric that can be accepted, considering the following:

- The current macroenvironment
- Historical performance
- Industry best practices
- The Bank's strategic plans
- Any other relevant qualitative factors

After the appropriate risk levels have been assessed, the Bank incorporates such into its Internal Capital Adequacy Assessment Process. The results are submitted to the Board.

On a quarterly basis, the Board appraises all risks that are currently affecting the Bank as well as any potential emerging risks.

Senior Management is updated more frequently through the monthly Audit and Risk Management Committee and quarterly Managers' Risk Committee meetings.

Risk Mitigation Strategies

The Bank's Enterprise Risk Management Framework sets out the structure and tone for the risks and control environment within the Bank, from the identification, management and reporting of risks.

Stress Testing Methodology

The Bank has internally built and adopted a model and methodology that is suitable to its size, risk exposure and operations. It supplements the Bank's risk management system and is used to evaluate its potential vulnerability to certain likely but plausible events or movements in financial variables. The vulnerability is measured and used to provide important input into the determination of related regulatory capital requirements. The stress events and scenarios identified and developed are relevant to our portfolios, and they include varying a range of parameters at the same time in order to assess the extent to which the stress would impact the financial and liquidity position and business. The Bank identifies its own risks as it has the best understanding of its own business exposure and inherent vulnerabilities.

1.2 OV1: Overview of Risk Weighted Assets

The Risk Weighted Assets (RWA) are categorized under various risk frameworks and are calculated based on regulatory requirements. The Bank continues to assess emerging risks and manages the risks involved in conducting business to ensure that the regulatory requirements are met.

BZD '000's

		a	b	c
		RWA		Minimum Capital Requirements
		T	T-1	T
1	Credit risk (excluding counterparty credit risk)	523,853		52,385
6	Counterparty credit risk (CCR)	0		0
15	Settlement risk	0		0
16	Securitization exposures in banking book	0		0
20	Market risk	38		4
24	Operational risk	38,220		3,822
29	Total (1 + 6 + 15 + 16 + 20 +24)	562,111		56,211

2. Standardized RWA

2.1 CMS2: Standardized RWA for Credit Risk at Asset Class Level

Risk-weighted assets are calculated according to the standardized approach for credit risk at the asset class level.

BZD '000's

		d
		RWA calculated using the standardized approach
1	Sovereign	-
	Of which: categorized as MDB/PSE in SA	1,680
2	Banks and other financial institutions	18,656
3	Equity	13,826
4	Purchased receivables	58,233
5	Corporates	344,635
6	Retail	81,537
	Of which: other retail	9,326
	Of which: retail residential mortgages	72,211
8	Others	3,762
9	Total	522,329

3. Composition of Capital

3.1 CCA: Main Features of Regulatory Capital Instruments – Eligible Instruments

The following provides a description of the main features of the Bank's regulatory capital instruments that are recognized as part of its capital base.

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

There are no restrictions, constraints or other major impediments on regulatory capital, subject to applicable regulatory requirements.

The capital base consists of standard equity components (Paid up Capital, Reserves and Retained Earnings). There are no complex or hybrid capital instruments in the Bank's capital profile.

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

		a	b
		Quantitative / qualitative information	Quantitative / qualitative information
1	Issuer	HIBTL	HIBTL
2	Unique identifier (e.g. Committee on Uniform Security Identification Procedures (CUSIP), International Securities Identification Number (ISIN) or Bloomberg identifier for private placement)	N/A	N/A
3	Governing law(s) of the instrument	International Banking Act <i>Chapter 267 of the Substantive Laws of Belize</i>	International Banking Act <i>Chapter 267 of the Substantive Laws of Belize</i>
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares	Special Shares
8	Amount recognized in regulatory capital (currency in millions, as of most recent reporting date)	\$12M	\$3M
9	Par value of instrument	\$1	\$5
10	Accounting classification	Equity	Equity
11	Original date of issuance	1998	2008
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	None	None
14	Issuer call subject to prior supervisory approval		
15	Optional call date, contingent call dates and redemption amount		
16	Subsequent call dates, if applicable		
	<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon		
18	Coupon rate and any related index		
19	Existence of a dividend stopper		
20	Fully discretionary, partially discretionary or	Fully	

	mandatory	discretionary	
21	Existence of step-up or other incentive to redeem		
22	Non-cumulative or cumulative		
23	Convertible or non-convertible	Non-convertible	Non-convertible
30	Write-down feature		
34a	Type of subordination		
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).		

3.2 CC1: Composition of Regulatory Capital

The purpose provides a breakdown of the constituent elements of the Bank's capital.

BZD '000's

		a	b
		Amounts	Source based on reference numbers of the statement of financial position under the regulatory scope of consolidation
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	16,272	
2	Retained earnings	21,993	
3	Accumulated other comprehensive income (and other reserves)	22,486	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1 capital)		
6	Common Equity Tier 1 capital before regulatory adjustments	60,751	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudent valuation adjustments		
8	Goodwill (net of related tax liability)		
9	Other intangibles other than mortgage servicing rights (MSR) (net of related tax liability)		
10	Deferred tax assets (DTA) that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)		
11	Cash flow hedge reserve		
13	Securitization gain on sale		
14	Gains and losses due to changes in own credit risk on fair valued liabilities		
15	Defined benefit pension fund net assets		
16	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)		
17	Reciprocal cross-holdings in common equity		

		a	b
		Amounts	Source based on reference numbers of the statement of financial position under the regulatory scope of consolidation
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)		
26	National specific regulatory adjustments		
27	Regulatory adjustments applied to Common Equity Tier 1 capital due to insufficient Additional Tier 1 and Tier 2 capital to cover deductions		
28	Total regulatory adjustments to Common Equity Tier 1 capital	0	
29	Common Equity Tier 1 capital (CET1)	60,751	
	Additional Tier 1 capital: instruments	600	
30	Directly issued qualifying additional Tier 1 instruments plus related stock surplus		
31	Of which: classified as equity under applicable accounting standards		
32	Of which: classified as liabilities under applicable accounting standards		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group additional Tier 1 capital)	600	
35	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>		
36	Additional Tier 1 capital before regulatory adjustments		
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own additional Tier 1 instruments		
38	Reciprocal crossholdings in additional Tier 1 instruments		
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation		
42	Regulatory adjustments applied to additional Tier 1 capital due to insufficient Tier 2 capital to cover deductions		
43	Total regulatory adjustments to additional Tier 1 capital	0	
44	Additional Tier 1 capital (AT1)	600	
45	Tier 1 capital (T1 = CET1 + AT1)	61,351	

		a	b
		Amounts	Source based on reference numbers of the statement of financial position under the regulatory scope of consolidation
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	387	
50	Provisions	15,866	
	Revaluation Reserves for long-term assets whose value fluctuate.		
51	Tier 2 capital before regulatory adjustments	16,253	
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments		
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities		
54	Investments in the capital and other liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity.		
55	Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
57	Total regulatory adjustments to Tier 2 capital	0	
58	Tier 2 capital	16,253	
59	Total regulatory capital (= Tier 1 + Tier2)	77,604	
60	Total risk-weighted assets	561,832	
	Capital adequacy ratios and buffers		
61	Common Equity Tier 1 capital (as a percentage of risk-weighted assets)	10.81%	
62	Tier 1 capital (as a percentage of risk-weighted assets)	10.91%	
63	Total capital (as a percentage of risk-weighted assets)	13.81%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements, expressed as a percentage of risk-weighted assets)		

		a	b
		Amounts	Source based on reference numbers of the statement of financial position under the regulatory scope of consolidation
65	Of which: capital conservation buffer requirement		
66	Of which: bank-specific countercyclical buffer requirement		
68	Common Equity Tier 1 capital (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirements		
	Amounts below the thresholds for deduction (before risk-weighting)		
72	Non-significant investments in the capital and other liabilities of other financial entities		
73	Significant investments in the common stock of financial entities		
74	MSR (net of related tax liability)		
75	DTA arising from temporary differences (net of related tax liability)		
	Applicable caps on the inclusion of provisions in Tier 2 capital		
76	Provisions eligible for inclusion in Tier 2 capital in respect of exposures subject to standardized approach (prior to application of cap)		
77	Cap on inclusion of provisions in Tier 2 capital under standardized approach		

4. Asset Encumbrance

4.1 ENC: Asset Encumbrance

An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralize or credit enhance any transaction from which it cannot be freely withdrawn.

BZD '000's

	a	b	c	d
	Encumbered assets	[Optional] Central Bank Facilities	Unencumbered assets	Total
The assets on the statement of financial position would be disaggregated; there can be as much disaggregation as desired	5,044		871,003	876,047

5. Remuneration

5.1 REMA: Remuneration policy

Bodies Overseeing Remuneration

The Board delegates oversight of the compensation process to the Executive Chairman and the Director Finance, Human Resources and Administration. These responsibilities include:

- Establishing the compensation governance process
- Approving compensation plans or changes to existing material plans
- Reviewing the bank's adherence to risk appetite and the underlying risks associated with business performance.

The Human Resources Team executes the Bank's compensation policies and processes. The Bank's Compensation policies and programs aim to attract and retain qualified staff including material risk takers (MRTs) and stimulate and reward high-level performance. It aims to strike a balance between short and long-term business performance and reward employees across all business units while meeting our legal and regulatory requirements. Remuneration, including any variable remuneration, is linked to business performance, and assessed against financial and non-financial criteria including risk management related metrics. Employees are compensated according to the responsibilities and complexities of their work. Therefore, to evaluate jobs, responsibilities are identified and measured. Positions are ranked. To ensure that salaries reflect individuals' skills and experience, the Bank conducts salary surveys from time to time to determine salary trends in the community and to review its own salary policies.

MRTs are seen as individuals whose professional activities have a material impact on the Bank's risk profile. These are limited to our Executive Management, Senior Leadership and the Management Team.

Information relating to the Design and Structure of the Remuneration Process

The objectives of the remuneration approach are set out in the Bank's Compensation Policies which:

- Support the Bank's ability to attract, motivate and retain the right talent
- Pay for performance and encourage alignment with the Bank's behaviors of being progressive, results-driven, innovative, customer centric, engaging and decisive
- Align with the Bank's business strategy, risk appetite and the creation of sustainable shareholder value.

Key features include base salary; variable incentive compensation based on Bank, business unit and individual performance, Employee Service Award Program; and other benefits (Fixed Term Savings Scheme, Health and Life, Motor Vehicle Scheme).

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

These processes are executed and centralized within the Human Resources Department. All employees, including MRTs, Risk and Compliance employees, are independently remunerated.

Description of the Ways in which Current and Future Risks are taken into account in the Remuneration Process

The Bank considers remuneration risk in its approach. Base salary is not incentivized as part of the year-end compensation review process. Individuals are not involved in setting their own remuneration.

All employees have clearly identified levels of delegated authority which vary by role and function. These are shared with individuals and their acknowledgement of this is confirmed.

Salary scales are reviewed every two years with adjustments made where we are seen to be below market.

Incentive compensation and long-term incentive programs are non-contractual and are linked to the Bank's performance as well as personal performance.

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

Future business performance impacts remuneration as measured by the Bank's business performance projections and its strategic financial plans.

Description of the Ways in which the Bank seeks to Link Performance during a Performance Measurement period with levels of Remuneration

A formal process of Performance Management and monitoring takes place throughout the year for all employees, regardless of level of seniority. Employees work with their direct team leaders to agree a set of objectives at the start of the year based on their role profile and requirements for the position. These objectives are both role-based and behavioral-based. Employees' performances are monitored against set objectives throughout the year, including formal meetings to assess mid-year and year end performances. This culminates in an employee grading or rating being awarded.

Approval of an annual increment for eligible employees depends upon the performance of the Bank and the employees' performance. Increment schemes are percentage based within a range that varies

depending on rating and performance.

Description of the Ways the Bank seeks to adjust Remuneration to take account of Longer-term Performance

The Bank seeks to adjust remuneration based on the actual performance and profitability of the Bank which translates into the increase in share value. Long serving employees under the Employee Service Award Scheme benefit from the remeasurement in share value at the end of each reporting period until settlement.

Description of the Different Forms of Variable Remuneration that the Bank utilizes and the Rationale for using these Different Forms

Heritage offers variable remuneration in the form of annual performance bonuses to eligible employees. Bonuses are awarded at the discretion of the Board of Directors and are directly linked to the Bank's performance.

The Bank has also established an Employee Service Award Program (ESAP) to recognize long-standing employees and is designed to give employees the economic benefit of share ownership without receiving actual shares. Employees who achieve 20 or 25 years of continuous service are awarded a redeemable certificate with a face value equivalent to 5,000 shares in the Bank. These cash-settled awards are treated as liability-based awards and are re-measured at share value at the end of each reporting period until settlement. The value of the compensation at redemption is directly linked to the market value of the shares and is payable upon the employee's separation from the Bank.

5.2 REM1: Remuneration awarded during Financial Year

BZD '000's

		a	b
Remuneration Amount		Senior management	Other material risk-takers
1	Fixed remuneration	Number of employees	7
2		Total fixed remuneration	\$1,210
3		Of Which: cash-based	
9	Variable remuneration	Number of employees	7
10		Total variable remuneration	\$0.177
11		Of which: cash-based	
17	Total remuneration (rows 2 + 10)		\$1.387
			\$0.751

5.3 REM2: Special payments

BZD '000's

Special payments	Guaranteed bonuses		Sign-on awards		Severance payments	
	Number of employees	Total amount	Number of employees	Total Amount	Number of Employees	Total Amount
Senior Management						
Other material risk-takers					1	\$0.058

6. Credit Risk

6.1 CRA: General Qualitative Information about Credit Risk

Credit risk is defined as “the risk of financial loss due to a borrower or counterparty failing to meet its contractual obligations in accordance with terms.” The Bank’s credit risk management strategy is a function of our overall business strategy. Risk appetite and business strategy are approved by the Board. Credit risk management is implemented with the establishment of sound credit risk management principles and an effective framework for managing credit risk, including an appropriate organizational structure and documented policies, standards and guidelines, processes, procedures and controls.

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

- Promote a disciplined approach to risk taking, and ensure that credit risk is managed in a manner that is consistent with the Bank’s approved risk appetite and business strategy
- Facilitate sound decision making by all those involved in originating, adjudicating (evaluation of soundness) and monitoring credit risk
- Prevent adverse concentrations of credit risk on a portfolio basis and
- Comply with the relevant laws and regulations in Belize.

Credit risk limits are established for individual counterparties and industry sectors for the purposes of diversification and managing concentration. Such risks are reviewed and monitored by the Audit & Risk Management Committee on a monthly basis. The criteria and approach used for defining the credit risk management policy and for setting credit risk limits include applicable regulatory guidance and banking best practices, risk ratings and the Bank’s Risk Appetite. The credit risk management process contains:

- Portfolio Management - At a Bank-wide level, credit exposures are managed to promote alignment to the Risk tolerance established by the Board, maintain the target business mix and ensure that there are no undue concentrations of risk. These activities are key to the achievement of the Bank’s strategic objectives.
- Monitoring/Oversight Mechanism - The Bank’s Board reviews and monitors the loans portfolio and investments and other risks of the entity including review of management reports on compliance, or material deficiencies of policies relating to the management of credit risks.

Portfolio management requirements also include:

- Monitoring compliance with credit portfolio limits
- Reviewing changes in the credit risk segmentation of credit portfolios to identify adverse trends such as undue concentrations, higher default probabilities, increased volatility of expected and unexpected losses and shifts in product mix

- Monitoring industry, demographic and economic trends to proactively identify risks/opportunities and incorporate into credit risk management activities
- Identifying and monitoring for potential events that could impact the level of credit risk of specific portfolios/facilities and trigger a reassessment of the portfolio/facilities as necessary; and
- Stress testing portfolios to determine expected impact of extreme but plausible events and analyze the impact of extreme economic events.

The Chief Risk Officer (CRO) oversees and evaluates proposed changes to credit risk policies and standards and systems to determine potential impacts, including risks and benefits. Changes are approved by the Board. The CRO is the principal point of contact with the Board of Directors for lending proposals.

The Credit Risk Unit acts as an oversight unit and undertakes an independent review of lending proposals submitted to it from the Lenders. The unit assesses the appropriateness of the proposal in light of the risk appetite of the Bank. It reviews proposals to determine whether the mitigating factors of credit risk, operational risk, reputational risk are appropriate. The Unit identifies any risk that might not have been addressed by the Lenders and ensures that it is addressed to its satisfaction.

In executing against its independent mandate approved by the Board, Internal Audit regularly conducts risk-based audits. As part of these audits, Internal Audit assesses and opines on the overall effectiveness of management's control environment within the scope of the engagement, including testing management controls in executing and monitoring compliance to credit risk management.

6.2 CR1: Credit Quality of Assets

The following provides information on the Bank's On and Off-balance Sheet assets.

Default is defined as a scheduled repayment, which includes principal and/or interest, of any facility that is due and remains unpaid for 90 days or more.

As of 31 December 2025, Heritage Bank Limited and Heritage International Bank & Trust Limited Asset Quality is reported at 0.76% and 0% respectively.

BZD '000's

		a	b	c	d	e	g
		Gross 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 of Specific	Allocated in regulatory category of General	
1	Loans	6,488	517,318	4,150	2,726	658	519,656
2	Debt Securities	-	98,409	238	-	-	98,171
3	Off-balance sheet exposures	-	89,228	854	-	-	88,374

4	Total	6,488	704,956	5,242	2,726	658	706,202
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6.3 CR2: Changes in Stock of Defaulted Loans and Debt Securities

The following provides information on the changes in the Bank’s stock of defaulted exposures, the flows between non-defaulted and defaulted exposure categories and reductions in the stock of defaulted exposures due to write-offs.

BZD ‘000’s

		a
1	Defaulted loans and debt securities at end of the previous reporting period	12,639
2	Loans and debt securities that have defaulted since the last reporting period	1,703
3	Returned to non-defaulted status	1,439
4	Amounts written off	6,415
5	Other changes	-
6	Defaulted loans and debt securities at end of the reporting period (1+2-3-4+5)	6,488

6.4 CRB: Additional Disclosure Related to the Credit Quality of Assets

The scope and definition of “past due” and impaired exposures used for accounting purposes are set out in the Bank’s ECL Model and Framework as follows:

- Past Due - In line with Heritage Bank’s internal credit policies and credit risk rating tool, default means that scheduled repayment, which includes principal and/or interest, of any facility is due and remains unpaid for 90 days or more.
- Impaired Exposures – As per the Bank’s Expected Credit Loss Framework, a financial instrument is considered defaulted/impaired and therefore credit-impaired for Expected Credit Loss calculations in all cases when the instrument becomes 90 days past due on its contractual payments. For financial reporting purposes, the Bank considers all its financial assets, including those that are well secured, and credit impaired when they default.

There are instances where past-due exposures (more than 90 days) are not considered to be impaired for reasons where the Bank has high-quality evidence that the delay is technical, industry related, seasonal, temporary or where the exposure has high-quality collateralization. In such cases, a management override is utilized. Overrides are reasonable, relevant, and appropriate, and the reasons and justification supporting its use are documented.

At each reporting date, financial instruments are evaluated to determine if there is objective evidence of impairment. Such evidence includes when an adverse effect on future cash flows from the asset or group of assets can be reliably estimated and when there is a significant or prolonged decline in fair value of the instrument below its cost.

The Bank recognizes loss allowances for ECL for both on and off-balance sheet instruments that are measured at amortized cost. Expected credit losses are either measured over 12 months or at the

expected lifetime, depending on the credit deterioration since origination, according to the following three-stage approach.

Stage 1

For financial assets initially recognized and which continue to perform in accordance with contractual terms and condition, an allowance equivalent to 12 months ECL is recognized. Stage 1 financial assets also include facilities for which the credit risk has improved and has been reclassified from Stage 2.

Stage 2

For financial assets exhibiting significant increase in credit risk since origination, a lifetime ECL is recognized. Stage 2 financial assets also include facilities for which the credit risk has improved and has been reclassified from Stage 3.

Stage 3

Where financial assets present objective evidence of impairment, a lifetime ECL is recognized.

Regulatory Provisioning

In addition to provisioning requirements under IFRS 9 standards, the Bank adheres to regulatory requirements for Specific and General Loan Loss provisioning.

Under the *Domestic Bank and Financial Institution Act (2020)*, *Practice Direction No. 3 of 2020* and the *International Banking Act (2020)*, *Circular No. 2 of 2020*, Loan Loss Reserve is an equity account that is funded through the appropriation of retained earnings. The balance in this account must always be equal to the portion of total regulatory Loan Loss Provision, i.e. the sum of Specific Loan Loss Provisions and General Loan Loss Provision, that is in excess of total Loan Loss Provisions under IFRS.

Specific Loan Loss Provisions refer to the portion of total regulatory loan loss provisions that is calculated based on loans and other assets which have been classified as nonperforming: “substandard”, “doubtful”, and “loss”.

General Loan Loss Provisions refer to the portion of total regulatory loan loss provisions that is calculated based on loans and other assets that have not been classified as nonperforming: “substandard”, “doubtful”, and “loss”.

Forbearance and Restructuring

In the context of debt recovery, forbearance is a special agreement between the Bank and a borrower where the Bank delays enforcing its rights and without prejudice to the Bank’s contractual and legal position. This measure is offered when a borrower is experiencing financial difficulty and is unable to meet the repayment terms.

According to this agreement, the Bank delays enforcing its rights if the borrower can satisfactorily

meet an agreed payment schedule by a certain time. The extent of the forbearance offered is based on each borrower's individual circumstances. It is usually used during short-term or temporary financial difficulties. The measure provides borrowers with breathing room and allows them to resume loan repayments as their circumstances return to some normalcy.

Forbearance options available to borrowers are normally but are not limited to temporary deferral of principal &/or interest payments.

During the forbearance period the borrower will be required to agree to a worked-out plan and the options include bringing the loan payments current, paying the loan in full, a restructuring or modification of the terms. The options available to the borrower under the restructuring include lower interest rates, reduced scheduled payments and extended term.

BZD '000's

Breakdown of Exposures by Geographical Areas and Industry

Industry	Orange		San		Stann		Toledo	TOTAL
	Belize	Corozal	Walk	Pedro	Cayo	Creek		
Government Services	1,485							1,485
Utilities	2,498					166		2,664
Agriculture	10,886				4,819	20,934	5,186	41,825
Marine Products	14,607					8,513		23,120
Manufacturing	15,157		40	3,527	317	54,725		73,766
Tourism	47,129			21,107	1,905	2,038		72,179
Building and Construction	59,381	4,499	16,106	2,182	33,309	7,714	496	123,687
Real Estate	26,229	33	516	699	9,915	71		37,463
Financial Services	58							58
Distribution	29,460	95	4,885	86	23,535	2,393	554	61,008
Professional Services	3,939		3,845		409	7,983		16,176
Transport	23,630					5,402		29,032
Mining & Exploration	1,971							1,971
Personal Loans	20,807	3,113	2,671	1,312	8,709	2,360	400	39,372
								-
TOTAL	257,237	7,740	28,063	28,913	82,918	112,299	6,636	523,806

BZD '000's

Breakdown of exposures by residual maturity

0-180 Days	181-365 Days	1-5 Years	Over 5 yrs	Total
35,427	802	99,954	387,623	523,806

BZD '000's

Impaired Exposures by Industry

Industry	Due			Total
	90-180 days	180-365 Days	Over 1 year	
Marine Products			867	867
Tourism			512	512
Building and Construction	1,193		843	2,036
Real Estate	1,583		271	1,854
Distribution			17	17
Professional Services	32			32
Personal Loans	68	311	791	1,170
TOTAL	2,876	311	3,301	6,488

BZD '000's Impaired Exposures by Geographical Areas

Geographical Areas	90-180 days	180-365 Days	Over 1 year	Total
Belize City	2,814	94	2,382	5,290
Belmopan	5	10	67	82
Benque Viejo	1	-	9	10
Dangriga	5	2	124	131
Independence	-	10	72	82
Orange Walk	8	164	351	523
San Ignacio	21	2	211	234
Spanish Lookout	14	6	18	38
San Pedro	8	23	67	98
Caye Caulker	-	-	-	-
TOTAL	2,876	311	3,301	6,488

BZD '000's Provisions for Impaired Exposures

	90-180 days	180-365 Days	Over 1 year	Total
Provisions	575	156	1856	2,587

6.5 CRB-A: Additional Disclosure Related to Prudential Treatment of Problem Assets

BZD '000's Gross Carrying Value of Exposures

Performing Exposures	704,955
<i>Debt Securities</i>	98,409
<i>Loans</i>	517,318
<i>Off Balance sheet items</i>	89,228
Loans	523,806
<i>Corporate</i>	394,482
<i>Retail</i>	129,324
Loans (Non-Performing)	6,488
<i>Defaulted</i>	6,488
<i>Over 90 days but not defaulted</i>	-
<i>Full repayment unlikely unless realization of collateral</i>	-

6.6 CRC: Qualitative Disclosure Related to Credit Risk Mitigation Techniques

Loan exposures secured by eligible financial collateral are shown in CR3. The Bank also has exposures relating to high-quality debt instrument investments which require no credit risk mitigation techniques.

6.7 CR3: Credit Risk Mitigation Techniques - Overview

BZD '000's

	a	b	c	d	e
	Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1 Loans	13,809	-	509,998	-	-

2	Debt securities					-
3	Total	13,809	-	509,998		-
4	Of which defaulted	691		5,797	0	-

6.8 CRD: Qualitative disclosure on Banks' use of External Credit Ratings under the Standardized Approach for Credit Risk

The Bank does not employ the services of an External Credit Rating Agency at this time.

6.9 CR4: Standardized approach – Credit Risk Exposure and Credit Risk Mitigation (CRM)

BZD '000's

	Asset classes	a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	155,105	0	155,105	0	-	0.00%
2	Non-central government public sector entities	8,402	0	6,722	0	1,680	24.99%
3	Multilateral development banks						
4	Banks	93,280	0	74,624	0	18,656	25.00%
	Of which: securities firms and other financial institutions						
5	Covered bonds	0	0	0	0	0	
6	Corporates						
	Of which: securities firms and other financial institutions	344,635	0	0	0	344,635	
	Of which: specialized lending						
7	Subordinated debt, equity and other capital						
8	Retail	12,434	0	3,108	0	9,326	300.06%
9	Real estate	140,709	0	68,498	0	72,211	105.42%
10	Defaulted exposures	3,762	0	0	0	3,762	
11	Other assets	72,059	0	0	0	72,059	
12	Total	830,386	0	308,057	0	522,329	

6.10 CR5: Standardized approach – Exposures by Asset Classes and Risk Weights

CR5 presents the breakdown of credit risk exposures under the standardized approach by asset class and risk weight (corresponding to the riskiness attributed to the exposure according to standardized approach).

BZD '000's

1		0%	20%	50%	100%	150%	Other		Total credit exposure amount (post-CCF and post-CRM)			
	Sovereigns and their central banks								155,105			
2		20%	50%	100%	150%	Other		Total credit exposure amount (post-CCF and post-CRM)				
	Non-central government public sector entities	1,680						8,402				
3		0%	20%	30%	50%	100%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)			
	Multilateral development banks								-			
4		20%	30%	40%	50%	75%	100%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)		
	Banks	18,656								93,280		
	Of which: securities firms and other financial institutions											
5		10%	15%	20%	25%	35%	50%	100%	Other	Total credit exposure amount (post-CCF and post-CRM)		
	Covered bonds											
6		20%	50%	65%	75%	80%	85%	100%	130%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)
	Corporates											

BZD '000's

	Of which: securities firms and other financial institutions															344,635						344,635
	Of which: specialized lending																					
		100%		150%				250%								400%			Other			Total credit exposure amount (post-CCF and post-CRM)
7	Subordinated debt, equity and other capital ^[6]																					
		45%		75%				100%											Other			Total credit exposure amount (post CCF and post-CRM)
8	Retail																					12,434
		0%	20%	25%	30%	35%	40%	45%	50%	60%	65%	70%	75%	85%	90%	100%	105%	110%	150%	Other		Total credit exposure amount (post-CCF and post-CRM)
9	Real estate								68,499							3,712						140,709
		50%		100%				150%											Other			Total credit exposure amount (post-CCF and post-CRM)
10	Defaulted exposures								3762													3,762
		0%		20%				100%								1250%			Other			Total credit exposure amount (post-CCF and post-CRM)
11	Other assets								72,059													72,059

BZD '000's

Exposure amounts and CCFs applied to off-balance sheet exposures, categorized based on risk bucket of converted exposures					
		a	b	c	d
	Risk weight	<i>On-balance sheet exposure</i>	<i>Off-balance sheet exposure (pre-CCF)</i>	<i>Weighted average CCF*</i>	<i>Exposure (post-CCF and post-CRM)</i>
1	<i>Less than 40%</i>		87,833	0	0
2	<i>40–70%</i>				
3	<i>75%</i>				
4	<i>85%</i>				
5	<i>90–100%</i>		1395	279	1,116
6	<i>105–130%</i>				
7	<i>150%</i>				
8	<i>250%</i>				
9	<i>400%</i>				
10	<i>1250%</i>				
11	<i>Total exposures</i>				

* Weighting is based on off-balance sheet exposure (pre-CCF).

7 Sovereign Exposures

7.1 SOV1: Exposures to Sovereign Entities – Country

SOV1 decomposes the Bank’s sovereign exposures and risk-weighted assets by significant jurisdictions. As reflected below, the Bank has limited exposure to jurisdictions outside of Belize.

BZD ‘000’s

		a	b	c
		Banking book sovereign exposures (after CCF and CRM)	Trading book sovereign exposures	Risk-weighted assets
	Significant jurisdiction where the counterparties are located (in descending order of total exposure value)	Amount (including on- and off- statement of financial position)	Amount	Amount
1	Total	155,105	0	0
2	Jurisdiction 1	Belize		
2a	<i>of which: denominated in domestic currency</i>	148,871	0	0
3	Jurisdiction 2	USA		
3a	<i>of which: denominated in domestic currency</i>	6,234	0	0
4	...			

8 MRA: Market Risk

8.1 MRA: General Qualitative Disclosure Requirements Related to Market Risk

Market risk is the risk of losses in value of financial instruments, assets or value of the company due to changes in market variables, such as interest rates, credit spreads and foreign exchange rates. As the Bank does not maintain a trading portfolio, market risk subject to the capital requirement comprises mainly foreign exchange exposure. The Bank’s market risk exposure is generated from holding minimal amounts of Euro, Great Britain Pounds, and Canadian dollars in its operating bank accounts held with correspondent banks. It revalues these foreign currency accounts and reflects gains and losses in its income statement on a daily basis. Investments are held to maturity in BZ dollars, the Bank’s operating currency, or US dollars, to which the BZ dollar is tied. Investments consisting of loans to customers, Fixed Term deposits in other banks, Government Treasury Notes and Bills, Corporate bonds and debentures are of low risk. Impairment is assessed and considered in financial statements when adverse changes to cash inflow occur.

9 Operational Risk

9.1 ORA: General Qualitative Information on the Operational Risk Framework

Operational risk is the risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events. Operational risks are inherent in all activities within the Company, including outsourced activities and all interactions with external parties. The governance structure and organization supported by policies, tools, systems and internal controls, is used to mitigate operational risks. The operational risk profile is continuously monitored to ensure the Bank is operating within its risk appetite.

Governance and Management

Operational risk is managed through the three lines of defense model and articulated in the Enterprise Risk Management Framework.

(i) The first line of defense are the functional groups that initiate the day-to-day banking transactions and activities in line with their tasks and duties; they own the risks and are accountable and responsible for identifying and assessing risks inherent in their activities in accordance with the Bank's risk appetite. In addition, they establish and maintain controls to mitigate such risks.

(ii) The second line of defense is the Bank's oversight functions, such as internal controls, risk management and compliance. These functions are independent from the first line of defense and provide an enterprise-wide view of specific risk types, guidance and effective challenge to risk and control activities.

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

All three lines play an important role in maintaining an adequate and effective operational risk management framework.

Operational Risk Management Approach

Information transparency, timely escalation, clear accountability and a robust internal control environment form the basis for our Operational Risk Management Policy, which supports and governs the processes of identifying, measuring, mitigating, monitoring, and reporting operational risks. The Bank's manuals, policies, guidelines and procedures are designed to ensure efficiency, consistency and compliance in our daily operations as well as to minimize operational losses.

The Chief Risk Officer chairs the Managers Risk Committee, which serves as a forum for management information sharing, discussion and input on the design and assessment of the Bank's internal control, emerging operational risk and operational risk management programs and tools.

Risk Assessment

The following measures are taken to ensure that the Bank's activities are aligned with its risk appetite, and the desired risk culture is achieved.

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

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

The capital requirement of operational risk is based on the Standardized Approach methodology under Basel II. The capital calculation comprises of the (i) Business Indicator (BI) which is a financial statement-based proxy for operational risk (ii) Business Indicator Component (BIC), which is calculated by multiplying the BI by a set of regulatory determined marginal coefficients and (iii) Internal Loss Multiplier (ILM), which is a scaling factor that is based on the Bank's average historical loss (ten years) and the BIC.

Risk Mitigation

Our primary tool for mitigating operational risk exposure is a robust internal control environment. The Bank's internal control environment outlines key principles, structure and processes underpinning the Bank's approach to managing risks through effective controls. All key controls are subject to ongoing testing and review to ensure they effectively mitigate our operational risk exposures. In addition, the Bank maintains insurance coverage to mitigate losses. The Enterprise Risk Management Framework sets out the structure and tone for the risks and control environment within the Bank, from the identification, management and reporting of risks. The Business Continuity management program ensures that under conditions of interruption or crisis, the Bank's critical business functions could

continue to operate, and normal operations are restored in a highly effective and efficient manner.

Risk Monitoring and Reporting

The first and second lines of defense are responsible for the ongoing monitoring of risk to facilitate compliance. Additionally functional groups are responsible for the design and implementation of internal controls within their area of accountability and must capture any business environment factors (i.e. external events, regulatory and industry reviews) and internal control factors. Our risk monitoring processes support a transparent risk-reporting program, informing both Senior Management and the Board of our control environment, operational risk exposures, and mitigation strategies.

As seen below the company continues to maintain its operational risk losses to a minimal amount.

9.2 OR1: Historical losses

OR1 discloses aggregate operational losses incurred over the past 10 years, based on the accounting date of the loss incurred. This disclosure informs the operational risk capital calculations.

BZD '000's

		a	b	c	d	e	f	g	h	i	j	k
		T	T-1	T-2	T-3	T-4	T-5	T-6	T-7	T-8	T-9	Ten-year average
1	Total amount of operational losses net of recoveries (no exclusions)	0.61	0.60	0.74	0.60	0.70	2.60	0.93	0.98	0.62	0.75	0.91
Details of operational risk capital calculation												
11	Are losses used to calculate the ILM (yes/no)?	No										
12	If "no" in row 11, is the exclusion of internal loss data due to non-compliance with the minimum loss data standards (yes/no)?	No. The Bank falls within the first BI bucket (i.e. BI is less than the Belize dollar equivalent of EUR 1 billion) as such, ILM applied is 1.										

9.3 OR2: Business Indicator and Subcomponents

OR2 discloses the business indicator (BI) and its subcomponents, which informs the operational risk capital calculation.

BZD '000's

		a	b	c
BI and its subcomponents		T	T-1	T-2
1	Interest, lease and dividend component	13,018		
1a	Interest and lease income	37,444	37,058	37,272
1b	Interest and lease expense	10,141	9,558	6,992

1c	Interest earning assets	-	-	-
1d	Dividend income	-	-	-
2	Services component	16,045		
2a	Fee and commission income	16,573	14,163	14,089
2b	Fee and commission expense	9,841	10,533	9,909
2c	Other operating income	812	654	1,844
2d	Other operating expense	-	-	-
3	Financial component	2,787		
3a	Net P&L on the trading book	-	-	-
3b	Net P&L on the banking book	3,284	2,907	2,170
4	BI	31,850		
5	Business indicator component (BIC)	3,822		

Disclosure on the BI:

		a
6a	BI gross of excluded divested activities	-
6b	Reduction in BI due to excluded divested activities	31,850

9.4 OR3: Minimum Required Operational Risk Capital

OR3 discloses operational risk regulatory capital requirements.

BZD '000's

		a
1	Business indicator component (BIC)	31,850
2	Internal loss multiplier (ILM)	1
3	Minimum required operational risk capital (ORC)	3,822
4	Operational risk RWA	38,220

10 Interest Rate Risk in the Banking Book

10.1 IRRBBA: Interest risk in the banking book (IRRBB) Risk Management Objective and Policies

Non-trading interest rate risk (Banking Book) consists primarily of a combination of the risks inherent in asset and liability management activities. Interest rate risk results from differences in the maturity or re-pricing dates of assets both on and off-balance sheet. The Bank manages this risk by maintaining an adequate interest rate spread between interest paid and interest received. Cognizant of the competition, interest rate exposure is consistent with the Bank's risk appetite. As the Bank does not have a trading book, it does not have a trading interest rate risk. The Central Bank of Belize generally allows market forces to determine interest rates rather than setting mandatory rates for loans, although they do set minimum rates for savings deposits.

The Bank employs stress testing to determine interest rate sensitivity of its entire balance sheet for the effect of interest rate, on loans and investments and interest expense on client deposits, increasing/decreasing within realistic basis points aligned with the Bank's size and scope. The shock

up and shock down scenarios reflect parallel impact on both income and losses. The reduction in interest income affects earnings and consequently, the Bank's capital adequacy and liquidity ratios. The Bank has contractual based exposures which are interest rate sensitive as well as exposures and products which are non-interest rate sensitive in nature. Products such as core deposits balances do not have defined maturity; as a result, behavioral assumptions are made to estimate their interest rate sensitivity.

As stress testing of interest rate risk results show no significant impact on earnings and economic value, no further quantitative disclosure is provided.

11 Liquidity

11.1 LIQA: Liquidity Risk Management

Governance of Liquidity Risk Management

Liquidity risk management is governed by the Liquidity Risk Management Policy, which sets out clear tolerance, appetite, clear roles and responsibilities and contingency funding plans. In conjunction with the capital position, our liquidity policies contribute to the Bank's safety and soundness by ensuring that:

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

The Policy seeks to ensure the Bank's adherence to the Board approved appetite, and regulatory requirements based on the principles laid out in Basel II/III Implementation of Liquidity Risk Management Principles for Liquidity Risk Management and Supervision.

The Board of Directors defines the overall liquidity risk appetite which is:

- Appropriate for our business strategy and our role in the financial system
- Consistent with the size, scope of the business and strategic plans
- Clearly communicated throughout the Bank and
- Integrated throughout the Bank's liquidity risk management processes

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

Funding Strategy

The funding strategy is guided by the Liquidity Risk Management Policy.

Overall funding options are not highly diverse, but also not highly impacting because of the small size

and little sophistication of the Bank. The level of liquid assets, customer term deposits, and loan restrictions control this risk. The Bank’s funding needs are satisfied primarily with the raising of customer deposits. The principal operations of the Bank are commercial lending, consumer lending, deposit taking and related banking activities. The Bank accepts deposits from customers at fixed rates for various periods and seeks to earn above average interest margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that may fall due.

Funding strategies are centrally managed within the Finance Department, which works collaboratively with relevant business units to ensure effective execution of fund-raising activities. Deposit funding consists of both core demand and term (fixed) deposits which vary in tenors.

Liquidity Risk Mitigation Techniques

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

An Explanation of How Stress Testing is Used

Liquidity stress testing applies bank run scenarios and foreign assets & government bonds becoming illiquid on the balance sheet. The Bank also measures liquidity risk through the Minimum Liquidity Ratio (MLR), Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) on a daily, monthly and quarterly basis respectively. This process allows the Bank to assess the amount of available liquidity relative to its prescribed liabilities. Results are reviewed by Finance and Senior Management daily and by the Audit & Risk Management Committee on a monthly basis to ensure surplus buffers are maintained at all times.

Outline of the Bank's Contingency Funding Plans

Aligned with the Bank’s risk appetite, the Contingency Funding Plan (CFP) sets out the strategies for addressing liquidity shortfalls in emergencies and unexpected situations. The CFP sets out the requirements necessary to manage a range of stress conditions, establishes clear lines of responsibility and articulates invocation and escalation procedures.

11.2 LIQ1: Liquidity Coverage Ratio (LCR)

LIQ1 presents the breakdown of the Bank’s cash outflows and cash inflows, as well as its available high-quality liquid assets (HQLA), as measured and defined according to the LCR standard.

BZD ‘000’s

		a	b
		Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets			
1	Total HQLA		181,052

Cash outflows			
2	Retail deposits and deposits from small business customers	221,925	19,927
5	Unsecured wholesale funding, of which:	564,871	165,357
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	20,071	5,018
7	Non-operational deposits (all counterparties)	544,800	160,339
8	Unsecured debt	-	-
9	Secured wholesale funding		-
10	Additional requirements, of which:	-	-
11	Outflows related to derivative exposures and other collateral requirements		
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	40,377	2,019
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	48,846	2,805
16	TOTAL CASH OUTFLOWS		
Cash inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	122,262	91,918
19	Other cash inflows	-	-
20	TOTAL CASH INFLOWS	122,262	91,918
			Total adjusted value
21	Total HQLA		181,052
22	Total net cash outflows		98,190
23	Liquidity Coverage Ratio (%)		184%

11.3 LIQ2: Net Stable Funding Ratio (NSFR)

LIQ2 provides details of the Bank's NSFR and selected details of its NSFR components.

BZD '000's

<i>(In currency amount)</i>		a	b	c	d	e
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weighted Value
Available stable funding (ASF) item						
1	Capital:	54,443				54,443
2	<i>Regulatory capital</i>	54,443				54,443
3	<i>Other capital instruments</i>					
4	Retail deposits and deposits from small business customers	363,226				319,639
7	Wholesale funding:	424,196				212,099
8	<i>Operational deposits</i>	20,071				10,036
9	<i>Other wholesale funding</i>		358,243	45,882		202,063
11	Other liabilities:					

12	<i>NSFR derivative liabilities</i>					
13	<i>All other liabilities and equity not included in the above categories</i>	39,748				-
14	Total ASF					581,190
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					3,552
16	Deposits held at other financial institutions for operational purposes	68,105				34,053
17	Performing loans and securities:					
18	<i>Performing loans to financial institutions secured by Level 1 HQLA</i>					
19	<i>Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions</i>					
20	<i>Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:</i>			130,942		65,471
21	<i>With a risk weight of less than or equal to 20% under the Basel II standardized approach for credit risk</i>					
22	<i>Performing residential mortgages, of which:</i>				116,690	75,849
23	<i>With a risk weight of less than or equal to 50% under the standardized approach for credit risk</i>				314,471	204,406
24	<i>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</i>					
26	Other assets:					
27	<i>Physical traded commodities, including gold</i>					
28	<i>Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties</i>					
29	<i>NSFR derivative assets</i>					
30	<i>NSFR derivative liabilities before deduction of variation margin posted</i>					
31	<i>All other assets not included in the above categories</i>				134,496	134,496
32	Off-balance sheet items	89,223				7,623
33	Total RSF					525,449
34	Net Stable Funding Ratio (%)					112%