NASSAU VAULT LIMITED BASEL III PILLAR 3 RISK DISCLOSURES - FY 2025

1. Introduction and Scope of Application: This document provides the Pillar 3 risk disclosures for Nassau Vault Limited ("The Bank") for the fiscal year ended December 31, 2025. These disclosures are compiled in strict accordance with the regulatory framework defined by the Central Bank of The Bahamas and the Basel Committee on Banking Supervision (BCBS) Basel III capital adequacy framework. The objective of Pillar 3 is to promote market discipline through regulatory disclosure requirements regarding the Bank's risk management practices, capital adequacy, and risk exposures. The disclosures herein apply to the consolidated entity of Nassau Vault Limited.

2. Enterprise Risk Management (ERM) Governance Structure: The Board of Directors maintains ultimate fiduciary responsibility for the establishment, oversight, and continuous evaluation of the Bank's risk management framework. The Board determines the Bank's overarching risk appetite, which is inherently conservative due to our 100% reserve-backed custody model. The Enterprise Risk Committee (ERC), an independent body reporting directly to the Board, is mandated to identify, assess, and continuously monitor risks across all operational verticals. The ERC oversees the Internal Capital Adequacy Assessment Process (ICAAP), ensuring that the Bank maintains sufficient capital reserves to cover all material risks under severe macroeconomic stress testing scenarios.

3. Capital Adequacy and Composition of Capital: Nassau Vault Limited's capital management strategy prioritizes the preservation of absolute solvency. The Bank does not engage in fractional reserve lending, uncollateralized credit issuance, or proprietary algorithmic trading, resulting in an exceptionally low profile of Risk-Weighted Assets (RWA).

- **Common Equity Tier 1 (CET1) Capital:** $850 Million, consisting entirely of common shares and retained earnings, with zero reliance on hybrid capital instruments.
- **Total Risk-Weighted Assets (RWA):** $3.42 Billion, calculated using the Standardized Approach for credit and market risk, and the Basic Indicator Approach for operational risk.
- **CET1 Capital Ratio:** 24.8%. This metric vastly exceeds the Central Bank of The Bahamas minimum requirement of 8.0% and the fully phased-in Basel III requirement, including the capital conservation buffer.
- **Countercyclical Capital Buffer:** Maintained at 2.5% of total RWA, ensuring robust loss-absorption capacity during periods of systemic financial stress.

4. Credit Risk and Counterparty Credit Risk: (CCR) Because Nassau Vault operates a full-reserve custody model and does not issue retail or commercial loans, traditional credit risk (default risk from borrowers) is effectively zero. Our credit risk exposure is strictly categorized as Counterparty Credit Risk (CCR).

- **Correspondent Banking Exposure:** The Bank maintains operational fiat liquidity exclusively with Tier-1, G-SIFI (Global Systemically Important Financial Institutions) correspondent banks. Exposure limits are rigorously monitored on an intraday basis.
- **Sovereign Debt Exposure:** The Bank's fiat reserves are primarily allocated to short-duration (less than 90 days) sovereign debt, specifically United States Treasury Bills (T-Bills). These assets carry a zero-percent risk weight under the Basel framework due to their explicit sovereign guarantee and deep market liquidity.

5. Market Risk and Interest Rate Risk in the Banking Book (IRRBB): Market risk is defined as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. Nassau Vault operates a matched-book policy to mitigate foreign exchange and interest rate volatility.

- **Foreign Exchange (FX) Risk:** The Bank primarily transacts in USD and USD-pegged digital assets (USDT). For client holdings in EUR, GBP, and CHF, the Bank utilizes instantaneous automated hedging via Tier-1 liquidity providers to eliminate directional currency exposure.
- **Interest Rate Risk in the Banking Book (IRRBB):** The Bank measures IRRBB utilizing Economic Value of Equity (EVE) and Net Interest Income (NII) sensitivity analyses. Because the Bank's asset portfolio is predominantly concentrated in ultra-short duration sovereign instruments, the duration gap between assets and liabilities is negligible. A simulated parallel upward shift of 200 basis points in the yield curve results in an immaterial impact on the Bank's EVE.

6. Liquidity and Funding Risk: Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Nassau Vault's liquidity profile is exceptionally robust by design.

- **Liquidity Coverage Ratio (LCR):** The LCR mandates that financial institutions hold sufficient High-Quality Liquid Assets (HQLA) to survive a 30-day idiosyncratic and systemic stress scenario. Nassau Vault's LCR currently stands at 310%. The Bank models liquidity outflows assuming a "doomsday" scenario involving a 100%

immediate withdrawal demand from our top 50 depositors. Under this stress test, the Bank maintains sufficient Level 1 HQLA to settle all obligations within T+1.

- **Net Stable Funding Ratio (NSFR):** 165%, well above the 100% regulatory minimum standard, reflecting a highly stable funding profile unreliant on short-term wholesale funding markets.

7. Operational Risk and Cyber Resilience: Operational risk encompasses the potential for loss resulting from inadequate or failed internal processes, human error, systems failure, or external events. The Bank calculates operational risk capital using the Basic Indicator Approach (BIA).

- **Business Continuity Planning (BCP):** The Bank maintains hot-standby disaster recovery (DR) sites geographically isolated from the primary Nassau headquarters. RTO (Recovery Time Objective) and RPO (Recovery Point Objective) metrics are tested quarterly, demonstrating full operational failover capacity within 45 seconds.
- **Information Security:** Client data is secured using AES-256 encryption. The Bank undergoes unannounced, bi-annual penetration testing by independent, accredited offensive-security firms.

8. Digital Asset Custody Risk: Recognizing the unique operational risks associated with digital asset custody, Nassau Vault has engineered a proprietary cryptographic safeguarding protocol for all Tether (USDT) holdings on the TRC20 network.

- **Cold Storage Mandate:** 100% of client digital assets are maintained in geographically distributed, air-gapped cold storage facilities. The Bank does not employ internet-connected hot wallets for long-term storage.
- **Multi-Party Computation (MPC):** Private keys are generated using MPC technology and sharded across three distinct sovereign jurisdictions. Transaction signing requires a mathematically verifiable quorum of geographically separated executives. No single employee, director, or physical location possesses a complete private key, rendering unilateral internal theft or external cyber exfiltration mathematically unfeasible.
- **Smart Contract Risk:** The Bank solely supports heavily audited, top-tier stablecoins (USDT) and does not interact with experimental DeFi protocols, decentralized exchanges (DEXs), or unverified smart contracts, thereby eliminating exposure to protocol exploits or flash-loan attacks.