MMG BANK & TRUST LTD.

Financial Statements For The Year Ended September 30, 2020 And Independent Auditors' Report

MMG BANK & TRUST LTD.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
MMG Bank & Trust Ltd.:

Opinion

We have audited the financial statements of MMG Bank & Trust Ltd, (the "Bank"), which comprise the statement of financial position as at September 30, 2020, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at September 30, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte & Touche

February 12, 2021

MMG BANK & TRUST LTD.

STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2020
(Expressed in United States dollars)

ASSETS	**Notes**		**2020**		**2019**
Due from banks	5, 13				
Non-interest earning deposits		$	28,778,289	$	14,116,895
Interest earning deposits			4,996,528		6,277,676
Total due from banks			33,774,817		20,394,571
Securities	6, 13		39,130,854		55,373,637
Loans receivable, net	7, 13		166,763,226		163,389,229
Intangible assets	9		459,940		159,333
Other assets	10, 13		5,529,644		900,942
TOTAL ASSETS		$	245,658,481	$	240,217,712
LIABILITIES AND EQUITY					
LIABILITIES:					
Customers' non-interest bearing deposits	11, 13	$	79,532,350	$	81,085,627
Customers' interest bearing deposits	11, 13		110,625,559		107,750,901
Other liabilities	12, 13		3,638,016		1,277,034
Total liabilities			193,795,925		190,113,562
EQUITY:					
Common stock, with a par value of $1 per share; authorized, issued and outstanding: 5,000,000	14		5,000,000		5,000,000
Regulatory reserve	8, 22		1,547,597		2,239,953
Reserve for expected losses in securities			27,521		-
Net changes in fair value of securities			(150,433)		22,783
Accumulated earnings			45,437,871		42,841,414
Total equity			51,862,556		50,104,150
TOTAL LIABILITIES AND EQUITY		$	245,658,481	$	240,217,712

See notes to financial statements

These financial statements are approved by the Board of Directors on February 12, 2021 and are signed on its behalf by:

Director

Director

MMG BANK & TRUST LTD.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED SEPTEMBER 30, 2020
(Expressed in United States dollars)

	Notes	2020	2019
Interest income	13, 15	$ 10,257,510	$ 10,681,749
Interest expense		(5,610,410)	(5,749,224)
Net interest income		4,647,100	4,932,525
Reversal for loan losses	8	708,157	(70,141)
Allowance for regulatory reserve	7	(15,569)	-
(Allowance) reversal for expected loses on loans	7	(12,339)	32,467
Allowance for expected loses on securities	6	(9,375)	(36,763)
Net interest income, after allowance for loan losses		5,317,974	4,858,088
Commission income		3,805,517	3,789,679
Commission expenses		(944,908)	(762,266)
Net commission income	13, 16	2,860,609	3,027,413
Net interest and commission income		8,178,583	7,885,501
OTHER INCOME			
Loss from securities measured at FVTOCI		(41,955)	240,403
Profit from securities measured at FVTPL		710,519	(3,894)
Other income		37,119	29,622
		705,683	266,131
EXPENSES			
Personnel expenses	13, 18	(478,752)	(448,246)
Professional fees	13	(88,175)	(186,771)
Amortization	9	(99,607)	(139,469)
Other	19	(605,474)	(570,496)
		(1,272,008)	(1,344,982)
PROFIT FOR THE YEAR		7,612,258	6,806,650
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
(Loss) gain on changes in valuation of secutities		(155,070)	261,270
TOTAL COMPREHENSIVE INCOME		$ 7,457,188	$ 7,067,920

See notes to financial statements

MMG BANK & TRUST LTD.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED SEPTEMBER 30, 2020
(Expressed in United States dollars)

	Common shares	Regulatory reserves: Generic loan reserve	Regulatory reserves: Dynamic loan reserve	Regulatory reserves: Regulatory loan reserve	Total Regulatory reserve	Reserve for expected losses in securities	Net changes in securities available for sale	Net changes in debt and equity securities	Retained earnings	Total
Balance at September 30, 2018	5,000,000	638,016	1,516,481	-	2,154,497	-	(326,561)	-	36,100,108	42,928,044
Transition adjustment to IFRS 9	-	-	-	-	-	-	326,561	(310,656)	(15,905)	-
Impact of adopting IFRS 9 at October 1, 2018	-	-	-	-	-	-	-	69,928	(127,252)	(57,324)
	5,000,000	638,016	1,516,481	-	2,154,497	-	-	(240,728)	35,956,951	42,870,720
Reserve for doubtful loans	-	70,141	15,315	-	85,456	-	-	-	(15,315)	70,141
IFRS 9 provision movement	-	-	-	-	-	-	-	2,241	93,128	95,369
Net change in fair value reserve	-	-	-	-	-	-	-	261,270	-	261,270
Profit for the year	-	-	-	-	-	-	-	-	6,806,650	6,806,650
Balance at September 30, 2019	5,000,000	708,157	1,531,796	-	2,239,953	-	-	22,783	42,841,414	50,104,150
Reverse of doubtful loans	-	(708,157)	-	-	(708,157)	-	-	-	-	(708,157)
Regulatory reserve for modified loans	-	-	-	15,801	15,801	-	-	-	(15,801)	-
Reclasiffication of IFRS 9 on securities	-	-	-	-	-	18,146	-	(18,146)	-	(18,146)
IFRS 9 provision movement	-	-	-	-	-	9,375	-	-	-	9,375
Net change in fair value reserve	-	-	-	-	-	-	-	(155,070)	-	(155,070)
Dividends paid	-	-	-	-	-	-	-	-	(5,000,000)	(5,000,000)
Profit for the year	-	-	-	-	-	-	-	-	7,612,258	7,612,258
Balance at September 30, 2020	5,000,000	-	1,531,796	15,801	1,547,597	27,521	-	(150,433)	45,437,871	51,862,556

See notes to financial statements

MMG BANK & TRUST LTD.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2020
(Expressed in United States dollars)

	Notes	2020	2019
Cash flows from operating activities:			
Profit for the year		$ 7,612,258	$ 6,806,650
Adjustments for non-cash items			
Amortization	9	99,607	139,469
Reversal for loan losses	8	(708,157)	-
Allowance for regulatory reserve	7	15,569	-
Allowance (reversal) for expected loses on loans	7	12,339	(32,467)
Allowance for expected losses on securities	6	9,375	36,763
Realized gain on sale of securities measured as FVTOCI	6	41,955	(240,403)
Loss from securities measured as FVTPL		(710,519)	3,894
Interest income	15	(10,257,510)	(10,681,749)
Interest expense		5,610,410	5,749,224
		1,725,327	1,781,381
Changes in:			
(Increase) decrease in loans receivable		(2,997,178)	17,175,270
Increase in other assets		(4,628,702)	(202,180)
Decrease in customers' non-interest bearing deposits		(1,553,277)	(3,085,686)
Increase (decrease) in customers' interest bearing deposits		2,770,240	(21,596,687)
Increase (decrease) in other liabilities		2,360,982	(177,454)
Interest received		10,202,863	11,021,665
Interest paid		(5,505,992)	(5,683,296)
Net cash generated by operating activities		2,374,263	(766,987)
Cash flows from investing activities:			
Purchase of securities measured as FVTPL		(206,808,859)	-
Disposal of securities measured as FVTPL		228,342,259	-
Purchase of securities measured as FVTOCI	6	(75,882,545)	(294,511,422)
Disposal of securities measured as FVTOCI	6	70,755,342	299,957,731
Acquisition of intangible assets	9	(400,214)	(87,152)
Net cash generated by (used in) investing activities		16,005,983	5,359,157
Cash flows from financing activities:			
Dividends paid		(5,000,000)	-
Net increase in cash and cash equivalents		13,380,246	4,592,170
Cash and cash equivalents at beginning of year		20,394,571	15,802,401
End of year	5	$ 33,774,817	$ 20,394,571

See notes to financial statements.

1. GENERAL

MMG Bank & Trust Ltd. (the "Bank") is a limited liability company established under The Companies Act, 1992 of The Commonwealth of The Bahamas and is licensed under the Banks and Trust Companies Regulation Act, 2000 to carry on trust and banking services. The Bank's objective is to promote and participate in all kinds of banking, financing and investing activities from The Commonwealth of The Bahamas.

The Bank is a wholly-owned subsidiary of MMG Bank Corporation (the Parent company) which is incorporated in the Republic of Panama and in turn is a wholly-owned subsidiary of MMG Capital Holdings Inc. (the ultimate Parent company) which is incorporated in The Commonwealth of The Bahamas.

The Bank's registered office is located at Saffrey Square, 1st Floor, Nassau, Bahamas.

2. NEW AND REVISED INTERNATIONAL ACCOUNTING STANDARDS AND INTERPRETATIONS

Adoption of the new and revised International Financial Reporting Standards (IFRSs)

2.1 Standards and interpretations adopted in the financial statements

In the current year, the Bank has implemented the amendments to the IFRS issued by the International Accounting Standards Board (IASB) that are mandatory for the accounting period beginning on January 1, 2019, and whose initial application date for the Bank it is October 1, 2019.

IFRS 16 - Leases

IFRS 16 introduces new or modified requirements with respect to accounting for leases.

IFRS 16 introduces significant changes to lessee accounting by eliminating the distinction between operating and finance leases. Instead, it recognizes a right-of-use asset and a lease liability at the beginning of all leases, except for short-term leases and low-value leases. In contrast to the lessee's accounting, the requirements for the lessor's accounting have remained largely unchanged.

The adoption of IFRS 16 on the Bank's financial statements was not applicable since, the Bank does not hold the control of the rented facilities, and there is no other rented asset.

2.2 New and revised International Financial Reporting Standards issued, but not yet effective

The new standards and amendments to IFRS, as well as the interpretations (IFRIC) that have been published in the year, but have not yet been implemented by the Bank are detailed below:

IFRS17 - Insurance Contracts

- The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and replaces IFRS 4 - Insurance contracts.
- The standard outlines a General Model, which is modified for insurance contracts with discrete participation characteristics, described as the variable fee approach. The General Model is simplified if certain criteria are met, by measuring the liability for the remaining coverage using the premium allocation approach.
- The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and will explicitly measure the cost of that uncertainty; takes into account market interest rates and the impact of policyholders' options and guarantees.
- The profit from the sale of insurance policies is deferred in a separate liability component on day 1 and aggregated in groups of insurance contracts; it is then systematically reported through profit or loss during the period in which insurers provide coverage after making adjustments derived from changes in the assumptions related to future coverage.

The standard is effective for annual periods beginning on or after January 1, 2023 with early application permitted; it is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below, and have been consistently applied to all years presented, unless otherwise noted.

a. ***Basis of presentation*** - These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements are prepared under the historical cost convention, except for the investments which are stated at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

b. ***Due from banks*** - Due from banks includes unrestricted balances held with central banks and highly liquid financial assets that are subject to an insignificant risk of changes in their fair value and used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

c. ***Interest income and expense*** - Interest income and expense are recognized in the statement of comprehensive income for all interest bearing instruments under the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Other fee and commission income is recognized as the related services are performed. Other fee and commission expenses relate mainly to transaction and service fees, which are expenses as the services are received.

Financial instruments

Debt instruments that are maintained within a commercial model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are only payments of principal and interest on the outstanding principal amount (SPPI), are subsequently measured at amortized cost; Debt instruments that remain within a commercial model whose objective is both to collect contractual cash flows and to sell debt instruments, and which have contractual cash flows that are SPPI, are subsequently measured at fair value with changes in other comprehensive incomes (FVTOCI); all other debt instruments (for example, debt instruments managed on a fair value basis, or held for sale) and capital investments are subsequently measured in FVTPL.

However, the following irrevocable choice or designation may be made in the initial recognition of a financial asset on an asset-by-asset basis:

- It is possible to irrevocably choose to present subsequent changes in the fair value of a capital investment that is not held for trading, nor a contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies - “Combinations of Business ”, in other comprehensive results; and

- A debt instrument that meets the amortized cost or the FVOCI criteria measured at FVTPL can be irrevocably designated if doing so eliminates or significantly reduces causing an accounting asymmetry.

Classification

The Bank classifies its financial assets according to its subsequent measurement at amortized cost, at fair value through other comprehensive income or at fair value with changes in profit or loss, based on the Bank's business model for the management of financial assets and contractual cash flow characteristics of financial assets.

The Bank classifies all financial liabilities according to their subsequent measurement at amortized cost, except for those liabilities measured as a result of hedge accounting, as well as liabilities measured at fair value corresponding to non-derivative designated.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Bank's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;

- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

An evaluation of business models to manage financial assets is essential for the classification of a financial asset. The Bank determines the business model at a level that reflects how financial asset groups are managed together to achieve a particular business objective. The business model does not depend on the administration's intentions for an individual instrument, therefore, the evaluation of the business model is carried out at a higher level of aggregation rather than instrument by instrument.

In the initial recognition of a financial asset, it is determined whether the newly recognized financial assets are part of an existing business model or if they reflect the beginning of a new business model. The Bank reassesses its business model in each reporting period to determine if business models have changed since the previous period. For the current, the Bank has not identified a change in its business model.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. nonrecourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Unrealized gains and losses are reported as net increases or decreases through other comprehensive income ("OCI") in the statement of changes in shareholders' equity until they are realized. Gains and losses made on the sale of securities that are included in the net gain on the sale of securities are determined using the specific identification method.

For an equity instrument designated as FVTOCI, the accumulated gain or loss without recyclin previously recognized in other comprehensive income is not subsequently reclassified to profit and loss.

Financial assets at amortized cost

Financial assets at amortized cost represent securities and loans whose objective is to maintain them in order to obtain contractual cash flows during the life of the instrument. These securities and loans are valued at amortized cost if the following two conditions apply:

- The financial asset remains within the business model whose objective is to maintain the financial asset to obtain contractual cash flows, and

- The contractual conditions of the financial asset give rise, on the specified dates, to cash flows that are only payments of the principal and interest on the amount of the outstanding principal.

Financial assets and liabilities at fair value through profit or loss (FVTPL)

Financial assets and liabilities at fair value throught profit or loss include:
a) assets and liabilities with contractual cash flows that are not SPPI; and / or
b) assets and liabilities designated in FVTPL using the fair value option; and accounts receivable (unrealized gains) and accounts payable (unrealized losses) related to derivative financial instruments that are not designated as hedging or that do not qualify for hedge accounting.

Unrealized gains and losses made on these assets and liabilities are recorded in the statement of comprehensive income at fair value.

Reclassification

If the business model, under which the Bank maintains financial assets changes, the affected financial assets are reclassified. The classification and measurement requirements related to the new category are applied prospectively from the first day of the first reporting period after the change in the business model that results in the reclassification of the Bank's financial assets.

During the current fiscal year there were no changes in the business model under which the Bank owns financial assets and, therefore, no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy of modification and derecognition of financial assets and liabilities described next.

Derecognition of financial assets

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The contractual rights to receive cash flows from the financial asset have expired; or
- The Bank has transferred its rights to receive the contractual cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass–through’ arrangement; and either:

    - The Bank has transferred substantially all the risks and rewards of ownership of the financial asset, or
    - The Bank has neither transferred nor retained substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit and loss.

Impairment of financial assets

The Bank recognises loss allowance for ECL on financial assets measured at amortised cost and measures impairment losses at amount equal to 12-month ECL or lifetime ECL depending on the stage in which the asset is classified. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial asset. 12 month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Bank is exposed to credit risk.

Impairment of financial assets is recognised in three stages:

Stage 1 – When a financial asset is originated, ECLs resulting from default events that are possible within the next 12 months are recognised and a loss allowance is established. On subsequent reporting dates, 12-month ECL also applies to existing financial assets with no significant increase in credit risk since their initial recognition.

Stage 2 - If the credit quality subsequently significantly deteriorates for a particular portfolio or transaction, the Bank recognises the full lifetime expected credit losses.

Stage 3 - At a later date, once one or more default events have occurred on the transaction or on a counterparty resulting in an adverse effect on the estimated future cash flows, the Bank recognises the full lifetime expected credit losses. At this stage, the financial asset is credit-impaired.

In determining whether a significant increase in credit risk has occurred since initial recognition, and when estimating ECLs, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and informed credit assessment and forward-looking information.

The assessment of whether an asset is in stage 1 or 2 considers the relative change in the probability of default occurring over the expected life of the instrument and is not assessed based on the change in the amount of the expected credit losses. This involves setting quantitative tests combined with additional indicators such as credit risk classification and other observable inputs. Assets that are more than 30 days past due, but not credit-impaired, are classed as stage 2.

Changes in credit loss, including the impact of movements between the first stage (12 month expected credit losses) and the second stage (lifetime expected credit losses), are recorded in the statement of profit or loss.

IFRS 9 requires the use of more forward-looking information including reasonable and supportable forecasts of future economic conditions. The requirement to consider a range of economic scenarios and their possible impact on impairment allowances is a subjective feature of the IFRS 9 ECL model. The Bank continues to develop its capability to model a number of economic scenarios and capture the impact on credit losses to ensure the overall ECL represents a reasonable distribution of economic outcomes.

The application of IFRS 9 does not alter the current definition of default currently used to determine whether or not there is objective evidence of impairment of a financial asset.

The Bank considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank through actions such as realising security (if any held);
- The financial asset is more than 90 days past due; or
- The borrower is on principal only repayment terms.

Impairment losses for financial assets measured at amortised cost are deducted from the gross carrying amount of assets.

Write-off of loans and advances

A loan (and the related impairment allowance account) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised loan, when the proceeds from realising the security have been received. Consumer installment and credit card loans are written-off after principal and/or interest payments become 270 days and 180 days contractually in arrears, respectively.

Recovery of previously written-off loans

Recoveries of principal and/or interest on previously written off loans are recognised in provisions for credit losses, net in the statement of profit or loss and other comprehensive income on a cash basis or when the loan is rewritten on normal terms prevailing at the time of the rewrite.

Renegotiated loans

Loans subject to impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due. The carrying amount of loans that have been classified as renegotiated retain this classification until maturity or derecognition

d. ***Translation of foreign currencies*** - Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The financial statements are presented in United States dollars, which is the Bank's functional and presentation currency. Monetary assets and liabilities in currencies other than the United States dollar are translated at rates of exchange prevailing at the year-end. Income and expenses in currencies other than the United States dollar are translated at rates of exchange existing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

e. ***Repurchase agreements*** – Securities sold under agreements to repurchase ("repurchase agreements") are treated as collateralized financings and are recognized initially at fair value, being the amount of cash disbursed and received, respectively. The party disbursing the cash takes possession of the securities serving as collateral for the financing and having a market value equal to, or in excess of, the principal amount loaned. The securities delivered under repurchase agreements are not derecognized from the statement of financial positions, because the risks and rewards of ownership are not relinquished.

The Bank has chosen to apply the fair value option to repurchase agreement.

Interest incurred on repurchase agreements is reported as interest expense.

f. ***Fiduciary account and assets under administration*** - Assets held in trust or in trust function are not considered part of the Bank, and accordingly, such assets and related income are not included in the accompanying financial statements. The commission income generated from the administrative of trusts and custody is recorded when the service has been provided.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. ***Fair value of financial instruments***

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction. The best evidence of fair value is quoted price in an active market. In some cases, however, the financial instruments are not typically exchangeable or exchanged and therefore it is difficult to determine their fair value. In these cases, the Bank considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

IFRS 7 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. This classification uses the following three- level hierarchy:

Level 1 Quoted Prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from the prices).

Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Bank measures the fair value using hierarchy levels that reflect the significance of the data inputs used in making the measurements. The Bank has established a process and a documented policy for determining the fair value in which responsibilities and segregation of duties are defined among different responsible areas involved in this process that have been approved by the Assets and Liabilities Committee (ALCO), Risk Committee and the Board of Directors.

Since the calculation of fair value is based on management's estimates, which involve uncertainties, the actual fair value realized in a sale or immediate settlement of the instruments may differ from the estimated amount. The use of the above hierarchy acts as an indicator of the potential variance of the actual amount realized to the estimated amount in each group of financial instruments.

b. **Impairment and provisioning policies**

The internal and external classification systems are more centralized in the projection of credit quality from the beginning of the loan and from the investment activities. On the contrary, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the date of the statement of financial position with objective evidence of impairment. Due to the different methodologies applied, the amount of credit losses foreseen in the financial statements is, overall, lower than the determined amount in the estimated loss model used for internal operational management and banking regulation purposes.

ECL measurement

The key inputs used for ECL measurement are:

• Probability of Default (PD);
• Loss Given Default (LGD); and
• Exposure at Default (EAD).

For the assets of the statement of financial position, the exposures described above are based on the net carrying values reported in the statement of financial position.

The Bank's Management trusts itself in the ability to continue control and maintain a minimum credit risk exposure for the Bank as a result of the loan portfolio and the securities available for sale.

The following table analyzes the Bank's loan portfolios that are exposed to credit risk and its corresponding evaluation:

2020	**ECLs during the next 12 months**	**ECLs during lifetime (not impaired and collectively evaluated)**	**ECLs during lifetime (impaired - individually evaluated)**	**Total**
Classification				
Indicators 1-3: Normal or low risk	162,120,858	-	-	162,120,858
Modified loans	4,731,298	-	-	4,731,298
Indicators 4-6: Special mention	-	-	-	-
Indicator 7: Subnormal	-	-	-	-
Indicator 8: Doubtful	-	-	-	-
Total	166,852,156	-	-	166,852,156
Less:				
Provision for possible uncollectible loans	(73,361)	-	-	(73,361)
Regulatory provision				(15,569)
Loans and advances, net				166,763,226

2019	ECLs during the next 12 months	ECLs during lifetime (not impaired and collectively evaluated)	ECLs during lifetime (impaired - individually evaluated)	Total
Classification				
Indicators 1-3: Normal or low risk	163,557,460	-	-	163,557,460
Indicators 4-6: Special mention	-	-	-	-
Indicator 7: Subnormal	-	-	-	-
Indicator 8: Doubtful	-	-	-	-
Indicator 9: Unrecoverable	-	-	-	-
Total	163,557,460	-	-	163,557,460
Less:				
Provision for possible uncollectible loans	(61,022)	-	-	(61,022)
Unearned discounted commissions				(107,209)
Loans and advances, net				163,389,229

In the previous table, the factors of greater risk exposure and information of impaired assets have been detailed, and the premises used for these disclosures are the following:

Impairment in loans – Impairment of loans is determined considering the amount of principal and interest, based on the contractual terms.

Write-off policy – Loans are charged to losses when it is determined that they are uncollectible for a period not exceeding one year. This determination is made after considering a series of factors such as: the debtor's inability to pay; when the guarantee is insufficient or not properly constituted; or it is established that all the resources for the recovery of the credit in the management of collections made were exhausted.

The Bank has performed a sensitivity analysis on how ECLs in the main portfolios will change if the key assumptions used to calculate ECLs change by 0.1%. The table below outlines the total ECLs by portfolio as at September 30, 2020, if the assumptions used to measure ECLs remain as expected (amount presented in the statement of financial position), as well as whether each of the key assumptions used are changed by plus or minus 0.1%. Changes are applied separately for illustrative purposes, and are applied to each of the weighted probability scenarios used to develop the estimate of the expected credit losses. Actually, there will be interdependencies between the various economic inputs and exposure to sensitivity will vary through economic scenarios

5. DUE FROM BANKS

Due from banks is detailed as follows:

		2020		2019
Due on demand	$	28,778,289	$	14,116,895
Interest earning deposits		4,996,528		6,277,676
Total due from banks	$	33,774,817	$	20,394,571

As at September 30, 2020, the bank has no time deposits in its books. The interest rates earned by time deposits ranged from 1.8% to 2% (2019: 1.5% to 2.3%).

6. SECURITIES

		2020		2019
Securities at Fair Value Through Other Comprehensive Income	$	22,491,595	$	17,519,462
Securities at Fair Value Through Profit or Loss		16,639,259		37,854,175
	$	39,130,854	$	55,373,637

6.1 Securities at fair value through other comprehensive incomes are described as follows:

Securities as of September 30, 2020		2020		2019
Debt securities with rating "BBB-" or better	$	19,923,477	$	16,475,292
Debt securities with rating below "BBB-"		2,568,118		1,044,170
	$	22,491,595	$	17,519,462

The movement in securities available-for-sale is summarized as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance as of October 1, 2019	17,519,462	-	-	17,519,462
Disposals (sales and redemptions)	(70,755,342)	-	-	(70,755,342)
Additions	75,882,545	-	-	75,882,545
Net realized profit	41,955	-	-	41,955
Changes in fair value	(197,025)	-	-	(197,025)
Balance as of September 30, 2020	22,491,595	-	-	22,491,595

	Stage 1	Stage 2	Stage 3	Total
Balance as of October 1, 2018	60,581,776	-	-	60,581,776
Reclassification of securities to fair value through profit or loss	(2,658,030)	-	-	(2,658,030)
Disposals (sales and redemptions)	(100,307,117)	-	-	(100,307,117)
Additions	59,641,563	-	-	59,641,563
Net realized loss	(240,403)	-	-	(240,403)
Changes in fair value	501,673	-	-	501,673
Balance as of September 30, 2019	17,519,462	-	-	17,519,462

The reconciliation between the initial balance and the end balance of the expected credit loss (ECL) value correction by reserve model type is shown below:

	Stage 1	Stage 2	Stage 3	Total
Balance as October 1st, 2019	18,146	-	-	18,146
Adjustment to provision for expected credit loss on securities	9,375	-	-	9,375
Expected credit loss for the end September 30, 2020	27,521	-	-	27,521

	Stage 1	Stage 2	Stage 3	Total
Impact of adoption of IFRS 9 and reserve for net adjustment for initial adoption of IFRS 9	69,928	-	-	69,928
Adjustment to provision for expected credit loss on securities	(51,782)	-	-	(51,782)
Expected credit loss for the end September 30, 2019	18,146	-	-	18,146

6.2 Securities at fair value through profit or loss are described as follows:

Securities as of September 30, 2020	2020	2019
Institutional cash funds rating AAA by International Agencies	4,010,368	37,815,034
Debt securities and equity securities - no rating	12,628,891	39,141
	16,639,259	37,854,175

7. LOANS RECEIVABLE, NET

Loans receivable are summarized as follows:

	2020	2019
Commercial	$ 123,716,411	$ 103,245,809
Personal	10,086,336	19,664,506
Margin loans	31,705,257	39,027,818
Mortgate	1,255,222	1,451,096
	$ 166,763,226	$ 163,389,229

The Bank offers its clients to use their investment portfolio as collateral which is normally called margin loans. Based on the characteristics of each type of instrument, the Bank determines the maximum amount that can be borrowed.

The range of annual interest rates on loans granted during the year ranged between 2% and 10.75% (2019: 2% and 10.75%).

As of September 30, 2020, 63% (2019: 57%) of the loans receivable were fully collateralized by customers' deposits placed with the Bank.

As of September 30, 2020, the Bank recognized an impairment provision for the amount of $27,907 for doubtful loans (2019: $61,022).

Significant changes in the gross carrying value of loans during the period that contributed to changes in reserves for expected credit losses are as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross book value as as of October 1, 2019	163,450,251	-	-	163,450,251
Financial instruments that have been written off during the year and changes due to the instruments recognized as of September 30, 2019	- (42,805,015)	-	-	- (42,805,015)
Changes due to financial instruments recognized as of September 30, 2020	(42,805,015)	-	-	(42,805,015)
Origination or purchase of new financial assets	46,206,920	-	-	46,206,920
Gross book value as of September 30, 2020	166,852,156	-	-	166,852,156

	Stage 1	Stage 2	Stage 3	Total
Gross book value as of September 30, 2018 and as of October 1, 2018	180,587,243	-	-	180,587,243
Financial instruments that have been written off during the year and changes due to the instruments recognized as of September 30, 2018	- (49,997,488)	-	-	- (49,997,488)
Changes due to financial instruments recognized as of September 30, 2019	(49,997,488)	-	-	(49,997,488)
Origination or purchase of new financial assets	32,860,496	-	-	32,860,496
Gross book value as of September 30, 2019	163,450,251	-	-	163,450,251

The reserve for expected credit losses related to amortized cost loans is as follows:

	Stage 1	Stage 2	Total
Balance at September 30, 2019	61,022	-	61,022
Provision for bad loans	12,339	-	12,339
Reserve for expected credit lossed as of September 30, 2020	73,361	-	73,361
Generic provision for "modified loans" (a)	15,569	-	15,569
Total reserve for bad loans as of September 30, 2020	88,930	-	88,930

(a)The Superintendency of Banks of Panama issued Agreement No. 9-2020 dated September 11, 2020, which modifies Agreement No. 2-2020 through which additional, exceptional and temporary measures are established for compliance with the provisions contained in Agreement No. 4-2013 on credit risk.

As disclosed in Note 22 for modified loans, 1.5% must be calculated as a generic provision. Numeral 2, literal b, of Article 7, establishes that when there is an excess of generic provision over the IFRS provision, the Bank must record the difference until the said percentage is completed, charged to results.

	Stage 1	Stage 2	Total
Balance at Septemer 30, 2018	36,165	-	36,165
Adjustment of IFRS 9 adoption	57,324	-	57,324
Net adjustment in the initial application of IFRS 9	93,489	-	93,489
Reversal for bad loans	(32,467)	-	(32,467)
Reserve for expected credit losses as of September 30, 2019	61,022	-	61,022

8. STATUTORY LOAN LOSS RESERVE

The statutory loan reserves are summarized as follows:

	2020	2019
Generic loan allowance on loans without collateral cash	$ -	$ 708,157
Generic provision for "modified loans"	15,801	-
Dynamic loan reserve	1,531,796	1,531,796
	$ 1,547,597	$ 2,239,953

During de period ended on September 2020, the Bank reversed through profit and loss the 1% generic loan allowance on loans without collateral cash through a combination of provision for doubtful loans receivable or loan reserve as per requirement of the Central Bank of the Bahamas ("CBB"). Since this provision was replaced with adoption of the IFRS 9 which set procedures to recognize the provision for expected losses. The movement in this provision for loan receivables is as follows:

	2020	2019
Balance at beginning of year	$ 708,157	$ 638,016
(Reversal) Increase in provision	(708,157)	70,141
	$ -	$ 708,157

The Superintendency of Banks of Panama issued Agreement No. 9-2020 dated September 11, 2020, which modifies Agreement No.2-2020 through which additional, exceptional and temporary measures are established for compliance with the provisions contained in Agreement No. 4-2013 on credit risk.

As disclosed in Note 22 for modified loans, In cases where the IFRS provision is less than the generic provision of 3% established in the Agreement, the Bank will record said IFRS provision in income and the difference must be recorded in income or in a regulatory reserve in equity, taking into account consideration of the following aspects:

a). When the IFRS provision is equal to or greater than 1.5%, the Bank must record said IFRS provision in the income statement. Likewise, the difference to complete the 3% of the generic provision established in the Agreement must be recorded in a regulatory reserve in equity.

b) When the IFRS provision is less than 1.5%, the Bank must ensure that this percentage is completed and recorded in the income statement. Likewise, the difference to complete the 3% of the generic provision established in the Agreement must be recorded in a regulatory reserve in equity

	2020	2019
Generic provision for "modified loans	$ 15,801	$ -

The Bank also maintains a statutory loan reserve in accordance with the requirements of the Republic of Panama. Those requirements stipulate to recognize a dynamic reserve which is greater than the 1% generic loan allowance of CBB.

		2020		2019
Balance at beginning of year	$	1,531,796	$	1,516,481
(Decrease) increase in provision		-		15,315
	$	1,531,796	$	1,531,796

9. INTANGLIBLE ASSETS

Intangible assets are summarized as follows:

		2020		2019
Cost				
Balance at beginning of year	$	2,667,632	$	2,580,485
Additions		400,214		87,147
At end of year		3,067,846		2,667,632
Accumulated Amortisation				
Balance at beginning of year		2,508,299		2,368,830
Amortization expense		99,607		139,469
At end of year		2,607,906		2,508,299
Net balance	$	459,940	$	159,333

10. OTHER ASSETS

Other assets are summarized below:

		2020		2019
Commissions receivable	$	205,601	$	640,600
Expense paid in advance		173,494		160,342
Accounts receivable related		5,150,549		100,000
Total	$	5,529,644	$	900,942

11. CUSTOMER DEPOSITS

Customer deposits are summarized below:

		Demand		Time Deposit
2020				
Deposit from clients	$	67,737,131	$	109,666,056
Deposit from banks		11,795,219		959,503
Total	$	79,532,350	$	110,625,559

		Demand		Time Deposit
2019				
Deposit from clients	$	71,428,602	$	103,526,573
Deposit from banks		9,657,025		4,224,328
Total	$	81,085,627	$	107,750,901

12. OTHER LIABILITIES

Details of other liabilities are summarized below:

		2020		2019
Account payable (a)	$	3,279,584	$	210,302
Expenses payable		87,520		989,833
Commissions payable		139,731		73,357
Other		131,181		3,542
Total	$	3,638,016	$	1,277,034

(a) At of September 30, 2020, the accounts payables correspond mainly to transactions with related companies (See Note 13). The accounts payables do not have a payment agreement, and are not subject to expiration date, no interest or surcharges.

13. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

As of September 30 and for the year then ended, the Bank had the following significant balances and transactions with related parties:

2020	managerial personnel	Related companies	Total 2019
Assets			
Due from bank	$ -	$ 8,853,307	$ 8,853,307
Securities available-for-sale	-	2,945,646	2,945,646
Loans	1,854,603	22,849,705	24,704,308
Other assets	-	5,150,000	5,150,000
Total assets	$ 1,854,603	$ 39,798,658	$ 41,653,261
Liabilities			
Customers' non-interest bearing deposits	$ 354,908	$ 25,407,437	$ 25,762,345
Customers' interest bearing deposits	18,023,738	21,881,011	39,904,749
Other liabilities	26,519	3,263,346	3,289,865
Total liabilities	$ 18,405,165	$ 50,551,794	$ 68,956,959
Income			
Interest income	$ 78,388	$ 200,843	$ 279,231
Interest expenses	(246)	(61,052)	(61,298)
Commissions	3,176	360,930	364,106
Total income	$ 81,318	$ 500,721	$ 582,039
Other expenses			
Personnel expenses	$ 190,040	$ -	$ 190,040
Professional fees	-	1,095	1,095
Total other expenses	$ 190,040	$ 1,095	$ 191,135

(Continued)

2019	Directors and managerial personnel	Related companies	Total 2019
Assets			
Due from bank	$ -	$ 11,884,381	$ 11,884,381
Securities available-for-sale	-	19,508	19,508
Loans	1,784,234	1,101,991	2,886,225
Other assets	-	100,000	100,000
Total assets	$ 1,784,234	$ 13,105,880	$ 14,890,114
Liabilities			
Customers' non-interest bearing deposits	$ 1,685,591	$ 25,678,845	$ 27,364,436
Customers' interest bearing deposits	15,642,686	5,097,747	20,740,433
Other liabilities	-	1,013,261	1,013,261
Total liabilities	$ 17,328,277	$ 31,789,853	$ 49,118,130
Income			
Interest income	$ 221,512	$ 76,013	$ 297,525
Interest expenses	(11,590)	(99,613)	(111,203)
Commissions	28,940	612,138	641,078
Total income	$ 238,862	$ 588,538	$ 827,400
Other expenses			
Personnel expenses	$ 131,326	$ -	$ 131,326
Professional fees	6,727	7,487	14,214
Total other expenses	$ 138,053	$ 7,487	$ 145,540

Loans granted to directors and key management personnel have various maturities ranging from 2020 to 2030 (2019: 2019 to 2029) and bear an annual interest rate between 2% and 7.79% in 2020 (2019: 2% and 5.75%).

At September 30, 2020, term deposits with affiliates companies earned an annual interest rate between 0.5% and 10% (2019: 1% and 4%).

(Concluded)

14. SHARE CAPITAL

At September 30, 2020, the authorized issued and outstanding share capital consisted of 5,000,000 (2019: 5,000,000) common and registered shares with a nominal value of USD1 each.

In April 2020, the Board of Directors authorized the payment of dividends to the shareholder for USD.5,000,000.

15. INTEREST INCOME

At September 30, interest income is detailed below:

	2020	2019
Loans	$ 9,305,473	$ 9,136,837
Investments	843,706	1,386,041
Deposits	108,331	158,871
Total	$ 10,257,510	$ 10,681,749

16. NET COMMISSION INCOME

Commission earned by the Bank totaled USD 2,860,609 (2019: USD 3,027,413). Ninety one percent 91% (2019: 90%) of these commissions are generated by the main business areas: wealth management, investment banking and banking services.

17. ASSETS UNDER MANAGEMENT

The Bank holds assets outside the statement of financial position at the risk of clients for a total of USD 915,850,022 (2019: USD 1,080,657,545). These assets consist of financial portfolios in custody for a total of USD 855,806,818 (2019: USD 1,016,874,784) of which USD 56,906,190 (2019: USD 46,435,277) are managed under discretionary mandates. The Bank does not anticipate any loss as a result of the services provided.

18. PERSONNEL EXPENSES

At September 30, the personnel expenses are detailed below:

	2020	2019
Salaries and other compensations	$ 423,233	$ 397,821
Employee benefits	55,519	50,425
Total	$ 478,752	$ 448,246

19. OTHER EXPENSES

At September 30, the other expenses are detailed below:

	2020	2019
Repairs and maintenance	$ 276,069	$ 263,925
Subscription fee	162,992	154,483
Taxes and licenses	92,171	75,305
Communications	23,536	21,686
Advertising and public relations	19,749	19,640
Office rent	17,508	20,815
Water and electricity	6,987	6,987
Travel and lodging	2,688	1,985
Others	2,396	593
Insurance	963	963
Stationery and office supplies	415	4,114
Total	$ 605,474	$ 570,496

20. INCOME TAXES

The Bank is not subject to income tax in The Bahamas.

21. FINANCIAL RISK MANAGEMENT

Objectives of the administration of financial risks

By the nature of its operations, the Bank is exposed to various financial risks that could threaten their business objectives, so that proactive identification and understanding of the significant risks faced by the Bank are critical to achieve an appropriate balance between the risk and return and minimize potential adverse effects on its financial achievement.

The Bank's management and risk control falls mainly on the Board of Directors, which is initially responsible for establishing and determining the strategic direction of the organization, the focus of the business and corporate values.

The Board has established the Risk Committee, with specific roles and responsibilities for the proper supervision of the Bank's risks. This committee consists of members of the Board of Directors separate from Management and assists the Board of Directors in fulfilling its monitoring responsibilities relating to the administration and control of the risks inherent to the Bank.

Additionally, the Board of Directors has the support of the Audit Committee in which issues related to the audit areas fall, such as the integrity of the financial statements, quality and performance of internal and external auditors, and compliance of the Bank with the legal and regulatory requirements as well as policies and ethical behavior established by the Board of Directors.

It is worth mentioning that the Audit Committee has outsourced internal audit services from the firm of auditors and accountants, RSM Panama, S.A. (previously Moore Stephens). Internal audit supports the monitoring of the Audit Committee by evaluating the processes of risk management and internal control of the Bank.

The Board of Directors has established the Compliance Committee, whose primary function of the Committee is to assist the Board of Directors of the Bank as supporting agency to monitor that the Bank has a strong process for preventing money laundering and terrorist financing, as well as monitoring compliance with the laws and regulations that apply to the Bank and the Standards related to Corporate Governance.

The Board of Directors delegates responsibility for the Bank's day to day management, however, the Risk Committee oversees the management of identification, assessment and mitigation of the risks inherent to the Bank.

Management on its part has established other committees through which it evaluates and monitors different operational issues. Among these are the following:

Assets and Liabilities Committee (ALCO): Its purpose is to optimize and manage the Bank's financial resources, maintaining exposure to the inherent risks of the business within the policies established by the Board of Directors. In addition, this Committee reviews economic trends, interest rate expectations, and establishes active and passive rates.

Credit Management Committee: Its main objective is to establish policies for the management and control of credit risk, to establish credit risk measurement systems, to evaluate and classify the loan portfolio, to supervise the provisions established by the Bank to mitigate the risk Losses, evaluation of guarantees and compliance with internal policies and regulations.

The Bank is subject to the regulations of The Central Bank of The Bahamas and The Securities Commission of The Bahamas, in regard to risk concentrations, liquidity and capitalization, among others. Therefore, Management must deliver a series of reports to achieve an appropriate flow of information both internally and externally to ensure the transparency of Administration and Corporate Governance.

The main financial risks identified by the Bank are credit risk, liquidity, market and operational risks, which are described below:

<u>Credit risk</u>

Credit risk is the risk of a financial loss as a consequence from a borrower who does not pay on time or the totality of its obligation or the counterparty of a financial instrument who fails to meet its contractual obligations before settling a contract and the effect of having to replace the transaction to balance the position.

Financial assets that potentially present credit risk to the Bank are loans that are not collateralized with cash, portfolio investments and placed bank deposits.

Credit risk is the most important risk for the Bank, so the Administration carefully manages its exposure to credit risk through a strict policy for the management of credit risk.

Settlement Risk

The Bank's activities may create a risk at the time of settlement of transactions and negotiations with a counterparty. The settlement risk, is the risk of loss due to the Bank's failure to deliver cash, securities or other assets as agreed by contract.

For certain types of transactions, the Bank mitigates risk by making settlements through a settlement agent to ensure that a settlement is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits are part of the process of monitoring credit limits / approvals described above.

Credit risk management

The Bank performs a qualitative and quantitative analysis of the customer. The qualitative analysis takes into account the industry in which the customer performs, the competence of the debtor or counterparty, its references, management, products, customers, suppliers and operating performance of the company. In the quantitative analysis, the financial ratios are evaluated, depending on the industry in which the client operates.

The Bank structures acceptable levels of credit risk through the establishment of policies and procedures for a single borrower, group of borrowers, and geographical segment. Exposure to risk is covered mainly by obtaining guarantees.

As of September 30, 2020, 62% (2019: 57%) of the loan portfolio was backed by cash deposits. The rest of the portfolio is guaranteed by financial assets, real and personal property, bonds or guarantees and other guarantees.

Credit quality analysis

The following table shows information related to the credit quality of financial assets.

	Maximun exposure	
	2020	**2019**
Due from banks	$ 33,774,817	$ 20,394,571
Securities	39,130,854	55,373,637
Loans receivable	166,763,226	163,389,229
Total	$ 239,668,897	$ 239,157,437

The table above represents the Bank's most critical exposure to credit risk as of September 30, 2020, without taking into account credit guarantees or another increase in exposure to credit risk.

The guarantees issued and promissory notes are exposed to credit losses in the event that the customer does not comply with their obligation to pay. The Bank's policies and procedures in approving credit commitments, financial guarantees and promises of payment are the same as those used for the granting of loans recorded in the statement of financial position.

Guarantees issued and promissory notes from customers relate to outstanding facilities to be disbursed, which are not shown in the statement of financial position but are recorded in the Bank's memorandum accounts.

For the assets of the statement of financial position, the exposures described above are based on the net book balances reported in the statement of financial position.

	Loan		Securities	
	2020	**2019**	**2020**	**2019**
Maximun exposousre				
Book value	$ 166,763,226	$ 163,389,229	$ 39,130,854	$ 55,373,637
At amortized cost				
Risk Level				
Level 1 - normal	166,852,156	163,450,251	-	-
Doubtful loans reserve	(73,361)	(61,022)	-	-
Regulatory provision	(15,569)	-	-	-
Book Value, net	166,763,226	163,389,229	-	-
Securities available for sale				
Low risk				
Books Value, net	-	-	39,130,854	55,373,637
Not overdue, neither impaired				
Level 1 - normal	166,852,156	163,450,251	-	-
Overdue, but not impaired				
30 a 60 days	-	-	-	-
61 a 90 days	-	-	-	-
91 a 120 days	-	-	-	-
121 a 180 days	-	-	-	-
181 days and more	-	-	-	-
Sub-total	-	-		
Individually impaired				
Level 2 - special mention	-	-	-	-
Level 3 - sub-normal	-	-	-	-
Level 4 - doubtful	-	-	-	-
Level 5 - unrecoverable	-	-	-	-
Sub-total	-	-	-	-
Impairment reserve				
Individually	(73,361)	(61,022)	-	-
Total impairment reserve	(73,361)	(61,022)	-	-
Regulatory reserve	(15,569)	-	-	-
Total	$ 166,763,226	$ 163,389,229	$ 39,130,854	$ 55,373,637

Through the Asset and Liability Committee, the Bank analyzes the repayment capacity of the different issuers and banks in international markets and recommends to the Board of Directors the limits (based on capital) that can be placed on each by using as reference, international credit ratings from recognized rating agencies such as Standard & Poors, Moody's Investor Services and Fitch Ratings.

Due to very conservative asset management policies, the deposits and investments portfolio is highly diversified and mostly placed in institutions rated with international investment grade.

As at September 30, 2020, 86% (2019: 94%) of demand deposits and time deposits are placed in financial institutions rated between A+ and BBB-, based on the rating agencies mentioned above.

The information in the table below shows the investment assets composition of the Bank. As of September 30, 2020 the Bank had placed 61% (September 30, 2019: 97%) of their investment assets in deposits in banks of investment-grade and debt issuers and assets securedx by cash deposits.

The information in the table below shows the assessment composition of the Bank's securities.

	2020		2019	
	Amount	**Percentage**	**Amount**	**Percentage**
Grading investments				
AAA	$ 18,003,231	46%	$ 41,788,234	75%
A+, A, A-	3,033,330	8%	9,612,251	17%
BBB+, BBB, BBB-	2,897,284	7%	2,531,109	5%
Total with international investment grade	**23,933,845**	61%	**53,931,594**	97%
Local BBB- or better - Corporate	1,810,189	5%	358,559	1%
International BB+ to BB-	2,358,441	6%	1,043,999	2%
Local corporates not classified	11,028,379	28%	39,485	0%
Total	**$ 39,130,854**	**100%**	**$ 55,373,637**	**100%**

The following table details the analysis of the Bank´s financial assets portfolio, under the category of investments and accounting recognition.

	2020		2019	
	Amount	Percentage	Amount	Percentage
Loan secured by cash deposits	$ 104,276,389	42%	$ 92,578,311	46%
Cash in banks with investment grade rating	29,173,615	12%	19,256,382	6%
Securities with investment grade rating	23,933,845	10%	53,931,594	19%
Sub-total	157,383,849	64%	165,766,287	71%
Loans with other guarantees than cash	62,486,837	26%	70,810,918	24%
Cash in banks without investment grade rating	4,601,202	2%	1,138,189	1%
Securities without investment grade rating	4,168,630	2%	1,442,043	3%
Securities without rating	11,028,379	4%	-	1%
Other assets	5,989,584	2%	1,060,275	0%
Total other	88,274,632	36%	74,451,425	29%
Total assets	$ 245,658,481	100%	$ 240,217,712	100%

Collateral and other guarantees against credit exposure

The Bank holds collateral and other guarantees against credit exposures. The following table shows the main types of guarantees received against different types of loans.

Types of loan -	Main type of guarantee	Maximum exposure 2020	Maximum exposure 2019	Guarantees 2020	Guarantees 2019
Consumer loans					
Personal		**$ 10,086,336**	**$ 19,664,506**	**$ 15,733,049**	**$ 56,841,963**
	Deposits	1,336,212	513,393	1,415,655	522,705
	Transfer of promissory notes	1,630,290	2,187,106	2,068,504	2,987,054
	Investments	2,207,774	11,357,989	6,094,880	47,316,442
	Bonds and guarantees	4,912,060	5,606,018	6,154,010	6,015,762
Mortgages	Property	**1,133,022**	**1,451,096**	**1,299,252**	**2,717,704**
Margin loans	Investments	**30,432,087**	**2,197,181**	**95,265,808**	**7,243,856**
Overdrafts		**-**	**358**	**-**	**-**
Sub-total		$ 41,651,445	$ 23,313,141	$ 112,298,109	$ 66,803,523

	Main type of guarantee	Maximum exposure 2020	Maximum exposure 2019	Guarantees 2020	Guarantees 2019
Types of loan					
Corporate loans					
Commercial		**$ 123,452,390**	**$ 103,245,206**	**$ 150,044,591**	**$ 130,065,238**
	Deposits	102,940,177	91,743,481	103,825,974	100,070,799
	Assignments of promissory notes	84,578	437,604	145,000	641,000
	Investments	9,720,000	-	32,275,015	-
	Bonds, guarantees and others	10,707,635	11,064,121	13,798,602	29,353,439
Mortgages	Properties	**122,200**	**-**	**518,452**	**-**
Margin loans	Bonds, guarantees and others	**1,273,170**	**36,830,637**	**7,835,165**	**110,798,821**
Others	Bonds, guarantees and others	**264,021**	**245**	**-**	**-**
Sub-total		125,111,781	140,076,088	158,398,208	240,864,059
Total		**$ 166,763,226**	**$ 163,389,229**	**$ 270,696,317**	**$ 307,667,582**

	2020	**2019**	**Collateral type**
Loans portfolio	63%	56%	Cash deposits
	26%	32%	Investments
	1%	4%	Promissory notes
	3%	6%	Properties
	7%	2%	Bonds, guarantees & others

Credit risk concentration

The Bank monitors the concentration of credit risk by sector and geographic location. The analysis of the credit risk concentration at the date of the financial statements is as follows:

	Loans		Securities	
	2020	**2019**	**2020**	**2019**
Concentration by sector:				
Corporate	125,111,781	140,076,088	21,116,705	1,076,405
Consumer	41,651,445	23,313,141	-	-
Other	-	-	18,014,149	54,297,232
	166,763,226	163,389,229	39,130,854	55,373,637

	Assets		Liabilities	
	2020	**2019**	**2020**	**2019**
Geographic concentration				
United States of America	14,458,808	40,546,466	1,269,506	1,425,938
Panama	172,729,427	124,342,591	82,575,083	77,791,271
Europe	5,874,925	40,118,862	4,511,732	4,603,260
South America	25,318,306	15,542,558	29,611,660	21,293,363
Bahamas	280,378	25,000	9,684,399	13,889,263
Others	8,001,620	1,557,078	191,654	1,278,942
Central America and Caribbean	18,995,017	18,085,157	65,951,891	69,831,525
	245,658,481	240,217,712	193,795,925	190,113,562

Exposure to credit risk is managed by the Credit Management Committee and the Assets and Liabilities Committee (ALCO), through periodic analysis of the ability of current and potential borrowers to meet their obligations. Both committees are duly authorized to evaluate and recommend to the Board changes in credit limits where appropriate.

Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet commitments and financial obligations due to a shortage of liquid resources to cover them. This contingency may force the Bank to resort to the sale of assets or the collection of liabilities under unfavorable conditions, such as unusual discounts, higher financial costs, or foreclosure on equity losses.

Liquidity risk management

Liquidity risk is monitored by measuring the concentration of depositors, measuring the volatility of the different products, the portion of the liabilities that are hedged by the liquid assets and the maturity between assets and liabilities.

To manage this risk, the Bank maintains strict liquidity policies to support the management of its customers' deposits. Internal policies require maintaining primary liquidity reserves that largely cover withdrawals of liquid liabilities projected under stress scenarios. Primary liquidity is defined as cash, deposits with banks maturing up to 14 days, units in AAA-rated institutional liquidity funds, US Treasury Bills and Letters of the Bundesbank. Net liabilities refer to overnight deposits, overnight deposits and time deposits that mature within the next 7 days. In addition, most of the maturity mismatch between assets and liabilities must be covered at all times by secondary liquidity and contingent funding lines. Secondary liquidity is defined as net investments of debtors with international investment grade and with a maximum maturity of 12 months. Contingent funding lines are defined as contractually established bank facilities to which the bank has access and whose financing terms have been previously defined.

It should be noted that compliance with liquidity policies is monitored by the Assets and Liabilities Committee and the Board of Directors through the Risk Committee.

It should be noted that compliance with the liquidity policies is monitored by the Assets and Liabilities Committee and the Board of Directors through the Audit and Risk Management Committee.

Exposure to liquidity risk

The key measure used by the Bank for the management of liquidity risk is the index of net liquid assets on deposits received from customers. A similar but not identical calculation is used to measure the liquidity limits established by the Bank.

Below are detailed the indexes corresponding to the net liquid assets ratio on deposits received from clients at the date of the financial statements as follows:

	2020	**2019**
At end of year	24%	49%
Average of year	46%	48%
Maximum of year	24%	44%
Minimum of year	46%	48%

Analysis of maturities for financial liabilities and financial assets

The maturity analysis of assets and liabilities based on the remaining period to the date of the statement of financial position up to the contractual maturity date are as follows:

2020	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Liabilities						
Customers' non-interest bearing deposits	79,532,350	-	-	-	-	79,532,350
Customers' interest bearing deposits	-	15,351,861	48,950,515	46,045,959	277,224	110,625,559
Total liabilities	79,532,350	15,351,861	48,950,515	46,045,959	277,224	190,157,909
Assets						
Due from banks	28,778,289	4,996,528	-	-	-	33,774,817
Securities	16,639,259	7,048,731	10,505,896	4,028,223	908,745	39,130,854
Loans receivable, net	30,215,649	18,946,413	59,313,318	57,401,324	886,522	166,763,226
Total assets	75,633,197	30,991,672	69,819,214	61,429,547	1,795,267	239,668,897
Commitments and contingencies	-	-	-	-	-	-
Net position	(3,899,153)	15,639,811	20,868,699	15,383,588	1,518,043	49,510,988

2019	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Liabilities						
Customers' non-interest bearing deposits	81,085,627	-	-	-	-	81,085,627
Customers' interest bearing deposits	-	16,353,044	45,949,147	45,448,710	-	107,750,901
Total liabilities	81,085,627	16,353,044	45,949,147	45,448,710	-	188,836,528
Assets						
Due from banks	20,394,571	-	-	-	-	20,394,571
Securities	37,854,346	4,325,349	8,551,055	4,577,876	65,011	55,373,637
Loans receivable, net	29,152,732	11,121,953	52,073,279	70,880,380	160,885	163,389,229
Total assets	87,401,649	15,447,302	60,624,334	75,458,256	225,896	239,157,437
Commitments and contingencies	-	-	-	-	-	-
Net position	6,316,022	(905,742)	14,675,187	30,009,546	225,896	50,320,909

It is noteworthy that compliance with liquidity policies is monitored by the Asset and Liability Committee and the Board of Directors through the Risk Committee. Liquidity risk is monitored by measuring the concentration of depositors, measuring the volatility of different products, the portion of the liabilities that are covered by liquid assets and the matching of maturities between assets and liabilities.

To manage the liquidity risk arising from financial liabilities, the Bank maintains liquid assets such as Due from banks and investment grade for which an active market exists.

These assets can be easily sold to meet liquidity requirements. Consequently, the Bank believes that it’s not necessary to disclose the maturity analysis related to these assets to allow assessment of the nature and extent of liquidity risk.

The table below shows the undiscounted cash flows of the Bank's financial liabilities based on their nearest possible maturities. The expected cash flows of these instruments may vary significantly over time:

2020	Carrying value	Gross nominal amount inputs/ (outputs)	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Liabilities							
Customers' non-interest bearing deposits	79,532,350	79,532,342	79,532,342	-	-	-	-
Customers' interest bearing deposits	110,625,559	118,214,691	-	15,434,234	50,843,551	51,511,699	425,207
Total liabilities	190,157,909	197,747,033	79,532,342	15,434,234	50,843,551	51,511,699	425,207
Assets							
Due from banks	33,774,817	33,774,819	28,778,291	4,996,528	-	-	-
Securities	39,130,854	39,675,688	16,639,259	7,048,731	10,505,896	4,491,705	990,097
Loans receivable, net	166,763,226	177,204,982	30,215,646	19,085,937	61,741,720	64,803,985	1,357,694
Total assets	239,668,897	250,655,489	75,633,196	31,131,196	72,247,616	69,295,690	2,347,791
Net position	49,510,988	52,908,456	(3,899,146)	15,696,962	21,404,065	17,783,991	1,922,584

2019	Carrying value	amount inputs/ (outputs)	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Liabilities							
Customers' non-interest bearing deposits	81,085,627	81,085,611	81,085,611	-	-	-	-
Customers' interest bearing deposits	107,750,901	115,661,316	-	16,387,718	47,857,743	51,415,855	-
Total liabilities	188,836,528	196,746,927	81,085,611	16,387,718	47,857,743	51,415,855	-
Assets							
Due from banks	20,394,571	20,394,573	20,394,573	-	-	-	-
Securities	55,373,637	64,328,587	37,854,347	4,341,210	8,598,664	5,171,739	8,362,627
Loans receivable, net	163,389,229	176,275,633	29,152,732	11,172,174	54,357,872	81,045,706	547,149
Total assets	239,157,437	260,998,793	87,401,652	15,513,384	62,956,536	86,217,445	8,909,776
Net position	50,320,909	64,251,866	6,316,041	(874,334)	15,098,793	34,801,590	8,909,776
Accumulated position	50,320,909	64,251,866	6,316,041	5,441,707	20,540,500	55,342,090	64,251,866

In Management's opinion, in the investment portfolio and other financial assets of the Bank, there are highly liquid investments (rated AAA to BBB-) for USD 23,933,845 (2019: USD 53,931,594), which may be converted into cash in a period less than one week.

Market risk

Market risk is that in which the value of a financial asset decreases because of changes in interest rates in the foreign exchange rates in stock prices and other financial variables as well as the reaction of market's participants to political and economic events.

Market risk management

The Bank establishes a high priority in corporate governance through the establishment and continuous strengthening of policies that establish parameters of exposure to different risk factors. Policies and limits are approved by the Assets and Liabilities Committee (ALCO) and ratified by the Board of Directors. The ALCO is furthermore responsible for ensuring compliance with these policies and recommending improvements as required.

Internal policies establish market risk limits of up to 15% of capital. This in turn has sub-limits by risk factors, which are quantified based on models developed internally in follow-up to the best practices of the industry.

Exchange rate risk

It is the risk that the value of a financial instrument will fluctuate because of changes in exchange rates of foreign currencies, and other financial variables, as well as the reaction of market participants to political and economic events. It is the financial risk (adverse impact) resulting from time differences for the re-definition of prices (rates) of assets and liabilities and changes in the level and shape of associated yield curves.

To mitigate this risk, the Board has limited a maximum open global exposure of up to 2% of the Bank's capital and only 1% of the capital in a single currency.

The table below summarizes the exposure to the foreign currency exchange rate at September 30.

	Exposure to currency exchange risk							
2020	**USD**	**EURO**	**GBP**	**CHF**	**CAD**	**JPY**	**Others**	**Total**
Financial assets								
Due from banks	21,260,076	7,816,616	891,236	2,516,533	1,161,305	621	128,430	33,774,817
Securities	39,121,708	9,146	-	-	-	-	-	39,130,854
Loans receivable, net	166,763,226	-	-	-	-	-	-	166,763,226
Total financial assets	227,145,010	7,825,762	891,236	2,516,533	1,161,305	621	128,430	239,668,897
Financial liabilities								
Customers' non-interest bearing deposits	67,003,895	7,831,629	905,898	2,510,693	1,167,817	634	111,784	79,532,350
Customers' interest bearing deposits	110,625,559	-	-	-	-	-	-	110,625,559
Total financial liabilities	177,629,454	7,831,629	905,898	2,510,693	1,167,817	634	111,784	190,157,909
Net position	49,515,556	(5,867)	(14,662)	5,840	(6,512)	(13)	16,646	49,510,988

	Exposure to currency exchange risk							
2019	**USD**	**EURO**	**GBP**	**CHF**	**CAD**	**JPY**	**Others**	**Total**
Financial assets								
Due from banks	11,905,247	4,824,029	485,229	2,073,728	612,052	606	493,682	20,394,573
Securities	55,365,095	8,542	-	-	-	-	-	55,373,637
Loans receivable, net	163,388,951	278	-	-	-	-	-	163,389,229
Total financial assets	230,659,293	4,832,849	485,229	2,073,728	612,052	606	493,682	239,157,439
Financial liabilities								
Customers' non-interest bearing deposits	72,530,420	4,843,394	490,288	2,120,175	611,882	619	488,849	81,085,627
Customers' interest bearing deposits	107,750,901	-	-	-	-	-	-	107,750,901
Total financial liabilities	180,281,321	4,843,394	490,288	2,120,175	611,882	619	488,849	188,836,528
Net position	50,377,972	(10,545)	(5,059)	(46,447)	170	(13)	4,833	50,320,911

Interest rate risk

It is the risk associated with a decrease in future cash flows and the value of a financial instrument due to changes in market interest rates.

Management uses robust methodologies for the measurement and monitoring of rate risk derived from the fluctuation in the fair value of a financial instrument and its respective effect on equity, the main market risk factor facing the Bank. Currently, different risk assessment scenarios are considered that consider an analysis under extreme conditions (stress testing) contemplating the sensitivity to the movements in the risk-free rates and credit premiums on the portfolio. The results of these simulations are monitored daily and presented monthly to the Assets and Liabilities Committee.

The sensitivity analysis below reflects the change in the fair value of investments given a sudden increase or decrease of 100 basis points based on the modified duration of the investment portfolio. This change in fair value could be due to changes in the discounted rates of credit, liquidity and / or macroeconomic factors or a combination of these:

	Increase of 100 bp	**Decrease of 100 bp**
2020		
Securities	(348,701)	348,701
Loans receivable, net	(1,651,641)	1,651,641
Customers' interest bearing deposits	729,405	(729,405)
Net impact	(1,270,937)	1,270,937
2019		
Securities	(543,376)	543,376
Loans receivable, net	(1,491,351)	1,491,351
Customers' interest bearing deposits	1,599,675	(1,599,675)
Net impact	(435,052)	435,052

	Sensitivity to equity in relation to rate movements			
	Increase of 50 bp	Decrease of 50 bp	Increase of 100 bp	Decrease of 100 bp
2020				
As of September 30	(174,351)	174,351	(348,701)	348,701
Annual average	(130,163)	130,163	(260,326)	260,326
Annual maximun	(109,089)	109,089	(218,178)	218,178
Annual minimun	(174,351)	174,351	(348,702)	348,702
2019				
As of September 30	(271,688)	271,688	(543,376)	543,376
Annual average	(202,831)	202,831	(405,662)	405,662
Annual maximun	(169,991)	169,991	(339,982)	339,982
Annual minimun	(271,688)	271,688	(543,376)	543,376

With respect to rate risk arising from fluctuations in the interest rates on assets or liabilities and their effect on net interest income, the Assets and Liabilities Committee periodically reviews asset and liability rates and establishes asset allocation and collection strategies And liabilities, and their respective rate profiles. Additionally, in the placement of loans not guaranteed by cash, the bank has ample contractual flexibility to vary the interest rates at its discretion.

The table below summarizes the Bank's exposure to fluctuations in interest rates on the financial margin. The Bank's assets and liabilities are included in the table at their carrying amount, classified by categories whichever occurs first between the repricing or expiration dates.

2020	1 month	3 months	to 1 year	5 years	5 years	Bearing	Total
Assets							
Due from banks	13,727,835	4,996,528	-	-	-	15,050,454	33,774,817
Securities	30,617,889	3,048,998	512,766	4,028,223	908,745	14,233	39,130,854
Loans receivable, net	30,215,649	18,946,413	59,313,318	57,401,324	886,522	-	166,763,226
Total assets	74,561,373	26,991,939	59,826,084	61,429,547	1,795,267	15,064,687	239,668,897
Liabilities							
Customers' non-interest bearing deposits	2,825,261	-	-	-	-	76,707,089	79,532,350
Customers' interest bearing deposits	15,351,861	48,950,515	46,045,959	277,224	-	-	110,625,559
Total liabilities	18,177,122	48,950,515	46,045,959	277,224	-	76,707,089	190,157,909
Net position	56,384,251	(21,958,576)	13,780,125	61,152,323	1,795,267	(61,642,402)	49,510,988
Accumulated position	56,384,251	34,425,675	48,205,800	109,358,123	111,153,390	49,510,988	

2019	1 month	3 months	to 1 year	5 years	5 years	Bearing	Total
Assets							
Due from banks	2,437,075	-	-	-	-	17,957,496	20,394,571
Securities	44,111,095	2,022,167	4,577,855	4,577,876	65,011	19,633	55,373,637
Loans receivable, net	31,684,815	8,589,870	52,073,279	70,880,380	160,885	-	163,389,229
Total assets	78,232,985	10,612,037	56,651,134	75,458,256	225,896	17,977,129	239,157,437
Liabilities							
Customers' non-interest bearing deposits	1,400,230	-	-	-	-	79,685,397	81,085,627
Customers' interest bearing deposits	6,641,696	9,711,348	45,949,147	45,448,710	-	-	107,750,901
Total liabilities	8,041,926	9,711,348	45,949,147	45,448,710	-	79,685,397	188,836,528
Net position	70,191,059	900,689	10,701,987	30,009,546	225,896	(61,708,268)	50,320,909
Accumulated position	70,191,059	71,091,748	81,793,735	111,803,281	112,029,177	50,320,909	

Operational risk

Operational risk is defined as the possibility of incurring losses due to deficiencies, failures or inadequacies of human resources, processes, technology, infrastructure or the occurrence of external events. This definition includes legal risk associated with these factors.

The Bank has an Operational Risk Manual, which represents the framework for operational risk management. Likewise, policies have been established for the evaluation of new products and services that are aimed mainly to assess the operational risks associated with the development of new products or services prior to their release or implementation.

To manage operational risk, the bank has established an organizational structure with clear roles and responsibilities of the board of directors, senior management, risk committee, risk management unit, form and frequency of reports, the acceptable level of operational risk and indicators of operational risk.

The operational risk management aims to:

- Prevent and minimize losses caused by incidents or operational risk events.
- Formalize the identification, measurement, mitigation, monitoring, and control of operational risk information.
- Focus resources and effort on the key operational risks.
- Continuous improvement of control and learning.

The bank has a separate management risk unit from other areas of the bank, which among its functions has the management of operational risk. This unit reports to the Risk Committee of the Board of Directors, who is in charge of approving the strategy of operational risk management, monitoring its management and evaluating the risk management unit.

The risk management unit enables the bank's staff on the methodology for operational risk management adopted by the Board of Directors in the key processes of the bank, considering key operational risk factors such as human resources, processes, technology and external events.

The events or incidents of operational risk occurring should be reported by all areas of the bank to the risk management unit which is responsible for maintaining a database that allows the evolution of operational risk at the organizational level, according to the levels of operational risk tolerance approved by the Board of Directors.

Business continuity plans for key bank processes were designed in order to ensure business continuity in the event of an outage, as well as information security policies that ensure the integrity, confidentiality and availability of information.

The Bank uses the basic indicator method to measure the impact of operational risk in the capitalization-weighted index of bank risks.

Capital management

Within the financial risks to which the Bank is exposed, there is the risk that the Bank's capital does not support its activities and growth.

The Bank manages its capital to ensure:

- Compliance with the requirements established by the Central Bank of The Bahamas.
- Maintain a base capital, strong enough to support the performance of its business.
- The continuation as a going concern while examining the return to shareholders through the optimization of the debt and equity balance.

Fair value of financial instruments

The estimated fair value is the amount by which financial instruments can be traded in a transaction between interested parties in different conditions to a forced sale or liquidation, and is best evidenced by quoted market prices, if any.

The fair value estimates are made at a given date, based on market estimates and information on financial instruments. These estimates do not reflect any premium or discount that could result from offering a particular financial instrument for sale at a given date. These estimates are subjective in nature, involve uncertainty and much judgment; therefore, they cannot be determined accurately. Any changes in assumptions or criteria can significantly affect the estimates.

<u>Valuation models</u>

IFRS 13 specifies a hierarchy of valuation techniques based on whether the information included in these valuation techniques are observable or unobservable. The observable information reflects market data obtained from independent sources; unobservable information reflects the Bank's market assumptions. These two types of information have created the following fair value hierarchy:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Quoted prices in active markets for similar financial instruments or using a valuation technique where all the variables are derived from observable market data for assets or liabilities either directly or indirectly. In some cases, the Bank uses reference information from active markets for similar instruments and other, uses discounted cash flow techniques where all model variables and inputs are derived from observable market data.

Level 3: When the "inputs" are not available and it is required that the fair value be determined using a valuation model, the Bank is supported by entities engaged in the valuation of securities or instruments from the same managing institutions of the asset or liability concerned. The models used to determine fair value are usually through discounted cash flows or valuations employing historical market observations.

When the fair value measurements are determined for assets and liabilities required or permitted to be recorded at fair value, the Bank considers the principal or most advantageous market in which it would make the transaction and considers assumptions that a participant market would use when pricing the asset or liability. Where possible, the Bank uses the active markets and observable market prices for identical assets and liabilities.

When identical assets and liabilities are not traded in active markets, the Bank uses observable market data for similar assets and liabilities. However, certain assets and liabilities are not actively traded in observable markets and the Bank must use alternative valuation techniques to determine the fair value measurement. The frequency of transactions, the differential size between supply and demand and the size of the investment are factors considered in determining the liquidity of markets and the relevance of observed prices in these markets.

Investments available for sale are recorded at fair value based on quoted market prices when available, or if unavailable, based on discounted future cash flows using market rates corresponding to the credit quality and maturity of the investment.

When reference prices are available in an active market, securities available for sale are classified within Level 1 of the fair value hierarchy. If the market value prices are not available or are available in markets that are not active, fair value is estimated based on the quoted prices of other similar instruments, or if these prices are not available, internal valuation techniques will be used models, primarily discounted cash flows. These securities are classified within Level 2 of the fair value hierarchy.

Financial instruments measured at fair value - Fair value Hierarchy

The main valuation methods, assumptions and variables used in estimating the fair value of financial instruments classified in Level 1, Level 2 and Level 3 are presented below:

Financial assets / Financial liabilities	Fair value September 30, 2020	2019	Fair value hirarchy	Valuation techniques and main data entry	Significant unobservable data input
Institutional funds of daily liquidity rated AAA	4,010,368	37,815,034	1	Market prices	Observable market prices in active markets
Bills issued by the US Government	13,992,863	3,973,200	1	Market prices	Observable market prices in active markets
Obligations of private issuers with investment grade	5,725,129	11,915,262	1	Market prices	Observable market prices in active markets
Obligations issued by the Republic of Panama	10,918	10,913	1	Market prices	Observable market prices in active markets
Obligations issued by Governments with investment grade	-	-	1	Market prices	Observable market prices in active markets
Obligations of private issuers without investment grade	2,170,235	1,044,343	1	Market prices	Observable market prices in active markets
Investments in mutual funds	11,893,016	-	1	Market prices	Observable market prices in active markets
Investments in shares	1,633	1,633	1	Market prices	Observable market prices in active markets
	37,804,162	54,760,385			

Financial assets / Financial liabilities	Fair value September 30, 2020	2019	Fair value hierarchy	Valuation techniques and main data entry	Significant unobservable data input
Obligations of private issuers with investment grade	194,567	217,185	2	Discounted cash flows	Referral rates of markets, volumes, observable prices not over 90 days
Obligations of private issuers without investment grade	1,119,525	378,067	2	Discounted cahs flows	Referral rates of markets, volumes, observable prices not over 90 days
Investment in shares	12,600	18,000	2	Market price	Observable prices in active markets
	1,326,692	613,252			
Total investments available for sale	39,130,854	55,373,637			

Financial Instruments not measured at fair value

Fair value of financial assets and liabilities of the Bank that are not measured at fair value in the statement of financial position (but fair value disclosures are required). Below is a summary of the carrying value and estimated fair value of significant financial assets and liabilities not measured at fair value classified in level 3:

2020	Fair value Level 3	Carrying amount Level 3
Assets		
Interest earning deposits	4,954,567	4,996,528
Loans receivable, net	165,551,410	166,763,226
Total financial assets	170,505,977	171,759,754
Liabilities		
Customers' non-interest bearing deposits	76,707,089	79,532,350
Customers' interest bearing deposits	113,676,955	110,625,559
Total financial liabilities	190,384,044	190,157,909

2019	Fair value Level 3	Carrying amount Level 3
Assets		
Interest earning deposits	2,437,075	2,437,075
Loans receivable, net	165,061,034	163,389,229
Total financial assets	167,498,109	165,826,304
Liabilities		
Customers' non-interest bearing deposits	81,085,627	81,085,627
Customers' interest bearing deposits	105,555,697	107,750,901
Total financial liabilities	186,641,324	188,836,528

Management believes that the carrying amount of financial assets and financial liabilities recognized in the statement of financial position approximates their fair value.

Assumptions used to determine fair value of assets and liabilities

Below is a summary of the assumptions used in the estimation of fair value of the most significant financial instruments of the Bank:

Due from banks

The carrying value of cash and bank deposits approximates their fair value due to their liquidity and short-term maturity.

Loans receivable

The estimated fair value for loans represents the discounted amount of estimated future cash flows to be received. Portfolio flows were discounted to present value at a rate of 6.38% (2019 6.37%).

Customer deposits

The fair value of deposits with no specific maturity such as current accounts is the amount payable on demand, which is equal to the carrying value.

The fair value of time deposits was calculated based on the flow methodology discounted at a rate of 1.33% (2019: 2.4%).

22. APPLICABLE MAIN LAWS AND REGULATIONS

Capital adequacy

According to the Supervisory and Regulatory Guideline: 2005-03 of the Central Bank of The Bahamas, licensed banks must maintain a ratio of total regulatory capital to the risk-weighted asset (the “Basel ratio”) at or above the internationally agreed minimum of 8%.

As of September 30, 2020, the Bank’s capital adequacy ratio was 40% (2019: 36%).

Dynamic provision

Prudential provisions required by the banking regulation of the Republic of Panama (“Superintendence of Banks of Panama”), set out by the Agreement 4-2013, to address possible future needs for the establishment of specific provisions for credit facilities classified in the normal category are defined; their frequency is quarterly taking into account the data of the last day of the quarter.

The amount of dynamic reserves is obtained by multiplying the risk-weighted assets for loans classified in the normal category by 1.25%. This percentage increases by 25 basis points (0.25%) each quarter, and will be for 2.50% at December 31, 2015. After this date, the amount of dynamic provisions is obtained by calculating the following components:

a) Component 1: obtained by multiplying an Alfa coefficient (2.25%) times the amount of risk-weighted assets classified in the normal category.

b) Component 2: is the result from multiplying a Beta coefficient (5.00%) times the quarterly variation of risk-weighted assets classified in the normal category if it is positive. If the variation is negative, this component is zero.

c) Component 3: is the result from the variation of the balance of specific provisions in the quarter.

The dynamic provision amount to be maintained at the end of the quarter is the sum of Components 1 and 2 less Component 3. That is, if Component 3 is negative, it must be added.

Restrictions

- It cannot be greater than 2.5% of risk-weighted assets corresponding to credit facilities classified in the normal category.

- Cannot be less than 1.25% of risk-weighted assets corresponding to credit facilities classified in the normal category.

- The amount established in the previous quarter cannot be decreased, unless the decrease is attributed to the conversion in specific provisions. The Superintendence of Banks of Panama will establish the criteria for the mentioned conversion.

Accounting treatment

The dynamic reserve is an equity item that affects retained earnings. The credit balance of the dynamic provision is part of the regulatory capital but cannot replace or compensate the capital adequacy requirements established by the Superintendence of Banks of Panama. This means that the dynamic reserve decreases the amount of retained earnings of each bank to meet the minimum amount required. If that is insufficient, banks will have to provide additional assets to comply with Agreement 4-2013.

At September 30, the amount of dynamic provision by component is as follows:

	2020	2019
Component 1		
Risk-weighted assets (credit facilities)	68,452,142	68,499,178
By Alfa coefficient (2.25%)		
	1,026,782	1,027,488
Component 2		
Quarterly variation of Beta coefficient (5.00%)	311,306	313,658
Component 3		
Quarterly change in specific reserves	-	-
Total dynamic provision	1,338,088	1,341,146
Restrictions:		
Total dynamic provision:		
Low (1.25% of risk-weighted assets - category to normal)	855,652	856,240
Maximum (2.50% of risk-weighted assets - category to normal)	1,711,304	1,712,479

Agreement No. 9-2020 – Modified Loans

On September 11, 2020, the Superintendency of Banks of Panama issued Agreement No. 9-2020, which modifies Agreement No. 2-2020, through which additional, exceptional and temporary measures are established for compliance with the provisions contained Agreement No. 4-2013 on Credit Risk establishes a methodology for the evaluation, classification and requirement of provisions for modified credits that adjusts to the new existing reality and that allows adequate credit risk management.

Agreement No. 9-2020, among other things, defines that loans classified as normal and special mention, as well as restructured loans that are not in arrears, may be modified in accordance with the guidelines established in said Agreement. On the other hand, these loans modified in normal category and special mention will be classified in the category "modified special mention" for the purpose of determining the respective provisions, which will be constituted as follows:

A provision equivalent to the higher value between the provision according to IFRS of the modified special mention portfolio and a generic provision equivalent to three percent (3%) of the gross balance of the modified loan portfolio, including accrued uncollected interest and capitalized expenses; Modified credits guaranteed with deposits pledged in the same bank up to the guaranteed amount can be excluded from this calculation:

1. In cases where the IFRS provision is equal to or greater than the generic provision of 3% established in the Agreement, the Bank will record the corresponding IFRS provision in the results of the year.

2. In cases where the IFRS provision is less than the generic provision of 3% established in the Agreement, the Bank will record said IFRS provision in income and the difference must be recorded in income or in a regulatory reserve in equity, taking into account consideration of the following aspects:

a). When the IFRS provision is equal to or greater than 1.5%, the Bank must record said IFRS provision in the income statement. Likewise, the difference to complete the 3% of the generic provision established in the Agreement must be recorded in a regulatory reserve in equity.

b) When the IFRS provision is less than 1.5%, the Bank must ensure that this percentage is completed and recorded in the income statement. Likewise, the difference to complete the 3% of the generic provision established in the Agreement must be recorded in a regulatory reserve in equity.

The modified restructured loans that were in the subnormal, doubtful or irrecoverable category will maintain the credit classification they had at the time of their modification with their respective provision.

As of September 30, 2020, the Bank modified 9 loans to clients that were now classified as "Modified Loans", which amounted to a principal and interest amount of USD 4,371,298 that include consumer and corporate loans; and a regulatory provision in Assets of USD 15,569, plus an additional provision in the shareholder equity for the amount of USD 15,801.

23. SUBSEQUENT EVENTS

The Company has evaluated the events after September 30, 2020, to assess the need for possible recognition or disclosure in the accompanying consolidated financial statements. Such events were evaluated until December 24, 2020, the date these consolidated financial statements were available to be issued. Based on this evaluation, it was determined that there were no subsequent events that require recognition or disclosure in the consolidated financial statements.

On October 21, 2020, the Superintendency of Banks of Panama issued Agreement No.13-2020, which modifies Agreement No.2-2020 through which additional, exceptional and temporary measures are established for compliance with the provisions contained in Agreement No.4-2013 on credit risk and an additional term is established for financial relief measures until June 30, 2021, for those debtors whose cash flow and payment capacity have been affected by the situation of the CoViD- 19.

For the purposes of applying the Agreement, the banks must make sure to document in the credit files the information that evidences the involvement of the debtor through the documentation and evidence presented and in addition, the general conditions to reestablish modified credits according to Agreement No.2-2020 and Law No.156 of 2020, and apply Agreement No.4-2013.

24. APPROVAL OF FINANCIAL STATEMENTS.

The financial statements for the year ended September 30, 2020 were approved by the Bank's Auditing Committee on December 24, 2020.