



Financial Statements of

BAC BAHAMAS BANK LIMITED

Year ended December 31, 2020

(With Independent Auditors' Report)

BAC BAHAMAS BANK LIMITED

Financial Statements

Year ended December 31, 2020

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KPMG
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Private and Confidential

INDEPENDENT AUDITORS' REPORT

To the Shareholder of BAC Bahamas Bank Limited

Opinion

We have audited the financial statements of BAC Bahamas Bank Limited (the "Bank"), which comprise the statement of financial position as at December 31, 2020, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (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 IFRS, 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.

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.

KPMG

Nassau, Bahamas
February 22, 2021

BAC BAHAMAS BANK LIMITED

Statement of Financial Position

December 31, 2020, with corresponding figures for 2019

(Expressed in United States dollars)

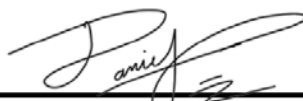
	2020	2019
ASSETS		
Cash and cash equivalents (notes 7 and 8)	\$ 98,016,457	59,483,986
Investments (note 9)	29,996,950	29,965,720
Loans to customers, net (notes 7 and 10)	6,223	1,165,655
Property and equipment (note 11)	277,225	305,648
Other receivables and assets	111,560	110,845
Total Assets	\$ 128,408,415	91,031,854
LIABILITIES AND EQUITY		
Liabilities:		
Demand deposits from customers (notes 7 and 12)	\$ 66,058,640	38,718,910
Time deposits from customers (note 13)	33,857,614	24,615,182
Lease Liabilities (note 14)	271,989	297,903
Other liabilities (note 7)	76,112	78,584
	100,264,355	63,710,579
Equity:		
Share capital (note 15)	18,000,000	18,000,000
Other reserves (note 19)	308,812	308,812
Retained earnings	9,835,085	9,005,074
Accumulated other comprehensive income	163	7,389
	28,144,060	27,321,275
Contingencies and commitments (note 20)		
Total liabilities and equity	\$ 128,408,415	91,031,854

The accompanying notes are an integral part of these financial statements.

The financial statements were approved on behalf of the Board of Directors on February 22, 2021 by the following



Director



Director

BAC BAHAMAS BANK LIMITED

Statement of Comprehensive Income

Year ended December 31, 2020, with corresponding figures for 2019

(Expressed in United States dollars)

	2020	2019
Net interest income:		
Interest income calculated using the effective interest method on cash and cash equivalents (note 7)	\$ 2,451,327	2,694,218
Interest income calculated using the effective interest method on loans to customers (note 7)	33,022	119,562
Interest income on investments at fair value OCI	216,293	374,250
Interest expense (note 7)	(1,201,179)	(958,710)
Net interest income	1,499,463	2,229,320
Net commission income:		
Commission income	10,063	11,172
Commission expense	(33,226)	(29,162)
Net commission income	(23,163)	(17,990)
Other operating (expense) income:		
Other income (note 7)	28,305	35,123
General and administrative (notes 7 and 16)	(687,135)	(699,668)
Reversal of loan losses	12,568	25,328
Provision for impairment of investment securities	(27)	0
	(646,289)	(639,217)
Net income	830,011	1,572,113
Other comprehensive income:		
Net change in fair value of investments	163	7,389
Net income and total comprehensive income for the year	\$ 830,174	1,579,502

The accompanying notes are an integral part of these financial statements.

BAC BAHAMAS BANK LIMITED

Statement of Changes in Equity

Year ended December 31, 2020, with corresponding figures for 2019

(Expressed in United States dollars)

	Number of shares	Share capital	Other reserves	Retained earnings	Accumulated other comprehensive income	Total
Balance at December 31, 2018	18,000,000	18,000,000	308,812	7,432,961	-	25,741,773
Net income	-	-	-	1,572,113	-	1,572,113
Other comprehensive income:						
Net change in fair value of investments		-	-	-	7,389	7,389
Balance at December 31, 2019	18,000,000	18,000,000	308,812	9,005,074	7,389	27,321,275
Net income	-	-	-	830,011	-	830,011
Other comprehensive income:						
Net change in fair value of investments	-	-	-	-	(7,226)	(7,226)
Balance at December 31, 2020	18,000,000	18,000,000	308,812	9,835,085	163	28,144,060

The accompanying notes are an integral part of these financial statements.

BAC BAHAMAS BANK LIMITED

Statement of Cash Flows

Year ended December 31, 2020 with corresponding figures for 2019
(Expressed in United States dollars)

	2020	2019
Cash flows from operating activities:		
Net income	\$ 830,011	1,572,113
Adjustments for:		
Reversal of loan losses	(12,568)	(25,328)
Provision for impairment on investment securities	27	0
Depreciation	47,073	46,013
Net interest income	(1,499,463)	(2,229,320)
	(634,920)	(636,522)
Changes in operating assets and liabilities:		
Loans to customers	1,166,809	1,859,448
Other receivables and assets	(714)	(8,738)
Demand deposits	27,339,730	(3,963,970)
Time deposits	9,046,461	3,335,365
Other liabilities	(14,151)	48,655
	36,903,215	634,238
Interest received	2,489,540	2,821,601
Interest paid	(1,005,331)	(854,651)
Net cash provided by operating activities	38,387,424	2,601,188
Cash flows from investing activities		
Purchase of property and equipment	(6,850)	0
Acquisition of investments	(99,822,190)	(79,584,081)
Maturities and prepayment of investments	100,000,000	50,000,000
Net cash provided (used) in investing activities	170,960	(29,584,081)
Cash flows from financing activities		
Payment of lease liability	(25,914)	(36,299)
Net cash used in financial activities	(25,914)	(36,299)
Increase (decrease) in cash and cash equivalents during the year	38,532,470	(27,019,192)
Cash and cash equivalents at beginning of year	59,483,986	86,503,178
Cash and cash equivalents at end of year	\$ 98,016,456	59,483,986

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements

Year ended December 31, 2020
(Expressed in United States dollars)

1. Reporting entity

BAC Bahamas Bank Limited (“the Bank”) was incorporated under the laws of The Commonwealth of The Bahamas on August 13, 1992 and was granted a banking license on March 16, 1992 by The Central Bank of The Bahamas. The Bank’s registered office is located at Caves Village, West Bay Street, Nassau, Bahamas.

The Bank is a wholly owned subsidiary of BAC International Bank, Inc. (the Parent Company), a bank incorporated in the Republic of Panama. The Parent Company is ultimately owned by Grupo Aval Acciones y Valores S.A., a company incorporated in Colombia.

The Bank is primarily involved in corporate banking.

A substantial portion of the Bank’s business is with the related parties. A significant amount of the Bank’s cash and cash equivalents are held with related parties and the Bank’s revenue is primarily from the interest income on such cash and cash equivalents (see note 7). Accordingly, the Bank is economically dependent on these related parties and is exposed to a significant credit risk in respect of the related parties’ balances at the reporting date.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for investments that are measured at fair value.

The Bank initially recognizes loans, accounts receivable and deposits on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

(c) Functional and presentation currency

These financial statements are presented in United States dollars (\$), which is also the Bank’s functional currency.

(d) Use of estimates and judgments

Preparation of financial statements requires the Bank’s management to make judgments, estimates and assumptions affecting the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Final results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020
(Expressed in United States dollars)

2. Basis of preparation, (continued)

(d) Use of estimates and judgments(continued)

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are disclosed in the following notes:

- Fair value measurement (note 18)
- Impairment and allowance for loan losses (notes 3(b) and 4)

3. Summary of Significant Accounting Policies

The accounting policies explained below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency

Assets and liabilities in foreign currencies are translated at prevailing exchange rates at the reporting date. Transactions in foreign currencies during the year are translated at exchange rates in effect on the date of the transaction. Differences arising from such translations are recognized in the statement of comprehensive income.

(b) Financial assets and liabilities

Financial assets are classified at the date of initial recognition, based on the nature and purpose of the acquisition of the financial asset.

Classification

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

At initial recognition, financial assets are classified as measured at: AC, FVOCI or FVPL.

A financial asset is measured at amortized cost and not at FVPL, if it meets both of the following conditions:

- The asset is kept within a business model to collect contractual cash flows; and
- The contractual terms of the financial asset establish specific dates for cash flows that represent solely payments of principal and interest on the outstanding balance.

All financial assets not classified as measured at AC or at FVOCI as described above, are measured at FVPL.

In addition, at initial recognition, the Bank may irrevocably designate a financial asset that meets the measurement requirements at AC or FVOCI to be measured at FVPL, if doing so

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

3. Summary of Significant Accounting Policies, *(continued)*

Classification (continued)

eliminates or significantly reduces an accounting mismatch that may occur if not done. For the year ended December 31, 2020 and 2019, the Bank did not use this option.

A financial asset is classified in one of the referenced categories at the time of its initial recognition.

Business Model Assessment

The Bank assesses the objectives of the business models that hold the financial assets in a portfolio to better represent how it manages the business and how management information is reported. The information considered includes:

- The policies and objectives stated for each portfolio of financial assets and the operation of these policies in practice. These include, whether management's strategy is to collect income from contractual interest; hold a profile of specific interest performance or coordinate the duration of the financial assets with the liabilities being financed or the expected outgoing cash or through cash flows from the sale of assets;
- How they are evaluated or reported to key management personnel on portfolio performance;
- The risks that affect the performance of the portfolios (and the financial assets held within) and the way those risks are managed;
- How managers of the business are compensated (for example, whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);
- The frequency, value and timing of sales in prior fiscal periods, the reasons for those sales and expectations about future sales activity. However, the information on sales activity cannot be considered in isolation, but rather as part of an assessment of how the Bank's objectives established for managing financial assets is achieved and how cash flows are realized; and
- Financial assets held or managed for trading and where their performance is evaluated on a fair value basis, are measured at FVPL because these are not held to recover contractual cash flows or to obtain contractual cash flows and to sell these financial assets.

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

For purposes of this assessment, "principal" is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as compensation for the time value of money and credit risk associated with holding the current principal for a period of time and for other basic risk from loan agreements and other associated costs (e.g. liquidity risk and administrative costs), as well as the profit margin.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

3. Summary of Significant Accounting Policies, *(continued)*

Assessment if contractual cash flows are solely payments of principal and interest (continued)

When evaluating whether contractual cash flows are solely payment of principal and interest, the Bank considers the contractual terms of the instrument. This includes an assessment to determine whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows in such a way that it does not meet this condition. In making this assessment the Bank considers:

- Contingent events that will change the amount and timing of cash flows;
- Hedging conditions;
- Prepayment and extension terms;
- Terms that limit the Bank in achieving cash flows for specific assets (e.g. unfunded asset agreements); and
- Terms that change the considerations of the value of money over time (e.g. periodic revision of interest rates).

Interest rates on certain consumer and business loans are based on variable interest rates established at the discretion of the Bank. Variable interest rates are generally established in accordance with the practices of where the Bank operates, plus certain additional discretionary points. In these cases, the Bank assess whether the discretionary feature is consistent with the solely principal and interest criteria considering a number of factors that include whether:

- Debtors can prepay the loans without significant penalties;
- Competitive market factors insure that interest rates are consistent between banks; and,
- Any regulatory protection standard in favor of customers requiring banks to treat customers reasonably (e.g. regulated rates).

A prepayment feature is consistent with the solely principal and interest criteria, if the prepayment amount substantially represents unpaid amounts of principal and interest on the amount of outstanding principal, which may include fair compensation for early termination of the contract.

In addition, a prepayment feature is consistent with these criteria, if a financial asset is acquired or originates from a premium or discount to the contractual par amount and the prepayment amount substantially represents the contractual par amount, plus accrued, but unpaid, contractual interest (which may include fair compensation for early termination) and the fair value of the prepayment feature is insignificant at initial recognition.

Impairment of Financial Assets

The Bank assesses the impairment of financial assets with an expected credit loss (ECL) model. This model requires the application of considerable judgment regarding how changes in economic factors impact on ECL, which is determined on a weighted average basis.

The impairment model applies to the following financial asset that are not measured at FVPL.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

3. Summary of Significant Accounting Policies, *(continued)*

Impairment of Financial Assets(continued)

- Cash and cash equivalents;
- Debt instruments measured at FVOCI
- Loans to customers

The Bank recognizes a provision for impairment of financial assets at AC and FVOCI at an amount equal to the expected impairment losses in a period of twelve months after the end date of financial statements or during the remaining life of the instrument. Expected losses during the remaining life of the loan are the losses expected from all possible impairment events during the expected life of the financial instrument, while expected losses in a twelve-month period are the portion of expected losses arising from impairment events that are possible during the twelve months following the date of the financial statements.

Reserves for losses are recognized at an amount equal to the ECL during the life of the asset, except in the following cases, in which the amount recognized is equal to ECL for the 12 months following the measurement date:

- Investment in debt instruments determined to represent low credit risk at the reporting date; and
- Other financial assets (other than short term accounts receivable) on which the credit risk has not increased significantly since initial recognition.

Impairment requirements are complex and require estimated judgments and significant assumptions by management, particularly in the following areas:

- Assess whether the credit risk has increased significantly from initial recognition; and,
- Incorporate prospective information in the measurement of ECLs.

Measuring ECL

ECL is the estimated weighted probability of credit losses measured as follows:

- Financial assets with no credit impairment to the reporting date: the present value of all cash insufficiency (for example: the difference between the cash flow debt to the Bank in accordance with the contract and cash flows that the Bank expects to receive);
- Financial assets that are credit impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows; and
- Outstanding loan commitments: the present value of the difference between contractual cash flows owed to the Bank in the event it enforces the commitment and cash flows that the Bank expects to receive.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

3. Summary of Significant Accounting Policies, *(continued)*

Definition of impairment (continued)

The Bank considers a financial asset to be impaired when:

- It is highly unlikely that the debtor will fully pay its credit obligations to the Bank, without recourse for the Bank to take such actions as enforcing the guarantees (if any); or
- The debtor is more than 90-days past-due on any material credit obligation. Overdrafts are considered in arrears once the client has exceeded the established limit, or the established limit is less than the outstanding balance.
- For fixed income financial instruments, the following concepts, among others, are included:
 - Downgrade on the issuer's credit risk rating;
 - Contractual payments are not made on the due date or in the term period stipulated;
 - There is a virtual certainty of default;
 - Issuer is likely to go bankrupt or a bankruptcy petition is filed or similar action;
 - The financial asset stops trading in an active market given its financial difficulties;

To assess whether a debtor is impaired, the Bank considers indicators such as:

- Qualitative, e.g. noncompliance with contractual clauses;
- Quantitative, e.g. arrears or non-payment of another obligation from the same issuer to the Bank; and,
- Based on data developed internally and obtained from external sources.

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk of a financial assets has increased significantly since initial recognition, the Bank considers reasonable, sustainable information available at no cost or disproportionate effort, including information and quantitative and qualitative analyses based on historical experience and expert assessment of Bank credit risk, including information with future projection.

The Bank identifies if a significant increase in the credit risk has occurred for each exposure by comparing:

- The probability of default (PD) during the remaining life of a financial instrument at the reporting date, with
- The PD during the remaining life at a point in time, which was estimated at initial recognition of the exposure.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020
(Expressed in United States dollars)

3. Summary of Significant Accounting Policies, *(continued)*

Significant increase in credit risk(continued)

The assessment of whether the credit risk has increased significantly from initial recognition of a financial asset requires identification of the initial recognition date of the instrument. Changes in the contractual terms of a financial asset may also impact this assessment, as discussed below.

Grading by credit risk categories

The Bank assigns a credit risk grade to each exposure based on a variety of data that is determined to predict the PD and applying the judgment of a credit expert. The Bank uses these grades to identify significant increases in credit risk. Credit risk grading is defined using qualitative and quantitative factors indicative of the risk of losses. These factors vary depending on the type of exposure and the type of borrower.

Credit risk grading is defined and calibrated so that the risk of losses increases exponentially as the credit risk is impaired and so that, for example, the difference in the risk of losses between grade 1 and 2 is less than the difference between the credit risk between grades 2 and 3.

Each exposure is given a credit risk grade upon initial recognition based on information available on the debtor. Exposures are subject to continuous monitoring, that may result in displacement of an exposure to a different credit risk grade.

Generating the Structure of the PD term

Credit risk grading is the main input to determine the structure of the PD term for the different exposures. The Bank obtains performance and loss information on the credit risk exposures analyzed by jurisdiction or region, type of product and debtor, as well as by credit risk grade. For some portfolios, information purchased from external credit reference agencies could be used.

The Bank uses statistical models to analyze the data compiled and generate estimates of the probability of default during the remaining life of the exposures and how these probabilities of default change over time.

These analyses include identification and calibration of relationships between changes in default rates and key macroeconomic factors, as well as in-depth analysis of certain impairment risk factors (for example, loan portfolio charge-offs). For the majority of loans, key economic factors include growth in gross domestic product, changes in interest rates and unemployment. For exposures in specific industries and/or regions, the analysis may extend to products regarding real estate prices. The approach used by the Bank to prepare prospective economic information within its assessment is described below.

Determine if the credit risk has increased significantly

The Bank has established a general framework that incorporates quantitative and qualitative information to determine if the credit risk of a financial asset has significantly increased since its initial recognition.

The initial framework is aligned with the internal process of the Bank for credit risk management.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

3. Summary of Significant Accounting Policies, *(continued)*

Determine if the credit risk has increased significantly(continued)

The criteria to determine whether the credit risk has increased significantly varies by portfolio and includes limits based on noncompliance.

The Bank evaluates whether the credit risk of a particular exposure has increased significantly since initial recognition if, based on the Bank's qualitative modeling, the expected probability of default during the remaining life will increase significantly from initial recognition. In determining the credit risk increase, the expected impairment losses over the remaining life is adjusted for any changes in maturity.

Under certain circumstances, using the judgment of credit experts, and based on relevant historical information, the Bank determines that an exposure has had a significant increase in credit risk, if particular qualitative factors indicate this and those factors may not be completely captured by periodic quantitative analyses. As a limit, the Bank assumes that a significant credit risk occurs no later than when the asset is in arrears for more than 30 days.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk based on regular reviews to confirm that:

- The criteria can identify significant increases in credit risk before an exposure becomes impaired;
- Inconsistency in the criteria indicators, when the asset is more than 30 days past the due date;
- The average time to identify a significant increase in credit risk and noncompliance appear to be reasonable;
- Exposures are not generally transferred directly to the Bank on the probability of expected impairment in the twelve months following the impairment of a group of loans; and,
- There is no unjustified volatility in the provision for impairment of transfers between groups with the probability of expected losses in the twelve months following and the probability of expected losses in the remaining life of the loans.

Modified financial assets

The contractual terms of the loans may be modified for a number of reasons, including changes in market conditions, client retention and other factors unrelated to an actual or potential impairment of the client's loan.

When the terms of a financial asset are modified and the modification does not result in the removal of the asset from the statement of financial position, the determination of whether the credit risk has significantly increased reflects comparisons of:

- The PD during the remaining life on the date of the balance sheet based on the modified terms; and

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020
(Expressed in United States dollars)

3. Summary of Significant Accounting Policies, *(continued)*

Modified financial assets (continued)

- The PD on the estimated remaining life based on the date of initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties to maximize the opportunities to collect and to minimize the risk of noncompliance. Under the Bank's renegotiation policies, customers in financial difficulties are given concessions that generally involve a reduction in interest rate, extension of the payment term, reductions in the balances due or a combination of these.

For financial assets modified as part of the Bank's renegotiation policies, the estimation of the PD reflects whether the modifications have improved or restored the ability of the Bank to collect principal and interest and the prior experience of the Bank in similar actions. As part of the process, the Bank evaluates the debtor's payment compliance as compared to the modified terms of the debt and considers several performance indicators for the group of debtors modified.

Generally, restructuring indicators are a relevant factor on increased credit risk. Therefore, a restructured debtor must demonstrate a consistent payment behavior over a period of time before no longer being considered as an impaired loan or that the PD has decreased in such a way that the provision may be reversed and the loan measured for impairment over a term of twelve months after the reporting date.

Inputs in Measuring ECL

Key inputs in measuring ECL are usually the structure of terms of the following variables:

- Probability of default (PD).
- Loss given default (LGD).
- Exposure at default (EAD).

The foregoing parameters are derived from internal statistical models and other historical information. These models are adjusted to reflect prospective information as described below.

Estimated PDs at a certain date, which is calculated based on statistical classification and assessment models using grading tools adjusted to the different counterpart categories and exposures. These statistical models are based on data compiled internally comprising both qualitative and quantitative factors. If a counterpart or exposure migrates between different grades, then this will result in a change in the estimated PD. PDs are estimated considering contractual terms on expiration of exposures and estimated prepayment rates.

LGD is the magnitude of probable losses in the event of noncompliance. The Bank estimates the parameters of the LGD based on historical loss recovery rates against the noncomplying parties. LGD models consider the structure, collateral and the order of the debt, the industry of the counterpart and the recovery costs of any collateral integrated into the financial asset. For loans secured by real property, indices relating to the value of the security as compared to the loan (Loan to value, "LTV"), are parameters used in the determination of the LGD. LGD estimates are calibrated at different economic scenarios and for loans secured by real estate, variations in price indices for these assets. These loans are calculated on the bases of discounted cash flows using the effective interest rate of the loan.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

3. Summary of Significant Accounting Policies, *(continued)*

Inputs in Measuring ECL (continued)

EAD represents expected exposure in the event of noncompliance. The Bank derives the EAD from the current exposure of the counterpart and potential changes in the current amount permitted under the terms of the contract, including amortization and prepayments. The EAD of a financial asset is the gross value at the time of noncompliance. For loan commitments and financial security, the EAD considers the amount disbursed, as well as potential future amounts that may be disbursed or collected under the contract, which are estimated based on historical issues and projected prospective information. For some financial assets, the Bank determines the EAD by modeling a range of possible results of exposures at several points over time using scenarios and statistical techniques. As described above and subject to using a maximum PD of twelve months for which credit risk has increased significantly, the Bank measures the EAD considering the risk of noncompliance during the maximum contractual period (including options to extend the customer's debt) on which there is an exposure to credit risk, even if, for purposes of risk management, the Bank considers a longer period of time. The maximum contractual period is extended to the date on which the Bank has the right to require payment of a loan or terminate a loan commitment or guarantee.

For credit balances that includes both a loan and undrawn commitment component, the Bank measures ECLs over a longer period than the maximum contractual period, if the contractual ability of the Bank to demand payments and pay off the commitment not withdrawn does not limit the Bank's exposure to credit losses for the contractual period of the contract. These facilities do not have a fixed term. The Bank may cancel them effective immediately, but this contractual right is not enforced in the normal day-to-day operations, rather only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period of time will be estimated taking into account the actions for the management of credit risk that the Bank expects to take and that serve to mitigate ECL. These measures include a reduction in limits and cancellation of facilities.

Where parameter modeling is performed on a collective basis, the financial instruments are pooled on the basis of shared risk characteristics that include:

- Type of instrument
- Credit risk rating
- Guarantees
- Date of initial recognition
- Remaining expiration term
- Industry
- Geographical location of the debtor

The above pooling is subject to regular review to ensure that the exposure of a particular group remains uniform.

Financial liabilities

Financial liabilities are measured at amortized cost using the effective interest method, except when there are financial liabilities measured at FVPL.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020
(Expressed in United States dollars)

3. Summary of Significant Accounting Policies, *(continued)*

Recognition, disposal and measurement

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Transactions whereby the Bank transfers assets recognized on its statement of financial position, but retains either significantly all risks and rewards of the transferred assets or a portion of them are not derecognized from the statement of financial position.

The Bank also derecognizes certain assets when it charges off balances pertaining to the assets deemed to be uncollectible.

Offsetting

Financial assets and liabilities are set off and the net amount is presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by IFRS or for gains and losses arising from similar transactions.

(c) Interest

Effective interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortized cost and gross carrying amount

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

3. Summary of Significant Accounting Policies, *(continued)*

Offsetting *(continued)*

(c) Interest(continued)

repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expenses

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortization of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves. For information on when financial assets are credit-impaired, see Note 3 (b).

Presentation

Interest income calculated using the effective interest method presented in the statement of comprehensive income includes:

- interest income on financial assets measured at amortized cost and FVOCI

Interest expense presented in the statement of comprehensive income includes:

- financial liabilities measured at amortized cost.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020
(Expressed in United States dollars)

3. Summary of Significant Accounting Policies, *(continued)*

(d) Fees and commission

Fees and commission income that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including service commissions are recognized as the related services are provided.

Deferred loan fees, if any, are amortized over the period of the loan using the effective interest rate method.

(e) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances with banks and highly liquid financial assets, which are subject to 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.

(f) Loans receivable

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets and are originated when funds are provided to a debtor in the form of a loan. Loans are presented at their outstanding principal value, less unearned interest and commissions (when applicable) and the allowance for loans losses, except for those loans for which the fair value option was chosen. Unearned interest and commissions are recognized as income during the life of the loan using the effective interest method.

For purposes of creating an allowance, products are classified into: corporate, small and medium enterprise (SME), credit card, personal, mortgage, and guarantee commitments, as defined below.

Corporate and SME

Corporate clients and SMEs are defined, in general terms, as entities registered (for example corporations, limited liability companies, limited stock companies) and sole proprietors or self-employed parties using credit lines for business purposes. Corporate clients and SMEs should be segmented into three separate categories, as detailed below. Client segmentation in these categories is based on sales and credit exposure of the client with the Bank. The total credit exposure with the client will only appear in one category.

- Small company - legal entities or other entities that employ commercial products or financing assets for commercial use where the credit exposure is less than or equal to \$350,000 and annual sales are below \$1 million.

Corporate - legal entities or other entities that use commercial products or financing assets for commercial use where the credit exposure is higher than \$350,000 and annual sales are higher than or equal to \$1 million.

The classification of the loan portfolio is based on the original amount approved.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

3. Summary of Significant Accounting Policies, *(continued)*

(f) Loans receivable

Debt commitments and guarantees

Letters of credit, financial guarantees and contractual commitments to disburse loans. The off balance sheet commitments are subject to individual reviews and are analyzed and segregated by risk according to the client's internal risk rating.

(g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of furniture and equipment.

The estimated useful lives for the current and corresponding periods are as follows:

- Equipment 3 - 5 years
- Fixtures and fittings 5 - 10 years
- Right of use assets Term of the lease

Depreciation methods and useful lives are reassessed at the reporting date.

Expenditure for maintenance and repairs are charged against income. At the time of disposal or retirement of assets, the cost and related accumulated depreciation are eliminated, and any resulting profit or loss is reflected in the statement of comprehensive income.

(h) Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
 - the Bank has the right to operate the asset; or

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

3. Summary of Significant Accounting Policies, *(continued)*

(h) Leases (continued)

- the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

As a tenant

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. The Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

3. Summary of Significant Accounting Policies, *(continued)*

As a tenant *(continued)*

The lease liability is measured at amortized cost using the effective interest method. A remeasurement is made when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be paid under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the book value of the right-of-use asset, or it is recorded in profit or loss if the book value of the right-of-use asset has been reduced by zero.

The Bank presents right-of-use assets that do not meet the definition of investment properties in Property and equipment" in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has chosen not to recognize right-of-use assets and lease liabilities for leases that have a lease term of twelve months or less and leases of low-value assets. The Bank recognizes the lease payments associated with these leases as a straight-line expense over the term of the lease.

(i) Related parties

- (a) A person or a close member of that person's family is related to the Bank if that person:
 - (i) has control or joint control over the Bank;
 - (ii) has significant influence over the Bank; or
 - (iii) is a member of the key management personnel of the Bank or of a parent of the Bank.
- (b) An entity is related to the Bank if any of the following conditions applies:
 - (i) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or associate or joint venture of a member of a group of which the other entity is a member)
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank.
 - (vi) The entity is controlled or jointly controlled by a person identified in (i)(a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020
(Expressed in United States dollars)

3. Summary of Significant Accounting Policies, (continued)

Related parties (continued)

(c) A related party transaction is a transfer of resources, services or obligations between the Bank and related party, regardless of whether a price is charged.

(j) Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Bank has not early adopted them in preparing these financial statements.

The following amended standards are not expected to have a significant impact on the Bank's financial statements.

- Onerous contracts – cost of fulfilling a contract (amendments to IAS 37)
- Property, plant and equipment: Product before intended use (amendments to IAS 16)
- Classification of liabilities as current or non-current (amendments to IAS 1)
- IFRS 17 Insurance contracts and amendments to IFRS 17 Insurance contracts.

4. Financial risk management

(a) Introduction and overview

Risk management is a fundamental part of the Bank. It comprises an infrastructure to comprehensively manage risks, in order to ensure a responsible and sustainable growth in time, to maintain the confidence of its stakeholders, and to assure with reasonable certainty the fulfillment of its short, medium and long-term goals, through a balance between meeting objectives and taking risks, in line with the corporate strategy.

Classification of financial assets

See the classification under IFRS 9 in accounting policies in Note 3(b).

The following table provides the financial assets line items in the statement of financial position and categories of financial instruments.

<u>2020</u>	<u>FVOCI - debt instruments</u>	<u>AC</u>	<u>Total</u>
Cash and cash equivalents	0	98,016,457	98,016,457
Investments	29,996,950	0	29,996,950
Loans to customers	<u>0</u>	<u>6,223</u>	<u>6,223</u>
Total financial assets	<u>29,996,950</u>	<u>98,022,680</u>	<u>128,019,630</u>

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

4. Financial risk management, (continued)

<u>2019</u>	<u>FVOCI - debt instruments</u>	<u>AC</u>	<u>Total</u>
Cash and cash equivalents	0	59,483,986	59,483,986
Investments	29,965,720	0	29,965,720
Loans to customer	<u>0</u>	<u>1,165,655</u>	<u>1,165,655</u>
Total financial assets	<u>29,965,720</u>	<u>60,649,641</u>	<u>90,615,361</u>

As of December 31, 2020, and December 31, 2019, all of the financial liabilities held by the Bank are classified at amortized cost.

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee ("ALCO"), and Credit and Operational Risk committees, which are responsible for developing and monitoring risk management policies in their specified areas. All committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to regulatory and internal limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank aims to develop a disciplined and constructive control environment through trainings, established procedures, and manuals, in which all employees understand their roles and responsibilities.

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit department, which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

4. Financial risk management, (continued)

This following section provides information of the Bank's exposure to risk and describes the methods used by management to control risks. The most significant types of financial risk to which the Bank is exposed are credit, liquidity, and price risk. Market risk includes currency risk, interest rate risk and price risk.

(b) Credit risk

Management of credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers and other banks. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Bank's maximum credit risk exposure is shown below:

	2020	2019
Cash and cash equivalents	\$ 98,016,457	59,483,986
Loans to customers at amortized cost	6,223	1,165,655
Investments	29,996,950	29,965,720
Other receivables and assets	111,560	110,845
	\$ 128,131,190	90,726,206

The Board of Directors has delegated responsibility for the management of credit risk to the Parent Company's Credit Committee. A separate credit department, reporting to the Credit Committee, is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers.

Larger facilities require approval by the Head of the Credit Committee or the Board of Directors, as appropriate.

- Reviewing and assessing credit risk. The Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographic areas and industries (for loans to customers).

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

4. Financial risk management, (continued)

- Developing and maintaining the Bank's risk grading system in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of nine grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/committee as appropriate. Risk grades are subject to regular reviews.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank's management of credit risk.
- Each business unit is required to implement credit policies and procedures, with approval from the Credit Committee. Each business unit has a Chief Credit Risk officer who reports on all credit related matters to local management and the Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risk in its portfolios, including those subject to central approval. Regular audits of business units and credit processes are undertaken by the Parent Company's Internal Audit department.

Quality of the portfolio of bank deposits

As of December 31, 2020, the Bank maintains deposits with banks for \$98,016,457 (2019: \$59,483,986). Deposits are maintained at financial institutions, most of which have A to BB- risk ratings, based on Standard & Poor's. Of the total deposits as of December 31, 2020, approximately \$18,329 and (2019: \$184,161), respectively did not have a risk rating.

Exposure to credit risk of loans to customers is shown below.

<u>2020</u>	<u>12 months ECL</u>	<u>Lifetime ECL - credit impaired</u>	<u>Total</u>
Consumer			
Grade 1 low risk	<u>1,675</u>	<u>10,217</u>	<u>11,892</u>
Gross amount	<u>1,675</u>	<u>10,217</u>	<u>11,892</u>
Allowance for ECL	<u>1,660</u>	<u>4,009</u>	<u>5,669</u>
Net amount	<u>15</u>	<u>6,208</u>	<u>6,223</u>
Net carrying amount, net of reserve	<u><u>15</u></u>	<u><u>6,208</u></u>	<u><u>6,223</u></u>

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

4. Financial risk management, (continued)

<u>2019</u>	<u>12 months</u>	
	<u>ECL</u>	<u>Total</u>
Corporate		
Grade 1 low risk	<u>1,173,970</u>	<u>1,173,970</u>
Gross amount	<u>1,173,970</u>	<u>1,173,970</u>
Allowance for ECL	<u>17,140</u>	<u>17,140</u>
Net amount	<u>1,156,830</u>	<u>1,156,830</u>
Consumer		
Grade 1 low risk	<u>9,922</u>	<u>9,922</u>
Gross amount	<u>9,922</u>	<u>9,922</u>
Allowance for ECL	<u>1,097</u>	<u>1,097</u>
Net amount	<u>8,825</u>	<u>8,825</u>
Net carrying amount, net of reserve	<u>1,165,655</u>	<u>1,165,655</u>

Write-off policy

The Bank writes off a loan (and any related allowances for impairment losses) when the Credit Committee determines that the carrying value of the loan is not recoverable. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer meet the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status.

At December 2020 and 2019, the Bank has no impaired loans.

Collateral

The Bank holds collateral in respect of loans and advances in the form of certificates of deposit, chattel mortgages and other guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. At December 31, 2019, an estimate of the fair value of collateral held for mortgages and chattel mortgages in respect of financial assets was \$1,168,701. At December 31, 2020, the Bank did not have collateral.

ECL allowance

For a further discussion of the ECL calculation model, see Note 3 (b).

The following table shows a reconciliation of the opening and closing balances of the ECL allowance as of December 31, 2020 and 2019:

<u>Loans at AC</u>	<u>2020</u>		<u>2019</u>	
	<u>12 months ECL</u>	<u>Total</u>	<u>12 months ECL</u>	<u>Total</u>
Balance at beginning of year	18,237	18,237	43,565	43,565
Net change in loan loss allowance	<u>(12,568)</u>	<u>(12,568)</u>	<u>(25,328)</u>	<u>(25,328)</u>
Balance at end of year	<u>5,669</u>	<u>5,669</u>	<u>18,237</u>	<u>18,237</u>

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020
(Expressed in United States dollars)

4. Financial risk management, (continued)

The Bank has determined that ECL in respect of cash and cash equivalents is minimal due to their short-term nature and high credit quality.

Concentration of credit risk

The Bank monitors concentration of credit risk by geographic location. As of December 31, 2020, there was a concentration of credit risk in respect of loans to customers in Costa Rica amounting to \$6,223, and Panama (2019: \$1,165,655). Concentration by location of loans to customers is measured based on the location of the customers holding the asset, which has a high correlation with the location of the borrower.

As of December 31, 2020, there was concentration of credit risk in respect of cash and cash equivalents with related parties amounting to \$92,859,654 (2019: \$56,820,735). The credit risk exposure arising from these balances held with related parties is managed at the group level.

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a borrower to honor its obligations to deliver cash, securities or other assets as contractually agreed. For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from risk committees.

(c) *Liquidity risk*

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. Liquidity risk exposures are measured by liquidity ratio limits established by the ALCO.

The Parent Company's Treasury Department receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020
(Expressed in United States dollars)

4. Financial risk management, (continued)

The liquidity position is monitored on a daily basis and regular liquidity stress testing is conducted under scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the ALCO. Weekly reports cover the liquidity position of local and foreign currency. A summary report, including any exceptions and remedial actions taken, is submitted regularly to the ALCO.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the maturity-wise analysis, volatility measurements and stress testing. For this purpose, net liquid assets are considered to include cash and cash equivalents for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month, including any statistical analysis of assets and liabilities that may not have a defined maturity.

The following table shows the undiscounted cash flows on the Bank's financial liabilities and assets on the basis of their earliest possible contractual maturity.

	Carrying Amount	Gross Nominal (outflow) - inflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years
December 31, 2020						
Liabilities						
Demand deposits from customers	\$ 66,058,640	(66,058,640)	(66,058,640)	0	0	0
Time deposits from customers	33,857,614	(34,908,070)	(871,713)	(6,950,007)	(16,464,791)	(10,621,559)
Total liabilities	\$ 99,916,254	(100,966,710)	(66,930,353)	(6,950,007)	(16,464,791)	(10,621,559)
Assets						
Cash and cash equivalents	\$ 98,016,457	98,016,457	98,016,457	0	0	0
Investments at FVOCI	\$ 29,996,950	30,000,000	10,000,000	20,000,000	0	0
Loans to customers	6,223	11,891	11,891	0	0	0
Total assets	\$ 128,019,630	128,028,348	108,028,348	20,000,000	0	0
December 31, 2019						
Liabilities						
Demand deposits from customers	\$ 38,718,910	(38,718,910)	(38,718,910)	0	0	0
Time deposits from customers	24,615,182	(26,182,297)	(502,871)	(990,036)	(10,379,083)	(14,310,307)
Total liabilities	\$ 63,334,092	(64,901,207)	(39,221,781)	(990,036)	(10,379,083)	(14,310,307)
Assets						
Cash and cash equivalents	\$ 59,483,986	59,483,986	59,483,986	0	0	0
Investments at FVOCI	\$ 29,965,720	30,000,000	20,000,000	10,000,000	0	0
Loans to customers	1,165,655	1,186,942	182,606	182,606	821,730	0
Total assets	\$ 90,615,361	90,670,928	79,666,592	10,182,606	821,730	0

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

4. Financial risk management, (continued)

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the returns. Overall authority for market risk is vested in the ALCO. Risk committees are responsible for the development of detailed risk management policies (subject to review and approval by the ALCO) and for the day-to-day review of their implementation.

Management of market risks

Exposure to currency risk:

The Bank conducts all of its transactions denominated in United States dollars and therefore, is not exposed to any currency risk.

Exposure to interest rate risk – non-trading portfolios:

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest-bearing liabilities mature or re-price at different times or in differing amounts. In the case of floating rate assets and liabilities, the Bank is also exposed to basis risk, which is the difference in re-pricing characteristics of the various floating rate indices. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands, economic value of equity exposure, including positions on and off the statement of financial position. The ALCO is the monitoring body for compliance with these limits and is assisted by the Parent Company's Risk Management in its day-to-day monitoring activities.

A summary of the interest rate gap position of the Bank's financial instruments is shown below:

	Days						
(Expressed in \$000's)	Total	0-30	31-90	91-180	181-360	361-720	More than 720
December 31, 2020							
Assets							
Cash and cash equivalents	98,016	98,016	0	0	0	0	0
Investments at FVOCI	29,997	29,997	0	0	0	0	0
Loans (Gross)	6	6	0	0	0	0	0
Total	128,019	128,019	0	0	0	0	0
Liabilities							
Demand deposits	66,059	66,059	0	0	0	0	0
Time deposits	33,858	1,208	6,690	5,593	10,095	8,638	1,634
Total	99,917	67,267	6,690	5,593	10,095	8,638	1,634

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020
(Expressed in United States dollars)

4. Financial risk management, (continued)

(Expressed in \$000's)	Days						
	Total	0-30	31-90	91-180	181-360	361-720	More than 720
December 31, 2019							
Assets							
Cash and cash equivalents	59,484	59,484	0	0	0	0	0
Investments at FVOCI	29,966	29,966	0	0	0	0	0
Loans (Gross)	1,166	10	1,156	0	0	0	0
Total	90,616	89,460	1,156	0	0	0	0
Liabilities							
Demand deposits	38,719	38,719	0	0	0	0	0
Time deposits	24,615	640	833	1,489	8,322	3,488	9,843
Total	63,334	39,359	833	1,489	8,322	3,488	9,843

Cash flow sensitivity analysis for variable rate instruments:

The estimate of the impact of variations in interest rates is conducted under a scenario of increase or decrease of 100 basis points on assets and liabilities. The following table presents a summary of the impact on the Bank's equity and net income:

	Increase of 100 bps ⁽¹⁾	Decrease of 100 bps ⁽¹⁾
Impact on equity from 2020		
As of December 31, 2020	(256,382)	256,382
Average for the year	(282,144)	282,144
Maximum for the year	(256,382)	256,382
Minimum for the year	(302,289)	302,289
2019		
As of December 31, 2019	(356,026)	356,026
Average for the year	(338,161)	338,161
Maximum for the year	(238,151)	238,151
Minimum for the year	(421,654)	421,654
Impact on net income 2020		
Year ended December 31, 2020	(251,880)	251,880
Average for the year	(187,264)	187,264
Maximum for the year	(120,195)	251,880
Minimum for the year	(251,880)	120,195
2019		
Year ended December 31, 2019	(98,689)	98,689
Average for the year	(122,240)	122,240
Maximum for the year	(98,689)	136,701
Minimum for the year	(136,701)	98,689

(1) According to the nature of the instruments on demand, the sensitivity of annual income and expenses to a decrease or increase in rates for currencies with rates below 1% is measured using a variation of 25 basis points.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020
(Expressed in United States dollars)

4. Financial risk management, (continued)

Fair value Sensitivity analysis for fixed rate instruments:

The Bank does not account for any fixed rate instruments at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not impact profit or loss.

(e) Operational risks

Operational risk is the risk of direct or indirect loss or damage in any form arising from a wide variety of causes associated with the Parent Company and Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

As per Basel II, operational risk management is performed as a continuous process, with several distinct components:

- risk identification & assessment,
- risk mitigation (control development & implementation),
- control self-assessment (control testing),
- risk monitoring (key risk indicators follow up),
- risk measurement (incident collection & capital calculation), and
- control environment assessment & management (control culture measurement & corrective action implementation).

The primary responsibility for operational risk management is assigned to senior management within each business unit. This responsibility is supported by the development of overall policies and a central unit (Parent Company's Operational Risk Management Department) that coordinates and follows up on the business unit's performance. Status and developments are reported bi-monthly to the Operational Risk Committee, which oversees the risk management cycle. Additionally, compliance with the Bank's policies is supported by periodic reviews undertaken by the Parent Company's Internal Audit department. The results of internal audit reviews are discussed with the business unit's management and then summaries are submitted to the Audit Committee and senior management of the Bank.

(f) Capital management

The Central Bank of The Bahamas requires the Bank to maintain a minimum ratio of total capital to risk-weighted assets of 8%. The capital to risk-weighted assets ratio at December 31, 2020 was 27.63% (2019: 41.58%).

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

4. Financial risk management, (continued)

The Bank's policy is to maintain a strong capital base so as to maintain the confidence of stakeholders and to sustain future development of the business. The Bank has complied with all externally imposed capital requirements throughout the year.

There were no changes in Bank's approach to capital management during the year.

5. COVID - 19

Impact of the pandemic of the spread of COVID-19

During the first quarter of 2020, the Coronavirus (COVID-19) spread throughout the world, causing the closure of production and supply chains and interrupting international trade, which has been causing a global economic slowdown that is affecting various industries. The world authorities, including the government of the Bahamas, have adopted, among other measures, the temporary closure of establishments and the mandatory preventive confinement of people in various areas, causing employees, suppliers, and clients to not be able to carry out their activities normally.

During the following periods of 2020, this situation has been monitored on a daily basis by the Bank's management to assess the adverse effects that could be generated on the results of operations, the financial position and the liquidity of the Bank, and take all the appropriate measures to minimize the negative impacts that may arise from this situation during the 2020 financial year.

As of December 31, 2020, the Bank has not defaulted on the principal or interest payments of its financial obligations. As a result of the regulatory responses that Central Bank and Regulatory Bodies implemented in the place where the Bank operates, in order to mitigate the macroeconomic and financial impacts generated by the COVID-19 pandemic, the associated contractual commitments are monitored. with the specific financial indicators that may be impacted by such implementations.

As of December 31, 2020, the matters mentioned below have been evaluated, which in some cases have generated impacts on the financial statements and the Bank's operations and on which during the period after the date of these financial statements and up to date of issuance thereof, they continue to be monitored by management to address their effects on the Bank's operations and those of its clients.

a) Impairment of financial instruments - Loan portfolio, other accounts receivable and others

Financial instruments that are within the scope of ECL of IFRS 9 (loans, other accounts receivable, financial guarantees and loan commitments), have been evaluated considering the impacts that COVID-19 is having on the ECL due to the measures adopted by the government where the Bank operates.

The impacts that have been generated for the Bank in relation to the impairment of financial instruments are based on the following aspects:

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

5. COVID – 19, (continued)

- Measurement of the ECL, by changes in the allocation of credit risk of financial instruments, incorporating affectation analysis by COVID and generating an impact on the provision, moving from measurement for 12 months (stage 1) to measurement for the remaining life of the instrument (stages 2 and 3) for those in which it is determined that there was a significant increased credit risk since its initial measurement.
- Credit risk, the behaviour of which has changed for institutions according to the economic segments of their loan portfolios, increasing in the case of clients whose business has been negatively affected.
- The amount at risk (default exposure), taking into account the fact that affected debtors of The Bank have been found to have stopped making payments or are taking more time than normal to pay, mainly within the framework of relief schemes promulgated by government.
- The estimated loss for credits that are assessed individually, resulting from lower recovery of flows taking into account the impact caused by COVID-19.
- Macroeconomic aspects considered in the elaboration of scenarios and models for the calculation of the provision, where some of the variables have been weakened in view of the effects of COVID on the economy.

The calculation of expected credit risk losses incorporated from the second quarter of 2020 forward-looking information projections, in line with the effects of the decisions that the government continue to take around COVID-19, and considering the high level of uncertainty in these terms of intensity and duration. The projection information has been based on the best available information obtained, considering the market where the Bank operates, and taking into account the effects on segments and portfolios, which are exposed to different risks and situations.

When considering the forward-looking information based on macroeconomic variables, the Bank updated the scenarios used and the probabilities assigned to them at the end of December 31, 2020, with the effects shown in the following two tables:

i. Macroeconomic variables used in the calculation of ECL (Panama)

		December 2020 %
Monthly Economic Activity Index	Upside	5.54%
	Central	3.34%
	Downside	1.63%
Consumer Price Index	Upside	-0.58%
	Central	-0.16%
	Downside	1.21%
Dollars Interest Rate	Upside	-0.16%
	Central	-0.02%
	Downside	0.16%

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

5. COVID – 19, (continued)

		September 2020
		%
Monthly Economic Activity Index	Upside	3.04%
	Central	1.08%
	Downside	0.27%
Consumer Price Index	Upside	-0.67%
	Central	-0.44%
	Downside	-0.26%
Dollars Interest Rate	Upside	-0.20%
	Central	0.00%
	Downside	0.53%

		June 2020
		%
Monthly Economic Activity Index	Upside	1.15%
	Central	-0.38%
	Downside	-1.20%
Consumer Price Index	Upside	-1.03%
	Central	-0.51%
	Downside	0.00%
Dollars Interest Rate	Upside	-1.43%
	Central	-0.79%
	Downside	0.58%

		March 2020
		%
Monthly Economic Activity Index	Upside	4.73%
	Central	4.12%
	Downside	2.98%
Consumer Price Index	Upside	-0.33%
	Central	0.01%
	Downside	0.77%
Dollars Interest Rate	Upside	0.25%
	Central	0.65%
	Downside	1.11%

		December 2019
		%
Monthly Economic Activity Index	Upside	4.71%
	Central	3.87%
	Downside	3.22%
Consumer Price Index	Upside	0.38%
	Central	0.57%
	Downside	1.31%
Dollars Interest Rate	Upside	-0.05%
	Central	0.37%
	Downside	0.84%

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

5. COVID – 19, (continued)

ii. Weighting of probabilities assigned to scenarios before and after COVID-19

	December 2020
Upside	10%
Central	60%
Downside	30%

	September 2020
Upside	5%
Central	50%
Downside	45%

	June 2020
Upside	15%
Central	70%
Downside	15%

	March 2020
Upside	15%
Central	70%
Downside	15%

	December 2019
Upside	25%
Central	60%
Downside	15%

The macroeconomic scenarios were adjusted to reflect the impacts of COVID-19 and the weights assigned to each scenario were recalibrated based on the expectations resulting from the information available to date (as well as updating historical information, assumptions related to the severity and duration of the pandemic, speed of recovery of the economy and their respective impact on the market).

The Bank continues to monitor continuously information that allows it to identify in a timely manner possible impact to ECLs.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

5. COVID – 19, (continued)

iii. Impairment allowance balance

	<u>December 2020</u>	<u>September 2020</u>	<u>June 2020</u>	<u>March 2020</u>	<u>December vs September</u>	<u>September vs June</u>	<u>June Vs March</u>
Corporate	0	5,029	10,399	12,166	(5,029)	(5,370)	(1,767)
Credit card	<u>5,669</u>	<u>1,628</u>	<u>1,946</u>	<u>1,397</u>	<u>4,040</u>	<u>(317)</u>	<u>549</u>
Total	<u>5,669</u>	<u>6,658</u>	<u>12,345</u>	<u>13,563</u>	<u>(989)</u>	<u>(5,687)</u>	<u>(1,218)</u>

The above table summarizes the total balance of the provision by portfolio for each quarter of 2020.

iv. Loan's Portfolio provision expense

	<u>December 2020</u>	<u>September 2020</u>	<u>June 2020</u>	<u>March 2020</u>	<u>December vs September</u>	<u>September vs June</u>	<u>June Vs March</u>
Corporate	(5,029)	(5,370)	(1,768)	(4,973)	341	(3,602)	3,205
Credit card	<u>4,041</u>	<u>(318)</u>	<u>549</u>	<u>300</u>	<u>4,359</u>	<u>(867)</u>	<u>249</u>
Total	<u>(988)</u>	<u>(5,688)</u>	<u>(1,219)</u>	<u>(4,673)</u>	<u>4,700</u>	<u>(4,469)</u>	<u>3,454</u>

The above table summarizes the provision expense for portfolio impairment for each quarter of 2020.

b) Government Reliefs to customers

The following table summarizes the volume of relief granted by portfolio and its effects on the Bank's results:

December 2020	Credit card
Amount of credits with relief	2
% of credit with relief / Total credits	18.18%

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

6. Critical accounting estimates and judgments in applying accounting policies

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.

7. Related party balances and transactions

Balances and transactions with related parties are shown below:

		<u>2020</u>		<u>2019</u>	
		<u>Key</u>	<u>Related</u>	<u>Key</u>	<u>Related</u>
		<u>personnel</u>	<u>parties</u>	<u>personnel</u>	<u>parties</u>
Assets					
Cash and cash equivalents	\$	0	92,859,654	0	56,820,735
Loans to customers		1,664	0	2,594	0
Allowance for ECL		40	0	(65)	0
Accrued interest and other receivables		0	0	0	148
Liabilities					
Demand deposits from customers	\$	0	52,307,698	0	27,573,978
Other liabilities		0	4,465	0	32,379
Income					
Interest income	\$	0	2,451,327	15,141	2,694,218
Other income		0	27,631	0	27,034
Expenses					
Interest expenses	\$	0	17,628	0	14,048
General and administrative		0	60,000	0	60,000

During the current year, related parties charged the Bank \$60,000 (2019: \$60,000) for administrative services.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020
(Expressed in United States dollars)

8. Cash and cash equivalents

The geographical distribution of cash and cash equivalents by country of the head office is as follows:

		2020	2019
Panama	\$	88,476,488	53,650,281
The Cayman Islands		3,767,100	2,562,455
United States of America		5,137,174	2,649,277
Costa Rica		616,066	607,999
The Bahamas		19,629	13,974
	\$	98,016,457	59,483,986

At December 31, 2020, cash and cash equivalents earned interest at rates ranging between 0.00% to 4.00% (2019: 0.00% to 4.00%) per annum.

9. Investments at Fair Value

The portfolio of investments at FVOCI is detailed as follows:

	2020	2019
Governments of the United States – Treasury Bills	<u>29,996,950</u>	<u>29,965,720</u>
	<u>29,996,950</u>	<u>29,965,720</u>

The Bank considers that due to AA risk grades of investment, the risk of default is minimal, and the related expected credit loss is not material.

10. Loans to customers, net

At December 31, 2020, the loan portfolio was segmented by industry as follows:

	2020			2019		
	Gross amount	Allowance for ECL	Net carrying amount	Gross amount	Allowance for ECL	Net carrying amount
Loans						
Corporate						
Corporate	0	0	0	1,168,702	17,140	1,151,562
Total corporate loans	0	0	0	1,168,702	17,140	1,151,562
Consumer loans						
Personal	11,892	5,669	6,223	9,922	1,097	8,825
Total loan portfolio	11,892	5,669	6,223	1,178,624	18,237	1,160,387
Accrued interests						
receivable from loans, net	0	0	0	5,268	0	5,268
Total loans at amortized cost	<u>11,892</u>	<u>5,669</u>	<u>6,223</u>	<u>1,183,892</u>	<u>18,237</u>	<u>1,165,655</u>

At December 31, 2020 and 2019, the Bank did not have past due loans. At December 31, 2019, commercial loans earn interest at 5.21%, per annum. There are not commercial loans at December 31, 2020.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020
(Expressed in United States dollars)

11. Property and equipment

Property and equipment as of December 31, 2020 and 2019 are detailed as follows:

	<u>Right-of-use assets</u>	<u>Furniture and equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Cost:				
Balance at January 1, 2020	345,686	68,556	6,873	421,115
Purchases	10,371	6,850	0	17,221
Sales and disposals	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Balance at December 31, 2020	<u>356,057</u>	<u>75,406</u>	<u>6,873</u>	<u>438,336</u>
Accumulated depreciation:				
Balance at January 1, 2020	(43,665)	(68,556)	(3,246)	(115,467)
Depreciation	(44,211)	(571)	(2,291)	(47,073)
Sales and disposals	<u>1,429</u>	<u>0</u>	<u>0</u>	<u>1,429</u>
Balance at December 31, 2020	<u>(86,447)</u>	<u>(69,127)</u>	<u>(5,536)</u>	<u>(161,111)</u>
Net balance	<u>269,610</u>	<u>6,279</u>	<u>1,336</u>	<u>227,225</u>

	<u>Right-of-use assets</u>	<u>Furniture and equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Cost:				
Balance at January 1, 2019	0	157,473	6,873	164,346
IFRS Adopted	345,686	0	0	345,686
Sales and disposals	<u>0</u>	<u>(88,917)</u>	<u>0</u>	<u>(88,917)</u>
Balance at December 31, 2019	<u>345,686</u>	<u>68,556</u>	<u>6,873</u>	<u>421,115</u>
Accumulated depreciation:				
Balance at January 1, 2019	0	(157,416)	(954)	(158,370)
Depreciation	(43,665)	(57)	(2,292)	(46,014)
Sales and disposals	<u>0</u>	<u>88,917</u>	<u>0</u>	<u>88,917</u>
Balance at December 31, 2019	<u>(43,665)</u>	<u>(68,556)</u>	<u>(3,246)</u>	<u>(115,467)</u>
Net balance	<u>302,021</u>	<u>0</u>	<u>3,627</u>	<u>305,648</u>

12. Demand deposits from customers

At December 31, 2020 and 2019, demand deposits are from customers primarily domiciled in Central America. Demand deposits bear interest at various rates up to 0.05% (2019: 0.05%) per annum.

	<u>2020</u>	<u>2019</u>
Retail customers	\$ 4,345,984	3,408,713
Corporate customers	61,712,656	35,310,197
	<u>\$ 66,058,640</u>	<u>38,718,910</u>

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

13. Time deposits from customers

At December 31, 2020 and 2019, the time deposits were due within one year with annual interest rates ranging between 2.00% to 5.00% (2019: 1.25% to 5.00%) and are from customers primarily domiciled in Central America.

		2020	2019
Retail customers	\$	8,127,694	6,932,829
Corporate customers		25,323,765	17,472,168
Interest		406,155	210,184
	\$	<u>33,857,614</u>	<u>24,615,181</u>

14. Lease Liabilities

Lease liabilities are detailed below:

	<u>Interest rate</u>	<u>Maturities up to</u>	<u>2020</u> <u>Carrying amount</u>	<u>Undiscounted cash flows</u>
Payable in US dollars	5.22%	2023	<u>271,989</u>	<u>322,300</u>
Total lease liabilities			<u>271,989</u>	<u>322,300</u>
			<u>2019</u>	
Payable in US dollars	5.22%	2023	<u>297,903</u>	<u>371,800</u>
Total lease liabilities			<u>297,903</u>	<u>371,800</u>

The following is the detail of the maturity of the undiscounted contractual cash flows, related to lease liabilities under IFRS 16:

	<u>2020</u>	<u>2019</u>
Less than a year	49,500	49,500
One to five years	<u>272,800</u>	<u>322,300</u>
	<u>322,300</u>	<u>371,800</u>

The following are the items recognized in the statement of comprehensive income, related to lease liabilities:

	<u>2020</u>	<u>2019</u>
Interest on leases	14,290	15,949
Expense for leases of low-value assets	<u>54,131</u>	<u>54,131</u>
	<u>68,421</u>	<u>70,080</u>

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

15. Share capital

The authorized capital of the Bank is comprised of 18,000,000 shares. At December 31, 2020 and 2019, the issued share capital is represented by 18,000,000 issued ordinary registered shares of \$1.00 par value each, for a total of \$18,000,000.

16. General and administrative expenses

General and administrative expenses are shown below:

	2020	2019
Personnel	\$ 319,707	346,066
Corporate services	60,000	60,000
Outside services	62,610	57,641
Depreciation	2,862	2,348
Depreciation Right of use	44,211	43,665
Other	197,745	189,948
	\$ 687,135	699,668

17. Taxes

The Bank is exempt from income taxes under the laws of The Commonwealth of The Bahamas.

18. Measurement of fair values

The fair value of a financial asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

The Bank conducts a fair value estimate in accordance to IFRS 13. The different hierarchy levels have been defined as follows:

- Level 1 - Quoted prices in active markets without adjustments for identical assets or liabilities that the Bank can access at the measurement date.
- Level 2 - inputs other than quoted prices included in Level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are not active and other valuation techniques where significant data inputs are directly or indirectly observable in the market.
- Level 3 - unobservable inputs for the asset or liability. This category includes all instruments where the valuation technique includes unobservable inputs and these have a significant effect on the fair value measurement. This category also includes instruments that are valued based on quoted prices for similar instruments for which we must make significant adjustments using unobservable inputs, assumptions or adjustments in which no observable or subjective data are used when there are differences between the instruments.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

(Expressed in United States dollars)

18. Measurement of fair values, (continued)

A market is considered active if quoted prices are readily and regularly available from an exchange, financial intermediaries, a sector institution, pricing service or regulatory agency, and those prices reflect actual market transactions with sufficient frequency and volume to provide pricing information market.

Financial instruments at fair value

Recurring Fair Value Measurement

The following is a description of the valuation methodologies used to value instruments carried at fair value, including a general classification of such instruments according to the fair value hierarchy.

Securities

When there are market prices in an active market, securities are classified in Level 1 of the fair value hierarchy. Level 1 securities include highly liquid bonds from governments and agencies and investments in highly traded shares. If market prices are not available for a specific security, the fair value is determined using market prices of securities with similar characteristics or discounted cash flows, and are classified in Level 2. In certain cases where there is limited activity or less transparency in determining the assumptions used in the valuation, securities are classified in Level 3 of the fair value hierarchy. Therefore, when valuing certain debt obligations, determining fair value may require comparisons with similar instruments or default and collection rate analysis.

Assets recorded at fair value on a recurring basis, are summarized below:

<u>Assets</u>	Other significant observable assumptions (level 1)	
	<u>2020</u>	<u>2019</u>
Investment		
Bonds from governments and agencies:		
United States of America	<u>29,996,950</u>	<u>29,965,720</u>

The Bank's accounting policies include the recognition of transfers between the levels of the fair value hierarchy on the date of the event or change in the circumstances that caused the transfer. No financial instrument was transferred between levels of the fair value hierarchy as of reporting dates.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020

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18. Measurement of fair values, (continued)

The table below describes the valuation techniques and input data used in the financial instruments' recurring fair value measurements:

Financial instrument	Valuation technique and entry data used	Level
Bonds from Governments and Agencies: United States of America	Consensus prices obtained through price providers.	(1)

Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

(a) Cash and cash equivalents

The carrying amounts approximate fair value because of the short-term maturities of these instruments.

(b) Loans to customers

The fair value of loans to customers is estimated by discounting future cash flows using the interest rates offered for loans with similar characteristics.

(c) Demand and time deposits

The fair value of demand deposits is the amount payable on demand at the reporting date. The fair value of time deposits is estimated by discounting future cash flows using the rates offered for deposits with similar remaining maturities.

As of December 31, 2020, the following table sets out the fair values of the Bank's significant financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized. The fair value information for the financial assets and financial liabilities whose carrying amounts approximate their fair values (such as cash and cash equivalents and demand deposit) are not included in this table.

	Level 1	Level 2	Level 3	Total fair value	Total carrying Amount
December 31, 2020					
Assets:	\$				
Loans to customers	<u>0</u>	<u>0</u>	<u>6,223</u>	<u>6,223</u>	<u>6,223</u>
Total assets	<u>0</u>	<u>0</u>	<u>6,223</u>	<u>6,223</u>	<u>6,223</u>
Liabilities:					
Time deposits from customers	<u>0</u>	<u>0</u>	<u>34,094,000</u>	<u>34,094,000</u>	<u>33,451,459</u>
Interest	<u>0</u>	<u>0</u>	<u>406,155</u>	<u>406,155</u>	<u>406,155</u>
Total liabilities	<u>0</u>	<u>0</u>	<u>34,500,155</u>	<u>34,500,155</u>	<u>33,857,614</u>

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2020
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18. Measurement of fair values, (continued)

	Level 1	Level 2	Level 3	Total fair value	Total carrying Amount
December 31, 2019					
Assets:	\$				
Loans to customers	<u>0</u>	<u>0</u>	<u>1,151,248</u>	<u>1,151,248</u>	<u>1,165,655</u>
Total assets	<u>0</u>	<u>0</u>	<u>1,151,248</u>	<u>1,151,248</u>	<u>1,165,655</u>
Liabilities:					
Time deposits from customers	<u>0</u>	<u>0</u>	<u>24,852,079</u>	<u>24,852,079</u>	<u>24,404,997</u>
Interest	<u>0</u>	<u>0</u>	<u>210,184</u>	<u>210,184</u>	<u>210,184</u>
Total liabilities	<u>0</u>	<u>0</u>	<u>25,062,263</u>	<u>25,062,263</u>	<u>24,615,181</u>

19. Regulatory Reserve (regulatory requirements)

The Parent Company is regulated by the Superintendent of Banks of Panama (“Superintendent”). In 2013, the Superintendent issued the Agreement No. 004-2013 (“the Agreement”) setting out certain requirements for the management and administration of the inherent credit risk pertaining to on and off balance sheet operations of banks in Panama.

The Agreement is applicable to the Bank as certain regulations applicable to the Parent Company are also applicable to its subsidiaries.

Among other matters, this Agreement defines the classification categories of credit facilities for the specific and dynamic provisions as well as the criteria that the policies for restructured loans, financial guarantees, and charge off operations should contain. The dynamic provisions were established by the Superintendent, as prudential regulation, in order to meet future needs of specific provisions.

The Specific provision for impairment of the loan portfolio should be determined and recognized in the financial statements in accordance with the credit facilities’ classification within the risk categories currently in use and calculated based on minimum percentages weighted by each category specified in the Agreement. Accordingly, at December 31, 2020 and 2019, the Bank is not required to established the Specific provision based on this Agreement.

The Agreement also requires establishing the dynamic provision, to be determined and recognized quarterly as reserves in equity following certain calculation criteria and restrictions that will be implemented gradually.

The Agreement establishes that the dynamic reserve cannot be less than 1.25% or greater than 2.50% of risk-weighted assets related to credit facilities classified as normal. The reserve of \$308,812 (2019: \$308,812), is accounted for as part of equity through the appropriation retained earnings. A decrease in the dynamic reserve requires the approval of the Superintendent.

BAC BAHAMAS BANK, LIMITED

Notes to Financial Statements, Continued

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20. Contingencies and commitments

The Bank holds financial instruments with off-balance sheet risks in the normal course of business to meet the financing needs of its customers. These financial instruments include, principally, commitments to extend credit, the balances of which are not reflected in the accompanying statement of financial position.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer. As of December 31, 2020, and 2019, the Bank had not entered into non-cancelable commitments to extend credit.

As of December 31, 2020, the Bank had outstanding revolving line of credit available to their credit card customers. The unused portion of the total amount available for this line of credit was \$208,325 (2019: \$240,633). While these amounts represented the available line of credit to customers, the Bank has not experienced, and does not anticipate, that all of its customers will draw down their entire available lines at any given point in time. The Bank generally has the right to increase, reduce, cancel, alter or amend the terms of these available lines of credit at any time.