

Financial Statements of

BAC BAHAMAS BANK LIMITED

Year ended December 31, 2023

(With Independent Auditors' Report there on)

BAC BAHAMAS BANK LIMITED

Financial Statements

Year ended December 31, 2023

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KPMG
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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, 2023, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, including material 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, 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants 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.

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 Accounting Standards, 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's 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 27, 2024

BAC BAHAMAS BANK LIMITED

Statement of Financial Position

December 31, 2023, with corresponding figures for 2022

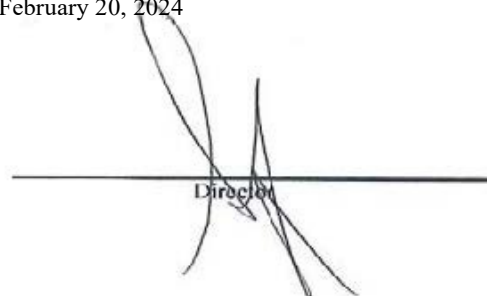
(Expressed in United States dollars)

	2023	2022
ASSETS		
Cash and cash equivalents (notes 6 and 7)	\$ 19,639,688	20,160,591
Deposit in bank- time deposits (notes 6 and 8)	203,610,302	236,177,530
Investments (note 9)	67,750,717	68,983,520
Loans to customers, net (notes 6 and 10)	17,399,456	22,007,503
Property and equipment (note 11)	141,197	183,416
Other receivables and assets	120,871	1,919,222
Total assets	\$ 308,662,231	349,431,782
LIABILITIES AND EQUITY		
Liabilities:		
Demand deposits from customers (notes 6 and 12)	\$ 47,698,116	75,526,945
Savings from customers (note 13)	2,504,324	3,174,727
Time deposits from customers (notes 6 and 14)	213,084,665	230,656,495
Lease liabilities (note 15)	151,326	192,485
Other liabilities (note 6)	101,147	328,530
	263,539,578	309,879,182
Equity:		
Share capital (note 16)	18,000,000	18,000,000
Additional paid in capital (note 17)	10,000,000	10,000,000
Other reserves (note 22)	582,078	308,812
Retained earnings	16,526,434	11,268,767
Fair value reserve	14,141	(24,979)
	45,122,653	39,552,600
Total liabilities and equity	\$ 308,662,231	349,431,782

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

The financial statements were approved by the Board of the Directors on February 20, 2024 and signed on their behalf by.


Director


Director

BAC BAHAMAS BANK LIMITED

Statement of Comprehensive Income

Year ended December 31, 2023, with corresponding figures for 2022

(Expressed in United States dollars)

	2023	2022
Net interest income:		
Interest income calculated using the effective interest method on deposit in banks (note 6)	\$ 10,415,212	4,284,879
Interest income calculated using the effective interest method on loans to customers	1,313,572	645,433
Interest income calculated using the effective interest method on investments at FVOCI	3,212,343	930,646
Interest expense (note 6)	(10,722,629)	(4,195,908)
Net interest income	4,218,498	1,665,050
Net commission income:		
Commission income	109,968	62,798
Commission expense	(28,149)	(58,071)
Net commission income	81,819	4,727
Other operating (expense) income:		
Other income (note 6 and 18)	807,588	35,919
General and administrative (note 6 and 19)	(1,186,164)	(924,577)
Release for accounts receivable credit loss	1,716,801	0
Impairment for expected credit loss (note 4)	(108,020)	(264,331)
Release of investment securities	411	(555)
	1,230,616	(1,153,544)
Net income	5,530,933	516,233
Other comprehensive income (loss):		
Items that are or can be reclassified to the income statement		
Movement in fair value reserve of investment at FVOCI:		
Valuation for investments at FVOCI:		
Net change in fair value (note 9)	39,120	(24,979)
Total comprehensive income for the year	\$ 5,570,053	491,254

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

BAC BAHAMAS BANK LIMITED

Statement of Changes in Equity

Year ended December 31, 2023, with corresponding figures for 2022

(Expressed in United States dollars)

	Number of shares	Share capital	Additional paid in capital	Other reserves	Retained earnings	Fair value reserve	Total
Balance at December 31, 2021	18,000,000	18,000,000	0	308,812	10,752,534	0	29,061,346
Comprehensive income:							
Net income	0	0	0	0	516,233	0	516,233
Other comprehensive loss:							
Investment at FVOCI - net change in fair value	0	0	0	0	0	(24,979)	(24,979)
Total comprehensive income	0	0	0	0	516,233	(24,979)	491,254
Transactions with equity holder of the Bank							
Additional paid in capital (note 17)	0	0	10,000,000	0	0	0	10,000,000
Balance at December 31, 2022	18,000,000	18,000,000	10,000,000	308,812	11,268,767	(24,979)	39,552,600
Comprehensive income:							
Net income	0	0	0	0	5,530,933	0	5,530,933
Other comprehensive income:							
Investment at FVOCI - net change in fair value	0	0	0	0	0	39,120	39,120
Total comprehensive income	0	0	0	0	5,530,933	39,120	5,570,053
Transfer from retained earnings to Regulatory Reserve (note 22)	0	0	0	273,266	(273,266)	0	0
Balance at December 31, 2023	18,000,000	\$ 18,000,000	10,000,000	582,078	16,526,434	14,141	45,122,653

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

BAC BAHAMAS BANK LIMITED

Statement of Cash Flows

Year ended December 31, 2023 with corresponding figures for 2022

(Expressed in United States dollars)

	2023	2022
Cash flows from operating activities:		
Net income	\$ 5,530,933	516,233
Adjustments for:		
Provision for impairment for expected credit loss	108,020	264,331
(Release) provision for impairment on investment securities	(411)	555
(Release) provision for account receivable credit loss	(1,716,801)	0
Depreciation	49,224	47,849
Net interest income	(4,227,126)	(1,675,649)
	(256,161)	(846,681)
Changes in operating assets and liabilities:		
Deposits with original maturities of 90 days or more	35,000,000	35,000,000
Loans to customers	4,447,348	59,075,453
Other receivables and assets	3,508,147	(67,386)
Demand deposits	(28,499,232)	(78,094,600)
Time deposits	(17,646,314)	(10,320,492)
Transferred assets and liabilities from related party	0	(9,088,490)
Other liabilities	(227,383)	11,498
	(3,673,595)	(4,330,698)
Interest received	9,348,691	10,621,642
Interest paid	(10,648,145)	(4,682,898)
Net cash (used in) provided by operating activities	(4,973,049)	1,608,046
Cash flows from investing activities		
Purchase of investments	(271,806,323)	(328,078,409)
Maturities of investments	276,291,000	260,000,000
Net cash provided by (used in) investing activities	4,484,677	(68,078,409)
Cash flows from financing activities		
Additional paid in capital (restated 2022) (note 3k)	0	10,000,000
Payment of lease liability	(32,531)	(25,833)
Net cash (used in) provided by financial activities	(32,531)	9,974,167
Decrease in cash and cash equivalents during the year	(520,903)	(56,496,196)
Cash and cash equivalents at beginning of year	20,160,591	76,656,787
Cash and cash equivalents at end of year	\$ 19,639,688	20,160,591

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

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements

Year ended December 31, 2023

(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.

As of March 24, 2022, the Parent Company was wholly owned by Banco de Bogota, S.A., an authorized bank in the Republic of Colombia, which in turn is a subsidiary of Grupo Aval Acciones y Valores., S.A., an entity domiciled in the Republic of Colombia.

On March 25, 2022, Banco de Bogota S.A. completed the spin-off of 75% of its shareholding in BAC Holding International Corp. (the Ultimate Parent Company) in favor of the shareholders of Banco de Bogota, S.A., through Sociedad Beneficiaria Bogota S.A.S.

On March 28, 2022, Grupo Aval Acciones y Valores, S.A. completed the spin-off of 51.6% of the shares of the Ultimate Parent Company in favor of its shareholders. The shares spun off in favor of the shareholders of Grupo Aval were received as a result of the completion of the spin-off held by Banco de Bogota S.A. on March 25, 2022.

The Bank is primarily involved in corporate, consumer and investment banking. The Parent Company’s decided to wind down BAC International Bank Grand Cayman’s operations, liquidate its assets, dissolve the corporation, and surrender the Licenses in the last quarter of 2022. Subsequently, the Parent Company transferred its operations at book value, that is similar to fair value, to BAC Bahamas Limited and consequently, transferred placement, deposits due to customers and loans solidifying BAC Bahamas Limited as the offshore bank of the group, in order to offer better services to our customers".

A substantial portion of the Bank’s business is with related parties. A significant amount of the Bank’s cash and cash equivalents and deposits in bank – time deposits are held with related parties and the Bank’s revenue is primarily from the interest income on such cash and cash equivalents and deposits in bank – time deposits (see notes 7 and 8). Accordingly, the Bank is economically dependent on these related parties and is exposed to 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 (IFRS Accounting Standards) issued by the International Accounting Standards Board (IASB). The financial statements were authorized by the Bank's Board of Directors for issuance on February 20, 2024.

(b) Basis of measurement

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

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023
(Expressed in United States dollars)

2. Basis of preparation, (continued)

(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.

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 21)
- Allowance for loan losses (notes 3(b) and 4)

3. Summary of Material Accounting Policies

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements. In addition, the Bank adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. The amendments require the disclosure of material rather than 'significant', accounting policies.

(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 on initial recognition, based on the nature and purpose of the acquisition of the financial asset.

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.

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.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

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

(b) Financial assets and liabilities, (continued)

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

- The asset is held 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.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and has not been designated as FVPL:

1. The asset is kept within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets and;
2. The contractual terms of the financial asset establish specific dates for cash flows that represent solely payments of principal and interest on the current 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 for at AC or FVOCI to be measured at FVPL, if doing so eliminates or significantly reduces an accounting mismatch that may occur if not done. For the years ended December 31, 2023 and 2022, 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);

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

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

(b) Financial assets and liabilities, (continued)

- 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.

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 assesses 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 ensure 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).

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

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

(b) Financial assets and liabilities, (continued)

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 assets that are not measured at FVPL.

- 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 date of the 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.

Allowances 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.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

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

(b) Financial assets and liabilities, (continued)

Impairment requirements are complex and require 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 terms 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.

Definition of impairment

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;

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

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

(b) Financial assets and liabilities, (continued)

- 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,
- 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 asset 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. prospective.

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.

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.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

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

(b) Financial assets and liabilities, (continued)

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.

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.

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.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

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

(b) Financial assets and liabilities, (continued)

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 due;
- 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 the group of loans; and,
- There is no unjustified volatility in the provision for impairment of transfers between groups when comparing the probability of expected losses in the following twelve months with 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 derecognition of the asset, the determination of whether the credit risk has significantly increased reflects comparisons of:

- The PD during the remaining life at the reporting date based on the modified terms; and
- 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.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

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

(b) Financial assets and liabilities, (continued)

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 maybe 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 counterparty categories and exposures. These statistical models are based on data compiled internally comprising both qualitative and quantitative factors. If a counterparty 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 counterparty 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 are considered. 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, 2023

(Expressed in United States dollars)

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

(b) Financial assets and liabilities, (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 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, but 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 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

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023
(Expressed in United States dollars)

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

(b) Financial assets and liabilities, (continued)

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.

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.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023
(Expressed in United States dollars)

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

(c) Interest, (continued)

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 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).

(d) 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:

- interest expense on financial liabilities measured at amortized cost.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

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

(e) 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 when the corresponding services are provided.

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

(f) 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.

(g) Loans receivable

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in active market 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 loan 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.

(h) 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 expensed. 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.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023
(Expressed in United States dollars)

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

(i) 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
 - 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.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

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

(j) Leases, (continued)

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.

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.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

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

(j) 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).
- (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.

(k) Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning on or after 1 January 2024 and earlier application is permitted; however, the Bank has not early adopted them in preparing these financial statements.

- Classification of liabilities as current or non-current (amendments to IAS 1).
- Supplier finance arrangement (Amendments to IAS 7 and IFRS 7).
- Lack of Exchangeability (Amendments to IAS 21)
- Lease liability in a sale with leaseback (amendments to IFRS 16).

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

3. Summary of Material Accounting Policies, (continued)

(l) Correction of Error

Amount in the financial statement of 2022 were reclassified to align with the presentation of the financial statement of 2023. The Bank has identified a correction that has been included in the statement of cash flows for the year ended December 31, 2023.

The following table shows a description of the correction identified:

	<u>2022</u>		
	<u>Previously reported</u>	<u>Correction</u>	<u>As corrected</u>
Investment activities			
Additional paid in capital	<u>10,000,000</u>	<u>(10,000,000)</u>	<u>0</u>
Net cash used in investing activities	(58,078,409)	(10,000,000)	(68,078,409)
Financial activities			
Additional paid in capital (restated)	<u>0</u>	<u>10,000,000</u>	<u>10,000,000</u>
Net cash (used in) provides by financial activities	(25,833)	10,000,000	9,974,167

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>2023</u>	<u>FVOCI – debt instruments</u>	<u>AC</u>	<u>Total</u>
Cash and cash equivalents	0	19,639,688	19,639,688
Deposit in bank – time deposit	0	203,610,302	203,610,302
Investments in securities	67,750,717	0	67,750,717
Loans to customers	<u>0</u>	<u>17,399,456</u>	<u>17,399,456</u>
Total financial assets	<u>67,750,717</u>	<u>240,649,446</u>	<u>308,400,163</u>

<u>2022</u>	<u>FVOCI – debt instruments</u>	<u>AC</u>	<u>Total</u>
Cash and cash equivalents	0	20,160,591	20,160,591
Deposit in bank – time deposit	0	236,177,530	236,177,530
Investments in securities	68,983,520	0	68,983,520
Loans to customers	<u>0</u>	<u>22,007,503</u>	<u>22,007,503</u>
Total financial assets	<u>68,983,520</u>	<u>278,345,624</u>	<u>347,329,144</u>

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

4. Financial risk management, *(continued)*

As of December 31, 2023 and 2022, 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.

(a) Introduction and overview, continued

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.

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

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

4. Financial risk management, (continued)

(b) Credit risk, (continued)

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:

	2023	2022
Cash and cash equivalents	\$ 19,639,688	20,160,591
Deposits in bank – time deposit	203,610,302	236,177,530
Investments	67,750,717	68,983,520
Loans to customers at amortized cost	17,399,456	22,007,503
Other receivables and assets	120,871	1,919,222
	\$ 308,521,034	349,248,366

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 monitoring 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).
- 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.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

5. Financial risk management, *(continued)*

(b) Credit risk, (continued)

- 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 subjects 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, 2023, the Bank maintains cash, cash equivalents and deposits with banks that totalize \$223,249,990 (2022: \$256,338,121). Deposits are maintained at financial institutions, most of which have A+ to BBB+ risk ratings, based on Standard & Poor's. Of the total deposits as of December 31, 2023, approximately \$9,624 (2022: \$14,997), did not have a risk rating.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

4. Financial risk management, (continued)

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

<u>2023</u>	<u>12 months ECL</u>	<u>Lifetime ECL - not credit impaired</u>	<u>Lifetime ECL - credit impaired</u>	<u>Total</u>
Corporate				
Grade 1 low risk	<u>3,846,851</u>	<u>0</u>	<u>0</u>	<u>3,846,851</u>
Gross amount	3,846,851	0	0	3,846,851
Allowance for ECL	<u>4,232</u>	<u>0</u>	<u>0</u>	<u>4,232</u>
Net amount	<u>3,842,619</u>	<u>0</u>	<u>0</u>	<u>3,842,619</u>
Mortgage				
Grade 1 low risk	<u>1,240,464</u>	<u>0</u>	<u>0</u>	<u>1,240,464</u>
Gross amount	1,240,464	0	0	1,240,464
Allowance for ECL	<u>1,255</u>	<u>0</u>	<u>0</u>	<u>1,255</u>
Net amount	<u>1,239,209</u>	<u>0</u>	<u>0</u>	<u>1,239,209</u>
Consumer				
Grade 1 low risk	12,590,093	14,348	0	12,604,441
Grade 6 Marginal	0	48,469	0	48,469
Grade 7 Substandard	0	0	16,347	16,347
Grade 8 Doubtful	<u>0</u>	<u>0</u>	<u>8,144</u>	<u>8,144</u>
Gross amount	12,590,093	62,817	24,491	12,677,401
Allowance for ECL	<u>326,141</u>	<u>15,073</u>	<u>18,559</u>	<u>359,773</u>
Net amount	<u>12,263,952</u>	<u>47,744</u>	<u>5,932</u>	<u>12,317,628</u>
Net carrying amount, net of reserve	<u>17,345,780</u>	<u>47,744</u>	<u>5,932</u>	<u>17,399,456</u>

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

3. Financial risk management, (continued)

(b) Credit risk, (continued)

<u>2022</u>	<u>12 months ECL</u>	<u>Lifetime ECL - not credit impaired</u>	<u>Lifetime ECL - credit impaired</u>	<u>Total</u>
Corporative				
Grade 1 low risk	<u>8,530,064</u>	<u>0</u>	<u>0</u>	<u>8,530,064</u>
Gross amount	<u>8,530,064</u>	<u>0</u>	<u>0</u>	<u>8,530,064</u>
Allowance for ECL	<u>29,136</u>	<u>0</u>	<u>0</u>	<u>29,136</u>
Net amount	<u>8,500,928</u>	<u>0</u>	<u>0</u>	<u>8,500,928</u>
Mortgage				
Grade 1 low risk	<u>2,024,184</u>	<u>0</u>	<u>0</u>	<u>2,024,184</u>
Gross amount	<u>2,024,184</u>	<u>0</u>	<u>0</u>	<u>2,024,184</u>
Allowance for ECL	<u>7,067</u>	<u>0</u>	<u>0</u>	<u>7,067</u>
Net amount	<u>2,017,117</u>	<u>0</u>	<u>0</u>	<u>2,017,117</u>
Consumer				
Grade 1 low risk	11,648,114	21,776	0	11,669,890
Grade 6 Marginal	0	35,696	0	35,696
Grade 8 Doubtful	0	0	14,119	14,119
Grade 9 Impaired	<u>0</u>	<u>0</u>	<u>190</u>	<u>190</u>
Gross amount	<u>11,648,114</u>	<u>57,472</u>	<u>14,309</u>	<u>11,719,895</u>
Allowance for ECL	<u>211,478</u>	<u>8,017</u>	<u>10,942</u>	<u>230,437</u>
Net amount	<u>11,436,636</u>	<u>49,455</u>	<u>3,367</u>	<u>11,489,458</u>
Net carrying amount, net of reserve	<u>21,954,681</u>	<u>49,455</u>	<u>3,367</u>	<u>22,007,503</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, 2023, the Bank has impaired loans of \$0 (2022: \$190).

Collateral

The Bank holds collateral in respect of loans and advances in the form of chattel mortgages. 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, 2023, an estimate of the fair value of collateral held for mortgages and chattel mortgage in respect of financial assets was \$1,240,464 (2022: \$2,024,184).

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023
(Expressed in United States dollars)

4. Financial risk management, (continued)

(b) Credit risk, (continued)

Residential mortgage loans

The following table shows the index of loans from the mortgage portfolio to the value of collaterals LTV is calculated as a percentage of the gross amount of the loan in relation to the value of collaterals. The gross amount of the loan excludes any loss impairment. The value of collaterals for mortgages is based on the original value of the guarantee as of the date of disbursement. The corresponding values are updated based on requirements of regulators, new disbursements with the same guarantee, credit restructuring or judicial processes that involve execution.

LTV Ratio	<u>2023</u>	<u>2022</u>
Less than 51%	459,097	356,222
51-70%	555,636	1,430,870
71-80%	225,731	95,187
81-90%	0	141,905
Total	<u>1,240,464</u>	<u>2,024,184</u>

ECL allowance

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

The following table shows a reconciliation of the opening and closing balances the ECL allowance as of December 31, 2023 and 2022:

Loans at AC	<u>2023</u>				<u>2022</u>			
	12 months ECL	Lifetime ECL – unimpaired	Lifetime ECL – impaired	Total	12 months ECL	Lifetime ECL – unimpaired	Lifetime ECL – impaired	Total
Balance at beginning of year	247,682	8,016	10,942	266,640	1,685	0	0	1,685
Transfer from stage 1 to 2	(12,492)	12,492	0	0	(1,444)	1,444	0	0
Transfer from stage 2 to 3	0	(14,889)	14,889	0	0	(10,474)	10,474	0
Transfer from stage 3 to 2	0	9,837	(9,837)	0	0	23,521	(23,521)	0
Transfer from stage 2 to 1	55,643	(55,643)	0	0	13,376	(13,376)	0	0
Transfer from stage 3 to 1	10,834		(10,834)	0	0	0	0	0
Net remeasurement of loss allowance	128,424	73,802	23,431	225,657	287,847	30,486	23,389	341,722
New financial assets originated	<u>145,700</u>	<u>5,204</u>	<u>1,511</u>	<u>152,415</u>	<u>64,232</u>	<u>388</u>	<u>0</u>	<u>64,620</u>
New and transferred financial assets	575,791	38,819	30,102	644,712	365,696	31,989	10,342	408,027
Net derecognition of financial assets	(244,163)	(23,746)	(2,143)	(270,052)	(118,014)	(23,973)	(24)	(142,011)
Write-offs	0	0	(10,977)	(10,977)	0	0	0	0
Recoveries	0	0	1,577	1,577	0	0	624	624
Balance at end of year	<u>331,628</u>	<u>15,073</u>	<u>18,559</u>	<u>365,260</u>	<u>247,682</u>	<u>8,016</u>	<u>10,942</u>	<u>266,640</u>

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 and has determined that ECL in respect of investments as of December 31, 2023 amounted to \$144 (2022: \$555).

During the 2023 year, changes in the gross carrying amount of loans portfolio were originated mainly from increases in the consumer loan portfolio and decreases in corporate loans. The increase net of \$1.5 million in consumer loan portfolio and the parameter updates for credit risk assessment carried out during 2023 on this portfolio contributed to the increase in loss allowance. For the year ended December 31, 2022, the increase in the gross carrying amount of loans portfolio were originated by loans transferred from a group subsidiary at book value in August 2022, as disclosed in note 6.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

4. Financial risk management, (continued)

(b) Credit risk, (continued)

Concentration of credit risk

The Bank follows the concentration of credit risk by sector and geographic location. The geographic location of loans and deposits in banks is based on the location of the debtor. In regards to investments, they are based on the location of the issuer. The analysis of the concentration of credit risks as of the date of the financial statements is as follows:

	December 31, 2023		
	<u>Loans</u>	<u>Deposits in bank</u>	<u>Investment at FVOCI</u>
Concentration by economic sector:			
Governments	0	0	67,750,717
Corporate			
Trade	3,846,851	0	0
Real State	1,240,464		
Financial	0	223,249,990	0
Consumer	<u>12,677,401</u>	<u>0</u>	<u>0</u>
Allowance for ECL – principal and interest	<u>(365,260)</u>	<u>0</u>	<u>0</u>
Net carrying amount	<u>17,399,456</u>	<u>223,249,990</u>	<u>67,750,717</u>
Geographic concentration:			
Costa Rica	774,085	0	0
Panama	16,788,131	222,156,261	0
Honduras	70,278	0	0
Nicaragua	132,222	0	0
United States of America	0	1,084,105	67,750,717
Bahamas	<u>0</u>	<u>9,624</u>	<u>0</u>
Allowance for ECL – principal and interest	<u>(365,260)</u>	<u>0</u>	<u>0</u>
Net carrying amount	<u>17,399,456</u>	<u>223,249,990</u>	<u>67,750,717</u>
	December 31, 2022		
	<u>Loans</u>	<u>Deposits in bank</u>	<u>Investment at FVOCI</u>
Concentration by economic sector:			
Governments	0	0	68,983,520
Corporate			
Trade	4,508,726	0	0
Real State	2,024,184		
Financial	0	256,338,121	0
Constructions	4,021,338	0	0
Consumer	<u>11,719,895</u>	<u>0</u>	<u>0</u>
Allowance for ECL – principal and interest	<u>(266,640)</u>	<u>0</u>	<u>0</u>
Net carrying amount	<u>22,007,503</u>	<u>256,338,121</u>	<u>68,983,520</u>
Geographic concentration:			
Costa Rica	1,498,774	100,339	0
Panama	16,553,478	246,718,844	0
Honduras	81,642	0	0
Nicaragua	140,249	0	0
United States of America	0	9,503,941	68,983,520
British Virgin Islands	4,000,000	0	0
Bahamas	<u>0</u>	<u>14,997</u>	<u>0</u>
Allowance for ECL – principal and interest	<u>(266,640)</u>	<u>0</u>	<u>0</u>
Net carrying amount	<u>22,007,503</u>	<u>256,338,121</u>	<u>68,983,520</u>

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023
(Expressed in United States dollars)

4. Financial risk management, (continued)

(b) Credit risk, (continued)

As of December 31, 2023, there was concentration of credit risk in respect of cash and cash equivalents and deposits in bank – time deposit with related parties amounting to \$222,154,961 (2022: \$246,817,883). 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.

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.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023
(Expressed in United States dollars)

4. Financial risk management,

(c) Liquidity risk, (continued)

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	More than 5 years
December 31, 2023							
Liabilities							
Demand and savings deposits from customers	\$ 50,202,440	(50,202,440)	(50,202,440)	0	0	0	0
Time deposits from customers	\$ 213,084,665	(224,167,877)	(26,604,056)	(17,348,234)	(89,638,650)	(90,576,937)	0
Lease Liabilities	\$ 151,326	(162,488)	(4,642)	(23,213)	(27,855)	(106,778)	0
Total liabilities	\$ 263,438,431	(274,532,805)	(76,811,138)	(17,371,447)	(89,666,505)	(90,683,715)	0
Assets							
Cash and cash equivalents	\$ 19,639,688	19,639,688	19,639,688	0	0	0	0
Deposits in banks	\$ 203,610,302	205,745,261	0	25,251,854	180,493,407	0	0
Investments at FVOCI	\$ 67,750,717	67,969,000	52,252,000	15,717,000	0	0	0
Loans to customers	\$ 17,399,456	22,909,457	4,184,503	322,079	1,436,167	7,161,158	9,805,550
Total assets	\$ 308,400,163	316,263,406	76,076,191	41,290,933	181,929,574	7,161,158	9,805,550

	Carrying Amount	Gross Nominal (outflow) - inflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
December 31, 2022							
Liabilities							
Demand and savings deposits from customers	\$ 78,701,672	(78,701,672)	(78,701,672)	0	0	0	0
Time deposits from customers	\$ 230,656,495	(236,326,416)	(15,276,249)	(83,566,110)	(96,976,651)	(40,507,406)	0
Lease Liabilities	\$ 192,485	(211,853)	(4,506)	(22,538)	(81,135)	(103,673)	0
Total liabilities	\$ 309,550,652	(315,239,941)	(93,982,427)	(83,588,648)	(97,057,786)	(40,611,079)	0
Assets							
Cash and cash equivalents	\$ 20,160,591	20,160,591	20,160,591	0	0	0	0
Deposits in banks	\$ 236,177,530	238,456,728	0	63,352,665	88,857,969	86,246,094	0
Investments at FVOCI	\$ 68,983,520	70,000,000	10,000,000	20,000,000	40,000,000	0	0
Loans to customers	\$ 22,274,143	27,992,871	320,537	320,502	9,954,805	7,012,568	10,384,459
Total assets	\$ 347,595,784	356,610,190	30,481,128	83,673,167	138,812,774	93,258,662	10,384,459

(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.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

4. Financial risk management, *(continued)*

(d) Market risk, (continued)

According to the economies where the Bank operates, there is no material impact of inflation and the revealed rate on market risk.

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.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

4. Financial risk management, (continued)

(d) Market risk, (continued)

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

(Expressed in \$000's)	Days						
	Total	0-30	31-90	91-180	181-360	361-720	More than 720
December 31, 2023							
Assets							
Cash and cash equivalents	19,640	19,640	0	0	0	0	0
Deposits in bank	203,610	25,694	51,108	101,120	25,688	0	0
Investments at FVOCI	67,751	52,112	15,639	0	0	0	0
Loans (Gross)	17,765	4,150	189	948	2,882	909	8,687
Total	308,766	101,596	66,936	102,068	28,570	909	8,687
Liabilities							
Demand deposits	50,202	50,202	0	0	0	0	0
Time deposits	213,085	26,280	15,881	48,594	35,974	86,356	0
Total	263,287	76,482	15,881	48,594	35,974	86,356	0

(Expressed in \$000's)	Days						
	Total	0-30	31-90	91-180	181-360	361-720	More than 720
December 31, 2022							
Assets							
Cash and cash equivalents	20,161	20,161	0	0	0	0	0
Deposits in bank	236,178	0	62,870	87,873	85,435	0	0
Investments at FVOCI	68,984	68,984	0	0	0	0	0
Loans (Gross)	22,274	10,953	6,320	4,140	861	0	0
Total	347,597	100,098	69,190	92,013	86,296	0	0
Liabilities							
Demand deposits	78,702	78,702	0	0	0	0	0
Time deposits	230,656	16,878	81,445	24,997	68,413	38,923	0
Total	309,358	95,580	81,445	24,997	68,413	38,923	0

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

4. Financial risk management, (continued)

(d) Market risk, (continued)

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:

	<u>Increase of 100 bps ⁽¹⁾</u>	<u>Decrease of 100 bps ⁽¹⁾</u>
Impact on equity from		
2023		
As of December 31, 2023	2,400,920	(2,400,920)
Average for the year	2,301,146	(2,301,146)
Maximum for the year	2,595,849	(1,897,850)
Minimum for the year	1,897,850	(2,595,849)
2022		
As of December 31, 2022	1,251,007	(1,251,007)
Average for the year	706,146	(706,146)
Maximum for the year	1,251,007	(1,251,007)
Minimum for the year	180,717	(180,717)
Impact on net income		
2023		
Year ended December 31, 2023	(691,618)	691,618
Average for the year	(19,272)	19,272
Maximum for the year	498,736	691,618
Minimum for the year	(691,618)	(498,736)
2022		
Year ended December 31, 2022	(869,403)	869,403
Average for the year	(550,969)	550,969
Maximum for the year	(150,668)	150,668
Minimum for the year	(1,018,421)	1,018,421

(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.

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.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023
(Expressed in United States dollars)

4. Financial risk management, *(continued)*

(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, 2023 was 68.9% (2022: 53.1%).

The Bank's policy is to maintain a strong capital base 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.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

4. Financial risk management, *(continued)*

(f) Impact of Ukraine Conflict

The Management keeps evaluating and monitoring the Political tensions in the world are eased, specifically with the Russia-Ukraine conflict; which generates confidence in international markets and lower inflationary pressures on commodities. Supply chains reach normality. The Bank does not foresee impacts since its operations are centered in Central America.

5. 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. The Bank's management is responsible for the development, selection, disclosure of critical accounting policies and estimates and their application in a manner consistent with the selected assumptions and related to significant estimation uncertainties.

Loan impairment losses

The Bank reviews its loan portfolio to assess impairment at least on a semi-annual basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes decisions as to whether there is observable information indicating that there is a measurable reduction in estimated future cash flows from a portfolio of loans before the reduction can be identified with an individual loan in that portfolio. This evidence includes observable information indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on Bank assets.

Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets is determined using valuation techniques. All models are tested and adjusted before use and are calibrated to ensure that the results reflect current information and comparative market prices.

To the extent possible, the models use only observable information; however, inputs such as credit risk (own and counterparty), volatilities and correlations require management estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

6. Related party balances and transactions

Balances and transactions with related parties are shown below:

		<u>2023</u>		<u>2022</u>	
		<u>Key personnel</u>	<u>Related parties</u>	<u>Key personnel</u>	<u>Related parties</u>
Assets					
Cash and cash equivalents	\$	0	18,544,659	0	10,640,353
Deposits in Banks – time deposits			203,610,302		236,177,530
Loans to customers		941,686	35	1,506,627	0
Allowance for ECL		(4,568)	(26)	(7,104)	0
Accrued interest receivable and other assets		3,262	0	7,441	0
Liabilities					
Demand deposits from customers	\$	1,124	34,838,609	634	34,838,609
Time deposits from customers		103,000	7,760,596	0	26,156,683
Accrued interest payable and other liabilities		2,036	57,560	0	82,972
Income					
Interest income	\$	60,572	10,226,591	65,812	4,277,749
Other income		0	19,191	0	31,251
Expenses					
Interest expenses	\$	3,560	1,563,159	3	276,152
General and administrative		0	370,353	0	218,761
Short term benefits		201,266	0	140,568	0

During the current year, related parties charged the Bank \$60,000 (2022: \$60,000) for administrative services.

In August 2022, loans to customer and customer liabilities deposits were transferred from a group subsidiary at book value.

“The book value of these loans and customer deposits, approximated fair value at the transfer date based on the valuation techniques used, which include present value and discounted cash flow models, comparison with similar instruments for which observable market price exist. Assumptions and inputs used in valuation techniques consider benchmark interest rates, payments frequencies, maturities, among other.

BAC Bahamas Bank Ltd. has the following transactions with the parent bank as of year-end 2023:

	<u>Amount</u>	<u>rates</u>	<u>Origination date</u>	<u>Maturity date</u>	<u>income</u>
Deposit in bank	\$18,544,659	4.00%	11-21-2008	nil	1,432,342
Time deposits	\$200,000,000	5.50% to 5.62	09-14-2022	08-07-2024	8,794,004

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

7. Cash and cash equivalents

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

	<u>2023</u>	<u>2022</u>
Panama	\$ 18,545,959	10,541,314
United States of America	1,084,105	9,503,941
Costa Rica	0	100,339
The Bahamas	9,624	14,997
	<u>\$ 19,639,688</u>	<u>20,160,591</u>

At December 31, 2023, cash and cash equivalents earned interest at rates ranging between 2.85% to 4.00% (2022: 0.05% to 4.00%) per annum.

8. Deposits with banks – time deposits

At December 31, 2023, the Bank placed time deposits with related party for the amount of \$203,610,302 (2022: \$236,177,530), which include accrued interest of \$3,610,302 (2022: \$1,777,530) with interest rates ranging between 5.50% to 5.62% (2022: 2.00% to 3.88%).

9. Investments at fair value

The portfolio of investments at FVOCI is detailed as follows:

	<u>2023</u>	<u>2022</u>
Governments of the United States – Treasury Bills	<u>67,750,717</u>	<u>68,983,520</u>

During the year 2023, the Bank had the following movement on investment at FVOCI:

Balance at January 1, 2022	68,983,520
Purchased	271,806,323
Maturities	(276,291,000)
Interest income	3,212,343
Valuation	<u>39,531</u>
Balance at December 31, 2023	<u>67,750,717</u>
Balance at January 1, 2021	0
Purchased	328,078,409
Maturities	(260,000,000)
Interest income	930,645
Valuation	<u>(25,534)</u>
Balance at December 31, 2022	<u>68,983,520</u>

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

10. Loans to customers, net

At December 31, 2023 and 2022, the loan portfolio was segmented by industry as follows:

	<u>Gross amount</u>	<u>2023 Allowance for ECL</u>	<u>Net carrying amount</u>	<u>Gross amount</u>	<u>2022 Allowance for ECL</u>	<u>Net carrying amount</u>
Loans						
Corporate						
Corporate	3,846,851	4,232	3,842,619	8,530,064	29,136	8,500,928
Consumer loans						
Personal	12,677,401	359,773	12,317,628	11,719,895	230,437	11,489,458
Mortgage	1,240,464	1,255	1,239,209	2,024,184	7,067	2,017,117
Total loans at amortized cost	<u>17,764,716</u>	<u>365,260</u>	<u>17,399,456</u>	<u>22,274,143</u>	<u>266,640</u>	<u>22,007,503</u>

During the year 2023, the loans acquired by the related party amounted to \$0 (2022: \$19,737,280).

11. Property and equipment

Property and equipment as of December 31, 2023, and 2022 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, 2023	362,196	75,406	6,873	444,475
Purchases	4,977	2,028	0	7,005
Balance at December 31, 2023	<u>367,173</u>	<u>77,434</u>	<u>6,873</u>	<u>451,480</u>
Accumulated depreciation:				
Balance at January 1, 2023	(180,493)	(73,693)	(6,873)	(261,059)
Depreciation	(47,015)	(2,209)	(0)	(49,224)
Balance at December 31, 2023	<u>(227,508)</u>	<u>(75,902)</u>	<u>(6,873)</u>	<u>(310,283)</u>
Net balance	<u>139,665</u>	<u>1,532</u>	<u>0</u>	<u>141,197</u>
Cost:				
Balance at January 1, 2022	356,057	75,406	6,873	438,336
Purchases	6,139	0	0	6,139
Balance at December 31, 2022	<u>362,196</u>	<u>75,406</u>	<u>6,873</u>	<u>444,475</u>
Accumulated depreciation:				
Balance at January 1, 2022	(134,927)	(71,410)	(6,873)	(213,210)
Depreciation	(45,566)	(2,283)	(0)	(47,849)
Balance at December 31, 2022	<u>(180,493)</u>	<u>(73,693)</u>	<u>(6,873)</u>	<u>(261,059)</u>
Net balance	<u>181,703</u>	<u>1,713</u>	<u>0</u>	<u>183,416</u>

Right-of-use assets are maintained for the rental of the Bank's offices in the Bahamas.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

12. Demand deposits from customers

At December 31, 2023 and 2022, demand deposits are from customers primarily domiciled in Central America. Demand deposits bear interest at various rates up to 4.25% (2022: 0.50%) per annum.

	2023	2022
Retail customers	\$ 3,270,920	7,474,389
Corporate customers	44,427,196	68,052,556
	\$ 47,698,116	75,526,945

13. Savings deposits from customers

At December 31, 2023 and 2022, savings deposits are from customers primarily domiciled in Central America. Savings deposits bear interest at various rates up to 3.00% (2022: 2.50%) per annum.

	2023	2022
Retail customers	\$ 516,897	624
Corporate customers	1,987,427	3,174,103
	\$ 2,504,324	3,174,727

14. Time deposits from customers

At December 31, 2023, the time deposits were due within one year with annual interest rates per annum ranging between 1.75% to 6.25% (2022: 1.50% to 8.75%) and are from customers primarily domiciled in Central America.

	2023	2022
Retail customers	\$ 17,977,940	9,810,956
Corporate customers	192,972,910	218,786,206
Interest	2,133,815	2,059,333
	\$ 213,084,665	230,656,495

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Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

15. Lease liabilities

Lease liabilities are mainly related to the rental of the Bank's offices in the Bahamas Islands, detailed below:

	<u>Interest rate</u>	<u>Maturities up to</u>	<u>2023</u> <u>Carrying amount</u>	<u>Undiscounted cash flows</u>
Payable in US dollars	5.10%	2026	<u>151,326</u>	<u>162,488</u>
Total lease liabilities			<u>151,326</u>	<u>162,488</u>

			<u>2022</u>	
Payable in US dollars	5.10%	2026	<u>192,485</u>	<u>211,853</u>
Total lease liabilities			<u>192,485</u>	<u>211,853</u>

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

	<u>2023</u>	<u>2022</u>
Less than a year	55,710	54,090
One to five years	<u>106,778</u>	<u>157,763</u>
	<u>162,488</u>	<u>211,853</u>

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

	<u>2023</u>	<u>2022</u>
Interest on leases	8,628	10,599
Expense for leases of low-value assets	<u>22,617</u>	<u>54,131</u>
	<u>31,245</u>	<u>64,730</u>

Amounts recognized in statements of cash flows:

	<u>2023</u>	<u>2022</u>
Total cash outflow for leases	<u>49,787</u>	<u>47,031</u>

16. Share capital

The authorized capital of the Bank is comprised of 18,000,000 shares. At December 31, 2023 and 2022, 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.

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Year ended December 31, 2023
(Expressed in United States dollars)

17. Additional paid in capital

In September 2022, the Holding Company increased the equity of the Bank in additional paid-in capital for the amount of \$10,000,000, in order to comply with the capital adequacy due to risk weight assets growth.

18. Other income

Other income is shown below:

	2023	2022
Legal expenses reimbursement	\$ 566,390	0
Dormand account	220,003	0
Rent	16,549	28,261
Other	4,646	7,658
	<u>\$ 807,588</u>	<u>35,919</u>

As disclosed in note 1 the Bank received in 2022, operations as a result of the closure of BAC International Bank Grand Cayman, during the year 2023 the Bank recorded in the Statement of Comprehensive income the release of account receivable and other income from reimbursement of legal expenses derived from a court ruling obtained in favor of the Bank against an Insurance Company.

19. General and administrative expenses

General and administrative expenses are shown below:

	2023	2022
Personnel	\$ 397,385	332,136
Corporate services	60,000	60,000
Outside services	106,812	94,027
Depreciation - other	2,209	2,283
Depreciation related to right of use assets	47,015	45,566
Other	572,743	390,565
	<u>\$ 1,186,164</u>	<u>924,577</u>

20. Taxes

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

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

21. 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.

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.

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Notes to Financial Statements, Continued

Year ended December 31, 2023
(Expressed in United States dollars)

21. Measurement of fair values, (continued)

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

<u>Assets</u>	Other significant observable assumptions (level 1)	
	<u>2023</u>	<u>2022</u>
Investment		
Bonds from Government of the United States – Treasury Bills	<u>67,750,717</u>	<u>68,983,520</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.

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 Bloomberg.	(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, savings and time deposits*

The fair value of demand deposits and savings 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.

BAC BAHAMAS BANK LIMITED

Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

21. Measurement of fair values, (continued)

As of December 31, 2023, 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, 2023					
Assets:	\$				
Loans to customers	<u>0</u>	<u>0</u>	<u>16,717,161</u>	<u>16,717,161</u>	<u>17,399,456</u>
Total assets	<u>0</u>	<u>0</u>	<u>16,717,161</u>	<u>16,717,161</u>	<u>17,399,456</u>
Liabilities:					
Deposits from customers	<u>0</u>	<u>50,202,440</u>	<u>217,342,003</u>	<u>267,544,443</u>	<u>263,287,105</u>
Total liabilities	<u>0</u>	<u>50,240,440</u>	<u>217,342,003</u>	<u>267,544,443</u>	<u>263,287,105</u>
December 31, 2022					
Assets:	\$				
Loans to customers	<u>0</u>	<u>0</u>	<u>21,392,609</u>	<u>21,392,609</u>	<u>22,007,503</u>
Total assets	<u>0</u>	<u>0</u>	<u>21,392,609</u>	<u>21,392,609</u>	<u>22,007,503</u>
Liabilities:					
Deposits from customers	<u>0</u>	<u>78,701,672</u>	<u>231,465,941</u>	<u>310,167,613</u>	<u>309,358,167</u>
Total liabilities	<u>0</u>	<u>78,701,672</u>	<u>231,465,941</u>	<u>310,167,613</u>	<u>309,358,167</u>

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Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

22. Other reserves (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 reserves as well as the criteria that the policies for restructured loans, financial guarantees, and charge off operations should contain. The dynamic reserves 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, 2023 and 2022, the Bank is not required to established the specific provision based on this Agreement.

The Agreement also requires establishing the dynamic reserves, 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 \$582,078 (2022: \$308,812), is accounted for as part of equity through the appropriation of retained earnings. A decrease in the dynamic reserve requires the approval of the Superintendent.

23. 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, 2023, and 2022, the Bank had not entered into non-cancelable commitments to extend credit.

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Notes to Financial Statements, Continued

Year ended December 31, 2023

(Expressed in United States dollars)

24. Subsequent event

The Bank has assessed the subsequent events to February 27, 2024 to assess the need for their recognition or disclosure in the accompanying financial statements. Based on this evaluation, we determined that there were no subsequent events which require recognition or disclosure in these financial statements.