

Clarien Bank Limited

Consolidated Financial Statements

(With Independent Auditors' Report Thereon)

For the year ended September 30, 2023



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Independent auditor's report

To the Board of Directors and Shareholders of Clarien Bank Limited

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Clarien Bank Limited (the Company) and its subsidiaries (together 'the Group') as at September 30, 2023, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at September 30, 2023;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the consolidated financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

A handwritten signature in black ink, appearing to read "Daniel Cohen", followed by the initials "LH".

Chartered Professional Accountants

Hamilton, Bermuda

November 22, 2023

Consolidated Statement of Financial Position

As at September 30, 2023
(Expressed in thousands of Bermuda dollars)



	<u>Note(s)</u>	September 30, <u>2023</u>	September 30, <u>2022</u>
Assets			
Cash and cash equivalents	5	\$ 136,059	\$ 201,700
Investment securities	6	375,338	310,761
Accounts receivable and prepaid expenses	7	6,087	8,271
Accrued interest on cash, deposits with banks and securities		1,574	1,233
Loans and advances	8,15	743,841	767,064
Due from related parties	15	573	1,165
Properties for development and sale	12	2,745	6,760
Other assets		1,652	1,136
Right-of-use assets	13	6,392	6,598
Investment property	9	2,707	2,841
Property and equipment	10	18,189	17,594
Intangible assets	11	<u>22,090</u>	<u>21,187</u>
Total assets		<u>\$ 1,317,247</u>	<u>\$ 1,346,310</u>
Liabilities			
Due to depositors	14,15	\$ 1,193,991	\$ 1,236,076
Accounts payable and accrued liabilities	16	6,890	5,894
Due to clients		326	171
Deferred income		411	336
Lease liabilities	13	<u>7,288</u>	<u>7,417</u>
Total liabilities		<u>1,208,906</u>	<u>1,249,894</u>
Equity			
Common shares	17	5,000	5,000
Contributed surplus		46,406	46,406
General reserve	17	10,000	10,000
Retained earnings		101,895	90,662
Accumulated other comprehensive loss		<u>(54,960)</u>	<u>(55,652)</u>
Total equity		<u>108,341</u>	<u>96,416</u>
Total liabilities and equity		<u>\$ 1,317,247</u>	<u>\$ 1,346,310</u>

See accompanying notes to consolidated financial statements.

Signed on behalf of the Board


 _____ Director

 _____ Director

Consolidated Statement of Comprehensive Income

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars)



	<u>Note(s)</u>	September 30, <u>2023</u>	September 30, <u>2022</u>
Interest income	18	\$ 62,750	\$ 49,217
Interest expense	18	<u>(10,792)</u>	<u>(3,025)</u>
Net interest income		<u>51,958</u>	<u>46,192</u>
Fee and commission income	19	24,995	22,975
Fee and commission expense	19	<u>(14,021)</u>	<u>(13,332)</u>
Net fee and commission income		<u>10,974</u>	<u>9,643</u>
Net gains on investment securities	6	388	219
Foreign exchange income		2,050	2,306
Other losses		(1,061)	(2,299)
Rent		<u>600</u>	<u>573</u>
Revenue		<u>64,909</u>	<u>56,634</u>
Credit impairment losses	8	<u>3,558</u>	<u>1,733</u>
Net operating income		<u>61,351</u>	<u>54,901</u>
Personnel expenses	15,21	27,784	25,817
Depreciation and amortisation	9,10,11,13	4,823	6,968
Other expenses	15,20	<u>17,511</u>	<u>16,445</u>
Total other expenses		<u>50,118</u>	<u>49,230</u>
Profit for the year		<u>\$ 11,233</u>	<u>\$ 5,671</u>
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net change in unrealized gains/(losses) on securities designated as fair value through other comprehensive income		\$ 1,080	\$ (45,492)
Reclassification to earnings of net realized gains in the year		<u>(388)</u>	<u>(219)</u>
Other comprehensive income/(loss) for the year		<u>692</u>	<u>(45,711)</u>
Total comprehensive income/(loss) for the year		<u>\$ 11,925</u>	<u>\$ (40,040)</u>

All amounts included in the consolidated statement of comprehensive income relate to continuing operations.
See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars)



	Common <u>shares</u>	Contributed <u>surplus</u>	General <u>reserve</u>	Retained <u>earnings</u>	Accumulated other comprehensive <u>loss</u>	<u>Total</u>
Balance at October 1, 2022	\$ <u>5,000</u>	\$ <u>46,406</u>	\$ <u>10,000</u>	\$ <u>90,662</u>	\$ <u>(55,652)</u>	\$ <u>96,416</u>
Total comprehensive income for the year						
Profit for the year	-	-	-	11,233	-	11,233
Total other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>692</u>	<u>692</u>
Total comprehensive income for the year, net of tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,233</u>	<u>692</u>	<u>11,925</u>
Balance at September 30, 2023	\$ <u>5,000</u>	\$ <u>46,406</u>	\$ <u>10,000</u>	\$ <u>101,895</u>	\$ <u>(54,960)</u>	\$ <u>108,341</u>

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars)



	Common <u>shares</u>	Contributed <u>surplus</u>	General <u>reserve</u>	Retained <u>earnings</u>	Accumulated other comprehensive <u>loss</u>	<u>Total</u>
Balance at October 1, 2021	\$ <u>5,000</u>	\$ <u>46,406</u>	\$ <u>10,000</u>	\$ <u>84,991</u>	\$ <u>(9,941)</u>	\$ <u>136,456</u>
Total comprehensive income for the year						
Profit for the year	-	-	-	5,671	-	5,671
Total other comprehensive loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(45,711)</u>	<u>(45,711)</u>
Total comprehensive loss for the year, net of tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,671</u>	<u>(45,711)</u>	<u>(40,040)</u>
Balance at September 30, 2022	\$ <u>5,000</u>	\$ <u>46,406</u>	\$ <u>10,000</u>	\$ <u>90,662</u>	\$ <u>(55,652)</u>	\$ <u>96,416</u>

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars, except as noted)



	<u>Note</u>	September 30, <u>2023</u>	September 30, <u>2022</u>
Cash flows from operating activities			
Profit for the year		\$ 11,233	\$ 5,671
Adjustments to reconcile profit for the year to net cash provided by operating activities:			
Depreciation and amortisation		4,823	6,968
Amortisation of premiums / discounts on fixed income securities		(1,083)	901
Net gains on investment securities		(388)	(219)
Net credit impairment losses on financial assets		3,558	1,733
Lease finance costs		346	406
Other losses		1,061	2,299
Unrealised foreign exchange loss on investments		1,140	825
Net changes in non-cash balances relating to operations:			
Change in loans and advances		19,665	(56,606)
Change in accrued interest on cash, deposits with banks and securities		(341)	614
Change in due from related parties		592	(420)
Change in accounts receivable and prepaid expenses		2,258	(1,327)
Change in properties for development and sale and other assets		2,426	3,096
Change in due to depositors		(42,085)	45,127
Change in accounts payable and accrued liabilities		824	79
Change in deferred income		(164)	(40)
Change in due to clients		<u>155</u>	<u>(601)</u>
Net cash provided by operating activities		<u>4,020</u>	<u>8,506</u>
Cash flows from investing activities			
Acquisition / reinvestment of investment securities		(395,948)	(294,886)
Proceeds / maturity of investment securities		332,393	222,939
Acquisition of subsidiary, net of cash acquired		(463)	-
Gain on disposal of property and equipment		12	-
Intangible assets acquired	11	(1,276)	(5,134)
Property and equipment purchased	10	<u>(3,124)</u>	<u>(4,987)</u>
Net cash used in investing activities		<u>(68,406)</u>	<u>(82,068)</u>
Cash flows from financing activities			
Principal elements of lease payments	13	<u>(1,255)</u>	<u>(1,609)</u>
Net cash used in financing activities		<u>(1,255)</u>	<u>(1,609)</u>
Net decrease in cash and cash equivalents		<u>(65,641)</u>	<u>(75,171)</u>
Cash and cash equivalents, beginning of the year		<u>201,700</u>	<u>276,871</u>
Cash and cash equivalents, end of the year	5	<u>\$ 136,059</u>	<u>\$ 201,700</u>
Cash flows from operating activities includes:			
Interest paid		\$ 6,788	\$ 5,360
Interest received		<u>63,805</u>	<u>53,488</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars, except as noted)



1. General

Clarien Bank Limited (the “Bank” or “CBL”), formerly CAPITAL G Bank Limited, is incorporated under the laws of Bermuda and has a banking license under the Bank and Deposit Companies Act, 1999 (“the Act”). The Bank changed its name from CAPITAL G Bank Limited to Clarien Bank Limited effective April 17, 2014. The Bank is a wholly owned subsidiary of Clarien Group Limited (“Clarien”).

On December 13, 2017, Clarien announced that it had entered into a formal agreement with NCB Financial Group Ltd (“NCB”) whereby NCB became the majority shareholder of Clarien and therefore controlling shareholder of the Bank. Under the agreement, NCB subscribed for a 50.1% majority of the shares of Clarien. Funds managed by Portland Private Equity (“PPE”) hold a 17.92% stake in Clarien and Edmund Gibbons Limited (“EGL”) retains a 31.98% shareholding. Both NCB and PPE are part of the Michael Lee-Chin controlled Portland group of companies.

The consolidated financial statements of Clarien Bank Limited comprise Clarien Bank Limited and its subsidiaries (together referred to as the “Bank” and individually as “Bank entities”). The Bank is involved in community banking and provides retail and private banking services to individuals, and commercial banking services to small and medium-sized businesses. The services offered include demand and term deposits, consumer, commercial and mortgage lending, credit and debit cards and letters of credit. The Bank also, through its subsidiary operations, engages in investment management, brokerage and advisory services and trust administration. The address of the Bank’s registered office is 25 Reid Street, Hamilton HM11, Bermuda.

The following lists all directly held subsidiaries of CBL, as well as their directly owned subsidiaries. All subsidiaries are wholly owned.

Legal entity	Activity
First Bermuda Group Limited	Holding company
Onshore Nominees Limited	Nominee entity of First Bermuda Group Limited
Offshore Nominees Limited	Nominee entity of First Bermuda Group Limited
Clarien Investments Limited (“CIL”)	Investment management
Clarien Brokerage Limited (“CBRL”)	Brokerage services; subsidiary of CIL
Clarien BSX Services Limited (“BSX”)	Trading member of Bermuda Stock Exchange; subsidiary of CIL
Clarien Trust Limited (“CTL”)	Trust administration
Clarien Corporate Services Limited (“CCSL”)	Corporate administration services

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”), and interpretations issued by the International Financial Reporting Standards Interpretations Committee (“IFRS IC”).

The consolidated financial statements were authorized for issuance by the Board of Directors on November 15, 2023.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial and non financial instruments that have been measured at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in Bermuda dollars, which is also the Bank’s functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

(d) Use of estimates and judgments

The preparation of financial information requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared. Revisions to accounting estimates, if any, are recognized in the period in which the estimate is revised and in any future periods affected. Management believes that the critical accounting policies, where judgement is necessarily applied, are those which relate to the valuation of impairment of loans and advances, investment securities, intangible assets, investment property, properties for development and sale and provisions for liabilities.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

(a) Basis of consolidation

Entities that are controlled by the Bank are consolidated and are listed in Note 1. Subsidiaries are consolidated from the date the Bank gains control, until the date that control ceases. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Bank manages and administers assets held in trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements, except when the Bank controls the entity.

All intra-group transactions and income and expenses arising from intra-group transactions are eliminated on consolidation. The consolidated financial statements have been prepared using uniform accounting policies for like transactions.

(b) New standards

New and amended standards adopted by the Bank

The Bank has applied the following standards and amendments for the first time for its annual reporting period commencing October 1 2022:

3. Significant accounting policies (continued)

(b) *New standards (continued)*

Reference to the Conceptual Framework – Amendments to IFRS 3
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37
Annual Improvements to IFRS Standards 2018-2020

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New standards and interpretations not yet adopted

Certain amendments to accounting standards have been published that are not mandatory for September 30, 2023 reporting periods and have not been early adopted by the Bank. These amendments are not expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.

(c) *Translation of foreign currencies*

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency, Bermuda dollars, at the spot rates of exchange prevailing at the reporting date, while associated revenues and expenses are translated into Bermuda dollars at the actual spot rates of exchange prevailing at the date of the transaction. Resulting gains or losses are included in foreign exchange income in the consolidated statement of comprehensive income.

(d) *Cash and cash equivalents*

Cash and cash equivalents consists of cash in hand, cash deposits held with financial institutions, time deposits and interbank loans with an original maturity of 90 days or less, and short-term securities that are readily convertible to known amounts of cash.

(e) *Customer funds*

With the exception of amounts disclosed in Note 5, assets held in a trust, agency or fiduciary capacity for customers are not included in the consolidated statement of financial position, as they are not controlled by the Bank.

(f) *Financial Instruments*

Initial recognition

The Bank initially recognizes loans, mortgages and credit card receivables classified as loans and advances and deposits classified as due to depositors on the date they originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Bank commits to purchase or sell the asset. All other financial instruments are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

De-recognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred

3. Significant accounting policies (continued)

(f) Financial Instruments (continued)

financial assets that qualify for de-recognition that is created or retained by the Bank is recognized as a separate asset or liability in the consolidated statement of financial position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income ("OCI") is recognized in profit or loss. This applies to all financial assets except equity instruments elected as fair value through other comprehensive income ("FVOCI") where the difference is recognized in OCI.

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

Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, and for financial assets, adjusted for any loss allowance.

Fair value measurement

Fair value 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 in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects the Bank's non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank estimates fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with generally accepted methodologies for pricing such financial instruments.

Inputs to valuation techniques represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

When the transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price.

Assets and long positions are measured at the current bid price, liabilities and short positions are measured at the ask price as at the reporting date. Fair values reflect the credit risk of the instrument and include adjustments to

3. Significant accounting policies (continued)

(f) Financial Instruments (continued)

take account of the credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

Classification and measurement of financial instruments

As required by IFRS 9 Financial Instruments ("IFRS 9"), the Bank uses a principles-based approach to the classification of financial assets based on its business model and the nature of the cash flows of the asset. These factors determine whether the financial assets are measured at amortised cost, FVOCI or fair value through profit and loss ("FVPL").

Debt instruments are measured at amortized cost if they are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss together with foreign exchange gains or losses. Impairment losses are presented as a separate line item in the consolidated statement of comprehensive income.

Debt instruments are measured at FVOCI if they are held for collection of contractual cash flows and for selling the financial assets, where the financial assets' cash flows represent payments of principal and interest. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in net gains / (losses) on investment securities. Interest income from these financial assets is recognised in interest income using the effective interest rate method. Foreign exchange gains or losses are presented in foreign exchange income and impairment losses are presented as a separate line item in the consolidated statement of comprehensive income.

All other debt instruments are measured at FVPL. Equity instruments are measured at FVPL, unless the asset is not held for trading purposes and the Bank makes an irrevocable election to designate the asset as FVOCI. This election is made on an instrument-by-instrument basis.

Business model assessment

IFRS 9 requires an assessment of the nature of the Bank's business model at a level that best reflects how it manages portfolios of financial assets. The Bank's business models fall into two categories:

- i) Held-to-Collect ("HTC"): where the objective of the business model is to solely collect the contractual cash flows from the assets.
- ii) Held-to-Collect-and-Sell ("HTC&S"): where both collecting contractual cash flows and cash flows arising from the sale of assets are the objective of the business model.

Solely payments of principal and interest ("SPPI") assessment

Instruments held within an HTC or HTC&S business model are assessed to evaluate if their contractual cash flows are SPPI. SPPI payments are those which would typically be expected from basic lending arrangements. Principal amounts include par repayments from lending and financing arrangements, and interest primarily relates to basic lending returns, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest can also include other basic lending risks and costs (for

3. Significant accounting policies (continued)

(f) Financial Instruments (continued)

example, liquidity risk, servicing or administrative costs) associated with holding the financial asset for a period of time, and a profit margin.

Based on the above assessments, the Bank's accounting treatment of each class of its financial instruments is as follows:

Cash and cash equivalents	Amortised cost
Loans and advances	Amortised cost
Investment securities (debt)	FVOCI / Amortised cost
Investment securities (equity)	FVOCI by election

Loans

Loans are recognized initially at fair value and are subsequently measured in accordance with the classification of financial assets policy provided above. The Bank's loans are carried at amortized cost using the effective interest rate method, which represents the gross carrying amount less any allowance for credit losses.

Interest on loans is recognized in interest income using the effective interest method. The estimated future cash flows used in this calculation include those determined by the contractual term of the asset and all fees that are considered to be integral to the effective interest rate. Also included in this amount are transaction costs and all other premiums or discounts. Fees that relate to activities such as originating or renegotiating loans are deferred and recognized as interest income over the expected term of such loans using the effective interest method.

For loans where the contractual cash flows have been renegotiated or otherwise modified and the renegotiation or modification resulted in derecognition of the financial asset, the Bank recalculates the amount of the financial asset under the renegotiated terms recognizing the fair value of the new loan in the statement of financial position. A modification gain or loss reflecting the difference between the previous carrying value of the derecognised loan and the new loan recorded at fair value is recognised in the statement of comprehensive income. On recognition under the new terms, the loans are transferred to Stage 2 until the customer has demonstrated long-term ability to repay the loan.

Allowance for credit losses

Credit loss allowances are measured for each reporting date according to a three-stage expected credit loss impairment model. Changes in the required credit loss allowance are recorded in profit or loss for the period as credit impairment losses.

An allowance for credit losses ("ACL") is established for all financial assets, except for financial assets classified or designated as FVPL and equity securities designated as FVOCI, which are not subject to impairment assessment. Assets subject to impairment assessment include loans, debt securities, accounts receivable and accrued interest receivable. Loans are carried at amortized cost and presented net of ACL on the consolidated statement of financial position.

The Bank measures ACL at each reporting date according to a three-stage expected credit loss impairment model:

- Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring over the 12 months following the reporting date.

3. Significant accounting policies (continued)

(f) Financial Instruments (continued)

- Stage 2 – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognized equal to the credit losses expected over the remaining lifetime of the asset.
- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance is recognized equal to credit losses expected over the remaining lifetime of the asset. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

The ACL is a discounted probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant time horizon.

Increases or decreases in the required ACL attributable to purchases and new originations, derecognitions or maturities, and remeasurements due to changes in loss expectations or stage migrations are recorded in credit impairment losses. Write-offs and recoveries of amounts previously written off are recorded against ACL.

The ACL represents an unbiased estimate of expected credit losses on the Bank's financial assets as at the reporting date. Judgment is required in making assumptions and estimations when calculating the ACL, including movements between the three stages and the application of forward-looking information. The underlying assumptions and estimates may result in changes to the provisions from period to period that significantly affect the Bank's results of operations.

Measurement of expected credit losses

Expected credit losses are based on a range of possible outcomes and consider all available reasonable and supportable information including internal and external ratings, historical credit loss experience, and expectations about future cash flows. The measurement of expected credit losses is based primarily on the discounted product of the instrument's probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") defined as follows:

The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months or over the remaining lifetime of the obligation.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.

Stage 1 estimates project PD, LGD and EAD over a maximum period of 12 months while Stage 2 estimates project PD, LGD and EAD over the remaining lifetime of the instrument. The 12 month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For amortising products, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment / refinance assumptions are also incorporated into the calculation.

3. Significant accounting policies (continued)

(f) Financial Instruments (continued)

An expected credit loss estimate is produced for each individual exposure. Relevant parameters are modelled on a collective basis using portfolio segmentation that allows for appropriate incorporation of forward-looking information. To reflect other characteristics that are not already considered through modelling, expert credit judgment is exercised in determining the final expected credit losses.

For a small percentage of assets which lack detailed historical information and / or loss experience, the Bank applies simplified measurement approaches that may differ from what is described above. These approaches have been designed to maximize the available information that is reliable and supportable for each asset and may be collective in nature.

Assessment of significant increase in credit risk

The assessment of significant increase in credit risk requires significant judgment. Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk at the reporting date has increased significantly relative to the date it was initially recognized.

The Bank's assessment of significant increases in credit risk is typically based on the assessment of the instrument's risk rating per the Bank's risk rating policy and additional qualitative information available.

All loans receive an initial risk rating at origination. This is updated at regular intervals during the life of the loan based on factors including days past due ("DPD"), performance and other known material changes. The portfolio as a whole is assessed for compliance with the policy on a monthly basis.

Ratings of individual loans are based on the following criteria:

- Credit structure and cash flow stability;
- Specific loan and collateral characteristics;
- Guarantees and other credit support;
- Macro-economic factors;
- Financial and management information for commercial loans.

This assessment results in a risk rating for each loan between 1 and 8, where a rating of 1-4 is considered "low risk", a rating of 5 "medium risk" and 6-8 "high risk".

The Bank considers loans that have missed a full payment cycle (more than 30 DPD) or are risk rated 6 or higher to have experienced a significant increase in credit risk. Renegotiated loans are also considered to have experienced a significant increase in credit risk, until they have successfully completed their cure period. The Bank assesses any other loans as having experienced a significant increase in credit risk if their risk rating has worsened by two or more points on the scale, relative to the rating at origination.

If any of these factors indicates that a significant increase in credit risk has occurred, the instrument is moved from Stage 1 to Stage 2 or Stage 3.

The thresholds for movement between Stage 1 and Stage 2 are symmetrical. After a financial asset has migrated to Stage 2, if its credit risk is no longer considered to have significantly increased relative to its initial recognition, the financial asset will move back to Stage 1.

3. Significant accounting policies (continued)

(f) Financial Instruments (continued)

Use of forward-looking information

The measurement of expected credit losses for each stage and the assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable projections of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

The PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the changes in macroeconomic variables that are most closely correlated with credit losses in the Bank's portfolio. Each macroeconomic scenario used in the Bank's expected credit loss calculation includes a projection of all relevant macroeconomic variables used in the Bank's models for the lifetime of the asset. Macroeconomic variables used in the Bank's expected credit loss models include, but are not limited to, unemployment rates, collateral normalization rates and interest rates. The impact of these economic variables has been determined by

performing statistical analysis to understand that a correlation exists between certain variables, mainly default rates. The PD is impacted by changes in unemployment rate data gathered from an external rating agency. Collateral normalisation rate changes impact the LGD and interest rates estimations will impact future year balances in the calculation of ECL. The estimation of the time to sell repossessed property is based on both internal and external data and will also impact the LGD and the credit loss allowance. The economic variables used in the Bank's model are regularly updated.

The Bank's estimation of expected credit losses in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios. The base case scenario is based on 30 year macroeconomic forecasts published by a major rating agency. Stronger and weaker near-term scenarios vary relative to the base case scenario based on reasonably possible alternative macroeconomic conditions. Scenario selection, including the consideration of additional downside scenarios, occurs at least on a quarterly basis and more frequently if conditions warrant. Scenarios are weighted at 60% for the base line (2022 – 60%), 20% for stronger near term recovery (2022– 20%) and 20% for slower near term rebound (2022 – 20%).

Scenarios are designed to capture a wide range of possible outcomes and weighted according to the Bank's best estimate of the relative likelihood of the range of outcomes that each scenario represents. Scenario weights take into account historical frequency, current trends, and forward-looking conditions and are updated on a quarterly basis. The assessment of significant increases in credit risk is based on changes in borrower circumstances, both current and from origination, or where instruments have missed a full payment cycle or are in a cure period following renegotiation.

Definition of default

The definition of default used in the measurement of expected credit losses is consistent with the definition of default used for the Bank's internal credit risk management purposes. The definition of default may differ across products and considers both quantitative and qualitative factors, such as the terms of financial covenants and days past due. Default occurs when the borrower is 90 days past due on any obligation, and / or the Bank considers the borrower unlikely to make its payments in full without recourse action on its part, such as taking formal possession of any collateral held. The definition of default used is applied consistently from period to period and to all financial instruments unless it can be demonstrated that circumstances have changed such that another definition of default is more appropriate.

3. Significant accounting policies (continued)

(f) Financial Instruments (continued)

Credit-impaired financial assets (Stage 3)

Financial assets are assessed for credit-impairment quarterly and more frequently when circumstances warrant further assessment. Evidence of credit-impairment may include indications that the borrower is experiencing significant financial difficulty, probability of bankruptcy or other financial reorganization, as well as a measurable decrease in the estimated future cash flows evidenced by the adverse changes in the payment status of the borrower or economic conditions that correlate with defaults. An asset that is in Stage 3 will move back to Stage 2 when, as at the reporting date, it is no longer considered to be credit-impaired. The asset will migrate back to Stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly from initial recognition, which could occur during the same reporting period as the migration from Stage 3 to Stage 2.

When a financial asset has been identified as credit-impaired, expected credit losses are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate.

When a financial asset is credit-impaired, interest ceases to be recognized on the regular accrual basis, which accrues income based on the gross carrying amount of the asset. Rather, interest income is calculated by applying the original effective interest rate to the amortized cost of the asset, which is the gross carrying amount less the related ACL. ACLs for credit-impaired loans in Stage 3 are established at the borrower level, where losses related to impaired loans are identified on individual loans.

Individually assessed loans (Stage 3)

When individually significant loans are identified as impaired, the Bank reduces the carrying value of the loans to their estimated realizable value by recording an individually assessed ACL to cover identified credit losses. The individually assessed ACL reflects the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered, and the impact of time delays in collecting principal and / or interest (time value of money). The estimated realizable value for each individual loan is the present value of expected future cash flows discounted using the original effective interest rate for each loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated realizable amount may be determined using observable market prices for comparable loans, the fair value of collateral underlying the loans, and other reasonable and supported methods based on management judgment.

Individually-assessed allowances are established in consideration of a range of possible outcomes, which may include macroeconomic or non-macroeconomic scenarios, to the extent relevant to the circumstances of the specific borrower being assessed. Assumptions used in estimating expected future cash flows reflect current and expected future economic conditions and are generally consistent with those used in Stage 1 and Stage 2 measurement.

Significant judgment is required in assessing evidence of credit impairment and estimation of the amount and timing of future cash flows when determining expected credit losses. Changes in the amount expected to be recovered would have a direct impact on the provision for credit losses and may result in a change in the ACL.

Write-off of loans

Loans and the related ACL are written off, either partially or in full, when there is no realistic prospect of recovery, as determined by management. Where loans are secured, they are generally written off after receipt of any proceeds from the realization of collateral. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write off may be earlier. For credit cards, the balances and related ACL are generally written off when payment is 180 days past due.

3. Significant accounting policies (continued)

(f) *Financial Instruments (continued)*

Investment securities

Where investment securities are considered investment grade these are classified as Stage 1. Investment grade is defined as where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cash flow obligations. For certain investment securities where external market ratings are available and credit ratings are not used in credit risk management, the investment securities will be in Stage 2 if their credit risk increases to the extent they are no longer considered investment grade.

(g) *Leases*

Leases are recognised as a right-of-use asset and a corresponding lease liability. Right-of-use assets are measured at cost and depreciated over the shorter of the asset's useful life and the lease term, on a straight-line basis. Lease liabilities include the net present value of future lease payments, using the Bank's incremental borrowing rate, being the rate that the Bank would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit for the year over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Short-term and low-value leases are excluded from this treatment and are accounted for as an expense on a straight-line basis.

(h) *Revenue from Contracts with Customers*

The Bank has assessed its contracts with customers and recognises revenue in line with the performance obligations of these contracts, either on a transaction by transaction basis or over the period of the contract.

The Bank's key revenue streams include investment management income, card fee income, miscellaneous fee income and customer account fee income. The performance obligations for these revenue streams are satisfied as the services are provided which is when revenue is recognized.

Certain credit card customers may enter loyalty programmes and earn cashback or points which are redeemable to purchase goods available as part of this programme. The cashback award is recognized as a reduction of the revenue. With respect to the points rewards, the Bank is acting as an agent and as such the revenue is recognised net of expenses once the points have been issued.

Interest income and fees which are an integral part of the effective interest rate are accounted for under the provisions of IFRS 9.

(i) *Business combinations*

Business combinations are accounted for using the acquisition method when control is transferred to the Bank. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Bank elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. This accounting policy choice is applied consistently to all similar business combination transactions. Acquisition costs incurred are expensed and included in other expenses in the consolidated statement of comprehensive income.

3. Significant accounting policies (continued)

(i) Business combinations (continued)

When the Bank acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the fair value of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the consolidated statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the respective Bank cash-generating unit (CGU) that is expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to that unit.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

(j) Property and equipment and related depreciation

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition, the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of the equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognized in other income / other expenses in the consolidated statement of comprehensive income.

When the use of an investment property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

Subsequent costs

The cost of replacing a component of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

3. Significant accounting policies (continued)

(j) Property and equipment and related depreciation (continued)

Depreciation

Depreciation is recognized in the consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Artwork and land are not depreciated. The estimated useful lives of the related assets are as follows:

Buildings	30-40 years
Furniture and fixtures	5-20 years
Computer hardware and equipment	5-10 years
Leasehold improvements	lesser of lease term or estimated useful life

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

(k) Investment property

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. A portion of a dual-use property is classified as an investment property only if the portion could be sold or leased out separately under a finance lease. When a portion of the property could not be sold or leased out the entire property is classified as an investment property if the portion of the property held for the Bank's own use is insignificant.

When the use of a property changes such that it is reclassified as an investment property, its fair value at the date of reclassification becomes its cost for subsequent accounting purposes. Investment property is initially measured at cost. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and any impairment losses.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of investment properties which are considered to be as follows:

Buildings	40 years
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Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

(l) Intangible assets and related amortization

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. See note 3(i) for further details on the accounting policy with respect to goodwill arising on business combinations upon acquisition. Goodwill is subsequently measured at cost less any impairment losses. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

3. Significant accounting policies (continued)

(l) Intangible assets and related amortization (continued)

(ii) Computer software

Computer software is measured at cost less any accumulated amortization and any impairment loss. Computer software is amortised on a straight-line basis over its estimated useful life of between 1-10 years. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Intangible assets are tested annually for impairment or more frequently if certain indicators of impairment are identified.

(m) Properties for development and sale

Non-current assets are classified separately in the consolidated statement of financial position when their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable, the asset is available for immediate sale in its present condition, and management is committed to the sale, which is expected to complete within one year from the date of classification. Liabilities directly associated with the assets classified in this way and expected to be included as part of the sale transaction are correspondingly also classified separately. The net assets and liabilities of a disposal group are measured at the lower of their carrying amount and fair value less costs to sell.

Where assets do not meet the required criteria they are disclosed as other assets in the consolidated statement of financial condition. When the criteria are met and the assets are ready for sale, they are reclassified to properties for development and sale.

(n) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. Significant accounting policies (continued)

(o) Interest income and expense

Interest income and expense for all interest-bearing financial instruments is recognised in 'interest income' and 'interest expense' in the consolidated statement of comprehensive income using the original effective interest rate of the financial assets or financial liabilities to which they relate. Any income which forms part of the effective interest rate of a financial instrument is recognized as an adjustment to the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the original effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Bank that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Administration fees charged for the granting of mortgages and loans, net of directly attributable origination costs, are deferred and recognized over the contractual life of the mortgage or loan as an adjustment to yield using the effective interest method.

(p) Fee and commission income and expense

Fee and commission income includes administration fees, investment and trust management fees and card fees. Fee and commission income earned from the provision of services is recognized as the services are provided, this includes the investment and trust management fees. Fee and commission income earned on completion of a significant act is recognized as revenue as the services are completed.

(q) Comprehensive income

The consolidated statement of comprehensive income reflects changes in accumulated OCI, comprised of changes in unrealized gains and losses on financial assets classified as FVOCI.

(r) Tax

The Bank is not subject to corporate income taxes on profits or capital gains in Bermuda and no provision for tax has therefore been accrued.

(s) Dividends on common shares

Dividends on common shares are recognized as a liability and deducted from equity in the period in which they are declared.

(t) Employee benefits

The Bank operates a defined contribution pension plan. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an expense in the consolidated statement of comprehensive income when they are due in respect of services rendered before the end of the reporting period.

The Bank makes loans to employees, and to employees of certain other related party companies, at interest rates below the comparable market rate. The loans revert to market rate if the employee leaves either the Bank or the related party company.

3. Significant accounting policies (continued)

(t) *Employee benefits (continued)*

Reduced rate employee loans are financial assets and under IFRS 9, they are initially recognized at fair value and thereafter at amortized cost. For the Bank's employees, the difference between fair value and the amount of the loan is recorded as a prepaid benefit with a corresponding decrease in the carrying value of loans and advances. The benefit is recognized as an expense over the expected service life of the employee, with a corresponding increase in interest income. For employees of related party companies, the difference between fair value and the amount of the loan is recorded as a related party receivable, when reimbursement of the benefit provided by the Bank is agreed to by the related party or shareholder, or as a capital distribution where no reimbursement has been agreed to by the related party or shareholder, with a corresponding decrease in the carrying value of loans and advances. In addition, for employees of related party companies, the difference between fair value and the amount of the loan is recognized as interest income on loans over the expected service life of those employees, with a corresponding decrease in the carrying value of loans and advances.

(u) *Share capital*

Share issuance costs

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

4. Risk management

The Bank has exposure to the following risks.

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

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

Risk management framework

The Board of Directors has overall responsibility for determining the strategy for risk management, setting the Bank's risk appetite and for ensuring that risk is monitored and controlled effectively. It accomplishes this through the activities of two dedicated committees:

The Risk Committee: This committee is responsible for overseeing the Bank's risk profile and performance against approved risk appetites and tolerance thresholds. Specifically, it considers the effectiveness of the Bank's policies, strategies, limits and processes relating to the identification, measurement, monitoring and control of activities that give rise to credit, market, liquidity, interest rate, capital, operational, regulatory, compliance, reputational and insurance risk as well as overseeing compliance with laws and regulations.

The Audit Committee: This committee reviews the overall adequacy and effectiveness of the Bank's system of internal controls and the control environment, including the risk management process. It reviews recommendations arising from internal and independent audit review activities and management's response to any findings raised.

The Bank's executive management team, led by the Chief Executive Officer, is responsible for setting business strategy and for monitoring, evaluating and managing risks assumed throughout the Bank. It is supported in doing so by the Risk Review Committee (RRC), a committee comprising executive and senior management team members which assesses the risk profile of the Bank as a whole based on an integrated view of credit, market, liquidity, legal, regulatory and financial crime compliance and fiduciary, operational, cybersecurity, investment, capital, insurance and reputational risk. In the execution of its mandate the RRC reviews, evaluates and makes recommendations to the Board for approval regarding the Bank's risk appetites and tolerance thresholds and its key risk policies and strategies and monitors the execution of Bank's current and proposed business strategies in the context of these requirements.

The RRC accomplishes its mandate through the activities of a number of sub-committees, each of which is responsible for a broad range of activities associated with identifying, reviewing, monitoring and advising on risks falling within its remit. These sub-committees are: the Credit Committee, the Asset and Liability Committee ("ALCO"), the Information Security Committee, and the Customer Risk Committee.

Credit risk

Credit risk is the risk of loss arising from a customer or counterparty failing to meet their financial obligations to the Bank as they fall due. Credit risk also arises through other activities not directly related to the provision of services to clients, such as short-term investments and interbank loans relating to liquidity management.

Credit risk is managed by establishing and monitoring specific policies, strategies and practices designed to diversify the Bank's exposure on an industry and client basis and by establishing specific limits, thresholds and delegations of authority to ensure that credit transactions are approved in accordance with our business objectives. The development and implementation of these policies and strategies is the responsibility of Credit Committee,

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For the year ended September 30, 2023
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4. Risk management (continued)

Credit risk (continued)

which makes specific recommendations to the RRC which, if supported, are presented to the Risk Committee of the Board for approval.

The Bank provides credit through residential and commercial mortgages, secured and unsecured loans and credit cards. Residential and commercial mortgages comprise 70% (September 30, 2022 – 69%) of outstanding loans by volume. The majority of mortgage lending is originated by the Bank and retained and serviced within its personal and business lending units. The Bank also participates in a small number of syndicated loan transactions and club deals, nearly all of which are originated by its parent as lead arranger. The types of financial instruments that are most exposed to credit risk are Cash and cash equivalents (Note 5), Investment securities (Note 6), and Loans and advances (Note 8).

Maximum credit risk exposure at September 30, 2023 and September 30, 2022 is the carrying value of financial assets as shown on the consolidated statement of financial position as well as the value of commitments, as set out in Note 22. The consolidated statement of financial position does not take into account any collateral held as security or other credit enhancements.

Credit risk: loans and advances

The following table contains an analysis of the credit risk exposure of financial assets for which an ACL is recognised. As at September 30, 2023, the gross carrying amount of the financial assets below represents the Bank's maximum exposure to credit risk on these assets as assessed by the Bank's internal risk rating policies described in Note 3.

September 30, 2023

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Low risk (Risk rating 1-4)	\$ 679,593	5,594	-	685,187
Medium risk (Risk rating 5)	1,779	13,666	236	15,681
High risk (Risk rating 6-8)	-	427	66,949	67,376
Gross carrying amount	681,372	19,687	67,185	768,244
Allowance for credit impairment loss	(491)	(240)	(23,672)	(24,403)
Carrying amount	\$ 680,881	19,447	43,513	743,841

September 30, 2022

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Low risk (Risk rating 1-4)	\$ 678,615	9,625	-	688,240
Medium risk (Risk rating 5)	2,578	25,868	64	28,510
High risk (Risk rating 6-8)	-	258	74,144	74,402
Gross carrying amount	681,193	35,751	74,208	791,152
Allowance for credit impairment loss	(422)	(440)	(23,226)	(24,088)
Carrying amount	\$ 680,771	35,311	50,982	767,064

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4. Risk management (continued)

Credit risk (continued)

The table below provides further information on the Bank's loans and advances, gross of allowances, to retail and commercial customers by stage and payment due status:

September 30, 2023

<u>September 30, 2022</u>						
		<u>Performing</u>		<u>Impaired</u>		
		<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>	<u>%</u>
Current	\$	669,881	11,335	1,542	682,758	88.87%
From 7 days up to 3 months		11,491	8,352	268	20,111	2.62%
3 to 6 months		-	-	1,035	1,035	0.14%
6 to 12 months		-	-	2,234	2,234	0.29%
Over 12 months		<u>-</u>	<u>-</u>	<u>62,106</u>	<u>62,106</u>	<u>8.08%</u>
Carrying amount	\$	681,372	19,687	67,185	768,244	100%

September 30, 2022

September 30, 2022						
		<u>Performing</u>		<u>Impaired</u>		
		<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>	<u>%</u>
Current	\$	671,194	24,322	612	696,128	88%
From 7 days up to 3 months		9,999	11,311	5,243	26,553	3%
3 to 6 months		-	118	2,349	2,467	-%
6 to 12 months		-	-	6,049	6,049	1%
Over 12 months		<u>-</u>	<u>-</u>	<u>59,955</u>	<u>59,955</u>	<u>8%</u>
Carrying amount	\$	681,193	35,751	74,208	791,152	100%

Under the Bank's credit policies and procedures, management does not consider loans past due for fewer than seven days as delinquent.

Renegotiated loans are loans whose terms have been revised due to deterioration in the borrower's financial position. The Bank undertakes such renegotiations to maximize collection opportunities and minimize the risk of default. Upon renegotiating such loans are no longer considered past due, but are treated as up to date loans for measurement purposes. The revised terms usually include extending maturity, changing the timing of interest payments, amendments to the terms of loan covenants or taking additional collateral, including third party guarantees where needed. Both retail and corporate loans are subject to this policy.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank may determine that the credit risk has significantly improved after renegotiating, so that the assets are moved from Stage 3 or Stage 2 to Stage 1. This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more.

For the year ended September 30, 2023, loans amounting to \$6,129 (September 30, 2022 - \$30,306), that would otherwise be considered impaired based on the present value of collateral related cash flows only, have been renegotiated. The comparative amount has been updated to only include those loans that would otherwise have been impaired and not all loans restructured in the year. This conforms to the current year's presentation.

Notes to Consolidated Financial Statements

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4. Risk management (continued)

Credit risk (continued)

A substantial portion of the loans and mortgages receivable is due from residents of Bermuda and is secured by residential property in Bermuda. The Bermuda economy is largely dependent upon tourism and international business services and the health of these sectors depends to a large extent upon the strength of the United States and European economies. Therefore an adverse change in these sectors in future periods would have a material adverse impact on the carrying value of the Bank's loans and mortgages receivable.

The type of collateral held can include, but is not limited to: residential real estate, commercial properties, other properties, land, and debentures covering business assets such as receivables and equipment, automobiles, securities portfolios, other chattels and cash deposits. Guarantees from third parties are also taken, however the Bank does not rely extensively on guarantees.

Aggregate undiscounted fair value of collateral held

	September 30, 2023	September 30, 2022
Stage 1	\$ 1,155,068	1,226,246
Stage 2	35,723	50,375
Stage 3	70,069	84,431
	<u>\$ 1,260,860</u>	<u>1,361,052</u>

Sensitivity analysis

The time to sell estimate in the expected credit loss model is a significant assumption affecting the calculation of the ACL. The estimation of the time to sell repossessed property is based on both internal and external data and will also impact the LGD and the credit loss allowance. The estimated time to sell averages 9 months after foreclosure of the property. Time to foreclose averages 11 months. The economic variables used in the Bank's model are regularly updated. Set out below are the changes to the ACL as at September 30, 2023 that would result from reasonably possible changes in this parameter.

September 30, 2023

	Time to Sell				
	-2 Months	-1 Month	No Change	+1 Month	+2 Months
ACL	(310)	(160)	-	150	300

September 30, 2022

	Time to Sell				
	-2 Months	-1 Month	No Change	+1 Month	+2 Months
ACL	(375)	(190)	-	212	412

4. Risk management (continued)

Credit risk (continued)

Credit risk: interbank lending and investment securities

The Bank engages in short-term lending to other bank counterparties and invests in securities as part of its ongoing liquidity management program. Risks are managed within specific counterparty limits approved by the Credit Committee, and limits, asset quality plans and criteria set out in the Bank's Investment Policy Statement, which is approved by the Risk Committee of the Board of Directors. The Bank uses the external credit agency ratings by Standard & Poor's ("S&P"), supplemented by internal analysis to manage the risks associated with interbank lending and investment activities. All interbank lending and investment securities are classified as Stage 1.

The table below shows the relative concentrations of the Bank's cash held in local and foreign banks and sovereign securities.

	<u>September 30, 2023</u>		<u>September 30, 2022</u>	
Concentration by credit grading				
AAA	\$ 8,641	9%	\$ 18,044	11%
AA	-	-%	29,856	19%
A	23,815	25%	19,966	12%
Other	<u>62,968</u>	<u>66%</u>	<u>93,907</u>	<u>58%</u>
	<u>\$ 95,424</u>	<u>100%</u>	<u>\$ 161,773</u>	<u>100%</u>
	<u>2023</u>		<u>2022</u>	
Concentration by region				
North America (including Bermuda)	\$ 94,141	99%	\$ 156,872	97%
Europe	-	-%	4,901	3%
Australasia	<u>1,283</u>	<u>1%</u>	<u>-</u>	<u>-%</u>
	<u>\$ 95,424</u>	<u>100%</u>	<u>\$ 161,773</u>	<u>100%</u>

4. Risk management (continued)

Credit risk (continued)

The table below shows the relative concentrations of the Bank's investment securities.

	<u>September 30, 2023</u>		<u>September 30, 2022</u>	
Concentration by credit grading				
AAA	\$ 25,622	7%	\$ -	-%
AA	271,265	72%	234,731	76%
A	44,439	12%	35,034	11%
Other	<u>34,012</u>	<u>9%</u>	<u>40,996</u>	<u>13%</u>
	<u>\$ 375,338</u>	<u>100%</u>	<u>\$ 310,761</u>	<u>100%</u>
	<u>2023</u>		<u>2022</u>	
Concentration by region				
North America (including Bermuda)	\$ 321,947	86%	\$ 259,502	84%
Europe	<u>53,391</u>	<u>14%</u>	<u>51,259</u>	<u>16%</u>
	<u>\$ 375,338</u>	<u>100%</u>	<u>\$ 310,761</u>	<u>100%</u>

US Treasuries, which are rated AA are the largest portfolio holding at September 30, 2023. The remainder of the Bank's investment portfolio are holdings in sovereigns, supranational bonds and high grade corporates.

As at September 30, 2023, 100% (September 30, 2022 - 100%) of the investment securities portfolio was paying interest as expected.

Collateral held as security for investment securities is determined by the nature of the instrument. Debt securities and Treasuries are generally unsecured whereas asset-backed securities and similar instruments are secured by pools of financial assets. The carrying value of asset-backed securities at September 30, 2023 is \$11 (September 30, 2022 - \$15).

Liquidity risk

Liquidity risk is the risk that the Bank is not able to meet its financial obligations as they fall due, or can only do so at excessive cost. The Bank's policy is to ensure that sufficient funds are available to meet its ongoing commitments to customers and counterparties, both with respect to the demand for loans and the repayment of deposits, and to maintain the confidence of the marketplace in which the Bank operates.

This is achieved by (i) adhering to a Board approved loan to deposit targets, which may have temporary exceptions approved by ALCO, (ii) adherence to regulatory mandated liquidity coverage ratio (LCR) guidelines, to ensure the Bank has a sufficient level of high-quality liquid assets (HQLA) to survive a significant liquidity stress event over a 30 day time horizon; the LCR is calculated by dividing the total of HQLA over the total net cash outflows of the next 30 days, (iii) maintaining holdings of high quality liquid assets and short maturity interbank placements and (iv) maintaining external counterparty repurchase agreements.

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4. Risk management (continued)

Liquidity risk (continued)

Contractual Cashflow analysis of financial liabilities

The development and implementation of the Bank's liquidity policy is the responsibility of ALCO and is approved by the RRC and ratified by the Risk Committee. The day to day monitoring and management of liquidity is the responsibility of the Treasury Department. The Treasury Department prepares liquidity reports and performs stress tests on a monthly basis and reports the results to ALCO, RRC and the Risk Committee.

The tables below detail the Bank's financial liabilities based on liquidity.

September 30, 2023

	Carrying amount	Gross nominal inflow / (outflow)	Repayable on demand	Up to 3 months	3-6 months	6-12 months	1-5years	>5 years
Financial liabilities								
Due to depositors	\$ 1,193,991	\$ (1,210,011)	\$ (731,444)	\$ (100,806)	\$ (60,331)	\$ (197,237)	\$ (120,193)	\$ -
Accounts payable and accrued liabilities	6,890	(6,890)	(6,890)	-	-	-	-	-
Due to clients	326	(326)	(326)	-	-	-	-	-
Lease liabilities	<u>7,288</u>	<u>(9,376)</u>	<u>-</u>	<u>(244)</u>	<u>(264)</u>	<u>(485)</u>	<u>(3,212)</u>	<u>(5,171)</u>
	\$ 1,208,495	\$ (1,226,603)	\$ (738,660)	\$ (101,050)	\$ (60,595)	\$ (197,722)	\$ (123,405)	\$ (5,171)
Unrecognized loan commitments	-	(45,453)	(2,708)	(12,621)	(475)	(12,403)	(14,591)	(2,655)
Financial guarantees and letters of credit	<u>-</u>	<u>(3,259)</u>	<u>-</u>	<u>(301)</u>	<u>(1,958)</u>	<u>(1,000)</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>\$ 1,208,495</u>	<u>\$ (1,275,315)</u>	<u>\$ (741,368)</u>	<u>\$ (113,972)</u>	<u>\$ (63,028)</u>	<u>\$ (211,125)</u>	<u>\$ (137,996)</u>	<u>\$ (7,826)</u>

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4. Risk management (continued)

Liquidity risk (continued)

September 30, 2022

	Carrying amount	Gross nominal inflow / (outflow)	Repayable on demand	Up to 3 months	3-6 months	6-12 months	1-5 years	>5 years
Financial liabilities								
Due to depositors	\$ 1,236,076	\$ (1,234,187)	\$ (883,884)	\$ (74,105)	\$ (83,542)	\$ (98,071)	\$ (94,585)	\$ -
Accounts payable and accrued liabilities	5,894	(5,894)	(5,894)	-	-	-	-	-
Due to clients	171	(171)	(171)	-	-	-	-	-
Lease liabilities	<u>7,417</u>	<u>(9,753)</u>	<u>-</u>	<u>(482)</u>	<u>(263)</u>	<u>(339)</u>	<u>(2,798)</u>	<u>(5,871)</u>
	\$ 1,249,558	\$ (1,250,005)	\$ (889,949)	\$ (74,587)	\$ (83,805)	\$ (98,410)	\$ (97,383)	\$ (5,871)
Unrecognized loan commitments	-	(67,477)	(19,481)	(10,568)	(13,030)	(1,007)	(17,198)	(6,193)
Financial guarantees and letters of credit	<u>-</u>	<u>(3,453)</u>	<u>-</u>	<u>(176)</u>	<u>(2,277)</u>	<u>(1,000)</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>\$ 1,249,558</u>	<u>\$ (1,320,935)</u>	<u>\$ (909,430)</u>	<u>\$ (85,331)</u>	<u>\$ (99,112)</u>	<u>\$ (100,417)</u>	<u>\$ (114,581)</u>	<u>\$ (12,064)</u>

4. Risk management (continued)

Market risk

Market risk is the potential adverse change in Bank income or in the value of the Bank's holdings of financial instruments arising from movements in interest rates, foreign exchange rates or equity prices. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return on risk.

The Bank's exposure to market risk is governed by a policy approved by the ALCO and the RRC, and ratified by the Risk Committee. The policy sets out the nature of risks which may be taken, and the applicable maximum risk limits. Compliance with risk limits and the Bank's exposure to market risks are reviewed at monthly meetings of the ALCO and quarterly meetings of the Risk Committee. Since the Bank does not engage in proprietary trading activities, its market risk exposure principally arises from its banking activities.

Day-to-day monitoring and management of market risk is undertaken by the Treasury Department. Exposure to market risk is managed by using hedging instruments or by utilizing natural hedges existing within the variety of financial instruments the Bank holds.

Foreign currency risk

Foreign currency risk is the risk that the value of assets and liabilities will fluctuate due to unexpected movements in foreign exchange rates. Foreign currency risk is monitored daily and the Bank seeks to minimize its net exposures to assets and liabilities denominated in currencies other than BMD and USD. The Bank transacts foreign currency trades, predominantly in GBP, CAD, CHF and EUR, and solely for customer cash flow purposes. These are mostly foreign exchange spot transactions and are usually fully covered.

Interest rate risk

Interest rate risk is the loss resulting from adverse movements in market interest rates. The Bank is exposed to interest rate risk, principally from the provision of its lending, funding and investment activities. The various interest rate features and maturity profiles for these products create interest rate risk and can take the form of:

- Repricing risk (mismatch risk) - timing difference in the maturity and repricing of bank assets, liabilities and off-balance sheet positions.
- Basis Risk - imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics
- Option Risk – the risk related to interest-related option embedded in bank products. Such embedded optionality may exist, where the bank or its customers can make elections such as prepayment of a loan or early redemption of a deposit that alter the timing and amount of their cash flows.

The Risk Committee, through RRC and ALCO, provides strategic direction for the management of interest rate risk, within the risk appetite framework approved by the Board. It is the Treasury department's responsibility to ensure that the interest rate risk strategy is executed, with the objective of safeguarding and enhancing net interest income and economic value within the approved risk tolerances.

The following analysis shows the estimated effects of changes in interest rates over the succeeding twelve months, on net interest income and other components of equity. The interest rate income sensitivity analysis is based on the assumption that volumes remain stable over the analysis period and that management responds to changes in market interest rates and other risk factors.

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4. Risk management (continued)

Market risk (continued)

September 30, 2023

		<u>Impact to net interest income</u>		<u>Impact on other components of equity</u>
100 basis point increase	\$	1,856	\$	(11,665)
200 basis point increase	\$	3,733	\$	(23,641)
100 basis point decrease	\$	(3,286)	\$	14,845
200 basis point decrease	\$	(7,148)	\$	29,512

September 30, 2022

		<u>Impact to net interest income</u>		<u>Impact on other components of equity</u>
100 basis point increase	\$	1,845	\$	(12,979)
200 basis point increase	\$	3,711	\$	(25,582)
100 basis point decrease	\$	(4,982)	\$	15,296
200 basis point decrease	\$	(11,529)	\$	31,148

The following tables summarize the repricing periods for assets, liabilities and off-balance-sheet instruments. Items are allocated to time band categories by reference to the earlier of the next contractual interest rate repricing date and the maturity date. Use of this table to derive information about the Bank's interest rate risk position is limited by the fact that customers and other counterparties may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing date. Examples of this include loans, which are shown at the earlier of the next contractual interest rate repricing date and the maturity date, but which may pre-pay earlier, and certain term deposits, which are shown at contractual maturity but which may be withdrawn before their contractual maturity. Investment securities reflect the face value of the instrument, the non-interest bearing portion reflects the amortization and other comprehensive income / loss on the instruments.

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4. Risk management (continued)

Market risk (continued)

September 30, 2023 Interest rate repricing table

	Carrying amount	Within 3 mths	After 3 mths but within 6 mths	After 6 mths but within 1 year	After 1 year but within 5 years	After 5 years	Non Interest bearing funds
Cash and cash equivalents	\$ 136,059	\$ 95,424	\$ -	\$ -	\$ -	\$ -	40,635
Investment securities	375,338	81,056	67,827	3,000	30,000	244,245	(50,790)
Accounts receivable and prepaid expenses	6,087	-	-	-	-	-	6,087
Accrued interest on cash, deposits with banks and securities	1,574	-	-	-	-	-	1,574
Loans and advances	743,841	517,970	2,823	96,787	76,262	36,110	13,889
Due from related parties	573	-	-	-	-	-	573
Right-of-use assets	6,392	-	-	-	-	-	6,392
Properties for development and sale	2,745	-	-	-	-	-	2,745
Other assets	1,652	-	-	-	-	-	1,652
Investment property	2,707	-	-	-	-	-	2,707
Property and equipment	18,189	-	-	-	-	-	18,189
Intangible assets	22,090	-	-	-	-	-	22,090
Total assets	1,317,247	694,450	70,650	99,787	106,262	280,355	65,743
Due to depositors	1,193,991	822,934	57,556	194,060	112,637	-	6,804
Accounts payable and accrued liabilities	6,890	-	-	-	-	-	6,890
Due to clients	326	-	-	-	-	-	326
Deferred income	411	-	-	-	-	-	411
Lease liabilities	7,288	-	-	-	-	-	7,288
Equity	108,341	-	-	-	-	-	108,341
Total liabilities and equity	1,317,247	822,934	57,556	194,060	112,637	-	130,060
Interest rate sensitivity gap	\$ -	\$ (128,484)	\$ 13,094	\$ (94,273)	\$ (6,375)	\$ 280,355	\$ (64,317)
Cumulative interest rate sensitivity gap	\$ -	\$ (128,484)	\$ (115,390)	\$ (209,663)	\$ (216,038)	\$ 64,317	-

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4. Risk management (continued)

Market risk (continued)

September 30, 2022 Interest rate repricing table

	Carrying amount	Within 3 mths	After 3 mths but within 6 mths	After 6 mths but within 1 year	After 1 year but within 5 years	After 5 years	Non Interest bearing funds
Cash and cash equivalents	\$201,700	\$161,773	\$-	\$-	\$-	\$-	39,927
Investment securities	310,761	61,169	30,000	5,000	27,500	236,744	(49,652)
Accounts receivable and prepaid expenses	8,271	-	-	-	-	-	8,271
Accrued interest on cash, deposits with banks and securities	1,233	-	-	-	-	-	1,233
Loans and advances	767,064	523,259	9,511	10,168	150,647	60,304	13,175
Due from related parties	1,165	-	-	-	-	-	1,165
Right-of-use assets	6,598	-	-	-	-	-	6,598
Properties for development and sale	6,760	-	-	-	-	-	6,760
Other assets	1,136	-	-	-	-	-	1,136
Investment property	2,841	-	-	-	-	-	2,841
Property and equipment	17,594	-	-	-	-	-	17,594
Intangible assets	21,187	-	-	-	-	-	21,187
Total assets	1,346,310	746,201	39,511	15,168	178,147	297,048	70,235
Due to depositors	1,236,076	961,362	82,768	96,935	92,211	-	2,800
Accounts payable and accrued liabilities	5,894	-	-	-	-	-	5,894
Due to clients	171	-	-	-	-	-	171
Deferred income	336	-	-	-	-	-	336
Lease liabilities	7,417	-	-	-	-	-	7,417
Equity	96,416	-	-	-	-	-	96,416
Total liabilities and equity	1,346,310	961,362	82,768	96,935	92,211	-	113,034
Interest rate sensitivity gap	\$ -	\$ (215,161)	\$ (43,257)	\$ (81,767)	\$ 85,936	\$ 297,048	\$ (42,799)
Cumulative interest rate sensitivity gap	\$ -	\$ (215,161)	\$ (258,418)	\$ (340,185)	\$ (254,249)	\$ 42,799	\$ -

4. Risk management (continued)

Market risk (continued)

Fair values

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and are best evidenced by a quoted market price, if one exists. Some of the Bank's financial instruments lack an available trading market. Therefore, the fair values of these instruments have been estimated using present value or other valuation techniques and may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The following methods and assumptions were used in the determination of the fair value of financial instruments.

Cash and cash equivalents

The fair values of cash and deposits with banks approximate their carrying value as they are short-term in nature.

Investment securities

The fair values of equities and US Treasuries are based upon quoted market prices and the fair values of fixed income securities are based on bid prices, observable market inputs and matrix pricing for less liquid securities. Further information on the fair value of securities is given in Note 6.

Loans and advances

Fair values have been estimated by performing a discounted cash flow calculation using market rates for similar loans made at the reporting date. Other pertinent information relating to the principal characteristics of loans, mortgages and credit card receivables can be found in Note 8.

Due to depositors

The fair value of fixed rate deposits has been estimated by discounting the contractual cash flows, using market interest rates offered at the reporting date for deposits with similar terms. The fair values of deposits with no stated maturity date have been estimated by discounting the cash-flows using behavioural analysis, based on historical data to establish set levels of core and non-core deposits and their sensitivity to market rate movements.

Other

The fair values of other financial assets and liabilities approximate their carrying amounts as they are generally due on demand or otherwise earn interest at market interest rates.

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4. Risk management (continued)

Market risk (continued)

The aggregate of the estimated fair value amounts presented does not represent management's estimate of the underlying value of the Bank, in part because the fair values disclosed exclude property and equipment and certain other assets and liabilities, as these are not financial instruments.

September 30, 2023

	Fair value through comprehensive <u>income</u>	Amortised <u>cost</u>	Total carrying <u>amount</u>	Fair <u>value</u>
Cash and cash equivalents	\$ -	\$ 136,059	\$ 136,059	\$ 136,059
Investment securities	375,327	11	375,338	375,338
Loans and advances	-	743,841	743,841	732,966
Other assets	-	14,972	14,972	14,972
	<u>\$ 375,327</u>	<u>\$ 894,883</u>	<u>\$ 1,270,210</u>	<u>\$ 1,259,335</u>
Deposits	\$ -	\$ 1,193,991	\$ 1,193,991	\$ 1,121,947
Other liabilities	-	14,915	14,915	14,915
	<u>\$ -</u>	<u>\$ 1,208,906</u>	<u>\$ 1,208,906</u>	<u>\$ 1,136,862</u>

September 30, 2022

	Fair value through comprehensive <u>income</u>	Amortised <u>cost</u>	Total carrying <u>amount</u>	Fair <u>value</u>
Cash and cash equivalents	\$ -	\$ 201,700	\$ 201,700	\$ 201,700
Investment securities	310,746	15	310,761	310,761
Loans and advances	-	767,064	767,064	776,705
Other assets	-	19,996	19,996	19,996
	<u>\$ 310,746</u>	<u>\$ 988,775</u>	<u>\$ 1,299,521</u>	<u>\$ 1,309,162</u>
Deposits	\$ -	\$ 1,236,076	\$ 1,236,076	\$ 1,148,439
Other liabilities	-	13,818	13,818	13,818
	<u>\$ -</u>	<u>\$ 1,249,894</u>	<u>\$ 1,249,894</u>	<u>\$ 1,162,257</u>

4. Risk management (continued)

Market risk (continued)

Fair value of assets and liabilities classified using the fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Instruments are valued using the most recent transaction price. Level 3 measurements require significant amounts of judgement on the part of management and involve greater degrees of measurement uncertainty.

The following table presents financial instruments measured at fair value classified by the fair value hierarchy.

	September 30, 2023			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial Assets				
Investment securities				
US government and agency				
- Treasuries	\$ 249,824	\$ -	\$ -	\$ 249,824
Other OECD government & government				
guaranteed and international organizations	-	52,018	-	52,018
Corporate debt securities	-	73,494	-	73,494
Equities	-	-	2	2
Total investment securities	\$ 249,824	\$ 125,512	\$ 2	\$ 375,338

4. Risk management (continued)

Market risk (continued)

	September 30, 2022			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial Assets				
Investment securities				
US government and agency				
- Treasuries	\$ 208,176	\$ -	\$ -	\$ 208,176
Other OECD government & government				
guaranteed and international organizations	-	31,180	-	31,180
Corporate debt securities	-	71,404	-	71,404
Equities	-	-	1	1
Total investment securities	<u>\$ 208,176</u>	<u>\$ 102,584</u>	<u>\$ 1</u>	<u>\$ 310,761</u>

There were no significant transfers between Levels 1, 2 and 3 during the year ended September 30, 2023 (2022 - Nil).

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises in the Bank's day-to-day operations and is relevant to every aspect of its business.

The Bank has established a robust framework of processes, systems and authority structures to minimize its exposure to operational failures of this kind. These include:

- The development of an operational risk taxonomy which establishes thirteen sub-categories of risk that the Bank will manage, monitor and mitigate through its operational risk management program.
- The publication a comprehensive framework of policies and procedures to inform and guide employees as they execute their roles and responsibilities in respect of these risks.
- A commitment to competence through the provision of both technical and soft skills training.
- The implementation of cascading authority structures, separations of duties and maker-checker rules.
- The implementation of systems and processes that capture and enable the interrogation of operational losses, customer complaints, and other "near miss" incidents. This includes the reporting of any operationally significant loss incurred to the RRC, which oversees the sufficiency of the corrective actions taken by management to prevent recurrence.
- The completion of independent testing and quality assurance processes to confirm the performance of key controls.

4. Risk management (continued)

Operational risk (continued)

- A change management risk assessment process to ensure projects do not cause serious disruption or create processing inefficiencies.
- Processes that monitor the resiliency of critical I.T. systems, including the readiness of the Bank's business continuity and disaster recovery capabilities.
- The monitoring of material outsourcing and vendor relationships.

Capital management

The Bank assesses its capital position and key risks through an annual Capital Assessment and Risk Profile ("CARP") process in accordance with the regulatory requirements. The CARP considers all the key capital risks and the amount of capital it should retain. These requirements are assessed against the current position and throughout any forward planning as set out in the strategic plan. The CARP is used by the BMA to set the Bank's total capital requirement.

The Board is ultimately responsible for capital management and monitors the capital position of the Bank on a quarterly basis.

Capital stress testing is performed as part of the CARP and ensures that the Bank is resilient to a range of stresses, assessing whether capital requirements would be met under severe but plausible stress scenarios.

The Bank maintained strong capital levels throughout the year, well above regulatory requirements and internal risk appetite levels.

The position, as reported to the BMA, at September 30 was as follows;

	September 30, 2023	September 30, 2022
Tier 1 capital	\$ 154,872	\$ 144,276
Tier 2 capital	\$ 491	\$ 422
Total Tier 1 and 2 capital	\$ 155,363	\$ 144,698
Capital ratios		
Tier 1 capital	27.20%	23.43%
Total capital	27.29%	23.50%

Notes to Consolidated Financial Statements

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars, except as noted)



5. Cash and cash equivalents

For the period ended:	September 30, <u>2023</u>	September 30, <u>2022</u>
Cash in hand	\$ 40,635	\$ 39,927
Cash at local banks	21,689	16,323
Cash at foreign banks	<u>65,094</u>	<u>97,550</u>
	127,418	153,800
Other cash equivalents	<u>8,641</u>	<u>47,900</u>
Total cash and cash equivalents	\$ 136,059	\$ 201,700

Cash at foreign banks of \$65,094 (2022 - \$97,550) includes \$46,554 (2022 - \$73,410) held in US dollars and \$18,540 (2022 - \$24,140) held in other foreign currencies. The average effective interest rate earned on cash and deposits with banks for the year ended September 30, 2023 was 1.30% (2022 - 1.27%).

Cash and deposits with banks includes \$326 (2022 - \$171) of restricted funds held in escrow on behalf of customers, and \$5,450 (2022 - \$5,000) pledged to collateralise standby letters of credit issued on behalf of customers and merchant acquiring services.

As at September 30, 2023, foreign currency interest bearing deposits with banks of \$45,024 includes \$18,540 denominated in foreign currencies other than US dollar (2022: \$72,761 included \$24,140). As at September 30, 2023 and September 30, 2022, all other cash and deposits with banks are denominated in Bermuda dollars or in US dollars.

Other cash equivalents include highly-liquid sovereign securities with a term to maturity of 90 days or less from the date of acquisition.

Notes to Consolidated Financial Statements

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars, except as noted)



6. Investment securities

The fair value of the Bank's securities may be affected by changes in the level of prevailing interest rates. In the event that interest rates rise then the fair value of fixed income instruments would decrease. The tables below indicate the carrying value, fair value and remaining term to maturity of the Bank's fixed income securities at September 30, 2023 and September 30, 2022.

No investment securities have been pledged (2022 - \$0) as collateral to third parties.

	<u>September 30, 2023</u>				
	<u>Maturing within 1 year</u>	<u>Maturing in 1 to 5 years</u>	<u>Maturing after 5 years</u>	<u>Carrying amount</u>	<u>Fair value</u>
FVOCI					
US government and agency:					
- Treasury	\$ 118,379	\$ 29,343	\$ 102,103	\$ 249,825	\$ 249,825
Other OECD government & government guaranteed and international organizations	31,685	-	20,332	52,017	52,017
Corporate debt securities	-	-	73,483	73,483	73,483
Equities	-	-	2	2	2
Total - FVOCI	<u>\$ 150,064</u>	<u>\$ 29,343</u>	<u>\$ 195,920</u>	<u>\$ 375,327</u>	<u>\$ 375,327</u>
Debt securities measured at amortised cost					
Asset-backed securities	-	-	11	11	11
Total – amortised cost	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11</u>	<u>\$ 11</u>	<u>\$ 11</u>
Total investment securities	<u>\$ 150,064</u>	<u>\$ 29,343</u>	<u>\$ 195,931</u>	<u>\$ 375,338</u>	<u>\$ 375,338</u>
Average effective interest rate	4.59%	3.96%	1.49%	2.79%	

Notes to Consolidated Financial Statements

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars, except as noted)



6. Investment securities (continued)

	September 30, 2022				
	Maturing within 1 year	Maturing in 1 to 5 years	Maturing after 5 years	Carrying amount	Fair value
FVOCI					
US government and agency:					
- Treasury	\$ 84,177	\$ 26,147	\$ 97,852	\$ 208,176	\$ 208,176
Other OECD government & government guaranteed and international organizations	11,124	-	20,056	31,180	31,180
Corporate debt securities	-	-	71,389	71,389	71,389
Equities	-	-	1	1	1
Total - FVOCI	<u>\$ 95,301</u>	<u>\$ 26,147</u>	<u>\$ 189,298</u>	<u>\$ 310,746</u>	<u>\$ 310,746</u>
Debt securities measured at amortised cost					
Asset-backed securities	-	-	15	15	15
Total – amortised cost	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15</u>	<u>\$ 15</u>	<u>\$ 15</u>
Total investment securities	<u>\$ 95,301</u>	<u>\$ 26,147</u>	<u>\$ 189,313</u>	<u>\$ 310,761</u>	<u>\$ 310,761</u>
Average effective interest rate	2.34%	1.49%	1.41%	1.66%	

Notes to Consolidated Financial Statements

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars, except as noted)



6. Investment securities (continued)

Actual maturities may differ from the stated maturities reflected above because certain securities may have call or prepayment features. Asset-backed securities are shown at their legal final maturity and not their estimated weighted average life.

The Bank held asset-backed securities which are rated B- and CCC by Standard & Poor's with an amortized cost totalling \$11 and fair value totalling \$11 (2022 - \$15 and \$15 respectively).

Depending on market conditions, the Bank could incur additional realized and unrealized investment losses in future periods. However, given that the investment securities are high-quality and management has the ability and intent to hold these investments until there is a recovery of the unrealized loss, which may be at maturity, management believes it is probable that the Bank will be able to collect the principal amount of these securities according to the original contractual terms of the investments. As such, management does not consider any of these investments' ECLs to be material as at September 30, 2023.

Fair values for fixed income securities are obtained from independent pricing services. The independent pricing services obtain actual transaction prices for securities that have quoted prices in active markets and have their own proprietary methods for determining the fair value of securities that are not actively traded. In general, the independent pricing services use "matrix pricing" which utilises observable market inputs including, but not limited to, broker quotes, interest rates, yield curves, prepayment speeds, default rates and such other inputs as are available from market sources to determine a reasonable fair value.

Net gains on investment securities are made up of net realized gains on sale of FVOCI securities of \$388 for the year ended September 30, 2023 and gains on the sale of FVOCI securities of \$219 in the year ended September 30, 2022.

7. Accounts receivable and prepaid expenses

The Bank's accounts receivable and prepaid expenses, are as follows:

	September 30, 2023	September 30, 2022
In one year or less		
Prepaid staff loan benefit	\$ 525	\$ 1,198
Management fees, trail commissions and custody fees receivable	1,503	1,633
Other prepaid expenses	2,408	2,963
Accounts receivable	<u>494</u>	<u>1,472</u>
	\$ 4,930	\$ 7,266
In more than one year		
Prepaid staff loan benefit	465	335
Other prepaid expenses	<u>692</u>	<u>670</u>
Total	<u>\$ 6,087</u>	<u>\$ 8,271</u>

Notes to Consolidated Financial Statements

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars, except as noted)



8. Loans and advances

The Bank's loans and advances, net of unamortized deferred administration fees and the allowance for credit losses, are as follows:

	September 30, 2023	September 30, 2022
Residential mortgages	\$ 421,589	\$ 442,278
Commercial mortgages	117,595	104,730
Loans and advances - secured	155,993	177,297
Loans and advances - unsecured	66,510	62,071
Credit card receivables	<u>6,557</u>	<u>4,776</u>
	768,244	791,152
Allowance for credit losses on loans, mortgages and credit card receivables	<u>(24,403)</u>	<u>(24,088)</u>
	<u>\$ 743,841</u>	<u>\$ 767,064</u>

The following table provides an analysis of remaining contractual maturities of loans and advances to customers:

	September 30, 2023			September 30, 2022		
	Amortized cost	%	Fair value	Amortized cost	%	Fair value
Maturity analysis						
One year or less	\$ 140,911	19%	\$ 138,861	\$ 48,473	6%	\$ 49,082
More than one year	<u>602,930</u>	<u>81%</u>	<u>594,105</u>	<u>718,591</u>	<u>94%</u>	<u>727,623</u>
	<u>\$ 743,841</u>	<u>100%</u>	<u>\$ 732,966</u>	<u>\$ 767,064</u>	<u>100%</u>	<u>\$ 776,705</u>

The loan fair values disclosed above are based on weighted average estimated remaining maturities and are determined using a valuation technique supported by observable market rates. Additional information about the interest rate risk exposure pertaining to loans and advances to customers is presented in Note 4.

Notes to Consolidated Financial Statements

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars, except as noted)



8. Loans and advances (continued)

The Bank had the following loans and advances assessed as Stage 3 ("impaired") under IFRS 9:

	September 30, 2023	September 30 2022
Residential mortgages:		
Gross loans	\$ 40,975	\$ 42,967
Stage 3 allowance	<u>(13,942)</u>	<u>(12,453)</u>
Net residential mortgages	<u>27,033</u>	<u>30,514</u>
Commercial mortgages:		
Gross loans	\$ 18,259	\$ 21,956
Stage 3 allowance	<u>(4,938)</u>	<u>(5,028)</u>
Net commercial mortgages	<u>13,321</u>	<u>16,928</u>
Loans and chattel mortgages:		
Gross loans	\$ 7,951	\$ 9,285
Stage 3 allowance	<u>(4,792)</u>	<u>(5,745)</u>
Net loans and chattel mortgages	<u>\$ 3,159</u>	<u>\$ 3,540</u>
	<u>\$ 43,513</u>	<u>\$ 50,982</u>
Loans past due but not impaired are as follows:		
	September 30, 2023	September 30, 2022
From 7 days up to 3 months	\$ 19,843	\$ 21,310
3 to 6 months	<u>-</u>	<u>118</u>
Total	<u>\$ 19,843</u>	<u>\$ 21,428</u>

Notes to Consolidated Financial Statements

For the year ended September 30, 2023
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8. Loans and advances (continued)

The majority of mortgages are secured by Bermuda residential property. Mortgages receivable are repayable in monthly or periodic instalments generally over periods not exceeding 40 years (2022 - 40 years). At September 30, 2023 the weighted average time remaining to maturity for mortgages was 15 years (2022 - 15 years). At September 30, 2023 loans and chattel mortgages are repayable in monthly or periodic instalments generally over periods not exceeding 9 years (2022 - 9 years), and may be amortized or may be payable in total at maturity with interest being paid monthly. The Bank holds deeds on properties, guarantees and other assets in connection with certain loans and mortgages. Other loans receivable are in the form of unsecured promissory notes. Credit card receivables bear interest at 2.50% to 27.75% (2022 - 2.50% to 27.75%) and are unsecured.

The average effective interest rate on total loans and mortgages receivable at September 30, 2023 is 6.96% (2022- 6.24%). Total loans include \$207,253 (2022 - \$207,920) denominated in US dollars.

During the year, the fair value of loans renegotiated with a new asset recognized was \$4,332 (2022 - \$17,099). On derecognition of these loans, an expected credit loss of \$220 (2022 - recovery of \$1,235) was recognized in the statement of comprehensive income.

At September 30, 2023 the Bank held repossessed collateral relating to impaired loans with a carrying value of \$6,270 (2022 - \$10,894). Of this, \$4,397 (2022 - \$7,896) related to derecognised loans.

At September 30, 2023, loans, mortgages and credit card receivables included \$170 (2022 - \$15) receivable from directors, and \$23,800 (2022 - \$29,013) receivable from employees of the Bank or employees of the related party companies. Mortgages and loans receivable from directors and employees are part of the Bank's staff loan program, which offers interest rates ranging from 0% to 6.25% (2022 - 0% to 5%), which are below those offered to unrelated parties. All other terms of staff loans are the same as those granted to unrelated parties.

For the year ended September 30, 2023, the Bank had the following loans and advances as assessed by the Bank's internal risk rating policies described in Note 3:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Loans outstanding at September 30, 2023				
Low risk (Risk rating 1-4)	\$ 679,103	\$ 5,470	\$ -	\$ 684,573
Medium risk (Risk rating 5)	1,778	13,597	236	15,611
High risk (Risk rating 6-8)	-	380	43,277	43,657
Total	\$ 680,881	19,447	43,513	743,841
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Loans outstanding at September 30, 2022				
Low risk (Risk rating 1-4)	\$ 678,193	\$ 9,435	\$ -	\$ 687,628
Medium risk (Risk rating 5)	2,578	25,618	52	28,248
High risk (Risk rating 6-8)	-	258	50,930	51,188
Total	\$ 680,771	35,311	50,982	767,064
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes to Consolidated Financial Statements

For the year ended September 30, 2023
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8. Loans and advances (continued)

Allowance for credit losses

The Bank's approach to the establishment of the allowance for credit losses is explained in Note 3 Summary of significant accounting policies. The allowance for credit losses is deducted from loans and advances in the consolidated statement of financial position. For the year ended September 30, 2023, changes in the allowance for credit losses are comprised of the following:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance at October 1, 2022	\$ 422	\$ 440	\$ 23,226	\$ 24,088
Transfers:				
Transfers from Stage 1 to Stage 2	(4)	4	-	-
Transfers from Stage 1 to Stage 3	(2)	-	2	-
Transfers from Stage 2 to Stage 1	296	(296)	-	-
Transfers from Stage 3 to Stage 1	9	-	(9)	-
Changes in PDs / LGDs / EADs	(246)	91	3,385	3,230
Charge offs & write offs	-	-	(2,988)	(2,988)
Recoveries	-	-	195	195
Provision on new loans	17	2	-	19
Provision on paid off loans	(1)	(1)	(139)	(141)
Balance at September 30, 2023	\$ 491	\$ 240	\$ 23,672	\$ 24,403

Changes in gross carrying amount are comprised of the following:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance at October 1, 2022	\$ 681,193	\$ 35,751	\$ 74,208	\$ 791,152
Transfers:				
Transfers from Stage 1 to Stage 2	(8,595)	8,595	-	-
Transfers from Stage 1 to Stage 3	(2,141)	-	2,141	-
Transfers from Stage 2 to Stage 1	18,856	(18,856)	-	-
Transfers from Stage 2 to Stage 3	-	(735)	735	-
Transfers from Stage 3 to Stage 1	3,863	-	(3,863)	-
Transfers from Stage 3 to Stage 2	-	1,465	(1,465)	-
Financial assets derecognised during the year	(78,251)	(6,670)	(5,852)	(90,773)
New financial assets originated	65,367	191	10	65,568
Changes in interest accrual	1,080	(54)	4,259	5,285
Charge offs & write offs	-	-	(2,988)	(2,988)
Balance at September 30, 2023	\$ 681,372	\$ 19,687	\$ 67,185	\$ 768,244

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8. Loans and advances (continued)

Allowance for credit losses (continued)

For the period ended September 30, 2022, changes in the allowance for credit losses are comprised of the following:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance at October 1, 2021	\$ 365	\$ 373	\$ 25,784	\$ 26,522
Transfers:				
Transfers from Stage 1 to Stage 2	(3)	3	-	-
Transfers from Stage 1 to Stage 3	(3)	-	3	-
Transfers from Stage 2 to Stage 1	219	(219)	-	-
Transfers from Stage 2 to Stage 3	-	(8)	8	-
Transfers from Stage 3 to Stage 1	551	-	(551)	-
Transfers from Stage 3 to Stage 2	-	4,979	(4,979)	-
Changes in PDs / LGDs / EADs	(903)	(4,688)	3,474	(2,117)
Charge offs & write offs	-	-	(617)	(617)
Recoveries	-	-	127	127
Provision on new loans	270	-	-	270
Provision on paid off loans	(74)	-	(23)	(97)
Balance at September 30, 2022	\$ 422	\$ 440	\$ 23,226	\$ 24,088

Changes in gross carrying amount are comprised of the following:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance at October 1, 2021	\$ 605,553	\$ 23,357	\$ 109,803	\$ 738,713
Transfers:				
Transfers from Stage 1 to Stage 2	(11,616)	11,616	-	-
Transfers from Stage 1 to Stage 3	(4,052)	-	4,052	-
Transfers from Stage 2 to Stage 1	14,651	(14,651)	-	-
Transfers from Stage 2 to Stage 3	-	(920)	920	-
Transfers from Stage 3 to Stage 1	9,151	-	(9,151)	-
Transfers from Stage 3 to Stage 2	-	23,197	(23,197)	-
Financial assets derecognised during the year	(113,132)	(3,814)	(7,715)	(124,661)
New financial assets originated	181,161	-	3	181,164
Changes in interest accrual	(523)	(3,034)	110	(3,447)
Charge offs & write offs	-	-	(617)	(617)
Balance at September 30, 2022	\$ 681,193	\$ 35,751	\$ 74,208	\$ 791,152

Notes to Consolidated Financial Statements

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars, except as noted)



8. Loans and advances (continued)

Allowance for credit losses (continued)

Write-offs during the year ended September 30, 2023 and September 30, 2022 relate primarily to charge-offs of principal and suspended accrued interest on impaired loans. Such amounts are initially provided for in the consolidated statement of comprehensive income in "Credit impairment losses" and subsequently written off as incurred.

9. Investment property

Cost

At October 1, 2021	\$ 4,994
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At September 30, 2022	\$ 4,994
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At September 30, 2023	\$ 4,994
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Amortization and impairment losses

At October 1, 2021	\$ 2,019
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Amortization for the year	134
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At September 30, 2022	\$ 2,153
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Amortization for the year	\$ 134
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At September 30, 2023	\$ 2,287
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Carrying value

At September 30, 2022	\$ 2,841
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At September 30, 2023	\$ 2,707
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The fair value of investment property as at September 30, 2023 is \$3,863 (2022 - \$3,090), a Level 3 fair value measurement. Investment property consists of one property with a carrying value of \$2,707 (2022 - \$2,841). One floor of this property, which has been independently assessed as 23% of the total leasable area of the building, was reclassified to property and equipment, due to the Bank using it as corporate offices, from 2013.

Management has tested the carrying value of investment property at September 30, 2023 for impairment and found the recoverable amount to be greater than the carrying value. In determining the recoverable amount an independent appraisal from a qualified, experienced third party valuer and value-in-use model was used. In accordance with an independent appraisal a discount factor of 7% (2022 - 7%) was applied to the value-in-use cash flow projections to determine the net present value.

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10. Property and equipment

Property and equipment held by the Bank is as follows:

	<u>Buildings</u>	<u>Furniture and fixtures</u>	<u>Computer hardware and equipment</u>	<u>Artwork</u>	<u>Leasehold improvements</u>	<u>Total</u>
Cost						
Balance at October 1, 2021	\$ 13,744	7,037	17,905	606	14,301	53,593
Additions	—	1,471	188	28	3,300	4,987
Balance at September 30, 2022	\$ 13,744	8,508	18,093	634	17,601	58,580
Balance at October 1, 2022	\$ 13,744	8,508	18,093	634	17,601	58,580
Additions	—	2,074	960	6	84	3,124
Disposals	—	(13)	—	—	(9,298)	(9,311)
Balance at September 30, 2023	\$ 13,744	10,569	19,053	640	8,387	52,393
Accumulated depreciation						
Balance at October 1, 2021	\$ 7,081	6,115	16,349	—	9,235	38,780
Depreciation charge for the year	362	274	366	—	1,204	2,206
Balance at September 30, 2022	\$ 7,443	6,389	16,715	—	10,439	40,986
Balance at October 1, 2022	\$ 7,443	6,389	16,715	—	10,439	40,986
Depreciation charge for the year	362	642	424	—	1,101	2,529
Depreciation on disposals	—	(13)	—	—	(9,298)	(9,311)
Balance at September 30, 2023	\$ 7,805	7,018	17,139	—	2,242	34,204
Carrying amounts						
Balance at September 30, 2022	\$ 6,301	\$ 2,119	\$ 1,378	\$ 634	\$ 7,162	\$ 17,594
Balance at September 30, 2023	\$ 5,939	\$ 3,551	\$ 1,914	\$ 640	\$ 6,145	\$ 18,189

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11. Intangible assets

Intangible assets are as follows:

	<u>Computer software</u>	<u>Goodwill</u>	<u>Total</u>
Cost			
Balance at October 1, 2021	\$ 41,286	\$ 7,456	\$ 48,742
Additions	5,134	—	5,134
Disposals	<u>(1,511)</u>	<u>—</u>	<u>(1,511)</u>
Balance at September 30, 2022	<u>\$ 44,909</u>	<u>\$ 7,456</u>	<u>\$ 52,365</u>
Balance at October 1, 2022	\$ 44,909	\$ 7,456	\$ 52,365
Additions	<u>1,276</u>	<u>800</u>	<u>2,076</u>
Balance at September 30, 2023	<u>\$ 46,185</u>	<u>\$ 8,256</u>	<u>\$ 54,441</u>
Accumulated amortization			
Balance at October 1, 2021	\$ 28,089	\$ —	\$ 28,089
Amortization charge for the year	<u>3,089</u>	<u>—</u>	<u>3,089</u>
Balance at September 30, 2022	<u>\$ 31,178</u>	<u>\$ —</u>	<u>\$ 31,178</u>
Balance at October 1, 2022	\$ 31,178	\$ —	\$ 31,178
Amortization charge for the year	<u>1,173</u>	<u>—</u>	<u>1,173</u>
Balance at September 30, 2023	<u>\$ 32,351</u>	<u>\$ —</u>	<u>\$ 32,351</u>
Carrying amounts			
Balance at September 30, 2022	<u>\$ 13,731</u>	<u>\$ 7,456</u>	<u>\$ 21,187</u>
Balance at September 30, 2023	<u>\$ 13,834</u>	<u>\$ 8,256</u>	<u>\$ 22,090</u>

Capitalised software is amortised when the assets become available for use and is accounted for on a straight line basis over the expected useful life of the asset.

11. Intangible assets (continued)

The Bank performs analyses of unamortised intangible assets on an annual basis or more frequently if indicators of impairment exist. If actual results are not consistent with management's assumptions and estimates, the Bank may be exposed to an additional impairment charge associated with unamortised intangible assets. Impairment is measured as the excess of the carrying amount over the estimated recoverable amount, being the higher of fair value less costs to sell or value in use.

The test methods employed in performing the analyses involve assumptions concerning interest and discount rates, growth projections and other assumptions of future business conditions. The assumptions employed are based on management's judgment using internal and external data. Management utilizes independent valuation experts, if needed.

Management completed its impairment testing for intangible assets using the methodology described herein.

Intangible assets are monitored by management at the CGU level as follows;

As at September 30, 2023

	<u>Clarien Bank Limited</u>	<u>Clarien Investments Limited</u>
Goodwill	\$ 1,219	\$ 6,237
Carrying value of intangible assets subject to amortisation	\$ 13,834	\$ -
Basis of recoverable amount	Value in use	Value in use
Key assumptions	Discount rate of 14.61%	Discount rate of 16.61%

The remaining goodwill of \$800 relates to other CGUs and was not tested for impairment due to the insignificance of the balance. The impairment test for the Bank's CGUs' intangible assets is based on management's business forecast in a detailed planning period of three years. For impairment testing, a growth rate of 2.00% (2022 – 2.50%) for the Bank and 2.50% (2022 – 2.50%) for CIL was assumed for the period after the end of the detailed planning period. A discount rate of 14.61% (2022 – 10.50%) for the Bank and 16.61% (2022 – 11.50%) for CIL, being the estimated cost of capital, was used to determine the net present value of the estimated cash flows for the relevant CGU.

Accordingly, it was ascertained that no impairment was needed for the intangible assets carried in the financial statements.

The key assumptions described above may change as economic and market conditions change. The results of the impairment assessment are most sensitive to changes in the growth rate during the detailed planning period and the discount rate used to estimate the cost of capital. The Bank estimates that there are some reasonably possible changes in these assumptions that could cause the recoverable amount of the Bank's CGUs to decline below the carrying amount, however there is sufficient headroom under the Bank's best estimate of future cashflows to support the carrying value of the intangible assets.

12. Properties for development and sale

Properties for development and sale are repossessed non-financial assets where the Bank gains title, ownership, or possession of individual properties, such as real estate properties, which are managed for sale in an orderly manner with the proceeds used to reduce or repay any outstanding debt. The Bank does not generally occupy properties for development and sale for its business use. The Bank predominantly relies on third-party appraisals to determine the carrying value of these properties.

Notes to Consolidated Financial Statements

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars, except as noted)



13. Leases

The Bank has obligations under leases for two buildings that expire on February 3, 2033 and March 31, 2036, and one equipment lease that expires February 28, 2026.

Right-of-use assets

	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Cost			
Balance on October 1, 2021	\$ 10,350	\$ 1,041	\$ 11,391
Terminations/lease modifications	<u>(643)</u>	<u>(51)</u>	<u>(694)</u>
Balance at September 30, 2022	<u>\$ 9,707</u>	<u>\$ 990</u>	<u>\$ 10,697</u>
Balance at October 1, 2022	\$ 9,707	\$ 990	\$ 10,697
Additions	<u>—</u>	<u>781</u>	<u>781</u>
Balance at September 30, 2023	<u>\$ 9,707</u>	<u>\$ 1,771</u>	<u>\$ 11,478</u>
Accumulated Depreciation			
Balance at October 1, 2021	1,914	646	2,560
Depreciation charge for the year	<u>\$ 1,296</u>	<u>243</u>	<u>\$ 1,539</u>
Balance at September 30, 2022	<u>\$ 3,210</u>	<u>\$ 889</u>	<u>\$ 4,099</u>
Balance at October 1, 2022	\$ 3,210	\$ 889	\$ 4,099
Depreciation charge for the year	<u>734</u>	<u>253</u>	<u>987</u>
Balance at September 30, 2023	<u>\$ 3,944</u>	<u>\$ 1,142</u>	<u>\$ 5,086</u>
Carrying amounts			
Balance at September 30, 2022	<u>\$ 6,497</u>	<u>\$ 101</u>	<u>\$ 6,598</u>
Balance at September 30, 2023	<u>\$ 5,763</u>	<u>\$ 629</u>	<u>\$ 6,392</u>

Lease liabilities

As at September 30, 2023

	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Current	\$ 408	\$ 251	\$ 659
Non-current	<u>6,236</u>	<u>393</u>	<u>6,629</u>
Balance at September 30, 2023	<u>\$ 6,644</u>	<u>\$ 644</u>	<u>\$ 7,288</u>

Notes to Consolidated Financial Statements

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars, except as noted)



13. Leases (continued)

As at September 30, 2022

	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Current	\$ 710	\$ 63	\$ 773
Non-current	<u>6,644</u>	<u>-</u>	<u>6,644</u>
Balance at September 30, 2022	<u>\$ 7,354</u>	<u>\$ 63</u>	<u>\$ 7,417</u>

The total cash outflow for leases in 2023 was \$1,255 (2022 - \$1,609). Total amount of interest expense on lease liabilities recognised in profit or loss for the year was \$346 (2022 - \$406).

14. Due to depositors

Total deposits include \$476,175 (2022 - \$511,900) denominated in US dollars and \$57,603 (2022 - \$58,627) denominated in other foreign currencies.

The following is a summary of interest bearing deposits classified by period remaining to expected maturity as at September 30:

	<u>September 30, 2023</u>		<u>September 30, 2022</u>	
	<u>Average effective interest rate</u>	<u>Amount</u>	<u>Average effective interest rate</u>	<u>Amount</u>
Demand	0.29%	\$ 655,196	0.06%	\$ 822,431
Up to 3 months	2.18%	167,738	0.46%	138,931
3 - 6 months	2.16%	57,556	0.80%	82,768
6 - 12 months	3.63%	194,060	1.31%	96,935
1 - 5 years	2.80%	<u>112,637</u>	1.53%	<u>92,211</u>
Total	1.43 %	1,187,187	0.36 %	1,233,276
Accrued interest		<u>6,804</u>		<u>2,800</u>
Total		<u>\$ 1,193,991</u>		<u>\$1,236,076</u>

Notes to Consolidated Financial Statements

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars, except as noted)



15. Related party transactions and balances

Related parties include the parent entity, companies associated through significant influence, control or common control and directors and their affiliates.

All related party transactions are in the normal course of operations and are measured at the exchange amount.

Amounts listed in the consolidated statement of financial position as due from related parties have no stated maturity date or repayment terms, are unsecured and carry interest at 5% (2022 - 5%).

The work force of the Bank included 25 key management employees in 2023 (2022 - 20). During the year ended September 30, 2023, salaries, benefits and directors fees totalling \$3,942 (2022 - \$4,084) were paid to key management employees of the Bank. In addition there are 10 (2022 - 10) directors who have been considered key management personnel during the year.

The following related balances are presented in the consolidated statement of comprehensive income:

	September 30, 2023	September 30, 2022
Interest income	\$ 1,914	\$ 3,348
Interest expense	\$ 193	\$ 28
Fee and commission income	\$ 2,520	\$ 2,570
Personnel expenses	\$ 6,144	\$ 6,183
Other expenses	\$ 2,411	\$ 2,267
Rent	\$ 336	\$ 569

Included in other expenses are \$323 (2022 - \$303) paid to key management employees. Personnel expenses includes \$3,619 (2022 - \$3,781) paid to key management personnel. The remainder of other expenses relates to transactions with companies associated through significant influence. In the summary above, all fee and commission income, fee and commission expense, personnel expenses and rent relate to transactions with companies associated through significant influence.

During the year ended September 30, 2023, the Bank recharged \$60 (2022 - \$57) to companies associated through significant influence, representing portions of certain expenses provided by the Bank. Of this amount, \$20 (2022 - \$3) has been included in personnel expenses and \$40 (2022 - \$54) has been included in other expenses in the consolidated statement of comprehensive income.

Consolidated Statement of Financial Position

	September 30, 2023	September 30, 2022
Related party balances - Included in assets		
Cash and cash equivalents (Companies associated through significant influence)	\$ 20,066	\$ 52,518
Loans and advances (Key management personnel)	\$ 2,151	\$ 2,135
Loans and advances (Entities with significant influence)	\$ 4,892	\$ 6,049
Loans and advances (Companies associated through significant influence)	\$ 3,579	\$ 6,830
Accounts receivable and prepaid expenses (Parent)	\$ 55	\$ 121
Accounts receivable and prepaid expenses (Companies associated through significant influence)	\$ 551	\$ 597
Due from related parties (Companies associated through significant influence)	\$ 573	\$ 1,165

Notes to Consolidated Financial Statements

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars, except as noted)



15. Related party transactions and balances (continued)

Consolidated Statement of Financial Position (continued)

	September 30, 2023	September 30, 2022
Related party balances - Included in liabilities		
Due to depositors (Key management personnel)	\$ 10,198	\$ 10,183
Due to depositors (Entities with significant influence)	\$ 402	\$ 310
Due to depositors (Companies associated through significant influence)	\$ 32,106	\$ 36,366
Accounts payable and accrued liabilities (Parent)	\$ 330	\$ 220
Accounts payable and accrued liabilities (Key management personnel)	\$ 76	\$ 76
Accounts payable and accrued liabilities (Companies associated through significant influence)	\$ 60	\$ 98

The deposits are taken as part of the Bank's ordinary course of business and on the same terms as deposits held for unrelated parties.

16. Accounts payable and accrued liabilities

The Bank's accounts payable and accrued liabilities are as follows:

	September 30, 2023	September 30, 2022
Accounts payable	359	462
Accrued liabilities	3,247	2,865
Bonus payable	1,331	881
Foreign currency tax payable	737	698
Visa rewards payable	1,216	988
Total	\$ 6,890	\$ 5,894

17. General reserve, retained earnings and contributed surplus

The total authorized, issued and fully paid Bermuda dollar common share capital is 4,999,999 (2022 - 4,999,999) with a par value of \$1 per share. Common shares carry no right to regular dividends.

During the year ended September 30, 2023, dividends of \$nil (2022 - \$nil) were declared and paid to the Bank's shareholders of common shares.

A general reserve of \$1,000 was established by the directors at January 31, 1995. Over time, this reserve has been increased to \$10,000 through transfers from retained earnings. Transfers back to retained earnings from the general reserve can be made at the discretion of the Board of Directors.

Notes to Consolidated Financial Statements

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars, except as noted)



18. Net interest income

Interest income is comprised of:

	September 30, 2023	September 30, 2022
Loans and advances	\$ 50,997	\$ 41,849
Investment securities carried at FVOCI	8,175	4,568
Investment securities carried at amortised cost	182	124
Cash equivalents	2,731	2,661
Other interest income	665	15
	<hr/>	<hr/>
Total interest income	\$ 62,750	\$ 49,217
	<hr/>	<hr/>

Interest expense is comprised of:

Customer accounts	\$ 10,792	\$ 3,025
	<hr/>	<hr/>
Total interest expense	\$ 10,792	\$ 3,025
	<hr/>	<hr/>

19. Net fee and commission income

Fee and commission income is comprised of:

	September 30, 2023	September 30, 2022
Investment Management	\$ 5,310	\$ 5,385
Banking	15,767	14,503
Brokerage	2,734	1,760
Trust	794	760
Other	390	567
	<hr/>	<hr/>
Total fee and commission income	\$ 24,995	\$ 22,975
	<hr/>	<hr/>

Fee and commission expense is comprised of:

Banking	\$ 13,428	\$ 12,591
Investment Management	269	401
Other	324	340
	<hr/>	<hr/>
Total fee and commission expense	\$ 14,021	\$ 13,332
	<hr/>	<hr/>

Notes to Consolidated Financial Statements

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars, except as noted)



19. Net fee and commission income (continued)

The Bank has recognised fee and commission income on the following basis:

	September 30, 2023	September 30, 2022
Over time	\$ 1,957	1,682
At a point in time	23,038	21,293
Total fee and commission income	\$ 24,995	22,975

20. Other expenses

	September 30, 2023	September 30, 2022
Information technology expenses	\$ 4,740	\$ 3,673
Office expenses	3,389	3,138
Professional fees	2,612	3,538
Rent expenses	38	29
Advertising	1,094	689
Recruitment, training and travel	533	440
License and insurance costs	2,292	2,268
Bank charges	665	610
Directors' fees and expenses	323	303
Miscellaneous expenses	1,825	1,757
Total other expenses	\$ 17,511	\$ 16,445

21. Pension expense

The Bank's employees participate in a defined contribution pension plan sponsored by a company associated through significant influence. During the year ended September 30, 2023, contributions amounting to \$825 (2022 - \$823) equating to the service cost for the year, were made to the plan by the Bank on behalf of its employees and are included in personnel expenses in the consolidated statement of comprehensive income.

Included in these contributions made during the year ended September 30, 2023, were contributions amounting to \$130 (2022 - \$134), which were made by the Bank on behalf of its key management personnel.

22. Commitments, guarantees and contingent liabilities

Credit commitments

In the normal course of business the Bank enters into commitments to meet the credit requirements of its customers. These credit arrangements, representing undertakings to make credit available in the form of new loans and mortgages and drawdown facilities (excluding uncommitted facilities), are subject to the Bank's normal credit standards, controls and collateral requirements. The values set out in the table below represent the maximum amount of additional credit that the Bank could be obligated to extend, should such contracts be fully utilized.

Notes to Consolidated Financial Statements

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars, except as noted)



22. Commitments, guarantees and contingent liabilities (continued)

	September 30, 2023	September 30, 2022
Commitments to extend credit:		
Original term to maturity of one year or less	\$ 28,207	\$ 44,086
Original term to maturity of more than one year	<u>17,246</u>	<u>23,391</u>
Total credit commitments	<u>\$ 45,453</u>	<u>\$ 67,477</u>

Guarantees

The Bank issues letters of credit and guarantees at the request of customers in order to secure the customer's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Bank to pay the third party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein. The Bank is contingently liable for customer letters of credit and guarantees amounting to \$3,259 (2022 - \$3,453). Of this amount, \$2,259 (2022 - \$2,453), is supported by collateral, which may include cash, securities, and other assets pledged, depending on the arrangement. These guarantees are issued with similar terms and conditions to the Bank's loans.

The Bank has issued a guarantee to the Bermuda Stock Exchange on behalf of Clarien BSX Services Limited in the amount of \$1,000 (2022 - \$1,000).

The remaining terms of all guarantees and letters of credit range up to 6 months (2022 - 6 months).

Legal proceedings

In the normal course of business, the Bank is routinely engaged in a number of pending and threatened legal proceedings. Management does not expect the ultimate resolution of any threatened or actual legal proceedings involving the Bank, to have a material adverse effect on the consolidated financial statements.

Other commitments

As at September 30, 2023, the Bank has contractually committed to incur costs for I.T. systems and leasehold improvements of \$2,281 (2022 - \$3,169) within one year and \$2,403 (2022 - \$1,939) after more than one year.

23. Business combinations

Omnium Trust Company Limited

On March 31, 2023, CTL amalgamated with Omnium Trust Company Limited ("OTCL"). The sole shareholders of CTL and OTCL were CBL and Omnium Limited ("OL"). The sole shareholders determined that the amalgamated company would continue to be known as Clarien Trust Limited.

The OTCL shares were cancelled and converted into the right to receive the aggregate of the net working capital of OTCL (\$294) and a cash amount of \$320. The net working capital amount and 80% (\$256) of the cash consideration was paid on the agreement date, with 20% (\$64) of the cash amount due 14 days after the anniversary of the agreement contingent on certain performance criteria. These criteria are expected to be met as agreed.

Notes to Consolidated Financial Statements

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars, except as noted)



23. Business combinations (continued)

The following table summarizes the estimated fair values of the identifiable assets and liabilities of OTCL at the date of amalgamation:

Cash and cash equivalents	\$ 315
Accounts receivable and prepaid expenses	<u>48</u>
Total assets	<u>363</u>
Accounts payable and accrued liabilities	2
Deferred income	<u>67</u>
Total liabilities	<u>69</u>
Fair value of net identifiable assets and liabilities at the date of amalgamation	294
Cash consideration	550
Contingent consideration	<u>64</u>
Total consideration	<u>614</u>
Goodwill recognised	<u><u>\$ 320</u></u>

Omnium Corporate Services Limited

On March 31, 2023, CCSL amalgamated with Omnium Corporate Services Limited ("OCSL"). The sole shareholders of CCSL and OCSL were CBL and OL. The sole shareholders determined that the amalgamated company would continue to be known as Clarien Corporate Services Limited.

The OCSL shares were cancelled and converted into the right to receive the aggregate of the net working capital of OCSL (\$15) and a cash amount of \$480. The net working capital amount and 80% (\$384) of the cash consideration was paid on the agreement date, with 20% (\$96) of the cash amount due 14 days after the anniversary of the agreement contingent on certain performance criteria. These criteria are expected to be met as agreed.

The following table summarizes the estimated fair values of the identifiable assets and liabilities of OTCL at the date of amalgamation:

Cash and cash equivalents	\$ 171
Accounts receivable and prepaid expenses	<u>26</u>
Total assets	<u>197</u>
Accounts payable and accrued liabilities	11
Deferred income	<u>171</u>
Total liabilities	<u>182</u>

Notes to Consolidated Financial Statements

For the year ended September 30, 2023
(Expressed in thousands of Bermuda dollars, except as noted)



23. Business combinations (continued)

Fair value of net identifiable assets and liabilities at the date of amalgamation	15
Cash consideration	399
Contingent consideration	<u>96</u>
Total consideration	<u>495</u>
Goodwill recognised	\$ <u>480</u>

24. Seasonality of the Bank's transactions

Given the activities in which the Bank and its subsidiaries engage, their transactions are not cyclical or seasonal in nature. Accordingly, no specific disclosures are provided in these explanatory notes to the consolidated financial statements for the year ended September 30, 2023 (2022: No specific disclosures).

25. Subsequent events

The Bank has performed an evaluation of subsequent events from October 1, 2023 through to November 22, 2023, the date on which the financial statements were available to be issued. The Bank has determined that no significant or material matters existed during this period, which would warrant the Bank to either recognize or disclose such matters in the September 30, 2023 financial statements.



Clarien Bank Limited

Principal Offices and Subsidiaries

Registered Office

Point House
6 Front Street
1st Floor
Hamilton HM 11
Bermuda

Main Branch

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Hamilton HM 11
Bermuda

Clarien Investments Limited

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Clarien Trust Limited

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Clarien Bank Limited, through its wholly owned subsidiary companies, is licensed to conduct bank, investments, corporate services and trust business by the Bermuda Monetary Authority.