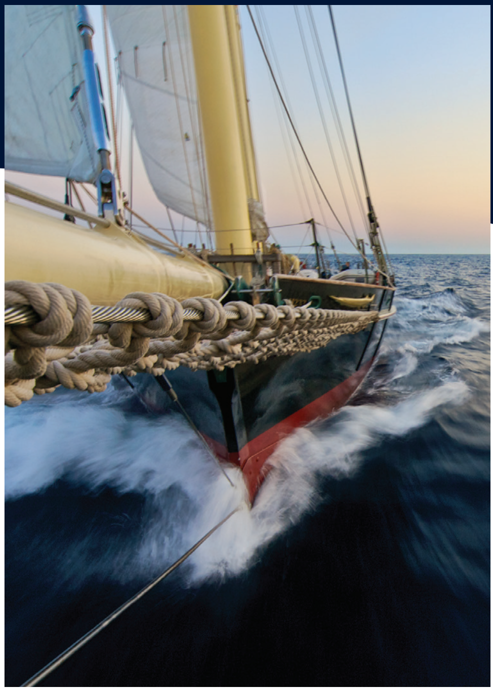
Clarien Bank Limited

Consolidated Financial Statements

(With Independent Auditors' Report Thereon)

For the year ended September 30, 2020



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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, 2020, 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, 2020;
- 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.

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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.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

Hamilton, Bermuda

November 30, 2020

(Expressed in thousands of Bermuda dollars)

	Note(s)	September 30, 2020	September 30, 2019
Assets			
Cash and cash equivalents	5	$ 310,222	$ 229,645
Investment securities	6	334,248	229,226
Accounts receivable and prepaid expenses	7	5,524	10,708
Accrued interest on cash, deposits with banks and securities		1,511	1,316
Loans and advances	8,15	662,018	694,246
Due from related parties	15	485	-
Properties for development and sale	12	14,089	-
Right-of-use assets	13	2,969	-
Investment property	9	3,109	3,243
Property and equipment	10	12,795	13,864
Intangible assets	11	15,476	16,583
Total assets		$ 1,362,446	$ 1,198,831
Liabilities			
Due to depositors	14,15	$ 1,131,227	$ 1,060,360
Accounts payable and accrued liabilities	16	85,023	4,537
Due to related parties	15	-	186
Due to clients		2,509	134
Deferred income		550	399
Lease liabilities	13	3,188	-
Total liabilities		1,222,497	1,065,616
Equity			
Common shares	17	5,000	5,000
Contributed surplus	17	46,406	46,406
General reserve	17	10,000	10,000
Retained earnings		78,502	72,068
Accumulated other comprehensive income / (loss)		41	(259)
Total equity		139,949	133,215
Total liabilities and equity		$ 1,362,446	$ 1,198,831

See accompanying notes to consolidated financial statements.

Signed on behalf of the Board

_______________ Director

_______________ Director

(Expressed in thousands of Bermuda dollars)

	Note(s)	September 30, 2020	September 30, 2019
Interest income	18	$ 55,249	$ 61,079
Interest expense	18	(11,250)	(14,353)
Net interest income		43,999	46,726
Fee and commission income	19	16,484	17,096
Fee and commission expense	19	(5,515)	(5,282)
Net fee and commission income		10,969	11,814
Net gains on investment securities	6	3,900	5,566
Foreign exchange income		758	573
Rent		431	315
Revenue		60,057	64,994
Credit impairment losses	8	9,506	10,884
Net operating income		50,551	54,110
Personnel expenses	15,21	25,093	26,268
Depreciation and amortisation	9,10,11,13	6,144	4,822
Other expenses	15,20	12,594	14,576
Total other expenses		43,831	45,666
Profit for the year		$ 6,720	$ 8,444
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net change in unrealized gains on securities designated as fair value through other comprehensive income		$ 4,200	$ 9,987
Reclassification to earnings of net realized gains in the year		(3,900)	(5,566)
Other comprehensive income for the year		300	4,421
Total comprehensive income for the year		$ 7,020	$ 12,865

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

(Expressed in thousands of Bermuda dollars)

	Note	Common shares	Contributed surplus	General reserve	Retained earnings	Accumulated other comprehensive (loss) /gain	Total
Balance at October 1, 2019		$ 5,000	$ 46,406	$ 10,000	$ 72,068	$ (259)	$ 133,215
Changes on initial application of IFRS 16	3	-	-	-	(286)	-	(286)
Restated balance at October 1, 2019		$ 5,000	$ 46,406	$ 10,000	$ 71,782	$ (259)	$ 132,929
Total comprehensive income for the year							
Profit for the year		-	-	-	6,720	-	6,720
Total other comprehensive income		-	-	-	-	300	300
Total comprehensive income for the year, net of tax		-	-	-	6,720	300	7,020
Balance at September 30, 2020		$ 5,000	$ 46,406	$ 10,000	$ 78,502	$ 41	$ 139,949

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended September 30, 2019
(Expressed in thousands of Bermuda dollars)

CLARIEN

	Note	Common shares	Contributed surplus	General reserve	Retained earnings	Accumulated other comprehensive loss	Total
Balance at October 1, 2018		$ 5,000	$ 46,406	$ 10,000	$ 63,624	$ (4,680)	$ 120,350
Total comprehensive income for the year							
Profit for the year		-	-	-	8,444	-	8,444
Total other comprehensive gain		-	-	-	-	4,421	4,421
Total comprehensive income for the year, net of tax		-	-	-	8,444	4,421	12,865
Balance at September 30, 2019		$ 5,000	$ 46,406	$ 10,000	$ 72,068	$ (259)	$ 133,215

See accompanying notes to consolidated financial statements.

(Expressed in thousands of Bermuda dollars, except as noted)

	Note	September 30, 2020	September 30, 2019
Cash flows from operating activities			
Profit for the year		$ 6,720	$ 8,444
Adjustments to reconcile profit for the year to net cash provided by / (used in) operating activities:			
Depreciation and amortisation		6,144	4,822
Amortisation of premiums / discounts on fixed income securities		651	237
Net gains on investment securities		(3,900)	(5,566)
Net impairment loss on financial assets		9,506	10,884
Net changes in non-cash balances relating to operations:			
Change in loans and advances		22,722	30,826
Change in accrued interest on cash, deposits with banks and securities		(195)	577
Change in due from / to related parties		(671)	1,268
Change in accounts receivable and prepaid expenses		5,184	(5,334)
Change in right-of-use assets		(4,414)	-
Change in properties for development and sale		(14,089)	-
Change in due to depositors		70,867	(74,222)
Change in accounts payable and accrued liabilities		80,486	859
Change in deferred income		151	63
Change in due to clients		2,375	(1,519)
Change in lease liabilities		3,188	-
Net cash provided by / (used in) operating activities		184,725	(28,661)
Cash flows from investing activities			
Acquisition / reinvestment of investment securities		(820,962)	(440,026)
Proceeds / maturity of investment securities		719,490	531,522
Intangible assets acquired	11	(2,123)	(745)
Property and equipment purchased	10	(553)	(865)
Net cash (used in) / provided by investing activities		(104,148)	89,886
Net increase in cash and cash equivalents		80,577	61,225
Cash and cash equivalents, beginning of the year		229,645	168,420
Cash and cash equivalents, end of the year	5	$ 310,222	$ 229,645
Cash flows from operating activities includes:			
Interest paid		$ 11,522	$ 18,846
Interest received		56,369	60,165

See accompanying notes to consolidated financial statements.

(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 Bank operates out of two locations in Bermuda.

The outbreak of the COVID-19 pandemic during the year adversely affected the global economy and may continue to lead to significant volatility. As with all similar businesses, the Bank was impacted by the effects of the crisis. Specific policies were put in place to mitigate potential adverse consequences, including changes in working practices being implemented to ensure the safety of all staff members and financial assistance in the form of loan deferral schemes being offered to clients. The economic impacts of the crisis continue to be uncertain however, and may further effect the credit quality of the Bank's loan portfolio in particular. Management continues to monitor the situation but the Bank remains in a strong position and is confident of continuing to manage the impacts of the crisis effectively.

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
First Bermuda Securities Limited	Brokerage services; subsidiary of First Bermuda Group Limited (sold October 30, 2019)
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	Brokerage services; subsidiary of CIL
Clarien BSX Services Limited	Trading member of Bermuda Stock Exchange; subsidiary of CIL
Clarien Trust Limited	Trust administration
Clarien UK Limited	Inactive

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 Interpretations Committee ('IFRIC").

The consolidated financial statements were authorized for issuance by the Board of Directors on November 30, 2020.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that have been measured at fair value. Certain reclassifications have been made to the comparative financial information in order to conform to the current year presentation.

(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. Summary of significant accounting policies

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

(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

The Bank adopted IFRS 16 Leases ("IFRS 16") on October 1, 2019.

3. Summary of significant accounting policies (continued)

The adoption of this standard resulted in changes in accounting policies and adjustments to amounts previously recognized in the financial statements. The Bank did not early adopt this standard in previous periods.

As permitted by the transitional provisions, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in opening retained earnings of the current period. The comparative period notes disclosures repeat those made in the prior year.

IFRS 16 Leases was issued in January 2016. It results in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The Bank has applied the simplified transition approach and has not restated comparative amounts. Right-of-use assets for property leases have been measured on transition as if the new rules had always been applied.

The Bank reviewed all of its leasing arrangements in light of the new accounting rules in IFRS 16. The standard primarily impacts the accounting for the Bank's operating leases.

In applying IFRS 16 for the first time, the Bank has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review. There were no onerous contracts as at 1 October 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 October 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Bank has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

The Bank has recognized right-of-use assets of $4,127 and lease liabilities of approximately $4,413 as of October 1, 2019. This resulted in an overall reduction in net assets of $286 as at October 1, 2019.

(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 on hand, cash deposists 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.

3. Summary of significant accounting policies (continued)

(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 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.

3. Summary of significant accounting policies (continued)

(f) Financial Instruments (continued)

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 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.

<u>Classification and measurement of financial instruments</u>

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.

3. Summary of significant accounting policies (continued)

(f) Financial Instruments (continued)

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 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.

Allowance for credit losses

Under IFRS 9, credit loss allowances are measured on a one month lag 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.

3. Summary of significant accounting policies (continued)

(f) Financial Instruments (continued)

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.
- 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 our 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 our results of operations. The emergence of the COVID-19 global pandemic significantly impacted our economic outlook which has been reflected in the underlying assumptions and estimates.

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 (EAD).

3. Summary of significant accounting policies (continued)

(f) Financial Instruments (continued)

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.

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.

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".

3. Summary of significant accounting policies (continued)

(f) Financial Instruments (continued)

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.

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.

As a result of the COVID-19 pandemic, the Bank supported clients by implementing various relief programs, including the utilization of a payment deferral program. A deferral program does not, all else being equal, automatically trigger a significant increase in credit risk. As loans on deferral would not have usuable DPD data, the Bank reviewed its approach to identifying the credit risk with particular focus on any indication of a significant increase in credit risk. The additional risk assessments included more detailed analysis of the credit position of borrowers including indicators such as the business of the loan holder, the LTV of the loan and the position of customers who requested assistance subsequent to the deferral program. The loans on deferral were assessed to determine whether a significant increase in credit risk existed and all loans identified as having such risks have been included in the ECL lifetime calculation.

<u>Use of forward-looking information</u>

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 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 (2019 – 60%), 20% for stronger near term recovery (2019 – 25%) and 20% for slower near term rebound (2019 – 15%).

3. Summary of significant accounting policies (continued)

(f) Financial Instruments (continued)

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.

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. Following impairment, interest income is recognized on the unwinding of the discount from the initial recognition of impairment. 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

3. Summary of significant accounting policies (continued)

(f) Financial Instruments (continued)

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.

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) 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.

3. Summary of significant accounting policies

(h) 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.

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.

(i) 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.

3. Summary of significant accounting policies (continued)

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

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.

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	5-15 years
Computer hardware and equipment	1-10 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.

(j) 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 under a finance lease separately, 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	30-40 years

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

3. Summary of significant accounting policies (continued)

(k) 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.

(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.

(l) 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.

(m) 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.

3. Summary of significant accounting policies (continued)

(m) Impairment of non-financial assets (continued)

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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

3. Summary of significant accounting policies (continued)

(s) Employee benefits (continued)

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.

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.

(t) 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.

(u) Accounting policies applied until September 30, 2019

The Bank has applied IFRS 16, but has not elected to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Bank's previous accounting policy.

i) Leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term and included in other expenses in the consolidated statement of comprehensive income.

4. Risk management

The Bank has exposure to the following risks from the financial instruments it holds.

- 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 the establishment and oversight of the Bank's risk management framework. The Board has established the Audit, Risk, and Governance and Human Resource Committees, which are responsible for approving and monitoring Bank risk management policies in their respective areas. All Board Committees are comprised of the appropriate mix of both independent and non-independent members and report regularly to the Board of Directors on their activities. The Board Committees are supported by management level committees, namely; the Executive Committee, the Credit Committee, the Asset and Liability Committee ("ALCO"), the Compliance Committee, the Operational Risk Committee and the Change Management Committee. Each of these management level committees are directly responsible for defined areas of risk, developing related risk management policies and procedures and quarterly reporting to the Risk Committee.

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

The Risk Committee has the delegated authority for reviewing the adequacy of the risk management framework in relation to the risks taken by the Bank. The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit 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. The Bank provides credit through residential and commercial mortgages, secured and unsecured loans and credit cards. 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. Residential and commercial mortgages comprise 88% (September 30, 2019 – 90%) of outstanding loans. All mortgage lending is originated by the Bank and retained and serviced within its personal and business lending units.

Maximum credit risk exposure at September 30, 2020 and September 30, 2019 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.

4. Risk management (continued)

Credit risk (continued)

The types of financial instruments that are most exposed to credit risk are Cash and cash equivalents (Note 5), Investment securities (Note 6), Loans and advances (Note 8).

Credit risk: loans and advances

The effective management of credit risk requires the establishment of an appropriate credit risk culture. Key credit risk policies and credit risk management strategies are important elements used to create this culture. The Bank has implemented internal processes and risk-oriented strategies intended to actively identify, manage, monitor and report credit risk on its mortgage and non-mortgage portfolios. The Bank considers these to be suitable for the nature, scale and complexity of the business. This is supported by policies and internal limits or thresholds with key controls.

The Board of Directors, either directly or through the Risk Committee of the Board, reviews and approves the Bank's credit risk strategy and credit risk policy on a quarterly basis.

The objectives of the credit risk strategy is to ensure that:

- The risk parameters for new underwritings and for the portfolios as a whole are clearly specified;
- Target markets and product offerings are well defined at both the enterprise-wide and business line levels;
- Transactions and limits are managed in a manner that is consistent with the Bank's risk appetite;
- Loans are priced on a risk adjusted basis;
- Loans are appropriately collateralized and collateral is maintained and its value is assessed or reviewed by management periodically;
- Credit risk is managed from concentration and country risk perspectives; and to
- Maintain sufficient information and data to be able to track and monitor changes over time.

The credit risk policy articulates the credit risk management framework, including:

- Aggregate limits for all lenders, beyond which credit applications must be escalated to the Bank's Credit Committee for approval; and
- Single name / aggregation exposures, beyond which exposures must be reported and reviewed by the Credit Committee, with Board oversight.

The following table contains an analysis of the credit risk exposure of financial assets for which an ACL is recognised. As at September 30, 2020, 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.

(Expressed in thousands of Bermuda dollars, except as noted)

4. Risk management (continued)

Credit risk (continued)

September 30, 2020

		Stage 1	Stage 2	Stage 3	Total
Low risk (Risk rating 1-4)	$	524,410	53,257	-	577,667
Medium risk (Risk rating 5)		369	3,312	1,279	4,960
High risk (Risk rating 6-8)		-	4,163	105,864	110,027
Gross carrying amount		524,779	60,732	107,143	692,654
Allowance for credit impairment loss		(374)	(2,571)	(27,691)	(30,636)
Carrying amount	$	524,405	58,161	79,452	662,018

September 30, 2019

		Stage 1	Stage 2	Stage 3	Total
Low risk (Risk rating 1-4)	$	569,477	12,355	-	581,832
Medium risk (Risk rating 5)		8,826	18,454	-	27,280
High risk (Risk rating 6-8)		-	8,249	111,474	119,723
Gross carrying amount		578,303	39,058	111,474	728,835
Allowance for credit impairment loss		(481)	(1,747)	(32,361)	(34,589)
Carrying amount	$	577,822	37,311	79,113	694,246

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, 2020

		Performing		Impaired		
		Stage 1	Stage 2	Stage 3	Total	%
Current	$	520,347	52,734	3,154	576,235	83%
From 7 days up to 3 months		4,432	5,778	-	10,210	1%
3 to 6 months		-	2,220	8,004	10,224	1%
6 to 12 months		-	-	21,564	21,564	3%
Over 12 months		-	-	74,421	74,421	12%
Carrying amount	$	524,779	60,732	107,143	692,654	100%

The amounts disclosed in the table above were impacted by the loan deferral scheme offered to clients, as described in Note 1. The loan deferral scheme was one of a number of financial assistance measures the Bank introduced as a result of the COVID-19 pandemic.

(Expressed in thousands of Bermuda dollars, except as noted)

4. Risk management (continued)

Credit risk (continued)

September 30, 2019

		Performing		Impaired		
		Stage 1	Stage 2	Stage 3	Total	%
Current	$	549,781	8,686	2,807	561,274	77%
From 7 days up to 3 months		28,522	22,124	1,277	51,923	7%
3 to 6 months		-	8,248	13,181	21,429	3%
6 to 12 months		-	-	9,474	9,474	1%
Over 12 months		-	-	84,735	84,735	12%
Carrying amount	$	578,303	39,058	111,474	728,835	100%

Under the Bank's credit policies and procedures, management does not consider loans past due for fewer than seven days as delinquent. In addition, loans which have opted in to the deferral program offered to clients in the year are still considered to be current.

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 and 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, 2020, loans amounting to $28,484 (September 30, 2019 - $26,548), that would otherwise be considered impaired based on the present value of collateral related cash flows only, have been renegotiated.

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.

(Expressed in thousands of Bermuda dollars, except as noted)

4. Risk management (continued)

Credit risk (continued)

Aggregate undiscounted fair value of collateral held

	September 30, 2020	September 30, 2019
Past due but not impaired loans	$ 24,083	$ 105,782
Impaired loans	168,970	136,030
	$ 193,053	$ 241,812

Credit risk: interbank lending and investment securities

The Bank engages in short-term lending to other bank counterparties and investments 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.

	September 30, 2020		September 30, 2019	
Concentration by credit grading				
AAA	$ 18,777	6%	$ -	-%
AA	163,263	55%	160,077	74%
A	16,424	6%	48,303	22%
Other	99,091	33%	8,206	4%
	$ 297,555	100%	$ 216,586	100%
Concentration by region				
North America (including Bermuda)	$ 297,555	100%	$ 191,537	88%
Europe	-	-%	25,049	12%
	$ 297,555	100%	$ 216,586	100%

(Expressed in thousands of Bermuda dollars, except as noted)

4. Risk management (continued)

Credit risk (continued)

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

	September 30, 2020		September 30, 2019	
Concentration by credit grading				
AAA	$ 30,268	9%	$ 15,074	6%
AA	199,700	60%	143,900	63%
A	28,389	8%	40,751	18%
Other	75,891	23%	29,501	13%
	$ 334,248	100%	$ 229,226	100%

	2020		2019	
Concentration by region				
North America (including Bermuda)	$ 303,980	91%	$ 213,820	93%
Europe	30,268	9%	15,406	7%
	$ 334,248	100%	$ 229,226	100%

US Treasuries, which are rated AA are the largest portfolio holding at September 30, 2020. The remainder of the Bank's investment portfolio are holdings in sovereigns, supranational bonds and high grade corporates.

As at September 30, 2020, 100% (September 30, 2019 - 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, 2020 is $31 (September 30, 2019 - $40).

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 the Bank's Asset and Liability Committee ("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.

(Expressed in thousands of Bermuda dollars, except as noted)

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 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 and the Risk Committee. The Bank transacts only a small number of 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. This mismatch does not represent material market or liquidity risk.

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

September 30, 2020

	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	$ 1,131,227	$ (1,131,282)	$ (684,812)	$ (91,687)	$ (149,630)	$ (111,540)	$ (93,613)	$ -
Accounts payable and accrued liabilities	85,023	(85,023)	(85,023)	-	-	-	-	-
Due to clients	2,509	(2,509)	(2,509)	-	-	-	-	-
Lease liabilities	3,188	(3,725)	-	(350)	(299)	(556)	(1,819)	(701)
	$ 1,221,947	$ (1,222,539)	$ (772,344)	$ (92,037)	$ (149,929)	$ (112,096)	$ (95,432)	$ (701)
Unrecognized loan commitments	-	(26,830)	(11,833)	(3,999)	-	(2,245)	(5,062)	(3,691)
Financial guarantees and letters of credit	-	(826)	-	(826)	-	-	-	-
Total financial liabilities	$ 1,221,947	$ (1,250,195)	$ (784,177)	$ (96,862)	$ (149,929)	$ (114,341)	$ (100,494)	$ (4,392)

(Expressed in thousands of Bermuda dollars, except as noted)

4. Risk management (continued)

Liquidity risk (continued)

September 30, 2019

	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	$ 1,060,360	$ (1,067,004)	$ (489,582)	$ (166,973)	$ (165,323)	$ (134,427)	$ (110,699)	$ -
Accounts payable and accrued liabilities	4,537	(4,537)	(4,537)	-	-	-	-	-
Due to related parties	186	(186)	(186)	-	-	-	-	-
Due to clients	134	(134)	(134)	-	-	-	-	-
	$ 1,065,217	$ (1,071,861)	$ (494,439)	$ (166,973)	$ (165,323)	$ (134,427)	$ (110,699)	$ -
Unrecognized loan commitments	-	(19,512)	(7,969)	(191)	-	(299)	(9,662)	(1,391)
Financial guarantees and letters of credit	-	(1,466)	-	(225)	(915)	(326)	-	-
Total financial liabilities	$ 1,065,217	$ (1,092,839)	$ (502,408)	$ (167,389)	$ (166,238)	$ (135,052)	$ (120,361)	$ (1,391)

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 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.

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.

In the course of managing interest rate risk the Bank uses a number of techniques, including Gap analysis, simulation modeling and sensitivity analysis to measure risk and for limit monitoring and reporting. The Bank reviews the potential impact that six interest rate stress scenarios (being a range of both parallel and non-parallel market rate shifts), could have on the underlying economic value of the Bank's assets, liabilities and off-balance sheet instruments and its annual income. When assessing the impact, consideration is also given to those assets and liabilities with embedded optionality, such as fixed rate loans subject to prepayment risk and term deposits subject to early redemption risk. The annual income impact measures the effect of a specified change in interest rates on the Bank's annual net interest income over the next twelve months, while the economic value limit measures the impact of a specified change in interest rates on the present value of the Bank's net assets.

Risk Committee through 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 within the approved risk tolerances.

A fundamental part of Bank's interest rate risk management framework is to closely monitor the sensitivity of the impact of an immediate and sustained 100 and 200 basis point shock over a projected one year period on annual income. These show the estimated effects of changes in market interest rates that management believes would be reasonably possible over the next twelve months, on net interest income as at September 30, 2020. The interest rate 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.

(Expressed in thousands of Bermuda dollars, except as noted)

4. Risk management (continued)

Market risk (continued)

September 30, 2020

		Impact to net interest income
100 basis point increase	$	2,659
200 basis point increase	$	5,420
100 basis point decrease	$	(5,026)
200 basis point decrease	$	(10,252)

September 30, 2019

		Impact to net interest income
100 basis point increase	$	2,983
200 basis point increase	$	6,000
100 basis point decrease	$	(5,102)
200 basis point decrease	$	(11,342)

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 and asset-backed securities which have call or pre-payment features.

(Expressed in thousands of Bermuda dollars, except as noted)

4. Risk management (continued)

Market risk (continued)

September 30, 2020 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	$310,222	$ 297,773	$ -	$ -	$ -	$ -	$ 12,449
Investment securities	334,248	116,217	69,988	35,000	-	108,000	5,043
Accounts receivable and prepaid expenses	5,524	-	-	-	-	-	5,524
Accrued interest on cash, deposits with banks and securities	1,511	-	-	-	-	-	1,511
Loans and advances	662,018	588,480	16,148	11,053	6,601	22,414	17,322
Due from related parties	485	-	-	-	-	-	485
Right-of-use assets	2,969	-	-	-	-	-	2,969
Properties for development and sale	14,089	-	-	-	-	-	14,089
Investment property	3,109	-	-	-	-	-	3,109
Property and equipment	12,795	-	-	-	-	-	12,795
Intangible assets	15,476	-	-	-	-	-	15,476
Total assets	1,362,446	1,002,470	86,136	46,053	6,601	130,414	90,772
Due to depositors	1,131,227	755,387	154,806	110,446	98,451	-	12,137
Accounts payable and accrued liabilities	85,023	-	-	-	-	-	85,023
Due to clients	2,509	-	-	-	-	-	2,509
Deferred income	550	-	-	-	-	-	550
Lease liabilities	3,188	-	-	-	-	-	3,188
Equity	139,949	-	-	-	-	-	139,949
Total liabilities and equity	1,362,446	755,387	154,806	110,446	98,451	-	243,356
Interest rate sensitivity gap	$ -	$ 247,083	$ (68,670)	$ (64,393)	$ (91,850)	$ 130,414	$ (152,584)
Cumulative interest rate sensitivity gap	$ -	$ 247,083	$ 178,413	$ 114,020	$ 22,170	$ 152,584	$ -

(Expressed in thousands of Bermuda dollars, except as noted)

4. Risk management (continued)

Market risk (continued)

September 30, 2019 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	$ 229,645	$ 217,048	$ -	$ -	$ -	$ -	$ 12,597
Investment securities	229,226	34,645	50,000	30,000	48,369	65,000	1,212
Accounts receivable and prepaid expenses	10,708	-	-	-	-	-	10,708
Accrued interest on cash, deposits with banks and securities	1,316	-	-	-	-	-	1,316
Loans and advances	694,246	643,678	15,831	11,308	4,793	-	18,636
Investment property	3,243	-	-	-	-	-	3,243
Property and equipment	13,864	-	-	-	-	-	13,864
Intangible assets	16,583	-	-	-	-	-	16,583
Total assets	1,198,831	895,371	65,831	41,308	53,162	65,000	78,159
Due to depositors	1,060,360	615,810	96,167	129,431	206,542	-	12,410
Accounts payable and accrued liabilities	4,537	-	-	-	-	-	4,537
Due to related parties	186	-	-	-	-	-	186
Due to clients	134	-	-	-	-	-	134
Deferred income	399	-	-	-	-	-	399
Equity	133,215	-	-	-	-	-	133,215
Total liabilities and equity	1,198,831	615,810	96,167	129,431	206,542	-	150,881
Interest rate sensitivity gap	$ -	$ 279,561	$ (30,336)	$ (88,123)	$ (153,380)	$ 65,000	$ (72,722)
Cumulative interest rate sensitivity gap	$ -	$ 279,561	$ 249,225	$ 161,102	$ 7,722	$ 72,722	$ -

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.

(Expressed in thousands of Bermuda dollars, except as noted)

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, 2020

	Fair value through comprehensive income	Amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	$ -	$ 310,222	$ 310,222	$ 310,222
Investment securities	289,217	45,031	334,248	335,094
Loans and advances	-	662,018	662,018	668,581
Other assets	-	18,941	18,941	18,941
	$ 289,217	$ 1,036,212	$ 1,325,429	$ 1,332,838
Deposits	$ -	$ 1,131,227	$ 1,131,227	$ 1,133,792
Other liabilities	-	91,270	91,270	91,270
	$ -	$ 1,222,497	$ 1,222,497	$ 1,225,062

September 30, 2019

	Fair value through comprehensive income	Amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	$ -	$ 229,645	$ 229,645	$ 229,645
Investment securities	219,186	10,040	229,226	229,646
Loans and advances	-	694,246	694,246	696,644
Other assets	-	9,971	9,971	9,971
	$ 219,186	$ 943,902	$ 1,163,088	$ 1,165,906
Deposits	$ -	$ 1,060,360	$ 1,060,360	$ 1,058,749
Other liabilities	-	5,256	5,256	5,256
	$ -	$ 1,065,616	$ 1,065,616	$ 1,064,005

(Expressed in thousands of Bermuda dollars, except as noted)

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, 2020			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Investment securities				
US government and agency - Treasuries	$ 179,884	$ -	$ -	$ 179,884
Other OECD government & government guaranteed and international organizations	-	39,897	-	39,897
Corporate debt securities	-	69,435	-	69,435
Equities	-	-	1	1
Total investment securities	$ 179,884	$ 109,332	$ 1	$ 289,217

(Expressed in thousands of Bermuda dollars, except as noted)

4. Risk management (continued)

Market risk (continued)

Fair value of assets and liabilities classified using the fair value hierarchy (continued)

	September 30, 2019			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Investment securities				
US government and agency - Treasuries	$ 114,830	$ -	$ -	$ 114,830
Other OECD government & government guaranteed and international organizations	-	21,534	-	21,534
Corporate debt securities	-	82,822	-	82,822
Total investment securities	$ 114,830	$ 104,356	$ -	$ 219,186

There were no significant transfers between Levels 1, 2 and 3 during the year ended September 30, 2020 (2019 - Nil).

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (including legal risk but excluding strategic and reputational risk). The Bank seeks to manage operational risk so as to balance the avoidance of financial losses and damage to its reputation with overall cost effectiveness by implementing suitable control procedures.

The Basel Committee on Banking Supervision's report on "*Sound Practices for the Management and Supervision of Operational Risk*" and the Bermuda Monetary Authority ("BMA")'s May 2007 guidance paper "*The Management of Operational Risk*" heightened the awareness of operational risk and provided a set of minimum quantitative and qualitative standards and risk management practices that a financial institution should have in place to address these risks, thereby establishing an effective operational risk management framework. The Bank's framework is based on this guidance and has been approved by the Audit Committee of the Board and is subject to periodic review and update. In line with the Bank's Enterprise Risk Management ("ERM") framework the primary responsibility for operational risk management is assigned to senior management within each business unit. A centralized risk management function exists to oversee this process and provide regular reporting to the Bank's Governance Risk and Compliance Committee and Audit Committee.

4. Risk management (continued)

Operational risk (continued)

The Bank's operational risk framework is intended to provide:

- Clearly defined Bank strategies;
- Oversight by the Board of Directors and senior management;
- Appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Investments in appropriate processing technology and information technology ("IT") security;
- A strong operational risk and internal controls culture;
- Documentation of key policies and procedures;
- Training and professional development;
- Effective requirements for internal reporting;
- Periodic business level risk assessments conducted under the ERM framework; and
- Insurance and robust business contingency planning.

Compliance with Bank standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews and Operational Risk reports are discussed at various levels of management and by the Audit Committee.

Capital management

Capital is held to provide a cushion for unexpected losses. The Board sets the internal level of capital with the aim of ensuring minimum regulatory capital levels are always exceeded whilst allowing for growth in the business.

Basel III superseded Basel II and took effect on January 1, 2015 with transitional arrangements until full implementation in 2019. The three pillar framework of Basel II is unchanged but there have been changes to the detailed requirements within each pillar. Pillar 3 has more detailed disclosure requirements and will adopt generic templates over the course of the transition to allow improved comparability and transparency between institutions covered by Basel accords.

The key elements of Basel III changes to capital requirements are as follows:

Changes to the definition of capital and the introduction of common equity Tier 1 (CET1). Higher thresholds for all forms of capital will be required with an increased focus on CET1. A capital conservation buffer of 2.5% will be introduced and phased in over the implementation period. Additionally, a capital surcharge for Domestic Systematically Important Banks ('D-SIB') ranging between 0.5% and 3.0% for all Bermuda Banks has also been implemented.

Introduction of a non-risk based Leverage Ratio, being a measure of Tier 1 capital held against total assets, including certain off-balance sheet financial commitments. The Bank's unaudited leverage ratio was 9.62% as at September 30, 2020 (2019 – 10.40%), which is above the minimum proposed by the Bermuda Monetary Authority of 5.0%.

The Bank has complied with all externally imposed minimum capital requirements throughout the current year.

(Expressed in thousands of Bermuda dollars, except as noted)

4. Risk management (continued)

Capital management (continued)

The new Basel rules also address areas of liquidity. The authority has adopted a Liquidity Coverage Ratio ('LCR') with phased-in implementation consistent with that published by the Basel Committee. The LCR aims to ensure Banks have sufficient stock of unencumbered highly liquid assets to survive a high liquidity stressed scenario lasting 30 days. Further information regarding the implementation of Basel III can be found on the Bermuda Monetary Authority's website (www.bma.bm).

The Bank reports its regulatory capital position to the BMA on a consolidated legal entity basis each calendar quarter. The position, as reported to the BMA, at September 30 was as follows;

		September 30, 2020		September 30, 2019
Tier 1 capital	$	131,787	$	125,190
Tier 2 capital	$	375	$	481
Total Tier 1 and 2 capital	$	132,162	$	125,671

	September 30, 2020	September 30, 2019
Capital ratios *(unaudited)*		
Tier 1 capital	20.83%	21.12%
Total capital	20.89%	21.20%

(Expressed in thousands of Bermuda dollars, except as noted)

5. Cash and cash equivalents

For the period ended:		September 30, 2020		September 30, 2019
Cash in hand	$	12,667	$	13,059
Cash at local banks		20,183		13,331
Cash at foreign banks		96,603		43,840
		129,453		70,230
Other cash equivalents		180,769		159,415
Total cash and cash equivalents	$	310,222	$	229,645

Cash at foreign banks of $96,603 (2019 - $43,840) includes $69,896 (2019 - $29,375) held in US dollars and $26,707 (2019 - $14,464) held in other foreign currencies. The average effective interest rate earned on cash and deposits with banks for the year ended September 30, 2020 was 1.25% (2019 - 0.49%).

Cash and deposits with banks includes $2,509 (2019 - $134) of restricted funds held in escrow on behalf of customers, and $5,000 (2019 - $5,069) pledged to collateralise standby letters of credit issued on behalf of customers.

As at September 30, 2020, foreign currency interest bearing deposits with banks of $95,087 includes $26,707 denominated in foreign currencies other than US dollar (2019: $47,883 included $14,008). As at September 30, 2020 and September 30, 2019, 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.

(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, 2020 and September 30, 2019.

No investment securities have been pledged (2019 - $0) as collateral to third parties.

	September 30, 2020				
	Maturing within 1 year	Maturing in 1 to 5 years	Maturing after 5 years	Carrying amount	Fair value
FVOCI					
US government and agency - Treasuries	$ 129,979	$ -	$ 49,905	$ 179,884	$ 179,884
Other OECD government & government guaranteed and international organizations	30,268	-	9,629	39,897	39,897
Corporate debt securities	-	16,322	53,113	69,435	69,435
Equities	-	-	1	1	1
Total - FVOCI	$ 160,247	$ 16,322	$ 112,648	$ 289,217	$ 289,217
Debt securities measured at amortised cost					
Interbank deposit	$ 45,000	$ -	$ -	$ 45,000	$ 45,846
Asset-backed securities	-	-	31	31	31
Total – amortised cost	$ 45,000	$ -	$ 31	$ 45,031	$ 45,877
Total investment securities	$ 205,247	$ 16,322	$ 112,679	$ 334,248	$ 335,094
Average effective interest rate	1.32%	0.98%	1.43%	1.34%	

(Expressed in thousands of Bermuda dollars, except as noted)

6. Investment securities (continued)

	September 30, 2019				
	Maturing within 1 year	Maturing in 1 to 5 years	Maturing after 5 years	Carrying amount	Fair value
FVOCI					
US government and agency - Treasuries	$ 79,933	$ 5,061	$ 29,836	$ 114,830	$ 114,830
Other OECD government & government guaranteed and international organizations	5,033	10,131	6,370	21,534	21,534
Corporate debt securities	-	53,729	29,093	82,822	82,822
Total - FVOCI	$ 84,966	$ 68,921	$ 65,299	$ 219,186	$ 219,186
Debt securities measured at amortised cost					
Interbank deposit	$ 10,000	$ -	$ -	$ 10,000	$ 10,420
Asset-backed securities	-	-	40	40	40
Total – amortised cost	$ 10,000	$ -	$ 40	$ 10,040	$ 10,460
Total investment securities	$ 94,966	$ 68,921	$ 65,339	$ 229,226	$ 229,646
Average effective interest rate	2.03%	2.58%	2.22%	2.36%	

(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 $31 and fair value totalling $31 (2019 - $40 and $40 respectively).

Depending on market conditions, the Bank could incur additional realized and unrealized investment losses in future periods. However, given that the asset backed 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, 2020.

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 $3,900 for the year ended September 30, 2020 and gains on the sale of FVOCI securities of $5,566 in the year ended September 30, 2019.

7. Accounts receivable and prepaid expenses

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

	September 30, 2020	September 30, 2019
In one year or less		
Prepaid staff loan benefit	$ 623	$ 487
Management fees, trail commissions and custody fees receivable	2,107	1,862
Other prepaid expenses	1,468	2,053
Accounts receivable	749	5,720
	$ 4,947	$ 10,122
In more that one year		
Prepaid staff loan benefit	577	581
Other prepaid expenses	-	5
Total	$ 5,524	$ 10,708

(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, 2020	September 30, 2019
Residential mortgages	$ 491,692	$ 517,773
Commercial mortgages	117,109	135,746
Loans and advances - secured	57,600	52,958
Loans and advances - unsecured	21,231	16,035
Credit card receivables	5,022	6,323
	692,654	728,835
Allowance for credit losses on loans, mortgages and credit card receivables	(30,636)	(34,589)
	$ 662,018	$ 694,246

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

	September 30, 2020			September 30, 2019		
	Amortized cost	%	Fair value	Amortized cost	%	Fair value
Maturity analysis						
One year or less	$ 35,963	5%	$ 36,319	$ 63,124	9%	$ 63,342
More than one year	626,055	95%	632,262	631,122	91%	633,302
	$ 662,018	100%	$ 668,581	$ 694,246	100%	$ 696,644

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.

(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, 2020	September 30 2019
Residential mortgages:		
Gross loans	$ 65,438	$ 72,096
Stage 3 allowance	(15,787)	(20,318)
Net residential mortgages	49,651	51,778
Commercial mortgages:		
Gross loans	$ 28,902	$ 29,415
Stage 3 allowance	(5,328)	(9,523)
Net commercial mortgages	23,574	19,892
Loans and chattel mortgages:		
Gross loans	$ 12,803	$ 9,963
Stage 3 allowance	(6,576)	(2,520)
Net loans and chattel mortgages	$ 6,227	$ 7,443
	$ 79,452	$ 79,113

Loans past due but not impaired are as follows:

	September 30, 2020	September 30, 2019
From 7 days up to 3 months	$ 10,210	$ 50,646
3 to 6 months	2,220	8,248
Total	$ 12,430	$ 58,894

The amounts disclosed in the table above have been impacted by the loan deferral scheme offered to clients, as described in Note 1. The loan deferral scheme was one of a number of financial assistance measures the Bank introduced as a result of the COVID-19 pandemic.

(Expressed in thousands of Bermuda dollars, except as noted)

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 30 years (2019 - 30 years). At September 30, 2020 the weighted average time remaining to maturity for mortgages was 15 years (2019 - 16 years). At September 30, 2020 loans and chattel mortgages are repayable in monthly or periodic instalments generally over periods not exceeding 8.5 years (2019 - 5 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 12% to 27.75% (2019 - 12% to 27.75%) and are unsecured.

The average effective interest rate on total loans and mortgages receivable at September 30, 2020 is 6.25% (2019 - 6.94%).

Total loans include $96,092 (2019 - $69,034) denominated in US dollars.

At September 30, 2020 the Bank held repossessed collateral relating to impaired loans with a carrying value of $4,881 (2019 - $26,166). This balance was impacted by loans transferred to properties for development and sale of $14,089 (2019 - $nil). The Bank expects to sell the repossessed collateral related to these loans within one year of the reclassification date. Where the Bank is unable to sell repossessed collateral, it will hold the assets until market conditions make a sale more likely and, if applicable, seek to rent the property in the intervening period.

At September 30, 2020, loans, mortgages and credit card receivables included $3,135 (2019 - $3,148) receivable from directors, and $37,150 (2019 - $40,302) 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 4.75% (2019 - 4.5% to 5.5%), which are below those offered to unrelated parties but above the cost of funds. All other terms of staff loans are the same as those granted to unrelated parties.

For the year ended September 30, 2020, the Bank had the following loans and advances as assessed by the Bank's internal risk rating policies described in Note 3:

Loans outstanding at September 30, 2020	Stage 1	Stage 2	Stage 3	Total
Low risk (Risk rating 1-4)	$ 524,040	$ 50,758	$ -	$ 574,798
Medium risk (Risk rating 5)	365	3,262	1,195	4,822
High risk (Risk rating 6-8)	-	4,141	78,257	82,398
Total	$ 524,405	58,161	79,452	662,018

Loans outstanding at September 30, 2019	Stage 1	Stage 2	Stage 3	Total
Low risk (Risk rating 1-4)	$ 569,002	$ 11,760	$ -	$ 580,762
Medium risk (Risk rating 5)	8,820	17,720	-	26,540
High risk (Risk rating 6-8)	-	7,831	79,113	86,944
Total	$ 577,822	$ 37,311	$ 79,113	$ 694,246

(Expressed in thousands of Bermuda dollars, except as noted)

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, 2020, changes in the allowance for credit losses are comprised of the following:

	Stage 1	Stage 2	Stage 3	Total
Balance at October 1, 2019	$ 481	$ 1,747	$ 32,361	$ 34,589
Transfers:				
Transfers from Stage 1 to Stage 2	(169)	169	-	-
Transfers from Stage 1 to Stage 3	(26)	-	26	-
Transfers from Stage 2 to Stage 1	154	(154)	-	-
Transfers from Stage 2 to Stage 3	-	(1,043)	1,043	-
Transfers from Stage 3 to Stage 1	68	-	(68)	-
Transfers from Stage 3 to Stage 2	-	-	-	-
Changes in PDs / LGDs / EADs	(330)	1,868	7,525	9,063
Charge offs & write offs	-	-	(1,988)	(1,988)
Transferred to properties for development and sale	-	-	(11,472)	(11,472)
Recoveries	-	-	538	538
Provision on new loans	202	12	-	214
Provision on paid off loans	(6)	(28)	(274)	(308)
Balance at September 30, 2020	$ 374	$ 2,571	$ 27,691	$ 30,636

Changes in gross carrying amount are comprised of the following:

	Stage 1	Stage 2	Stage 3	Total
Balance at October 1, 2019	$ 578,303	$ 39,058	$ 111,474	$ 728,835
Transfers:				
Transfers from Stage 1 to Stage 2	(52,262)	52,262	-	-
Transfers from Stage 1 to Stage 3	(13,096)	-	13,096	-
Transfers from Stage 2 to Stage 1	8,347	(8,347)	-	-
Transfers from Stage 2 to Stage 3	-	(17,438)	17,438	-
Transfers from Stage 3 to Stage 1	8,647	-	(8,647)	-
Transfers from Stage 3 to Stage 2	-	97	(97)	-
Financial assets derecognised during the year	(82,170)	(5,066)	(2,599)	(89,835)
New financial assets originated	79,378	288	2	79,668
Transferred to properties for development and sale	-	-	(25,561)	(25,561)
Changes in interest accrual	(2,368)	(122)	4,025	1,535
Charge offs & write offs	-	-	(1,988)	(1,988)
Balance at September 30, 2020	$ 524,779	$ 60,732	$ 107,143	$ 692,654

(Expressed in thousands of Bermuda dollars, except as noted)

8. Loans and advances (continued)

Allowance for credit losses (continued)

For the period ended September 30, 2019, changes in the allowance for credit losses are comprised of the following:

	Stage 1	Stage 2	Stage 3	Total
Balance at October 1, 2018	$ 1,092	$ 138	$ 30,062	$ 31,292
Transfers:				
Transfers from Stage 1 to Stage 2	(326)	326	-	-
Transfers from Stage 1 to Stage 3	(31)	-	31	-
Transfers from Stage 2 to Stage 1	26	(26)	-	-
Transfers from Stage 2 to Stage 3	-	(100)	100	-
Transfers from Stage 3 to Stage 1	-	-	-	-
Transfers from Stage 3 to Stage 2	-	89	(89)	-
Changes in PDs / LGDs / EADs	(288)	1,323	9,323	10,358
Charge offs & write offs	-	-	(7,587)	(7,587)
Recoveries	-	-	524	524
Provision on new loans	20	-	-	20
Provision on paid off loans	(12)	(3)	(3)	(18)
Balance at September 30, 2019	$ 481	$ 1,747	$ 32,361	$ 34,589

Changes in gross carrying amount are comprised of the following:

	Stage 1	Stage 2	Stage 3	Total
Balance at October 1, 2018	$ 649,617	$ 16,497	$ 101,134	$ 767,248
Transfers:				
Transfers from Stage 1 to Stage 2	(32,460)	32,460	-	-
Transfers from Stage 1 to Stage 3	(16,318)	-	16,318	-
Transfers from Stage 2 to Stage 1	6,038	(6,038)	-	-
Transfers from Stage 2 to Stage 3	-	(4,172)	4,172	-
Transfers from Stage 3 to Stage 1	77	-	(77)	-
Transfers from Stage 3 to Stage 2	-	4,077	(4,077)	-
Financial assets derecognised during the year	(95,116)	(4,182)	(12,816)	(112,114)
New financial assets originated	80,171	28	87	80,286
Changes in interest accrual	(13,706)	388	14,320	1,002
Charge offs & write offs	-	-	(7,587)	(7,587)
Balance at September 30, 2019	$ 578,303	$ 39,058	$ 111,474	$ 728,835

Write-offs during the year ended September 30, 2020 and September 30, 2019 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.

(Expressed in thousands of Bermuda dollars, except as noted)

9. Investment property

Cost		
At October 1, 2018	$	4,994
At September 30, 2019	$	4,994
At September 30, 2020	$	4,994
Amortization and impairment losses		
At October 1, 2018	$	1,617
Amortization for the year		134
At September 30, 2019	$	1,751
Amortization for the year	$	134
At September 30, 2020	$	1,885
Carrying value		
At September 30, 2019	$	3,243
At September 30, 2020	$	3,109

The fair value of investment property as at September 30, 2020 is $4,082 (2019 - $4,082), a Level 3 fair value measurement. Investment property consists of one property with a carrying value of $3,109 (2018 - $3,243). One floor of this property, which has been independently assessed as 18% 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, 2020 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% (2019 - 7%) was applied to the value-in-use cash flow projections to determine the net present value.

(Expressed in thousands of Bermuda dollars, except as noted)

10. Property and equipment

Property and equipment held by the Bank is as follows:

	Buildings	Furniture and fixtures	Computer hardware and equipment	Artwork	Leasehold improvements	Total
Cost						
Balance at October 1, 2018	$ 13,604	6,288	16,028	606	12,113	48,639
Additions	–	19	846	–	–	865
Balance at September 30, 2019	$ 13,604	6,307	16,874	606	12,113	49,504
Balance at October 1, 2019	$ 13,604	6,307	16,874	606	12,113	49,504
Additions	140	205	152	–	56	553
Balance at September 30, 2020	$ 13,744	6,512	17,026	606	12,169	50,057
Accumulated depreciation						
Balance at October 1, 2018	$ 6,017	5,796	15,035	–	7,213	34,061
Depreciation charge for the year	345	157	445		632	1,579
Balance at September 30, 2019	$ 6,362	5,953	15,480	–	7,845	35,640
Balance at October 1, 2019	$ 6,362	5,953	15,480	–	7,845	35,640
Depreciation charge for the year	352	104	474	–	692	1,622
Balance at September 30, 2020	$ 6,714	6,057	15,954	–	8,537	37,262
Carrying amounts						
Balance at September 30, 2019	$ 7,242	$ 354	$ 1,394	$ 606	$ 4,268	$ 13,864
Balance at September 30, 2020	$ 7,030	$ 455	$ 1,072	$ 606	$ 3,632	$ 12,795

(Expressed in thousands of Bermuda dollars, except as noted)

11. Intangible assets

Intangible assets are as follows:

	Computer software	Goodwill	Total
Cost			
Balance at October 1, 2018	$ 29,784	$ 7,456	$ 37,240
Additions	745	–	745
Balance at September 30, 2019	$ 30,529	$ 7,456	$ 37,985
Balance at October 1, 2019	$ 30,529	$ 7,456	$ 37,985
Additions	2,123	–	2,123
Balance at September 30, 2020	$ 32,652	$ 7,456	$ 40,108
Accumulated amortization			
Balance at October 1, 2018	$ 18,293	$ –	$ 18,293
Amortization charge for the year	3,109	–	3,109
Balance at September 30, 2019	$ 21,402	$ –	$ 21,402
Balance at October 1, 2019	$ 21,402	$ –	$ 21,402
Amortization charge for the year	3,230	–	3,230
Balance at September 30, 2020	$ 24,632	$ –	$ 24,632
Carrying amounts			
Balance at September 30, 2019	$ 9,127	$ 7,456	$ 16,583
Balance at September 30, 2020	$ 8,020	$ 7,456	$ 15,476

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.

(Expressed in thousands of Bermuda dollars, except as noted)

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.

Goodwill is monitored by management at the CGU level as follows;

As at September 30, 2020

	Clarien Bank Limited	Clarien Investments Limited
Goodwill	$ 1,219	$ 6,237
Basis of recoverable amount	Value in use	Value in use
Key assumptions	Discount rate of 12.00%	Discount rate of 14.00%

The impairment test for the Bank's CGUs' goodwill is based on management's business forecast in a detailed planning period of three years. For impairment testing, a growth rate of 2.50% (2019 – 2.50%) for the Bank and 5.00% (2019 – 5.00%) for CIL was assumed for the period after the end of the detailed planning period. A discount rate of 12.00% (2019 – 11.36%) for the Bank and 14.00% (2019 – 13.26%) 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. Multiple scenarios were considered in the business forecast, with weightings applied to expected outcomes per management's assessment of their relative probablility. A 60% weighting was applied to the scenario considered most likely and a 20% weighting to both a more aggressive and a more conservative scenario. Accordingly, it was ascertained that no impairment was needed for the intangible assets carried in the financial statements.

The COVID-19 related business environment is rapidly evolving and as a result, our economic outlook has a higher than usual degree of uncertainty, which may materially change the estimated recoverable amount of our CGUs and result in an impairment charge in future periods. Actual experience may differ materially from current expectations, including in relation to the duration and severity of the economic contraction and the ultimate timing and extent of a future recovery. We will continue to monitor the impact of changes in key assumptions and judgments underpinning our estimated recoverable amounts as information emerges over future periods.

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.

On June 30, 2020 the Bank reclassified a number of foreclosed properties being held as collateral for loans to properties for development and sale. These properties were valued at their carrying value at the date of reclassification of $14,089, considered to be fair value less costs to sell at that date. The Bank expects to sell these properties within one year of the reclassification date.

(Expressed in thousands of Bermuda dollars, except as noted)

13. Leases

The Bank has obligations under leases for three buildings that expire on December 31, 2029, January 31, 2023 and February 3, 2033, and two equipment leases that expire February 28, 2021 and 31 March 2022 respectively.

Prior to adoption of IFRS 16, leases of property and equipment were classified as operating leases (Note 22). From October 1, 2019, 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 are initially measured on a present value basis, using the Bank's incremental borrowing rate of 6.75%, 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.

Right-of-use assets

	Buildings	Equipment	Total
Cost			
Adoption on October 1, 2019	$ 3,571	$ 556	$ 4,127
Balance at September 30, 2020	$ 3,571	$ 556	$ 4,127
Accumulated Depreciation			
Depreciation charge for the year	$ 844	314	$ 1,158
Balance at September 30, 2020	$ 844	$ 314	$ 1,158
Carrying amounts			
Balance at September 30, 2020	$ 2,727	$ 242	$ 2,969

Lease liabilities

Operating lease commitments disclosed at September 30, 2019	$ 4,511
Discounted using the Bank's incremental borrowing rate of 6.75% at September 30, 2019	$ 3,752
Add: contracts reassessed as lease contracts	$ 652
Add: adjustments as a result of a different treatment of extension and termination options	$ 9
Lease liability recognised as at October 1, 2019	$ 4,413

The change in accounting policy affected the following items on the balance sheet on October 1, 2019:

Right-of-use assets -	increase by $4,127
Lease libilities -	increase by $4,413

The net impact on retained earnings on October 1, 2019 was a decrease of $286.

(Expressed in thousands of Bermuda dollars, except as noted)

13. Leases *(continued)*

	Buildings	Equipment	Total
Current	$ 853	$ 177	$ 1,030
Non-current	2,102	56	2,158
Balance at September 30, 2020	$ 2,955	$ 233	$ 3,188

Total amount of interest expense on lease liabilities recognised in profit or loss for the year was $251 (2019 - $0).

14. Due to depositors

Total deposits include $455,956 (2019 - $405,120) denominated in US dollars and $45,312 (2019 - $39,009) 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:

	September 30, 2020		September 30, 2019	
	Average effective interest rate	Amount	Average effective interest rate	Amount
Demand	0.05%	$ 596,800	0.39%	$ 489,582
Up to 3 months	0.74%	158,587	1.52%	126,227
3 - 6 months	1.86%	154,806	2.36%	96,167
6 - 12 months	0.82%	110,446	2.14%	129,431
1 - 5 years	2.17%	98,451	2.56%	206,543
Total	0.66%	1,119,090	1.35%	1,047,950
Accrued interest		12,137		12,410
Total		$ 1,131,227		$1,060,360

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 to or due from related parties have no stated maturity date or repayment terms, are unsecured and carry interest at 5% (2019 - 5%).

The work force of the Bank included 23 key management employees in 2020 (2019 - 24). During the year ended September 30, 2020, salaries, benefits and directors fees totalling $ 4,776 (2019 - $5,701) were paid to key management employees of the Bank. In addition there are 13 (2019 - 11) directors who are considered key management personnel.

(Expressed in thousands of Bermuda dollars, except as noted)

15. Related party transactions and balances (continued)

Consolidated Statement of Comprehensive Income

		September 30, 2020		September 30, 2019
Interest income	$	3,882	$	1,920
Interest expense	$	464	$	593
Fee and commission income	$	4,119	$	4,177
Personnel expenses	$	6,445	$	7,350
Other expenses	$	2,535	$	2,315
Rent	$	451	$	347

Included in other expenses are $292 (2019 - $305) paid to key management employees. Personnel expenses includes $4,484 (2019 - $5,395) 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, 2020, the Bank recharged $71 (2019 - $83) to companies associated through significant influence, representing portions of certain expenses provided by the Bank. Of this amount, $26 (2019 - $34) has been included in personnel expenses and $45 (2019 - $49) has been included in other expenses in the consolidated statement of comprehensive income.

Consolidated Statement of Financial Position

		September 30, 2020		September 30, 2019
Related party balances - Included in assets				
Cash and cash equivalents (Companies associated through significant influence)	$	45,169	$	-
Loans and advances (Key management personnel)	$	4,213	$	4,963
Loans and advances (Entities with significant influence)	$	15,635	$	15,929
Loans and advances (Companies associated through significant influence)	$	6,304	$	225
Investment Securities (Companies associated through significant influence)	$	45,846	$	10,420
Accounts receivable and prepaid expenses (Parent)	$	70	$	6
Accounts receivable and prepaid expenses (Key management personnel)	$	-	$	21
Accounts receivable and prepaid expenses (Companies associated through significant influence)	$	379	$	205
Due from related parties (Companies associated through significant influence)	$	1,190	$	808
Related party balance - Included in liabilities				
Due to depositors (Key management personnel)	$	7,610	$	5,642
Due to depositors (Entities with significant influence	$	1,255	$	481
Due to depositors (Companies associated through significant influence)	$	82,369	$	75,680
Accounts payable and accrued liabilities (Parent)	$	28	$	725
Accounts payable and accrued liabilities (Key management personnel)	$	86	$	9
Accounts payable and accrued liabilities (Companies associated through significant influence)	$	53	$	21
Due to related parties (Parent)	$	705	$	994

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.

(Expressed in thousands of Bermuda dollars, except as noted)

16. Accounts payable and accrued liabilities

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

	September 30, 2020	September 30, 2019
Unsettled trades	$ 80,165	$ -
Accounts payable	1,611	550
Accrued liabilities	1,839	2,530
Bonus payable	742	851
Foreign currency tax payable	357	354
Visa rewards payable	309	252
Total	$ 85,023	$ 4,537

17. General reserve, retained earnings and contributed surplus

The total authorized, issued and fully paid Bermuda dollar common share capital is 4,999,999 (2019 - 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, 2020, dividends of $nil (2019 - $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.

18. Net interest income

Interest income is comprised of:

	September 30, 2020	September 30, 2019
Loans and advances	$ 48,468	$ 51,640
Investment securities carried at FVOCI	2,678	5,630
Investment securities carried at amortised cost	1,098	695
Cash equivalents	2,890	2,781
Other interest income	115	333
Total interest income	$ 55,249	$ 61,079

Interest expense is comprised of:

	September 30, 2020	September 30, 2019
Customer accounts	$ 11,250	$ 14,353
Total interest expense	$ 11,250	$ 14,353

(Expressed in thousands of Bermuda dollars, except as noted)

19. Net fee and commission income

Fee income is comprised of:

		September 30, 2020		September 30, 2019
Investment Management	$	6,080	$	6,260
Banking		7,463		7,912
Brokerage		1,472		1,542
Trust		880		766
Other		589		616
Total fee income	$	16,484	$	17,096

Fee expense is comprised of:

		September 30, 2020		September 30, 2019
Banking	$	4,386	$	4,241
Investment Management		862		759
Other		267		282
Total interest expense	$	5,515	$	5,282

20. Other expenses

		September 30, 2020		September 30, 2019
Information technology expenses	$	3,484	$	3,728
Office expenses		1,957		1,917
Professional fees		1,636		1,822
Rent expenses		-		1,022
Advertising		559		757
Recruitment, training and travel		441		1,013
License and insurance costs		2,094		1,858
Bank charges		591		578
Directors' fees and expenses		292		305
Miscellaneous expenses		1,540		1,576
Total other expenses	$	12,594	$	14,576

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, 2020, contributions amounting to $791 (2019 - $786) 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, 2020, were contributions amounting to $147 (2019 - $170), which were made by the Bank on behalf of its key management personnel.

(Expressed in thousands of Bermuda dollars, except as noted)

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.

	September 30, 2020	September 30, 2019
Commitments to extend credit:		
Original term to maturity of one year or less	$ 18,077	$ 8,459
Original term to maturity of more than one year	8,753	11,053
Total credit commitments	$ 26,830	$ 19,512

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 $826 (2019 - $1,466). Of this amount, $176 (2019 - $816), 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 $650 (2019 - $650).

The remaining terms of all guarantees and letters of credit range up to 3 months (2019 - 1 month to 15 months).

Lease commitments

For the year ended September 30, 2019, the Bank had obligations under operating leases, assessed under IAS 17, for three buildings that expire on January 31, 2023, December 31, 2029 and on February 3, 2033, respectively. The Bank's lease obligations for the current year are accounted for under IFRS 16 (see Note 3 and Note 13).

Leases typically run for a period of up to 20 years, with an option to renew the lease after that period. Lease payments can be adjusted based on either market values, or the movement in the consumer price index. Future minimum lease payments under the non-cancellable operating leases are as follows:

(Expressed in thousands of Bermuda dollars, except as noted)

22. Commitments, guarantees and contingent liabilities (continued)

Lease commitments *(continued)*

Fiscal period ended

	September 30, 2019
2019	$ -
2020	1,020
2021	1,020
2022	1,020
2023	441
2024	151
Thereafter	859
	$ 4,511

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, 2020, the Bank has contractually committed to incur costs for I.T. systems of $4,936 (2019 - $1,540) within one year and $3,462 (2019 - $3,025) after more than one year.

23. 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, 2020 (2019: No specific disclosures).

CLARIEN

Clarien Bank Limited

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