

**TOWERBANK, LTD.
PILLAR 3 DISCLOSURE
REPORT 2022**

I. OVERVIEW OF RISK MANAGEMENT AND RISK WEIGHTED ASSETS (RWA)

Corporate Governance

Corporate Governance according to high international standards, is a part of our identity. We ensure the responsible, value-driven management and control of Towerbank, Ltd., through our corporate governance system, which has three key elements: good relations with shareholders, effective cooperation between the Board of Directors and Executive Staff, as well as transparent and early reporting. Fundamental basis is provided by international best practices and regulations applied by Towerbank International, Inc. and Subsidiaries.

The Board of Directors is committed in achieving long term success for the Group by presenting a differentiated offer for customers and generating stable and sustainable returns for shareholders. The bank is led by a Board of Directors comprising executive and independent Non-Executive Directors. Board meetings are scheduled on a quarterly basis. The schedule enables the Directors to regularly review corporate strategy, operations, result of the business and to discharge their duties within a framework of prudent and effective controls.

The Bank's activities are mainly related to the use of financial instruments and, as such, the statement of financial position consists mainly of financial instruments. The Bank is exposed to the following risks related to the financial instruments it holds:

- Credit and counterparty risk
- Concentration Risk
- Country Risk
- Liquidity risk
- Market risk
- Operational risk

The model of the Bank's risk management is based on the following principles:

- Independence of the risk management areas and the business areas.
- Participation of the Board of Directors in decision making.

Towerbank, Ltd.'s risk management includes the following:

The Board of Directors is responsible of being aware and understanding the main risks to which the Bank is exposed, thus establishing reasonable limits and procedures for such risks and ensuring that Management adopts the necessary measures for the identification, measurement, surveillance and control of such risks. For that purpose, committees have been appointed to take care of the periodical administration and surveillance of the risks to which the Bank is exposed.

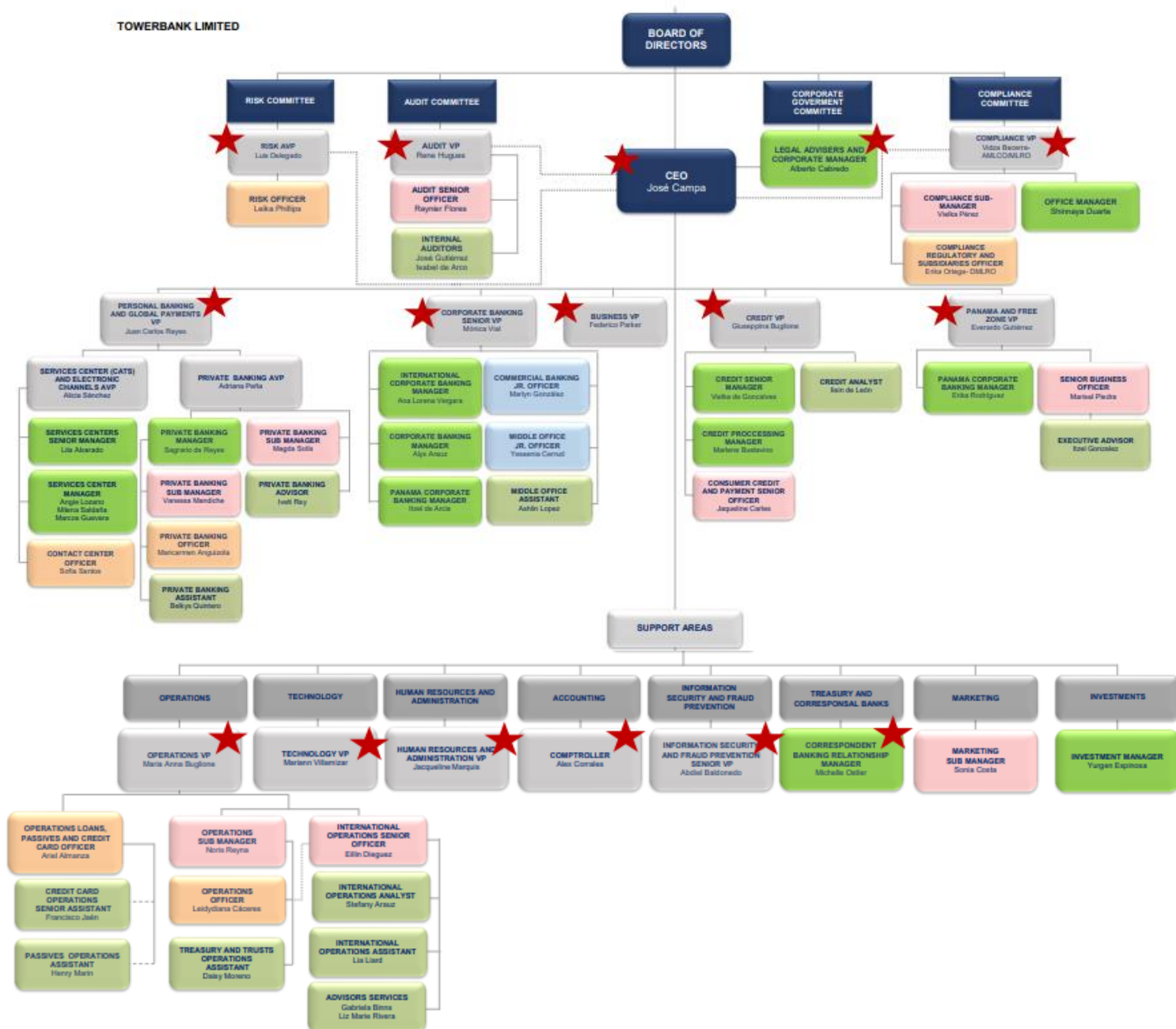
To assist the Board of Directors in carrying out its functions and to provide independent oversight of the internal control and risk management framework, a substantial part of the Board's responsibilities is delegated to the Board's Committees. The Board is kept up to date on the activities of the Committees through reports. These Committees are:

- Audit Committee, under the management of the Board of Directors.
- Asset and Liability Committee ("ALCO").
- Investment Committee.
- Risk Committee.
- Credit Committee.
- Technology Committee.
- Compliance Committee.
- Information Security Committee.

The main risks identified by the Bank are credit and counterparty, liquidity, market and operational risks, which are described in each of the established sections.

Organizational Structure

As a subsidiary, Towerbank, Ltd. is supported by the organizational structure of Towerbank International, Inc.



Statement of Risk Appetite

Risk appetite is defined in the Bank as the amount and type of risks that are considered reasonable to assume in the implementation of its business strategy.

The Board of Directors is responsible for setting the risk appetite of the Bank, monitoring the actual risk profile and guaranteeing consistency between the two. The General Manager is responsible for achieving the desired risk profile and management of risks daily. This sets the foundation of the risk culture for Towerbank and essentially the “tone at the top.” The risk appetite is set out the level of risks the Bank is prepared to take or accept in order to achieve its business objectives.

In general, the Group risk’s appetite is based on maintaining the following quality objectives:

- A prudent client and counterparty selection profile based on low and predictable risk.
- Our credit risk strategy is to mitigate risks by focusing mainly on:
 - Private companies with over 5 years in operation.
 - Reputable and professional management.
 - Growing trend in business activity and profitability.
 - Commendable track record in exports.
 - Established market position.
 - Adequate financial indicators.
 - Collaterals.
- Maintain a total capital ratio over the minimum capital adequacy established by regulators and no less than 10% of the risk weighted assets.
- Risk tolerance levels are established to maintain and ensure sound management of the bank main risks.
- Securities with high liquidity.
- Well diversified source of funding.

The risk appetite statement is integral in the risk management framework of a Bank, ensuring that the risk management framework includes detailed policies that set specific firm-wide prudential limits on the Banks’ activities.

Strategy Focus

The bank is focusing in implementing its new strategy under the following differentiated elements:

- Simple and caring, that should be ingrained in People, Process & Products, Channels and Technology and under the actual assumptions: The customer desires simplicity, price is not a viable differentiator in banking, there is a positive correlation between price and risk and technology will give way to radical transformation in banking.
- Safeguard the reputation of the bank, by further strengthen the culture of compliance and prevention of money laundering making a total commitment of the entity.

Our Strategy considers relevant key success factors:

- Safeguard the reputation of the Bank:
 - Continuous implementation of the best practices of Corporate Governance, Risk and Compliance.
 - Ensure compliance with the requirements of Correspondent Banks
- Maintain an adequate liquidity position
- Increase the Net Interest Margin
- Improve our Operational Efficiency

Capital Management

To control the adequacy of its capital, the Bank uses the standards applied by the Cayman Island Monetary Authority (CIMA).

These standards compare the Company's total Tier 1 and Tier 2 capital to total risk-weighted assets. Tier 1 capital consists of shareholders' equity. Tier 2 capital includes the regulatory reserve. The minimum requirement for global capital is 12% of risk-weighted assets. Equity strength is determined by comparing the required equity with the accounting equity at the calculation date. Accounting equity is made up of 100% of the primary capital plus undistributed profits and any equity reserve.

COVID-19 effect

Coronavirus pandemic 2019 (COVID-19) has affected the world economy during 2020 and 2021. Almost all industries faced challenges associated with liquidity issues and specific sectors such as air and cargo transportation, entertainment, retail, restaurants, hospitality and tourism experienced a significant operational decline due to quarantine measures adopted in different countries, including Panama. However, by December 2021, these adverse effects have begun to diminish due to the economic reactivation that has allowed the development of the productive activity, achieving an improvement in the levels of employment, household income, containment of inflation, among others. This situation was periodically evaluated by Management during the year ended December 31, 2021, in order to take all the timely measures.

In addition, the Bank considered the current economic environment, including the effects of the COVID-19 pandemic on business when preparing the Statement of Financial Position, considering the best available reliable information and estimates made at the date of preparation and issuance of the financial statements, related to a pandemic of this magnitude.

The Bank's Management will continue to monitor and modify the operating and financial strategies to mitigate potential risks that could affect its business in the short, medium and long term.

As of December 31, 2021, the Bank's modified portfolio totals US\$0 (2021: US\$12,177).

Template OV1: Overview of RWA

Risk-weighted assets and capital requirements under Pillar 1 as of December 31, 2022.

		a	b	c
		RWA		Minimum capital requirements
		T	T-1	T
1	Credit risk (excluding counterparty credit risk) (CCR)	51,273,181	46,319,871	6,152,782
2	Securitisation exposures	0		0
3	Counterparty credit risk	0		0
4	Of which: current exposure method	0		0
5	Of which: standardized method	0		0
6	Market risk	0		0
7	Of which: Equity risk	0		0
8	Operational risk	1,173,482	1,173,482	140,818
9	Of which: Basic Indicator Approach	1,173,482	1,173,482	140,818
10	Of which: Standardised Approach	0		0
11	Of which: Alternative Standardised	0		0
12	Total	52,446,663	47,493,353	6,293,600

II. LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

As of December 31, 2022, no differences have been identified between the Bank's accounting reports and the scope of regulatory reporting.

For the purposes of the presentation of the audited financial statements for the period 2022, specifically in the statement of financial position as of December 31, 2022, the accrued interest receivable is part of or added to the balance of the capital in the items of deposits placed in banks and in the loan portfolio. In liabilities, the accrued interest payable on time deposits is part of the capital balance of deposits collected from customers.

Towerbank, Ltd.'s Basel II and QPR regulatory report prepared as of December 31, 2022, considers accrued interest receivable on the asset, and accrued interest payable on the liability, as part of the other assets and other liabilities, respectively.

As of December 31, 2022, the Bank does not have contingent account operations, in off balance sheet items.

Below is the Template LI1 showing the carrying amount based on the financial statements and regulatory reporting as of December 31, 2022.

	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash Items	6,636,571	0	0.00	0.00	0.00	0.00	0.00
Items in the course of collection from other banks	96,509,566	34,958,133	0.00	0.00	0.00	0.00	0.00
Investments – Held-to-maturity		0	0.00	0.00	0.00	0.00	0.00
Financial assets at fair value		0	0.00	0.00	0.00	0.00	0.00
Derivative financial instruments		0	0.00	0.00	0.00	0.00	0.00
Loans and advances to banks		0	0.00	0.00	0.00	0.00	0.00
Loans and advances to customers	22,591,481	11,554,270	0.00	0.00	0.00	0.00	0.00
Reverse repurchase agreements and other similar secured lending		0	0.00	0.00	0.00	0.00	0.00
Available for sale financial investments	9,513,046	0	0.00	0.00	0.00	0.00	0.00
Other assets	4,247,072	4,760,778	0.00	0.00	0.00	0.00	0.00
Total assets	139,497,736	51,273,181	0.00	0.00	0.00	0.00	0.00
Liabilities							
Deposits from banks	26,178,749	0	0.00	0.00	0.00	0.00	0.00
Items in the course of collection due to other banks	0	0	0.00	0.00	0.00	0.00	0.00
Customer accounts	95,766,307	0	0.00	0.00	0.00	0.00	0.00
Repurchase agreements and other similar secured borrowings	0	0	0.00	0.00	0.00	0.00	0.00
Trading portfolio liabilities	0	0	0.00	0.00	0.00	0.00	0.00
Financial liabilities designated at fair value	0	0	0.00	0.00	0.00	0.00	0.00
Other Liabilities	3,309,810	0	0.00	0.00	0.00	0.00	0.00
Total Liabilities	125,254,866	0	0.00	0.00	0.00	0.00	0.00

Below is the Template LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statement.

		a	b	c	d	e
		Total	Items subject to:			
			Credit risk framework	Securitization framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	139,497,736	51,273,181	0.00	0.00	0.00
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	125,254,866	0.00	0.00	0.00	0.00
3	Total net amount under regulatory scope of consolidation	139,497,736	51,273,181	0.00	0.00	0.00
4	Off-balance sheet amounts	0.00	0.00	0.00	0.00	0.00
5	Differences in valuations	0.00	0.00	0.00	0.00	0.00
6	Differences due to different netting rules, other than those already included in row 2	0.00	0.00	0.00	0.00	0.00
7	Differences due to consideration of provisions	0.00	0.00	0.00	0.00	0.00
8	Differences due to prudential filters	0.00	0.00	0.00	0.00	0.00
9	Exposure amounts considered for regulatory purposes	139,497,736	51,273,181	0.00	0.00	0.00

III. CAPITAL

The authorized capital of Towerbank, Ltd., is comprised of 10,000,000 shares at a par value of \$1.00, of which 250,000 shares are designated as ordinary shares and 9,750,000 shares as redeemable preferred shares.

	2022	2021
Property and equipment	3,408,315	217,390
Time deposits	<u>10,647,000</u>	<u>1,257,000</u>
Total	<u>14,055,315</u>	<u>1,474,390</u>

The redeemable preference shares are subject to the following rights and conditions:

- (i) All redeemable preference shares are issued at par and fully paid up at the time of issue.
- (ii) Except as disclosed below, all redeemable shares rank *Pari passu* with all ordinary shares of the Bank for all purposes, including dividend entitlement and voting rights.
- (iii) Each redeemable preference share is subject to redemption by the Bank at its par value at the option of the Bank at any time.
- (iv) If the Bank is wound up, the holder of each redeemable preference share is entitled to the return of the nominal value of such share and only to the return of such nominal value. Such entitlement ranks in priority to the entitlement of each ordinary shareholder so that if the assets available for distribution amongst the holders of redeemable shares would be insufficient to repay the aggregate nominal value of such shares, the assets would be distributed so that the losses are borne by the holders of such shares in proportion to the aggregate nominal value held by each of them respectively at the commencement of the winding up.
- (v) Upon a redemption of redeemable preference shares the Bank may pay the whole or any part of the nominal value or premium (if any) in such manner authorized by Statute, including out of capital, as may be authorized by the Board of Directors.

In recent years there have been no changes in the capital structure in issued shares.

Capital management

The Bank manages its capital to ensure:

- Compliance with the requirements set by the Cayman Islands Monetary Authority (the “Authority”).
- Maintenance of a strong capital base sufficient to cover for business activities.
- The continuance as a going concern while maximizing returns to its shareholder by optimizing the balance of debt and equity.

The Bank, as an entity regulated by the Authority, requires maintaining a total capital ratio measured based on risk-weighted assets.

The capital adequacy and use of regulatory capital are monitored by the Bank's Management based on guidelines and techniques developed by the Authority. The information requirements are referred to the regulating entity on a quarterly basis.

The Bank analyzes its regulatory capital by applying the rules of the Authority based on Guidance Notes for the Completion of the Basel II forms and Quarterly Prudential Returns (QPR).

The Authority requires that capital funds of banks shall not be less than 12% of its risk-weighted assets. For these purposes, the assets should be considered net of their respective reserves and weighted assets specified in the Guidelines of the Authority. The Authority also requires minimum net worth of KYD 400,000 or USD\$500,000.

The following is the calculation of capital adequacy of the Bank, as of December 31, 2022 and 2021:

	2022	2021
Primary capital (tier 1)		
Common stocks	250,000	250,000
Preferred stocks	9,518,847	9,518,847
Additional paid-in capital	3,431,153	3,431,153
Retained earnings	1,434,537	857,349
Total regulatory capital	14,634,537	14,057,349
Accumulated other comprehensive gain or loss	(391,667)	-
Total equity	14,242,870	14,057,349
Total eligible capital	13,598,954	13,968,894
Risk-weighted assets	52,446,664	47,493,353
Capital index		
Total regulatory capital expressed as a percentage of risk weighted assets	25.93%	29.41%

Below, we present the qualitative and quantitative disclosures in three tables that are described: Scope, Capital Structure, and Capital Adequacy.

Table 1 – Scope

Qualitative Disclosures	(a)	The name of the top corporate entity in the group to which these rules and guidelines apply.	Towerbank, Ltd. (the "Bank") was incorporated on September 8, 1980, under the laws of the Cayman Islands and, in 1999, became a wholly owned subsidiary of Towerbank International Inc., an entity incorporated in the Republic of Panama
	(b)	An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (a) that are fully consolidated; (b) that are pro-rate consolidated; (c) that are given a deduction treatment; and (d) from which surplus capital is recognized; plus (e) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).	Not Applicable
	(c)	Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.	Not Applicable
Quantitative Disclosures	(d)	The aggregate amount of surplus capital of insurance subsidiaries (whether deducted or subjected to an alternative method) included in the capital of the consolidated group.	Not Applicable
	(e)	The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. that are deducted and the name(s) of such subsidiaries.	Not Applicable
	(f)	The aggregate amounts (e.g. current book value) of the firm's total interests in insurance entities, which are risk-weighted rather than deducted from capital or subjected to an alternate group-wide method, as well as their name, their country of incorporation or residence, the proportion of ownership interest and, if different, the proportion of voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using the deduction or alternate group-wide method.	Not Applicable

Table 2 – Capital Structure

Qualitative Disclosures	(a)	Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.	Towerbank, Ltd. maintains a basic capital structure with the issuance of common and preferred shares and has not developed hybrid or complex capital instruments.
Quantitative Disclosures	(b)	The amount of Tier 1 capital, with separate disclosure of:	
		• Paid-up share capital/common stock.	13,200,000
		• Reserves.	0
		• Minority interests in the equity of subsidiaries.	0
		• Qualifying innovative instruments.	0
		• Other capital instruments.	1,434,537
		• Surplus capital from insurance companies.	0
		• Regulatory calculation differences deducted from Tier 1 capital.	0
		• Other amounts deducted from Tier 1 capital, including goodwill: and	-641,878
		• Investments;	0
	(c)	The total amount of Tier 2 and Tier 3 capital.	0
	(d)	Other deductions from capital.	0
	(e)	Total eligible capital.	13,992,659

Table 3- Capital adequacy

Qualitative Disclosures	(a)	A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.	
Quantitative Disclosures	(b)	Capital requirements for credit risk: <ul style="list-style-type: none"> <input type="checkbox"/> Portfolios subject to standardized or simplified standardized approach, disclosed separately for each portfolio; and <input type="checkbox"/> Securitization exposures. 	The Bank continues to use the methodology selected for Credit Risk Mitigation in the Banking Book with the Collateral Simplified Approach. No applicable
	(c)	Capital requirements for market risk: <ul style="list-style-type: none"> <input type="checkbox"/> Standardized Approach. 	The Bank does not hold assets classified as financial instruments that are subject to market risk assessment.
	(d)	Capital requirements for operational risk: <ul style="list-style-type: none"> <input type="checkbox"/> Basic Indicator Approach; <input type="checkbox"/> Standardized Approach; and <input type="checkbox"/> Alternative Standardized Approach. 	The Bank calculates operational risk requirements based on the Alpha Factor of 15% of its average gross income over the past three years. No applicable No applicable
	(e)	Total and Tier 1 capital ratio: <ul style="list-style-type: none"> <input type="checkbox"/> For the top consolidated group; and <input type="checkbox"/> For significant bank subsidiaries (stand alone or sub-consolidated). 	<div>14,242,870</div> <div>14,242,870</div>

IV. CREDIT RISK

It is the risk of a financial loss for the Bank that may take place if a client or the counterparty of a financial instrument fails to meet their contractual obligations. This risk originates mainly on cash and cash equivalents, deposits with banks, loans to clients and investment in trading instruments.

For purposes of risk management, the Bank considers all the elements of exposure to credit risk, debtor risk, country risk, and sector or industry risk.

The respective committees appointed by the Board of Directors periodically look after the financial condition of the debtors and issuers of negotiable instruments that involve a credit risk for the Bank.

Each business unit is responsible for the quality and performance of loans in their portfolios, as well as for control and monitoring of their risks. However, through the Risk Department, which is independent of the business areas, the financial condition of the debtor and its ability to pay is periodically assessed, giving primary importance to higher individual debtors. Loans that are not individually significant are collectively assessed for impairment by Banking together loans with similar risk characteristics.

Allowances for deterioration of the accounts are assessed individually and involves ensuring that an adequate balance of allowance for credit losses is maintained.

Credit Authorities

The Board of Directors (BOD) has overall responsibility for the credit policy of the bank and subsequent revisions of same. Other specific responsibilities include the following:

- Establishing portfolio distribution guidelines in conformity with existing regulations.
- Approving credit approval authorities, including the level of delegation.
- Approving all credits in excess of the limits delegated to CC.
- Approving changes in the risk limits.

Credit Committee (CC)

The Credit Committee (CC) is a standing committee formed by the President of the Board, the CEO, at least two Board Members, the Corporate SVP, the Credit VP and the Risk AVP.

The CC exercises the Board's responsibilities on credit and credit related issues which include:

- Approving credit policies
- Approving all credits, which are within its approval limit
- Approving risk criteria for lending
- Approving provisions for non-performing loans based on presentation by the CEO and in line with existing regulations
- Approving new financial products initiatives.
- Approving the rating grid for credits and the credit process.

The Committee shall meet as many times as required to approve credit facilities. The Bank has various tools and techniques to evaluate and monitor risks:

- Internal qualitative and quantitative tools that complement the credit decision making process.
- Scenario analysis and stress testing to complement the market, credit and liquidity risk assessment.
- IFRS 9 and forward-looking model.
- Stress tests to calculate liquidity under possible stress scenarios, and to see the impact of possible raises or decreases of interest on the organization's financial margin.
- Back testing tests to determine the consistency, accuracy and reliability of the models and tools used to calculate the estimated risk values.

Template CR1: Credit quality of assets

The following table analyzes the loan portfolio exposed to credit risk and its corresponding evaluation:

<u>2022</u>	<u>Consumer</u>				<u>Corporate</u>		
	<u>Personal</u>	<u>Credit Card</u>	<u>Car loans</u>	<u>Overdraft</u>	<u>Trade</u>	<u>Overdraft</u>	<u>Total Loans</u>
<u>Individual Impairment</u>							
Special Mention	-	-	-	-	-	1,137	1,137
Sub-normal	-	-	-	-	-	111,683	111,683
Impairment provision	-	-	-	-	-	(31,898)	(31,898)
Carrying amount	-	-	-	-	-	80,922	80,922
<u>Delinquent</u>							
Normal	-	-	-	-	-	-	-
<u>Non-delinquent without impairment</u>							
Normal	1,652,365	-	159,439	364,708	13,379,251	6,926,069	22,481,832
Total gross amount	1,652,365	-	159,439	364,708	13,379,251	7,006,991	22,562,754
Total impairment provision	(5,859)	-	(551)	(1,425)	(35,957)	(20,999)	(64,791)
	1,646,506	-	158,888	363,283	13,343,294	6,985,992	22,497,963
Interest receivable							93,518
Total carrying amount							22,591,481

The previous table includes information for individual, Bank and impaired assets, and the premises used for these disclosures are as follows:

- Impaired loans - The impairment on loans is determined by the principal and interests, based on contractual terms.
- Delinquent but not impaired - Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.
- Renegotiated loans - Loans that correspond mainly to difficulties in the debtor's ability to pay where payment arrangements have been extended, restructured, refinanced and made in any other form, causing changes in deadlines and/or amounts or other terms and conditions of the original contract.
- Allowance for impairment - The Bank has established allowance for impairment, which represents an estimate on losses incurred in the loan portfolio. The main components of this reserve are linked to individual risks, and the allowance for loan losses is established collectively considering a homogeneous Bank of assets regarding losses incurred, identified in loans subjected to individual impairment.
- Write-offs policy - Loans are charged to losses when they are determined uncollectible. The following are taken into account after considering a series of factors such as: payment capacity of the debtor, insufficiency of guarantee or when all resources to recover the credit have been carried out.

The Bank maintains collaterals on granted loans to clients such as mortgages and other guarantees.

Loan portfolio guarantees are detailed as follows:

	2022	2021
Property and equipment	3,408,315	217,390
Time deposits	<u>10,647,000</u>	<u>1,257,000</u>
Total	<u>14,055,315</u>	<u>1,474,390</u>

Risk concentration of financial assets with credit risk exposure

The Bank monitors the concentration of credit risk by economic sector and geographical location. The exposure according to geographical location has been classified based on each country's credit rating where cash flows were generated to obtain recovery of the liability and/or from which the return on invested resources is obtained. The concentration analysis of credit risk on the date of the financial statements is the following:

	Cash and cash equivalents and deposits with other banks	Investment securities measured at FVT OCI	Gross loans	Customers' liabilities under acceptances	Off-balance sheet risk
December 31, 2022					
Carrying amount	103,148,137	9,513,046	22,688,170	3,262,492	-
Geographic region:					
Panama	99,449,967	-	8,538,970	3,262,492	-
Latin America and Caribbean					
Nicaragua	-	-	5,153	-	-
Costa Rica	-	-	9,250,000	-	-
Others	-	-	4,800,529	-	-
United States of America and Canada	3,698,170	9,513,046	-	-	-
Interest receivable	-	-	93,518	-	-
	103,148,137	9,513,046	22,688,170	3,262,492	-

The loan portfolio maintains a high level of credit quality. At December 31, 2022 the delinquent loans are less than 0.01%. Nearly 16.0% of the total portfolio is collateralized.

International Financial Reporting Standards 9 ("IFRS 9")

Towerbank, Ltd. developed a methodology for the classification and measurement of the provision for impairment of financial assets based on International Accounting Standard IFRS 9. As of January 1, 2018, the Bank adopted IFRS 9 as a methodology, leaving behind IAS 39, in force in the books of the Bank until December 31, 2017. The main change in the methodology is in the form of quantifying the provision for impairment of financial assets. Under IAS 39 it was quantified by loss incurred and under IFRS 9, it is quantified by expected loss. The Bank carried out the implementation of IFRS 9 in support of Deloitte. It included changes in the processes, procedures and models of provision estimates. The change in methodology did not have an impact on the provision of financial assets.

Incorporation of forward-looking information

The Bank uses prospective forward-looking information that is available without undue cost or effort in its assessment of significant increases in credit risk, as well as in its measurement of expected loss provisions. The Company's Risk Department uses external and internal information to generate a 'base case' scenario of the future forecast of relevant economic variables along with a representative range of other possible projected scenarios. The external information used includes economic data and forecasts published by government agencies and monetary authorities. These short and medium term projections are the fundamental basis of the forward-looking model.

The Bank applies probabilities to the identified forecast scenarios. The base case scenario is the single most likely outcome. The Company has identified and documented credit risk and expected loss analysis and, using statistical analysis of historical data, has estimated the relationships between macroeconomic variables and credit risk and credit losses.

The effects known to Management and that can be reasonably estimated have been recognized in the consolidated financial statements as of December 31, 2022. The main assumptions described above may change as economic and market conditions change.

Credit quality analysis of loans by stage:

2022

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
<u>Classification</u>				
Grade 1	22,481,832	-	-	22,481,832
Grade 2	-	-	-	-
Grade 3	-	-	112,820	112,820
Gross amount	22,481,832	-	112,820	22,594,652
Interest receivable	93,518	-	-	93,518
Reserve for expected credit losses	(42,657)	-	(56,069)	(98,726)
Net carrying value	22,532,693	-	56,751	22,589,444

2021

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
<u>Classification</u>				
Grade 1	8,374,877	-	-	8,374,877
Grade 2	-	-	-	-
Grade 3	-	-	115,855	115,855
Gross amount	8,374,877	-	115,855	8,490,732
Interest receivable	23,025	-	529	23,554
Reserve for expected credit losses	(19,633)	-	(65,586)	(85,219)
Net carrying value	8,378,269	-	50,798	8,429,067

Below is the Template CR1 of the gross carrying value of the defaulted and non-defaulted exposure of financial assets as of December 31, 2022.

		a	b	c	d
		Gross carrying values of:		Allowances/ impairments	Net values (a+b-c)
		Defaulted exposures	Non- defaulted exposures		
1	Loans	0	22,598,598	96,689	22,501,909
2	Debt Securities	0	9,513,046	0	9,513,046
3	Off-balance sheet exposures	0	0	0	0
4	Total	0	32,111,644	96,689	32,014,955

Template CR2: Changes in stock of defaulted loans and debt securities

As of December 31, 2022, no defaulted exposures have been identified in the loan portfolio, which is why the following table does not present registered movements.

		a
1	Defaulted loans and debt securities at end of the previous reporting period	0.00
2	Loans and debt securities that have defaulted since the last reporting period	0.00
3	Returned to non-defaulted status	0.00
4	Amounts written off	0.00
5	Other changes	0.00
6	Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)	0.00

Credit Risk Mitigation

The Bank maintains collaterals on granted loans to clients such as mortgages and other guarantees.

As of December 31, 2022 and 2021, the loan portfolio guarantees are detailed as follows:

	2022	2021
Property and equipment	3,408,315	217,390
Time deposits	10,647,000	1,257,000
Total	14,055,315	1,474,390

Template CR3: Credit risk mitigation techniques – overview

Carrying values. Banks must include all CRM techniques used to reduce capital requirements and disclose all secured exposures.

		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	8,536,166	14,055,315	14,055,315	0	0	0	0
2	Debt securities	0	0	0	0	0	0	0
3	Total	8,536,166	14,055,315	14,055,315	0	0	0	0
4	Of which defaulted	0	0	0	0	0	0	0

Credit Risk – Standardized Approach

Template CR4: Standardized approach – credit risk exposure and CRM effects

The effect of CRM (comprehensive and simple approach) on standardized approach capital requirements' calculations. RWA density provides a synthetic metric on riskiness of each portfolio.

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA Density
1	Sovereigns and their central banks	9,460,545.96	0	9,460,545.96	0	0	
2	Non-central government public sector entities	0	0	0	0	0	
3	Multilateral development banks	0	0	0	0	0	
4	Banks	102,136,570.78	0	102,136,570.78	0	34,958,133.62	34%
5	Securities firms	0	0	0	0	0	
6	Corporates	17,231,385.65	0	17,231,385.65	0	6,866,432.84	40%
7	Regulatory retail portfolios	2,168,814.25	0	2,168,814.25	0	1,592,110.69	73%
8	Secured by residential property	0	0	0	0	0	
9	Secured by commercial real estate	3,095,725.81	0	3,095,725.81	0	3,095,725.81	100%
10	Past-due exposures	0	0	0	0	0	
11	Higher-risk categories	0	0	0	0	0	
12	Other assets	4,760,778.31	0	4,760,778.31	0	4,760,778.31	100%
13	Total	138,853,820.76	0.00	138,853,820.76	0.00	51,273,181.27	37%

Template CR5: Standardized approach – exposures by asset class and risk

		a	b	c	d	e	f	g	h	i	j
	Risk weight*										Total credit exposure amount (post CCF and post- CRM)
	Asset classes	0%	10%	20%	35%	50%	75%	100%	150%	Others	
1	Sovereigns and their central banks	9,460,545	0	0	0	0	0	0	0	0	9,460,545.00
2	Non-central government public sector entities	0	0	0	0	0	0	0	0	0	0.00
3	Multilateral development banks										0.00
4	Banks	0	0	53,700,506	0	48,436,065	0	0	0	0	102,136,571.00
5	Securities firms	0	0		0	0	0		0	0	102,136,571.00
6	Corporates	10,364,953	0	0	0	0	0	6,866,433	0	0	17,231,386.00
7	Regulatory retail portfolios	46,000	0	0	0	0	2,122,814	0	0	0	2,168,814.00
8	Secured by residential property		0	0	0	0	0	0	0	0	19,400,200.00
9	Secured by commercial real estate	0	0	0	0	0	0	3,095,725	0	0	3,095,725.00
10	Past-due loans	0	0	0	0	0	0	0	0	0	0.00
11	Higher-risk categories	0	0	0	0	0	0	0	0	0	3,095,725.00
12	Other assets	0	0	0	0	0	0	4,760,778	0	0	4,760,778.00
13	Total	19,871,498	0	53,700,506	0	48,436,065	2,122,814	14,722,936.00	0	0	138,853,819.00

V. COUNTERPARTY CREDIT RISK

Counterparty credit risk is the risk arising from the possibility that the counterparty may default on amounts owned on a derivative transaction. Derivatives are financial instruments that derive their value from the performance of assets, interest or currency exchange rates, or indexes.

Counterparty risk

It is the risk when a counterparty defaults in the settlement of purchase or sale transactions of securities or other instruments traded in stock markets. The risk management policies indicate counterparty limits that determine, at all times, the maximum net exposure on transactions to be liquidated that the Bank may have with counterparties. The ALCO is responsible for identifying those acceptable counterparties for the granting of credits or the placement of funds, bearing in mind the trajectory of each side, towards meeting their obligations, as well as indications of their ability and willingness to meet its commitments.

Towerbank, Ltd. has no counterparty credit risk as of December 31, 2022, as it does not conduct derivatives trading with financial instruments, which usually involve the preparation of interest rate, foreign exchange, gold, precious metal and commodities contracts.

Template CCR1: Analysis of CCR exposure by approach

		Total Replacement cost / Mark-to- market	Add-on Potential future exposure (PFE)	EAD post- CRM	RWA
1	Current Exposure Method (CEM)	0	0	0	0
2	Standardised Method			0	0
3	Simple Approach for credit risk mitigation (for SFTs)			0	0
4	Comprehensive Approach for credit risk mitigation (for SFTs)			0	0
5	Total				0

EAD post-CRM: Exposure at Default. This refers to the amount relevant for the capital requirements calculation having applied CRM techniques, credit valuation adjustments and specific wrong-way adjustments.

VI. LEVERAGE RATIO

Template LR1: Summary comparison of accounting assets vs leverage ratio exposure measure.

To reconcile the total assets in the published financial statements with the leverage ratio exposure measure.

		a
1	Total consolidated assets as per published financial statements	139,497,736.00
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	0
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	0
4	Adjustments for temporary exemption of central bank reserves (if applicable)	0
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	0
6	Adjustments for regular way purchases and sales of financial assets subject to trade date accounting	0
7	Adjustments for eligible cash pooling transactions	0
8	Adjustments for derivative financial instruments	0
9	Adjustment for securities financing transactions (i.e. repurchase agreements and similar secured lending)	0
10	Adjustment for off balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	0
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	0
12	Other adjustments	88,224,555.00
13	Leverage ratio exposure measure	51,273,181.00

Template LR2: Leverage ratio common disclosure.

To describe the components of the leverage ratio denominator, as well as information on the actual leverage ratio, minimum requirements and buffers.

		a	b
		T	T-1
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	51,273,181	46,319,870.78
2	Gross up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	0.00	0.00
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	0.00	0.00
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	0.00	0.00
5	(Specific and general provisions associated with on balance sheet exposures that are deducted from Basel III Tier 1 capital)	0.00	0.00
6	(Asset amounts deducted in determining Basel III Tier 1 capital and regulatory adjustments)	0.00	0.00
7	Total on balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	51,273,181	46,319,870.78
Derivative exposures			
8	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	0.00	0.00
9	Add on amounts for potential future exposure associated with all derivatives transactions	0.00	0.00
10	(Exempted central counterparty (CCP) leg of client cleared trade exposures)	0.00	0.00
11	Adjusted effective notional amount of written credit derivatives	0.00	0.00
12	(Adjusted effective notional offsets and add on deductions for written credit derivatives)	0.00	0.00
13	Total derivative exposures (sum of rows 8 to 12)	0.00	0.00
Securities financing transaction exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sale accounting transactions	0.00	0.00

15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0.00	0.00
16	Counterparty credit risk exposure for SFT assets	0.00	0.00
17	Agent transaction exposures	0.00	0.00
18	Total securities financing transaction exposures (sum of rows 14 to 17)	0.00	0.00
Other off-balance sheet exposures			
19	Off-balance balance sheet exposure at gross notional amount	0.00	0.00
20	(Adjustments for conversion to credit equivalent amounts)	0.00	0.00
21	(Specific and general provisions associated with off balance sheet exposures deducted in determining Tier 1 capital)	0.00	0.00
22	Off-balance sheet items (sum of rows 19 to 21)	0.00	0.00
Capital and total exposures			
23	Tier 1 capital	13,990,621.04	13,968,894.20
24	Total exposures (sum of rows 7, 13, 18 and 22)	51,273,181.00	46,319,870.78
Leverage ratio			
25	Basel III leverage ratio (including the impact of any applicable temporary exemption of central	27.29%	30.16%
25a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	27.29%	30.16%
26	National minimum leverage ratio requirement	12.00%	12.00%
27	Applicable leverage buffers	0.00%	0.00%

VII. LIQUIDITY

Liquidity risk

The liquidity risk is defined as the risk that the Bank may encounter difficulties in obtaining funds to meet its commitments and obligations on time.

The ALCO was appointed by the Board of Directors to periodically watch on the availability of liquidity given that the Bank is exposed to daily liquidity requirements on their current accounts, time deposits at maturity and loan disbursements.

The Bank has established minimum liquidity levels to meet the requirements of its operations and its commitments. Currently, given the economic outlook and the ability to access new financing lines with international banks, the Bank policy defines that the total amount of its liquidity must be invested in at least 50% cash in banks or cash equivalents and the remaining amount placed in investments with investment grade and tenor consistent with the trends of interest rates, so as to minimize credit risk and interest rate risk.

The following table shows an analysis of the Bank's assets and liabilities Banked into relevant maturities which have been determined based on the remaining period from the statement of financial position date to the contractual maturity date, except for loans, which are Banked according to the amounts to be received in the future.

The liquidity risk caused by the mismatch in the periods between assets and liabilities is measured by using the liquidity gap or financial mismatch. In this analysis, simulations and stress tests are done based on the difficulties caused by the lack of liquidity, such as, unexpected withdrawals of funds contributed by creditors and clients, impairment in the quality of the loan portfolio, volatility of resources obtained, etc.

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk, by the remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual discounted cash flow, whereas the Bank manages the liquidity risk based on a net basis, not resulting in a significantly different analysis.

Assets held to manage liquidity risk

The Bank maintains a diversified cash and securities portfolio to meet payment obligations and contingent financing in a dynamic market environment. Bank assets held for managing liquidity risk include:

- Cash and cash equivalents;

December 31, 2022	Carrying value
Deposits	121,945,056
Total liabilities	121,945,056
Assets held to manage liquidity risk	112,659,183

- Deposits in banks;
- Government bonds and other securities; and
- Secondary sources of liquidity in the form of highly liquid instruments in the business portfolio of the Bank.

As of December 31, 2022, cash in cash and deposits with banks for US\$103,146,137, the largest concentration for US\$98,436,065, representing 95.43%, is located in Towerbank International, Inc., which is the parent company. These funds are available for Towerbank, Ltd., to dispose of at any time to meet obligations or cover outflows by depositors. (MAS TABLA)

	Without maturity / past due	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Allowance for expected credit losses	Total
2022								
<i>Assets</i>								
Cash and cash equivalents	6,636,571	-	-	-	-	-	-	6,636,571
Deposits with banks	45,878,663	50,630,903	-	-	-	-	-	96,509,566
Investment securities measured at FVTOCI	-	52,500	-	-	9,460,546	-	-	9,513,046
Loans, net	-	2,057,915	2,565,077	11,323,224	6,741,954	-	(96,689)	22,391,481
Total	52,515,234	52,741,318	2,565,077	11,323,224	16,202,500	-	(96,689)	135,250,664
<i>Liabilities</i>								
Deposits:								
Demand	-	11,168,253	-	-	-	-	-	11,168,253
Saving	-	12,012,671	-	-	-	-	-	12,012,671
Time	-	11,052,871	13,167,074	23,746,043	24,619,395	-	-	72,595,363
Interbanking	-	26,178,749	-	-	-	-	-	26,178,749
Total	-	60,412,544	13,167,074	23,746,043	24,619,395	-	-	121,945,056
Net position	52,515,234	(7,671,226)	(10,601,997)	(12,422,819)	(8,416,895)	-	(96,689)	13,305,608

On the other hand, the deposits collected from customers as of December 31, 2022 for US\$121,945,056, remain stable, due to the confidence maintained in the Bank.

Regulatory requirement - Minimum Short-Term Liquidity Ratio

The principles of liquidity risk management are intended to guarantee, with a high level of confidence, that the Bank is in a position to meet its intraday liquidity obligations and in a greater period of liquidity tensions that affect financing, tensions that may have originated in the entity itself or in the market as a whole.

The Minimum Short-Term Liquidity Ratio (MLR) is defined by the quotient of two amounts. The first amount corresponds to the liquid asset fund and the passive deposits and other obligations that represent possible cash outflows in 30 days.

The Cayman Islands banking regulatory legislation establishes that the Minimum ShortTerm Liquidity Ratio (MLR) is set at a required minimum of 15%.

As of December 31, 2022, Towerbank, Ltd.'s minimum short-term liquidity ratio (MLR) was 79.95%. Below a detail of the short-term liquidity ratio:

Total liquid assets (*):	42,896.611
Due to non-bank customer	27,474,822
Due to other banks	<u>26,178,750</u>
Total qualify liabilities	53,653,572
Liquidity ratio	79.95%

The Treasury Department will be responsible for managing the Bank's liquidity for which it will review and analyze, among others, the following reports related to liquidity and financial position recommended under the Basel rules.

- LCR - LIQUIDITY COVERAGE RATIO
- NSFR - NET STABLE FUNDING RATIO

LCR - LIQUIDITY COVERAGE RATIO

For the quarterly period ended December 31, 2021, the Corporation's average daily U.S. LCR was 174.59 percent.

This ratio is the result of average weighted HQLA of \$1,773,154 divided by average potential net cash outflows over a 30 calendar-day period of \$1,015,605.36.

HQLA's high-quality assets for this period are represented by overnight deposits with investment grade credit rating financial institutions, which provide immediate availability. In January 2022, according to Circular of July 5, 2019, we took on the task of replacing these liquid assets with the purchase of US treasuries for \$15MM with the aim of strengthening the high-quality HQLA assets. As of January 31, 2022, Towerbank, Ltd. reports an LCR of 2.331%.

Template LIQ1: Liquidity Coverage Ratio (LCR)

Outlines the details of a bank's cash outflows and cash inflows, as well as its available high-quality liquid assets (HQLA), as measured and defined according to the LCR standard.

		a	b
		Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets			
1	Total HQLA		9,425,557.57
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:		
3	Stable deposits	27,515,696.79	3,178,518.55
4	Less stable deposits		
5	Unsecured wholesale funding, of which:		
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)		

8	Unsecured debt		
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where significant to the LCR

9	Secured wholesale funding		
10	Additional requirements, of which:		
11	Outflows related to derivative exposures and other collateral requirements		
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities		
14	Other contractual funding obligations		
15	Other contingent funding obligations		
16	TOTAL CASH OUTFLOWS		3,178,518.55
Cash inflows			
17	Secured lending (e.g. reverse repos)		8,521,313.07
18	Inflows from fully performing exposures		
19	Other cash flows		
20	TOTAL CASH INFLOWS		8,521,313.07
			Total adjusted value
21	Total HQLA		9,425,557.57
22	Total net cash outflows		1,415,158.97
23	Liquidity Coverage Ratio (%)		666.04%

This standard aims to ensure that a bank has an adequate stock of unencumbered HQLA that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs for a 30 calendar day liquidity stress scenario. At a minimum, the stock of unencumbered HQLA should enable the bank to survive until Day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken by management and supervisors, or that the bank can be resolved in an orderly way. Furthermore, it gives the central bank additional time to take appropriate measures, should they be regarded as necessary. As noted in the *Sound Principles*, given the uncertain timing of outflows and inflows, banks are also expected to be aware of any potential mismatches within the 30-day period and ensure that sufficient HQLA are available to meet any cash flow gaps throughout the period.

The LCR builds on traditional liquidity “coverage ratio” methodologies used internally by banks to assess exposure to contingent liquidity events. The total net cash outflows for the

scenario are to be calculated for 30 calendar days into the future. The standard requires that, absent a situation of financial stress, the value of the ratio be no lower than 100%⁴ (ie the

stock of HQLA should at least equal total net cash outflows) on an ongoing basis because the stock of unencumbered HQLA is intended to serve as a defence against the potential onset of liquidity stress. During a period of financial stress, however, banks may use their stock of HQLA, thereby falling below 100%, as maintaining the LCR at 100% under such circumstances could produce undue negative effects on the bank and other market participants. Supervisors will subsequently assess this situation and will adjust their response flexibly according to the circumstances.

Calculation of Minimum LCR Requirements

LCR dividing HQLA by its total net cash outflows over the next 30 days.

$$\text{Liquidity Coverage Ratio} = \frac{\text{Stock of HQLA}}{\text{Total net cash outflows over the next 30 days}}$$

Characteristics of HQLA

Assets are considered to be HQLA if they can be easily and immediately converted into cash at little or no loss of value. The liquidity of an asset depends on the underlying stress scenario, the volume to be monetised and the timeframe considered. Nevertheless, there are certain assets that are more likely to generate funds without incurring large discounts in sale or repurchase agreement (repo) markets due to fire-sales even in times of stress. This section outlines the factors that influence whether or not the market for an asset can be relied upon to raise liquidity when considered in the context of possible stresses.

Fundamental characteristics

- **Low risk:** assets that are less risky tend to have higher liquidity. High credit standing of the issuer and a low degree of subordination increase an asset's liquidity. Low duration,⁷ low legal risk, low inflation risk and denomination in a convertible currency with low foreign exchange risk all enhance an asset's liquidity.
- **Ease and certainty of valuation:** an asset's liquidity increases if market participants are more likely to agree on its valuation. Assets with more standardised, homogenous and simple structures tend to be more fungible, promoting liquidity. The pricing formula of a high-quality liquid asset must be easy to calculate and not depend on strong assumptions. The inputs into the pricing formula must also be publicly

available. In practice, this should rule out the inclusion of most structured or exotic products.

- **Low correlation with risky assets:** the stock of HQLA should not be subject to wrong-way (highly correlated) risk. For example, assets issued by financial institutions are more likely to be illiquid in times of liquidity stress in the banking sector.
- **Listed on a developed and recognised exchange:** being listed increases an asset's transparency.
- **Active and sizable market:** the asset should have active outright sale or repo markets at all times. This means that:
 - There should be historical evidence of market breadth and market depth. This could be demonstrated by low bid-ask spreads, high trading volumes, and a large and diverse number of market participants. Diversity of market participants reduces market concentration and increases the reliability of the liquidity in the market.
 - There should be robust market infrastructure in place. The presence of multiple committed market makers increases liquidity as quotes will most likely be available for buying or selling HQLA.
-
- **Low volatility:** Assets whose prices remain relatively stable and are less prone to sharp price declines over time will have a lower probability of triggering forced sales to meet liquidity requirements. Volatility of traded prices and spreads are simple proxy measures of market volatility. There should be historical evidence of relative stability of market terms (eg prices and haircuts) and volumes during stressed periods.
- **Flight to quality:** historically, the market has shown tendencies to move into these types of assets in a systemic crisis. The correlation between proxies of market liquidity and banking system stress is one simple measure that could be used.



NSFR - NET STABLE FUNDING RATIO

For the quarterly period ended December 31, 2022, Towerbank reports 216.41% percent. This ratio is the result of ASF of \$129,919,212.04 divided by RSF \$60,033,885.73

Template LIQ2: Net Stable Funding Ratio (“NSFR”)

Describe the bank’s NSFR and selected details of its NSFR components.

Available stable funding (ASF) item						
1	Capital:					
2	Regulatory capital	13,200,000.00				13,200,000.00
3	Other capital instruments					
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	49,359,673.77	23,883,908.86	23,703,593.57	24,619,394.65	116,719,212.04
6	Less stable deposits					
7	Wholesale funding:					
8	Operational deposits					
9	Other wholesale funding					
10	Liabilities with matching interdependent assets					
11	Other liabilities:					

12	NSFR derivative liabilities					
13	All other liabilities and equity not included in the above categories	3,688,570.84				-
14	Total ASF					129,919,212.04
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					658,052.59
16	Deposits held at other financial institutions for operational purposes		45,500,000.00	50,000,000.00		47,750,000.00
17	Performing loans and securities:					
18	Performing loans to financial institutions secured by Level 1 HQLA					
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions					
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:		4,299,389.41	10,989,499.88	5,132,818.23	10,210,853.76
21	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk					
22	Performing residential mortgages, of which:		234,031.27	333,723.96	1,609,136.12	1,414,979.38
23	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk					

24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					
25	Assets with matching interdependent liabilities					
26	Other assets:					
27	Physical traded commodities, including gold					
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29	NSFR derivative assets					
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories					-
32	Off-balance sheet items					
33	Total RSF					60,033,885.73
34	Net Stable Funding Ratio (%)					216.41%

The NSFR promotes resilience over a longer-term time horizon by requiring banks to fund their activities with stable sources of funding on an ongoing basis.

The objective of NSFR is to ensure that banks maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the probability of erosion of a bank's liquidity position due to disruptions in a bank's regular sources of funding that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off balance sheet items, and promotes funding stability.

Calculation of Minimum NSFR Requirements

The NSFR is defined as the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF). ASF is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of stable funding required (RSF) of a specific bank is a function of the liquidity characteristics and residual maturities of the various assets held by it as well as those of its off-balance sheet (OBS) exposures.

$$\text{Net Stable Funding Ratio} = \frac{\text{Available amount of stable funding (ASF)}}{\text{Required amount of stable funding (RSF)}}$$

VIII. SECURITIZATION

Towerbank, Ltd. does not carry out securitization and re-securitization activities, so it does not maintain exposures on these as of December 31, 2022.

IX. MARKET RISK

It is the risk that the value of a financial instrument may be reduced because of changes in interest rates, currency exchange rates, stock prices, and other financial variables, as well as the reaction of market participants to political and economic events. Management's objective is to manage and monitor the risk exposures by making sure that risks are maintained within acceptable parameters optimizing the risk returns.

The risk management policies provide to comply with limits for each financial instrument; limits with respect to maximum loss amounts that require the closing of positions that caused such losses, and the requirement that, unless approved by the Board of Directors, all assets and liabilities are substantially denominated in "U.S. Dollar".

Since most of the investments are placed primarily in cash, short-term cash equivalents and short-term investments with high liquidity and investment grade, the Group's exposure to market risk is limited and tolerable according to its financial situation.

The major measurement techniques used by the Group to measure and control market risk are outlined below.

The Bank applies a 'value at risk' (VAR) methodology to its trading portfolios to estimate the market risk of positions held and the maximum losses expected, based upon several assumptions for various changes in market conditions. Members of the (ALCO) sets limits on the value of risk that may be accepted for the Bank, which are monitored on a monthly basis by Bank Treasury. Interest rate risk in the non-trading book is measured by interest rate reprising gap analysis.

On December 31, 2022 and 2021, since the Bank does not maintain a significant investment, the analysis was not made. Management does not anticipate any significant market risks losses.

As part of the market risk, the Bank is exposed mainly to interest rate risk.

The following table summarizes the exposure of interest rate risks to the Bank. The assets and liabilities are included in the table at their carrying amount without interest receivable/payable, classified by categories on the one occurring first between the new setting of the contractual rate or the maturity dates.

	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Non-interest sensitive	Total
2022							
Assets							
Cash and cash equivalents	-	-	-	-	-	6,636,571	6,636,571
Deposits with banks	45,878,663	50,630,903	-	-	-	-	96,509,566
Investment securities measured at FVTOCI	52,500	-	-	9,460,546	-	-	9,513,046
Loans, net	1,961,226	2,565,077	11,323,224	6,741,954	-	-	22,591,481
Customers' liabilities under acceptances	3,262,492	-	-	-	-	-	-
Other assets	-	-	-	-	-	984,580	984,580
Total	51,154,881	53,195,980	11,323,224	16,202,500	-	7,621,151	139,497,736
Liabilities							
Deposits							
Demand	496,527	-	-	-	-	10,671,726	11,168,253
Saving	4,011,200	-	-	-	-	8,001,471	12,012,671
Time	11,052,871	13,167,074	23,746,043	24,619,395	-	-	72,585,383
Interbanking	-	-	-	-	-	26,178,749	26,178,749
Customers' liabilities under acceptances	3,262,492	-	-	-	-	-	3,262,492
Other liabilities	-	-	-	-	-	47,318	47,318
Total	18,823,090	13,167,074	23,746,043	24,619,395	-	44,899,264	125,254,866

Template MR1: Market risk under the standardized approach

A Below, we present the template of assets with market risk, without securities, because Towerbank, Ltd., does not hold financial assets with Foreign Exchange, Commodities, Trading Investment Portfolio as of December 31, 2022.

		a
		RWA
	Outright products	
1	Interest rate risk (general and specific)	0.00
2	Equity risk (general and specific)	0.00
3	Foreign exchange risk	0.00
4	Commodity risk	0.00
	Options	
5	Simplified approach	0.00
6	Delta-plus method	0.00
7	Scenario approach	0.00
8	Securitization	0.00
9	Total	0.00

X. OPERATIONAL RISK

The strategies implemented by the Bank to minimize the financial impact of operational risk are the following:

- Identification and evaluation of operational risks in different organization processes.
- Recording and assessment of operational losses that arise.
- Notification to the staff of how to report operational risk events.
- Periodical training to the staff.
- Recording of impact events that should be attended by the Risk Committee.

The operational risk management model contemplates all the processes immersed in the different departments that make up the Entity, so it is everyone's responsibility to manage the operational risks to which we are exposed.

The Risk Unit is the body in charge of consolidating the relative results of operational risk management, presenting the results of such management to the Risk Committee.

The Bank Risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and control, and to monitor risks and adherence to regulatory and internal limits.

The Operational Risk Unit is the body in charge of consolidating the relative results of the operational risk management, presenting the results of such management to the Risk Committee Operational, created as a working forum to deal with any matter related to risk management operational. The Operational Risk Committee will report directly to the

Comprehensive Risk Committee of the Entity, who in turn reports directly to the Board of Directors on a quarterly basis.



The entity has a manual of procedures for the management of Operational Risk of Towerbank International, Inc. and Subsidiaries which includes the processes and methodologies for the coverage, transfer and mitigation of risks and processes to supervise the effectiveness of the controls.

Towerbank, Ltd., for the purpose of calculating Risk Weighted Assets (RWA), uses the Basic Indicator Approach methodology to determine the amount of Operational Risk.

The capital requirement is calculated based on the gross income of the last three years, by lines of business, weighted with the Alpha factor of 15%, for US\$93,878.60, which determines a capital requirement by US\$1,173,482.50.

No operating losses have occurred during the year ended December 31, 2022.

XI. INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk:

The interest rate risk of an asset will be determined by two factors: maturity and sensitivity, both susceptible to valuation.

Members of the ALCO of the Bank through the stress rate analysis tool, periodically review the sensitivity that the instruments of portfolio securities might have to likely movements in interest rates. Likewise, and based on the principle where, the longer the life of the instrument is, the more sensitive it is to changes in interest rates, it has been defined by policy that the average life of the instruments that make up such portfolio is not greater than five (5) years, so that the effect on the value thereof is not more significant in the event of increase or decrease in rates.

All transactions of the Bank are denominated in U.S. dollars and does not take proprietary positions in foreign currency, and actively trade currencies. Since liquid assets are primarily cash, cash equivalents and short-term highly liquid investments with investment grade exposure Towerbank, Limited to market risk is considered low.

Interest Risk

The EVE and NIM measures are aligned with the best practices proposed in the IRRBB supervision document. Develops standards and general principles for estimating and supervising the structural interest rate risk of the Entity's balance sheet.

Sensitivity of interest margin (NIM):

The interest margin sensitivity measurement corresponds to the difference between the margin subject to risk in a simulated interest rate scenario and the margin subject to risk in a base scenario. This difference corresponds to the magnitude by which the margin may be reduced, with respect to the base scenario, due to the materialization of the simulated scenario. Measures of this kind are suitable for measuring short- and medium-term vulnerabilities to IRRBB, since they allow risk to be quantified in general earnings and its direct relationship with interest rate changes. As a consideration, the calculation of the NIM presupposes the continuity of the Entity in its business activity, assuming the reinvestment of each operation for the same term and yield. In turn, its calculation does not usually focus beyond one year due to the complexity of the calculations and the problem of accumulating assumptions for longer terms.

Sensitivity of economic value EVE:

The method of quantifying the Economic Value of Equity, under the standard framework defined by the regulations, consists, in general terms, of taking all the positions of the entity that are susceptible to changes in interest rates, and discount them at the current rate structure. Then, various theoretical shocks are applied, including those proposed by BIS in the IRRBB regulations, other than said structure, and the EVE is recalculated in each hypothetical scenario. Finally, the maximum difference between the EVE under the current structure and the EVE of the calculated worst-case scenario is computed. The value of a bank's assets and liabilities is directly related to interest rates. By calculating its EVE, a bank can build models that show the effect of different changes in interest rates on its total principal. This risk analysis is a key tool that allows banks to prepare against constantly changing interest rates.

Quantitative disclosure

Banks should report the increase/(decline) in net interest income or economic value of equity (or relevant measure used by management) for upward and downward interest rate shock scenarios according to management's method for measuring IRRBB, broken down by currency (as relevant).

XII. REMUNERATION

Qualitative and quantitative disclosure requirements related to remuneration

Qualitative disclosures	(a)	Information relating to the bodies that oversee remuneration. Disclosures should include: <input type="checkbox"/> Name, composition and mandate of the main body overseeing remuneration. <i>Jose Campa – General Manager</i> <i>Jacqueline Marquis- VP of Human Resources and Administration</i>									
		<input type="checkbox"/> External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process. <i>We do not have external consultants to review the compensation of employees, however, approximately every 2 years we participate with other banks in the market, in a salary survey with the company Mercer, which works as a guide to review and update internal compensation.</i>									
		<input type="checkbox"/> A description of the scope of the bank’s remuneration policy (e.g. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches. <i>The Compensation System Policy has a scope for all employees of Towerbank International Inc and Subsidiaries with an indefinite contract in the Republic of Panama.</i>									
		<input type="checkbox"/> A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group.									
		<table><tr><th>Types of employees</th><th>Description</th><th>No. Of employees</th></tr><tr><td>Politically exposed person</td><td>PEP are all nationals or foreigners who perform outstanding high-level public functions or with command and jurisdiction, in a State or in international organizations or that have a relationship with close relatives who are PEPS.</td><td>4</td></tr><tr><td>Senior managers</td><td>All employees who hold the position of vice president and general management who makes decisions within the organization.</td><td>16</td></tr></table>	Types of employees	Description	No. Of employees	Politically exposed person	PEP are all nationals or foreigners who perform outstanding high-level public functions or with command and jurisdiction, in a State or in international organizations or that have a relationship with close relatives who are PEPS.	4	Senior managers	All employees who hold the position of vice president and general management who makes decisions within the organization.	16
Types of employees	Description	No. Of employees									
Politically exposed person	PEP are all nationals or foreigners who perform outstanding high-level public functions or with command and jurisdiction, in a State or in international organizations or that have a relationship with close relatives who are PEPS.	4									
Senior managers	All employees who hold the position of vice president and general management who makes decisions within the organization.	16									

Qualitative disclosures	<p>(b) Information relating to the design and structure of remuneration processes. Disclosures should include:</p> <p><i>The Compensation System Policy establishes the following:</i></p> <p><i>Objective: Establish a salary structure that allows for internal and external equity in order to attract, retain and incentivize staff.</i></p> <p><i>Characteristic:</i></p> <p><i>A) Participate in a wage survey in the banking sector at least every two years.</i></p> <p><i>B) The results of the salary survey will be used as a guide to review and update internal compensation.</i></p> <p><i>C) A salary scale comparable to the market (50th percentile) will be maintained, which may vary as the Bank's compensation strategies change</i></p> <ul style="list-style-type: none"> □ Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made, reasons for the changes and their impact on remuneration. <p><i>The Compensation System Policy is reviewed annually by the Human Resources Committee and its last committee presentation was on August 9, 2022, and no relevant changes were presented.</i></p> <ul style="list-style-type: none"> □ A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee. <p><i>The employees of the risk and compliance area are only remunerated under the established policy of Towerbank International Inc and subsidiaries.</i></p>
Qualitative disclosures	<p>(c) Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures should include:</p> <ul style="list-style-type: none"> □ An overview of the key risks that the bank takes into account when implementing remuneration measures. <p><i>The bank tries to keep salaries in a competitive 50% percentile, in order to mitigate the risk of brain drain.</i></p> <ul style="list-style-type: none"> □ An overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure (values need not be disclosed). <p><i>The measures is to try to maintain 50% of the percentile of salaries with respect to the reference market.</i></p> <ul style="list-style-type: none"> □ A discussion of the ways in which these measures affect remuneration. <p><i>The measures have a positive effect, since they guarantee stability and good recruitment of talent.</i></p>

	<p>□ A discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration.</p> <p><i>Since the bank's income in 2021 was reduced by the effect of the Pandemic, the annual salary review has been postponed implementing it in the following year.</i></p>

	(d)	Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration. Disclosures should include: □ An overview of main performance metrics for bank, top-level business lines and individuals. <i>The performance evaluation contains the following steps: formulation of objectives at the beginning of the year, semi-annual follow-up and annual evaluation. Performance evaluations consider three major areas to be evaluated: 1. The employee's departmental and individual objectives. 2. The relevant aspects of each collaborator, such as: extraordinary contributions, degree of difficulty, handling of unscheduled situations, quantity and quality of work. 3. Competencies based on the pillars of the organization. The measurement scales are as follows:</i>		
		MEASUREMENT SCALE		POINTS
		EXCELLENT	The results obtained by the Collaborator consistently exceed the established objectives	1
		VERY GOOD	The results obtained by the Collaborator frequently exceed the established objectives	2
		IMPROVEMENT	The results obtained by the Collaborator meet the established objectives	3
		DID NOT MEET	The results obtained by the Collaborator do not meet the established objectives	4

	<ul style="list-style-type: none"> □ A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance. <p><i>Salary recognition is in accordance with the results obtained in the performance evaluation and the salary percentile with respect to the market.</i></p> <ul style="list-style-type: none"> □ A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak including criteria for determining weak performance metrics. <p><i>The scores that establish weak performance in a collaborator are: Improvable 3 (The results obtained by the collaborator meet the established objectives) and Does not meet 4 (The results obtained by the collaborator do not meet the established objectives).</i></p> <p><i>The labor code of the Republic of Panama does not allow salary reductions to be made for presenting low performance evaluations, it only allows salary reduction in cases of serious economic crisis of a national nature, fortuitous event or force majeure that endangers the existence of the source of work. In the case of collaborators with poor performance, their salary adjustments and their annual bonus may be affected.</i></p>
	<p>(e) Description of the ways in which the bank seeks to adjust remuneration to take account of longerterm performance. Disclosures should include:</p> <ul style="list-style-type: none"> □ A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance <p><i>The collaborators who have variable compensation (Production Premium) are considered from the Banking Business area, the managers of the attention centers. This compensation is based on meeting 85% of the goals for deposits and placement of banking products on a quarterly basis.</i></p> <ul style="list-style-type: none"> □ A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through claw-back arrangements. <p><i>We do not maintain a policy on deferred remuneration, since, due to the nature of the business, we do not maintain late payments to employees.</i></p>

	(f)	<p>Description of the different forms of variable remuneration that the bank utilises and the rationale for using these different forms. Disclosures should include:</p> <ul style="list-style-type: none">□ An overview of the forms of variable remuneration offered (i.e. cash, shares and share- linked instruments and other forms). <p><i>The bank uses a variable remuneration for food vouchers under Law 165 of September 16, 2020, which modifies Law 59 of 2003 of the Republic of Panama, which authorizes the creation of the food program for workers and dictates another provision, this Remuneration can be up to \$500 per month.</i></p> <ul style="list-style-type: none">□ A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description of the factors that determine the mix and their relative importance. <p><i>The bank uses a variable remuneration for some employees, which is made up of Food Vouchers for different amounts established for each one, based on part of the negotiation process at the time of hiring and at the time of granting a salary increase.</i></p>								
Quantitative disclosures	(g)	<p>Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its members.</p> <p><i>There is one annual budget meeting per year.</i></p>								
	(h)	<div><ul style="list-style-type: none">□ Number of employees having received a variable remuneration award during the financial year. <i>08 collaborators obtained variable compensation (Production Bonus) and 45 remunerations with food vouchers.</i>□ Number and total amount of guaranteed bonuses awarded during the financial year. <i>The bonus are not guaranteed, it depend on the evaluation of the performance of each employee and the profits of the bank at the end of the fiscal year.</i><table><tr><th># of collaborators</th><th>Bonus amount 2022</th></tr><tr><td>62</td><td>Aprox. 493,655.00</td></tr></table><div><ul style="list-style-type: none">□ Number and total amount of sign-on awards <i>Not applicable</i>□ Number and total amount of severance payments made during the financial year<table><tr><th># Of collaborators</th><th>COMPENSATION AMOUNT</th></tr><tr><td>03</td><td>24,613.00</td></tr></table></div></div>	# of collaborators	Bonus amount 2022	62	Aprox. 493,655.00	# Of collaborators	COMPENSATION AMOUNT	03	24,613.00
# of collaborators	Bonus amount 2022									
62	Aprox. 493,655.00									
# Of collaborators	COMPENSATION AMOUNT									
03	24,613.00									

- (i) ☐ Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.
0.00
- ☐ Total amount of deferred remuneration paid out in the financial year.
0.00

- (j) Breakdown of amount of remuneration awards for the financial year to show:

- ☐ fixed and variable.

BREAKDOWN OF COMPENSATION	AMOUNT
Fixed	24,613.00
Variable	0.00

- ☐ deferred and non-deferred.

BREAKDOWN OF COMPENSATION	AMOUNT
Deferred	0.00
Not deferred	0.00

- ☐ different forms used (cash, shares and share-linked instruments, other forms).

BREAKDOWN OF COMPENSATION	AMOUNT
Fixed	24,613.00
Variable	0.00

--	--

Quantitative information about employees' Cash exposure to implicit 108,608.35 (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. claw-backs or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration:

- ☐ Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.

0.00

- ☐ Total amount of reductions during the financial year due to ex post explicit adjustments.

0.00

XIII. ASSET ENCUMBRANCE

Asset encumbrance is the process banks go through to secure or collateralize a claim. Banks must specify assets that creditors can take possession of if the bank fails to meet its commitments. If a borrower defaults, the lender can liquidate the asset to recover their cash.

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

In the initial recognition of a financial asset, it is determined whether the newly recognized financial assets are part of an existing business model or if they reflect the beginning of a new business model. The Bank reassesses its business model in each reporting period to

determine if business models have changed since the previous period. For the current and previous reporting period, the Bank has not identified a change in its business model. Evaluation on contractual cash flows if they are only capital and interest payments

For the purposes of this evaluation, “principal” means the fair value of the financial asset at the time of initial recognition. “Interest” is defined as the consideration for the value of money over time and for the credit risk associated with the outstanding capital for a certain period of time and for other basic risks and costs of the loan, as well as the profit margin.

As of December 31, 2022, Towerbank, Ltd. owns no encumbered assets.

	a	b	c	d
	Encumbered assets	[Optional] Central Bank Facilities	Unencumbered assets	Total
The assets on the balance sheet would be disaggregated; there can be as much disaggregation as desired	0.00	0.00	0.00	0.00