

***Towerbank, Ltd.***

(A wholly-owned subsidiary of Towerbank  
International, Inc.)

Financial statements and Independent  
Auditor's Report for the year ended  
December 31, 2023

# **Towerbank, Ltd.**

(A wholly-owned subsidiary of Towerbank International, Inc.)

## **Independent Auditor's Report and Financial Statement 2023**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
**Towerbank, Ltd.**  
(A wholly-owned subsidiary of Towerbank International, Inc.)

### **Opinion**

We have audited the financial statements of **Towerbank, Ltd.** (the "Bank"), which comprise the statement of financial position as at December 31, 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended (all expressed in United States dollars) and notes to the financial statement, including material accounting policy information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2023, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### **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 Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Professionals Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with those requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. Also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and add based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

*Deloitte & Touche LLP*

April 17, 2024

## Towerbank, Ltd.

(A wholly-owned subsidiary of Towerbank International, Inc.)

### Statement of financial position

December 31, 2023

(Expressed in United States dollars)

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	Notes	2023	2022
<b>Assets</b>			
Cash and cash equivalents	7, 8	4,721,926	6,636,571
Deposits with banks	7	96,797,677	96,509,566
Investment securities measured at FVTOCI	8,9	14,703,223	9,513,046
Loans, net	7,10	16,038,955	22,591,481
Right-of-use asset	11	2,221,748	-
Intangible assets	12	3,209,860	-
Customers' liabilities under acceptances		-	3,262,492
Other assets	13	354,451	984,580
		<u>138,047,840</u>	<u>139,497,736</u>

## Towerbank, Ltd.

(A wholly-owned subsidiary of Towerbank International, Inc.)

### Statement of financial position

December 31, 2023

(Expressed in United States dollars)

	Notes	2023	2022
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Demand savings and time deposits	7	119,865,055	121,945,056
Customers' liabilities under acceptances		-	3,262,492
Lease liabilities	11	1,371,443	-
Other liabilities	14	<u>52,722</u>	<u>47,318</u>
		<u>121,289,220</u>	<u>125,254,866</u>
<b>Equity</b>			
Share capital	15	9,768,847	9,768,847
Additional paid-in capital	15	3,431,153	3,431,153
Accumulated other comprehensive loss		(266,046)	(391,667)
Retained earnings		<u>3,824,666</u>	<u>1,434,537</u>
		<u>16,758,620</u>	<u>14,242,870</u>
		<u>138,047,840</u>	<u>139,497,736</u>

See notes to financial statements.

## Towerbank, Ltd.

(A wholly-owned subsidiary of Towerbank International, Inc.)

### Statement of profit or loss and other comprehensive income

For the year ended December 31, 2023

(Expressed in United States dollars)

	Notes	2023	2022
<b>Interest income</b>			
Interest-bearing deposits	7	4,478,902	2,641,655
Investment securities measured at FVTOCI	7	244,961	183,966
Loans	7	878,896	506,840
		<u>5,602,759</u>	<u>3,332,461</u>
<b>Interest expense</b>			
Demand and time deposits	7	<u>(2,555,956)</u>	<u>(2,520,597)</u>
		<u>(2,555,956)</u>	<u>(2,520,597)</u>
<b>Net interest income</b>		<u>3,046,803</u>	<u>811,864</u>
Commission income		89,570	96,451
Other income		<u>18,531</u>	<u>19,732</u>
Total revenues		<u>3,154,904</u>	<u>928,047</u>
Provision for loan losses	10	(23,599)	(11,470)
Provision for investment securities losses		(388)	-
Professional fees		(270,278)	(144,244)
Depreciation	11,12	(106,071)	(7,158)
Licenses		(99,906)	(99,906)
Rent office		(31,566)	(30,880)
Commission expense		(10,711)	(11,125)
Finance cost	11	(130,782)	-
Other expenses		<u>(91,474)</u>	<u>(46,076)</u>
<b>Net income</b>		<u>2,390,129</u>	<u>577,188</u>
<b>Other comprehensive income (loss)</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Net change in unrealized gain/loss of investment securities measured at FVTOCI	9	<u>125,621</u>	<u>(391,667)</u>
<b>Comprehensive income</b>		<u>2,515,750</u>	<u>185,521</u>

See notes to financial statements.

**Towerbank, Ltd.**

(A wholly-owned subsidiary of Towerbank International, Inc.)

**Statement of changes in equity****For the year ended December 31, 2023**

(Expressed in United States dollars)

	Notes	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total
<b>Balance at December 31, 2021</b>		9,768,847	3,431,153	-	857,349	14,057,349
Revaluation of investment securities measured at FVTOCI	9	-	-	(391,667)	-	(391,667)
Net income		-	-	-	577,188	577,188
<b>Balance at December 31, 2022</b>		<u>9,768,847</u>	<u>3,431,153</u>	<u>(391,667)</u>	<u>1,434,537</u>	<u>14,242,870</u>
<b>Balance at December 31, 2022</b>		9,768,847	3,431,153	(391,667)	1,434,537	14,242,870
Revaluation of investment securities measured at FVTOCI	9	-	-	125,621	-	125,621
Net income		-	-	-	2,390,129	2,390,129
<b>Balance at December 31, 2023</b>		<u>9,768,847</u>	<u>3,431,153</u>	<u>(266,046)</u>	<u>3,824,666</u>	<u>16,758,620</u>

See notes to financial statements.

## Towerbank, Ltd.

(A wholly-owned subsidiary of Towerbank International, Inc.)

### Statement of cash flows

For the year ended December 31, 2023

(Expressed in United States dollars)

	Notes	2023	2022
<b>Cash flows from operating activities</b>			
Net income		2,390,129	577,188
Interest and commission income		(4,568,472)	(3,428,912)
Interest and commission expense		2,697,449	2,531,722
Provision for loan losses	10	23,599	11,470
Provision for investment securities losses		388	-
Realized gain of investment securities measured at FVTOCI		-	(363)
Depreciation	11, 12	106,071	7,158
		<u>649,164</u>	<u>(301,737)</u>
Change in operating assets and liabilities:			
Decrease (increase) in loans		6,450,039	(14,243,848)
Increase in other assets		(11,750)	(409,215)
(Decrease) increase in demand savings and time deposits		(2,342,075)	2,876,409
Increase (decrease) in other liabilities		5,404	(31,722)
Cash provided by (used in) operations		<u>4,750,782</u>	<u>(12,110,113)</u>
Interest and commission received		4,359,249	2,539,915
Interest and commission paid		<u>(2,304,593)</u>	<u>(2,560,862)</u>
<b>Net cash provided by (used in) operating activities</b>		<u>6,805,438</u>	<u>(12,131,060)</u>
<b>Cash flows from investing activities</b>			
Purchase of investment securities measured at FVTOCI	9	(5,064,944)	(9,173,516)
Purchase of intangible assets	12	(3,115,139)	-
Decrease of time deposits with banks		<u>-</u>	<u>15,000,000</u>
<b>Net cash (used in) provided by investing activities</b>		<u>(8,180,083)</u>	<u>5,826,484</u>
<b>Cash flows from financing activities</b>			
Payments to lease liabilities	11	<u>(540,000)</u>	<u>-</u>
<b>Net cash (used in) provided by investing activities</b>		<u>(540,000)</u>	<u>-</u>
Net decrease in cash and cash equivalents		(1,914,645)	(6,304,576)
Cash and cash equivalents, beginning of year		<u>6,636,571</u>	<u>12,941,147</u>
<b>Cash and cash equivalents, end of year</b>	8	<u>4,721,926</u>	<u>6,636,571</u>

See notes to financial statements.

## **Towerbank, Ltd.**

(A wholly-owned subsidiary of Towerbank International, Inc.)

### **Notes to financial statements for the year ended December 31, 2023** (Expressed in United States dollars)

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#### **1. General information**

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. The Bank holds a Category "B" unrestricted Banking License and a Trust License under The Banks and Trust Companies Act of the Cayman Islands.

The Bank has received an undertaking from the Cayman Islands Government exempting it from all local income, profits and capital gains taxes until January 10, 2042. No such taxes are levied in the Cayman Islands at the present time.

Currently, the Bank is not conducting any trust business.

The Bank's main office is located at 11 Dr. Drive, CIBC Financial Centre, Grand Cayman KY1-1107, Cayman Islands.

#### **2. Adoption of new and revised Standards**

##### ***2.1 New and amended IFRS Standards that are effective for the current year***

In the current year, the Bank has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

##### ***2.2 New and revised IFRS Standards in issue but not yet effective***

At the date of authorization of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 1 - Classification of Liabilities as Current or Non-current
- Amendments to IAS 1 - Non-current Liabilities with Covenants
- Amendments to IAS 7 and IFRS 7 - Supplier Finance Arrangements
- Amendments to IFRS 16 - Lease Liability in a Sale and Leaseback

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods.

#### **3. Significant accounting policies**

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

## **Towerbank, Ltd.**

(A wholly-owned subsidiary of Towerbank International, Inc.)

### **Notes to financial statements for the year ended December 31, 2023**

(Expressed in United States dollars)

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#### **3.1 Basis of preparation**

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention, except for Investment securities measured at fair value through other comprehensive income (FVTOCI), which are stated at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

#### **3.2 Going concern**

The directors have, at the time of approving the financial statements, a reasonable expectation that the Bank have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

#### **3.3 Functional currency**

The financial statements are stated in the functional currency of the Bank, which is the United States dollar.

#### **3.4 Financial assets**

Debt instruments that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal (SPPI), are later measured at amortized cost. Debt instruments held in a business model, whose objective is both to collect the contractual cash flows as well as to sell financial assets and that have contractual cash flows that are SPPI, are measured at fair value through other comprehensive income (FVTOCI). All other debt instruments (for example, those managed on a fair value basis, or held for sale) and capital investments are subsequently measured at fair value through profit and loss (FVTPL).

However, the following irrevocable choice or designation may be made in the initial recognition of a financial asset on an asset-by-asset basis:

- It is possible to irrevocably choose to present subsequent changes in the fair value of a capital investment that is not held for trading, nor a contingent consideration recognized by an acquirer in a business combination to which IFRS 3 is applied - "*Business Combinations*", in other comprehensive income; and
- A debt instrument that meets the amortized cost or the FVOCI criteria measured at FVTPL can be irrevocably designated if doing so eliminates or significantly reduces causing an accounting asymmetry.

## **Towerbank, Ltd.**

(A wholly-owned subsidiary of Towerbank International, Inc.)

### **Notes to financial statements for the year ended December 31, 2023** (Expressed in United States dollars)

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All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

#### Evaluation of the business model

The Bank carries out an evaluation of the objective of the business model in which the financial asset is held at the portfolio level, as it reflects the way in which the business is managed, and information is provided to Management. The information considers the following:

- The Bank's policies and objectives for the portfolio and the operation of these policies in practice. In particular, if the Management strategy is focused on obtaining income from contractual interests, maintaining a particular interest rate profile, adapting the duration of the financial assets to the duration of the liabilities that finance those assets or making cash flows to through the sale of assets;
- How the portfolio performance is evaluated and informed to the Bank's Management;
- The risk that affects the performance of the business model and how these risks are managed;
- The frequency, volume and schedule of sales in previous years, the reason for such sales and their expectations about future sales activity. However, information on sales activity is not considered in isolation, but as part of a general assessment of how the Bank's stated objective for managing financial assets is achieved and how cash flows are realized.

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.

The contractual cash flows that are SPPI are consistent with a basic loan agreement. Contractual terms that introduce exposure to risks or volatility in contractual cash flows that are not related to a basic loan agreement, such as exposure to changes in stock prices or commodity prices, do not give rise to contractual cash flows that are SPPI. A financial asset originated or acquired may be a standard credit agreement regardless of whether it is a loan in its legal form.

## **Towerbank, Ltd.**

(A wholly-owned subsidiary of Towerbank International, Inc.)

### **Notes to financial statements for the year ended December 31, 2023** (Expressed in United States dollars)

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In assessing whether contractual cash flows are only payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the schedule or amount of contractual cash flows so that it does not meet this condition. When conducting the evaluation, the Bank considers the following:

- Contingent events that would change the amount and schedule of cash flows;
- Leverage characteristics;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to the cash flows of specified assets (for example, agreements with assets without recourse); and characteristics that modify the consideration of the value of money over time (for example, periodic readjustment of interest rates).

#### Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

#### Investment securities measured at FVTOCI

The investments held by the Bank are classified as at FVTOCI. The securities are initially measured at fair value plus transaction costs.

Subsequently, changes in the carrying amount of these securities as a result of foreign exchange gains and losses, impairment gains or losses, and interest income calculated using the effective interest method are recognised in profit or loss. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these corporate bonds had been measured at amortised cost. All other changes in the carrying amount of these securities are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these securities are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

#### Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

## **Towerbank, Ltd.**

(A wholly-owned subsidiary of Towerbank International, Inc.)

### **Notes to financial statements for the year ended December 31, 2023** (Expressed in United States dollars)

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For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

#### Reclassification

If the business model, under which the Bank maintains financial assets changes, the affected financial assets are reclassified. The classification and measurement requirements related to the new category are applied prospectively from the first day of the first reporting period following the change in the business model resulting in the reclassification of the Bank's financial assets.

### **3.5 Financial liabilities and equity instruments issued**

#### Liabilities with financial guarantee contracts

A financial guarantee is considered a contract in which an entity is obliged to pay specific amounts on behalf of a third party under the assumption of default regardless of the form of the obligation guarantee: letters of guarantee, bank guarantee, irrevocable credit issued or confirmed by the entity, insurance and derivative of credit.

Financial guarantees regardless of the owner, instrumentation or any other circumstance are reviewed with the objective to determine its credit risks and if necessary, to estimate a provision based on the application of similar criteria established to quantify the impairment losses of debt instruments valued at amortized costs as detailed in the note for financial asset impairment.

Financial guarantees are initially recognized in the financial statement at fair value at date of issuance. Subsequent to initial recognition, the liability under such guarantee is measured at the higher between initial recognition less amortization calculated to recognize income over a straight line basis on the term guaranteed and the estimated disbursements required to cancel any financial obligation at the statement of financial position date. These estimates are determined based on the experience with similar transactions, loss history and management judgment.

## **Towerbank, Ltd.**

(A wholly-owned subsidiary of Towerbank International, Inc.)

### **Notes to financial statements for the year ended December 31, 2023** (Expressed in United States dollars)

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#### Financial liabilities

Debt instruments are classified as financial liabilities at fair value through profit or loss and other financial liabilities.

#### Other financial liabilities

Other financial liabilities, including debts, are initially measured at fair value, net of transaction costs and are subsequently measured at amortized cost using the effective interest method, with interest expenses recognized on the effective interest basis.

#### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deduction of all its liabilities. The equity instruments issued by the Bank are recorded at the amount received, net of direct cost of issuance.

#### Dividends

The dividends on ordinary shares are recognized in equity during the period in which they have been approved by the Board of Directors.

### **3.6 Customers' liabilities under acceptances**

Acceptances represent a form of short-term debt that is issued by our customers and which we guarantee for a fee. The amount due under acceptances is presented as acceptances outstanding in liabilities, and our corresponding claim is presented as a customers' liabilities under acceptances in the statement of financial position. Fees earned are recorded in commission income in the statement of profit or loss and other comprehensive income.

### **3.7 Offsetting financial instruments**

Financial assets and liabilities are offset when there is a legally enforceable right to offset the recognized amounts and either intends to settle on the net basis, or to realize the asset and settle the liability simultaneously.

### **3.8 Interest income and expense**

Interest income and expense for all interest-bearing financial instruments, are recognized within 'interest income' and 'interest expense' in the statement of profit or loss and other comprehensive income using the effective interest method.

Accrued interest on impaired loans is discontinued when, according to management, there is a possibility that the debtor may not comply with the payments expected at maturity or when the principal or interests are past due 90 days or more (consumer loans 120 days or more). In all cases, impaired loans are positioned in a non-accumulation status or charged against the provision if estimated that collection of capital or interest is considered doubtful.

Once a financial asset has been adjusted as a result of an impairment loss, the interest income is recognized using the interest rate used to discount future cash flows for purposes of determining the impairment loss.

## **Towerbank, Ltd.**

(A wholly-owned subsidiary of Towerbank International, Inc.)

### **Notes to financial statements for the year ended December 31, 2023 (Expressed in United States dollars)**

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#### **3.9 Commission income and expense**

Generally, commission on short-term loans, letters of credit and other banking services are recognized as income when they are collected due to their short - term maturity. The income recognized when they are collected is not significantly different from that recognized under the accrual method. The commission on medium and long - term loans and other transactions, net of some direct costs for granting them, are deferred and amortized over their maturities. Commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

#### **3.10 Impairment of financial assets**

The Bank recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI and loans, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Bank always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Bank's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Bank recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

#### Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Bank's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Bank's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument,

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- e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Bank has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Bank assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor 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 its contractual cash flow obligations.

The Bank considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Bank becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Bank considers the changes in the risk that the specified debtor will default on the contract.

The Bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

#### Definition of default

The Bank considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Bank, in full (without taking into account any collateral held by the Bank).

Irrespective of the above analysis, the Bank considers that default has occurred when a financial asset is more than 90 days past due unless the Bank has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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#### Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default or past due event (see (ii) above);
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty,
- Having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for that financial asset because of financial difficulties.

#### Write-off policy

The Bank writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Bank's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

#### Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Bank's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Bank in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

For a financial guarantee contract, as the Bank is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

If the Bank has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Bank measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

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The Bank recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

#### Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Bank has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

#### **3.11 Cash and cash equivalents**

Cash and cash equivalents, comprise cash on hand, demand deposits and interest-bearing deposits with banks with maturity dates of three months or less from the respective date of deposits.

#### **3.12 Impairment of non-financial assets**

The carrying amounts of the Bank's non financial assets are reviewed at the date of the financial position to determine if there is impairment in their value. If such impairment exists, the recoverable value of the asset is estimated and an impairment loss is recognized equal to the difference between the carrying amount of the asset and its estimated recovery value. An impairment loss in the carrying amount of an asset is recognized as an expense in the statement of profit or loss and other comprehensive income.

#### **3.13 Intangible assets**

Intangible assets consist of software licenses purchased and developed and are recognized at cost less accumulated depreciation. Amortization is calculated on the cost of the license based on the straight-line method on the estimated useful life of three to twenty years.

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#### **3.14 Leases**

##### **The Bank as a Lessee**

The Bank leases Software as a Service. The terms of the contracts are negotiated on an individual basis and contain different characteristics and conditions.

The Bank evaluates whether a contract is or contains a lease at the beginning of the contract. The Bank recognizes one right-of-use asset and one corresponding lease liability with respect to all lease agreements in which it is the lessee, except short-term leases (defined as leases with a lease term of 12 months or less) and low-value asset leases. For these leases, the Bank recognizes lease payments as an operating expense on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern in which the economic benefits of the leased assets are consumed.

Lease liability is initially measured at the present value of lease payments that are not paid on the start date, discounted using the rate implied in the lease. If this rate cannot be easily determined, the Bank uses its incremental borrowing rate.

Lease liabilities are initially measured at the present value of future payments (excluding those disbursed before or at the outset), discounted at the Bank's discount rate. Future payments include:

- Fixed payments.
- Variable payments that are based on an index or rate.
- Amounts expected to be paid by the tenant as residual value guarantees.
- The price of a call option if the lessee is reasonably confident of exercising it.
- Lease termination penalties.

Lease liabilities are presented as a separate line item in the statement of position financial.

Lease liabilities are measured at amortized cost using the effective rate method. Lease liability is then measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and reducing the carrying amount to reflect the lease payments made.

The Bank re-measures the lease liability (and makes the corresponding adjustments related to the right-of-use asset) provided that:

- The lease term has changed or there is a change in the assessment of the exercise of a call option, in which case the lease liability is measured again by discounting the revised lease payments using a revised discount rate.
- Lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is measured again by discounting revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is measured again by discounting revised lease payments using a revised discount rate.

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The Bank has not made these adjustments during the reporting period.

Right-of-use assets comprise the initial measurement of the relevant lease liability, lease payments made on or before the day of commencement, and any initial direct costs. Subsequently, they are measured at cost minus accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for the costs of dismantling and disposing of a leased asset, restoring the site on which it is located, or restoring the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. Costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shortest period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a call option, the related right-of-use asset depreciates over the useful life of the underlying asset. Depreciation begins on the lease start date.

Right-of-use assets are presented as a separate line item in the statement of financial position. Variable rents that are not index- or rate-dependent are not included in the measurement of lease liabilities and right-of-use assets. Related payments are recognized as an expense in the period in which the event or condition triggering those payments occurs and are included under the "other expenses" line item in the statement of profit or loss and other comprehensive income.

## **4. Financial risk management**

### **4.1 Objectives of financial risk management**

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
- Liquidity risk
- Market risk
- Operational risk

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. Such committees are the following:

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

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The main risks identified by the Bank are credit and counterparty, liquidity, market and operational risks, which are described below:

#### 4.2 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.

#### Maximum exposure to credit risk before collateral held or other credit enhancements

The credit risk exposure related to the assets in the statement of financial position is detailed as follows:

	<b>Maximum exposure</b>	
	<b>2023</b>	<b>2022</b>
Cash and cash equivalents and deposits with banks	101,519,603	103,146,137
Investment securities measured at FVTOCI	14,703,223	9,513,046
Loans	<u>16,038,955</u>	<u>22,591,481</u>
Total	<u>132,261,781</u>	<u>135,250,664</u>

The previous table represents the most critical scenario of exposure to credit risk of the Bank at December 31, regardless of loan guarantees or other increases thereof.

For the assets of the statement of financial position, the presentations discussed above are based on net carrying balances reported in the statement of financial position.

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#### Investment securities measured at FV TOCI

The following table summarizes the investment portfolio which is exposed to credit risk and its corresponding evaluation based on their rating:

	2023	2022
AAA rating	<u>14,703,223</u>	<u>9,513,046</u>

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

	Consumer				Corporate		
	Personal	Credit Card	Car loans	Overdraft	Trade	Overdraft	
<b>2023</b>							
<b>Individual impairment</b>							
Sub-normal	-	-	-	-	-	111,744	111,744
Irrecoverable	-	-	-	-	-	75	75
Impairment provision	-	-	-	-	-	(66,197)	(66,197)
Carrying amount	-	-	-	-	-	45,622	45,622
<b>Non-delinquent without impairment</b>							
Normal	-	-	219,953	2,112,802	3,029,194	10,670,845	16,032,794
Total gross amount	-	-	219,953	2,112,802	3,029,194	10,716,467	16,078,416
Total impairment provision	-	-	(866)	(10,966)	(9,270)	(32,989)	(54,091)
	-	-	219,087	2,101,836	3,019,924	10,683,478	16,024,325
Interest receivable							14,630
Total carrying amount							<u>16,038,955</u>
<b>2022</b>							
<b>Individual impairment</b>							
Special Mention	-	-	-	-	-	1,137	1,137
Sub-normal	-	-	-	-	-	111,683	111,683
Impairment provision	-	-	-	-	-	(31,898)	(31,898)
Carrying amount	-	-	-	-	-	80,922	80,922
<b>Non-delinquent without impairment</b>							
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							<u>22,591,481</u>

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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:

	<b>2023</b>	<b>2021</b>
Property and equipment	4,740,444	3,408,315
Time deposits	<u>379,000</u>	<u>10,647,000</u>
Total	<u>5,119,444</u>	<u>14,055,315</u>

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#### 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:

	<b>Cash and cash equivalents and deposits with other banks</b>	<b>Investment securities measured at FVTOCI</b>	<b>Gross loans</b>	<b>Customers' liabilities under acceptances</b>	<b>Off- balance sheet risk</b>
<b>December 31, 2023</b>					
<b>Carrying amount</b>	<b>101,519,603</b>	<b>14,703,223</b>	<b>16,159,243</b>	<b>-</b>	<b>-</b>
Geographic region:					
Panama	98,610,853	-	9,977,844	-	-
Latin America and Caribbean					
Nicaragua	-	-	10,000	-	-
Costa Rica	-	-	-	-	-
Others	-	-	6,156,769	-	-
United States of America and Canada	1,611,073	14,650,723	-	-	-
Interest receivable	1,297,677	52,500	14,630	-	-
	<b>101,519,603</b>	<b>14,703,223</b>	<b>16,159,243</b>	<b>-</b>	<b>-</b>
	<b>Cash and cash equivalents and deposits with other banks</b>	<b>Investment securities measured at FVTOCI</b>	<b>Gross loans</b>	<b>Customers' liabilities under acceptances</b>	<b>Off- balance sheet risk</b>
<b>December 31, 2022</b>					
<b>Carrying amount</b>	<b>103,146,137</b>	<b>9,513,046</b>	<b>22,688,170</b>	<b>3,262,492</b>	<b>-</b>
Geographic region:					
Panama	98,440,401	-	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	3,696,170	9,460,546	-	-	-
Interest receivable	1,009,566	52,500	93,518	-	-
	<b>103,146,137</b>	<b>9,513,046</b>	<b>22,688,170</b>	<b>3,262,492</b>	<b>-</b>

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#### 4.3 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, 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.

#### 4.4 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.

	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
<b>2023</b>								
<b>Assets</b>								
Cash and cash equivalents	4,721,926	-	-	-	-	-	-	4,721,926
Deposits with banks	-	46,394,900	25,256,944	25,145,833	-	-	-	96,797,677
Investment securities measured at FVTOCI	-	5,047,483	-	-	9,655,740	-	-	14,703,223
Loans, net	-	11,395,741	75,847	95,958	1,989,916	2,601,781	(120,288)	16,038,955
<b>Total</b>	<b>4,721,926</b>	<b>62,838,124</b>	<b>25,332,791</b>	<b>25,241,791</b>	<b>11,645,656</b>	<b>2,601,781</b>	<b>(120,288)</b>	<b>132,261,781</b>
<b>Liabilities</b>								
<b>Deposits:</b>								
Demand	-	9,854,603	-	-	-	-	-	9,854,603
Saving	-	10,505,489	-	-	-	-	-	10,505,489
Time	-	20,816,004	16,996,728	19,360,263	5,157,500	-	-	62,330,495
Interbanking	-	37,174,468	-	-	-	-	-	37,174,468
<b>Total</b>	<b>-</b>	<b>78,350,564</b>	<b>16,996,728</b>	<b>19,360,263</b>	<b>5,157,500</b>	<b>-</b>	<b>-</b>	<b>119,865,055</b>
<b>Net position</b>	<b>4,721,926</b>	<b>(15,512,440)</b>	<b>8,336,063</b>	<b>5,881,528</b>	<b>6,488,156</b>	<b>2,601,781</b>	<b>(120,288)</b>	<b>12,396,726</b>

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	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
<b>2022</b>								
<b>Assets</b>								
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)	22,591,481
<b>Total</b>	<b>52,515,234</b>	<b>52,741,318</b>	<b>2,565,077</b>	<b>11,323,224</b>	<b>16,202,500</b>	<b>-</b>	<b>(96,689)</b>	<b>135,250,664</b>
<b>Liabilities</b>								
<b>Deposits:</b>								
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	-	-	72,585,383
Interbanking	-	26,178,749	-	-	-	-	-	26,178,749
<b>Total</b>	<b>-</b>	<b>60,412,544</b>	<b>13,167,074</b>	<b>23,746,043</b>	<b>24,619,395</b>	<b>-</b>	<b>-</b>	<b>121,945,056</b>
<b>Net position</b>	<b>52,515,234</b>	<b>(7,671,226)</b>	<b>(10,601,997)</b>	<b>(12,422,819)</b>	<b>(8,416,895)</b>	<b>-</b>	<b>(96,689)</b>	<b>13,305,608</b>

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.

Following are the corresponding margin indexes of the net liquid assets over the deposits received from clients. The calculation is done monthly and is determined based on the average of the daily balances each month:

Margin index	2023	2022
As of December,	96.35%	91.80%
Average	97.89%	101.67%
Maximum	100.68%	104.04%
Minimum	95.92%	91.80%

Liquid assets are composed mainly of cash in banks.

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.

December 31, 2023	Carrying value	Up to 1 year	1 to 5 years
Deposits	119,865,055	114,707,555	5,157,500
Total liabilities	119,865,055	114,707,555	5,157,500
Assets held to manage liquidity risk	116,222,826	106,567,086	9,655,740

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December 31, 2022	Carrying value	Up to 1 year	1 to 5 years
Deposits	121,945,056	97,325,661	24,619,395
Total liabilities	121,945,056	97,325,661	24,619,395
Assets held to manage liquidity risk	112,659,183	103,198,637	9,460,546

#### 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;
- 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.

#### **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 Short-Term Liquidity Ratio (MLR) is set at a required minimum of 15%.

As of December 31, 2023, Towerbank, Ltd.'s minimum short-term liquidity ratio (MLR) was 70.52% (2022: 79.95%). Below a detail of the short-term liquidity ratio:

Total liquid assets:	2023 48,257,313	2022 42,896,611
Due to non-bank customer	31,258,324	27,474,822
Due to other banks	37,174,468	26,178,749
Total qualify liabilities	<u>68,432,792</u>	<u>53,653,571</u>
Liquidity ratio	70.52%	79.95%

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#### **4.5 Market risk**

It is the risk that the fair value or future cash flows 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, whether by latent losses as well as potential profits. 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 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 Bank's exposure to market risk is limited and tolerable according to its financial situation.

The major measurement techniques used 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 a number of 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 through the use of interest rate reprising gap analysis.

At December 31, 2023 and 2022, 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.

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

Members of the (ALCO) of the Bank through the stress rate analysis tool, periodically review the sensitivity 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, has been defined by policy that the average life of the instruments that make up such portfolio is not greater than five years, so that the effect on the value thereof is not more significant in the event of increase or decrease in rates.

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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
<b>2023</b>							
Assets							
Cash and cash equivalents	-	-	-	-	-	4,721,926	4,721,926
Deposits with banks	46,394,900	25,256,944	25,145,833	-	-	-	96,797,677
Investment securities measured at FVTOCI	5,047,483	-	-	9,655,740	-	-	14,703,223
Loans, net	11,513,819	4,485,398	-	39,738	-	-	16,038,955
Other assets	-	-	-	-	-	3,564,311	3,564,311
<b>Total</b>	<b>62,956,202</b>	<b>29,742,342</b>	<b>25,145,833</b>	<b>9,695,478</b>	<b>-</b>	<b>8,286,237</b>	<b>135,826,092</b>
Liabilities							
Deposits							
Demand	339,998	-	-	-	-	9,514,605	9,854,603
Saving	10,505,186	-	-	-	-	303	10,505,489
Time	20,816,004	16,996,728	19,360,263	5,157,500	-	-	62,330,495
Interbanking	-	-	-	-	-	37,174,468	37,174,468
Other liabilities	-	-	-	-	-	52,722	52,722
<b>Total</b>	<b>31,661,188</b>	<b>16,996,728</b>	<b>19,360,263</b>	<b>5,157,500</b>	<b>-</b>	<b>46,742,098</b>	<b>119,917,777</b>
<b>Net position</b>	<b>31,295,014</b>	<b>12,745,614</b>	<b>5,785,570</b>	<b>4,537,978</b>	<b>-</b>	<b>(38,455,861)</b>	<b>15,908,315</b>
	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
<b>2022</b>							
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	-	-	-	-	-	3,262,492
Other assets	-	-	-	-	-	984,580	984,580
<b>Total</b>	<b>51,154,881</b>	<b>53,195,980</b>	<b>11,323,224</b>	<b>16,202,500</b>	<b>-</b>	<b>7,621,151</b>	<b>139,497,736</b>
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
<b>Total</b>	<b>18,823,090</b>	<b>13,167,074</b>	<b>23,746,043</b>	<b>24,619,395</b>	<b>-</b>	<b>44,899,264</b>	<b>125,254,866</b>

Most of the Bank's financial assets and liabilities bear fixed interest rates and as such, management has determined that the risk of changes in cash flows resulting from changes in market interest rates is not significant.

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#### **4.6 Operational risk**

It is the risk of potential loss, directly or indirectly, related to the processes of the Bank, human resources, technology, infrastructure and other external factors that are not related to credit, market or liquidity risks, such as those arising from legal and the behavior of regulatory requirements and generally accepted corporate standards.

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.

#### **4.7 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 on the basis of 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.

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The following is the calculation of capital adequacy of the Bank:

	2023	2022
<b>Primary capital (tier 1)</b>		
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	3,824,666	1,434,537
<b>Total regulatory capital</b>	<u>17,024,666</u>	<u>14,634,537</u>
Accumulated other comprehensive gain or loss	<u>(266,046)</u>	<u>(391,667)</u>
<b>Total equity</b>	<u>16,758,620</u>	<u>14,242,870</u>
<b>Total eligible capital</b>	<u>13,548,760</u>	<u>13,598,954</u>
<b>Risk-weighted assets</b>	<u>56,222,995</u>	<u>52,446,664</u>
<b>Capital index</b>		
Total regulatory capital expressed as a percentage of risk weighted assets	24.10%	25.93%

## 5. Critical accounting estimates and judgments in applying accounting policies

In the Bank's financial statements, estimates performed by the Bank's management had been used to quantify some of the assets, liabilities, revenues, expenses and commitments included therein. Mainly, these estimates refer to:

### 5.1 Significant increase in credit risk

For stage 1 assets, the expected losses are measured as a reserve equal to 12-months expected credit losses, or life time expected losses for Stage 2 assets or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. When assessing whether the credit risk of an asset has increased significantly, the Bank takes into account reasonable and supported prospective information, both qualitative and quantitative.

### 5.2 Establishing the number and relative weights of prospective scenarios and determining the relevant prospective information for each scenario:

When measuring ECLs, the Bank uses reasonable and supportive prospective information, which is based on assumptions for the future movement of different economic forecasts and how those forecasts will affect each other. See Note 4.2.2.1.2 for further details.

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#### **5.3 Reserve for expected credit losses**

When determining the reserve for expected credit, Management's judgment is required to evaluate the amount and timing of future cash flows in order to determine whether the credit risk has increased significantly from initial recognition, taking into account loan characteristics and default patterns in the past for similar financial instruments. The changes in the risk of default that occur in the next 12 months may be a reasonable approximation of the changes in the risk measured according to the life of the instrument. The Bank uses the changes in the risk of default that occur in the next 12 months to determine if the credit risk has increased significantly since initial recognition, unless the circumstances indicate that an assessment of the life of the instrument is necessary.

#### **5.4 Loans impairment**

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment should be recorded in the statement of profit or loss and other comprehensive income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

## **6. Fair value of financial instruments**

IFRS establishes a hierarchy of three levels in the presentation of fair value measurements. The hierarchy is based on the transparency of the variables used in the valuation of a financial asset and liability at the date of its valuation.

The three levels are defined as follows:

*Level 1:* Quoted prices in active markets for identical investments as of the measurement date.

*Level 2:* Prices quoted in active markets for similar financial instruments or use of a valuation technique where all variables are obtained from observable market information for the assets or liabilities whether directly or indirectly.

*Level 3:* Unobservable variables used in the measurement of fair value have a significant impact in their calculation.

As of December 31, 2023, all available-for-sale securities were in level 1 and measured at fair value at reporting date.

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Bank Management has used the following assumptions to estimate the fair value of the following financial instruments:

Investment securities measured at FVTOCI	Fair value		Fair value hierarchy	Valuation technique and inputs key	Significant unobservable inputs	Relationship of unobservable inputs to the fair value
	2023	2022				
U.S. Treasury	14,703,223	9,513,046	Level 1	Prices quoted in active markets.	Not applicable	Not applicable
					<b>2023</b>	<b>2022</b>
Fair value at the beginning of the year					9,460,546	-
Total comprehensive income (loss)					125,233	(391,667)
Increase for purchase of investment securities					5,064,944	9,852,213
Fair value at the end of the year					<u>14,650,723</u>	<u>9,460,546</u>

For financial instruments that are not measured at fair value in the financial statements, Management has used the following assumptions in estimating their fair value:

- *Demand and time deposits* - For these financial instruments, the carrying amounts approximate their fair value, due to their short-term maturity.
- *Loans* - The estimated fair value for loans represents the amount of discounted future cash flows estimated to be received. Expected cash flows are discounted at current market rates to determine their fair value.
- *Deposits liabilities* - The estimated fair value of deposits with no stated maturity is the amount repayable on demand. For time deposits, the fair value is based on discounted cash flows using the market interest rates for financing new debts with a similar remaining maturity.

These estimates are subjective in nature, involve uncertainties and critical elements of judgment and therefore cannot be determined accurately. Changes in assumptions or criteria can significantly affect the estimates.

The following table summarizes the book values and carrying values of financial assets and liabilities not measured at fair value:

	2023		2022	
	Carrying value	Fair value	Carrying value	Fair value
<b>Assets</b>				
Deposits	101,519,603	101,519,603	103,146,137	103,146,137
Loans	16,038,955	16,038,955	22,591,481	22,379,602
Total assets	<u>117,558,558</u>	<u>117,558,558</u>	<u>125,737,618</u>	<u>125,525,739</u>
<b>Liabilities</b>				
Deposits	119,865,055	119,865,055	121,945,056	122,209,683
Total liabilities	<u>119,865,055</u>	<u>119,865,055</u>	<u>121,945,056</u>	<u>122,209,683</u>

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The following tables summarize the level of fair value hierarchy of financial assets and liabilities not measured at fair value:

	<b>2023</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>Carrying value</b>	<b>Fair value</b>	<b>Fair value</b>	<b>Fair value</b>
<b>Assets</b>				
Deposits	101,519,603	-	-	101,519,603
Loans	16,038,955	-	-	16,038,955
	<u>117,558,558</u>	<u>-</u>	<u>-</u>	<u>117,558,558</u>
<b>Liabilities</b>				
Deposits	119,865,055	-	-	119,865,055
	<u>119,865,055</u>	<u>-</u>	<u>-</u>	<u>119,865,055</u>
	<b>2022</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>Carrying value</b>	<b>Fair value</b>	<b>Fair value</b>	<b>Fair value</b>
<b>Assets</b>				
Deposits	103,146,137	-	-	103,146,137
Loans	22,379,602	-	-	22,379,602
	<u>125,525,739</u>	<u>-</u>	<u>-</u>	<u>125,525,739</u>
<b>Liabilities</b>				
Deposits	122,209,683	-	-	122,209,683
	<u>122,209,683</u>	<u>-</u>	<u>-</u>	<u>122,209,683</u>

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#### 7. Related party transactions

Following are significant balances and transactions with related parties at December 31:

	Operations with related companies		Operations with shareholders, directors and management personnel	
	2023	2022	2023	2022
Assets:				
Cash and cash equivalents	3,106,590	2,936,065	-	-
Time deposits	95,500,000	95,500,000	-	-
Loans	1,003,226	-	1,845,007	1,654,408
Accrued interest receivable	1,297,677	1,009,566	4,816	4,246
Total	100,907,493	99,445,631	1,849,823	1,658,654
Liabilities:				
Demand deposits	37,628,036	26,347,611	7,912	4,302
Time deposits	-	-	121,981	452,039
Accrued interest payable	-	854	-	3,050
Total	37,628,036	26,348,465	129,893	459,391

The following details the income and expenses operations with related companies for the years ended December 31:

	Operations with related companies		Operations with shareholder, directors and management personnel	
	2023	2022	2023	2022
Income:				
Interest	4,425,828	2,631,609	103,899	94,065
Expenses:				
Interest	-	386	5,503	19,240

Loans receivable from related companies earn an annual interest rate from 4.25% to 24% (2022: 3.75%). Loans to shareholder, directors and key personnel earn interest ranging from 4.75% to 8% (2022: 4.75% to 8%).

Collaterals are provided for 7.55% (2022: 4.31%) of these loans.

#### 8. Cash and cash equivalents

Cash and cash equivalents comprise:

	2023	2022
Demand deposits	4,721,926	6,636,571

The weighted average contractual interest rate for interest bearing deposits was 2.29% as of December 31, 2023 (2022: 8.38%).

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#### 9. Investment securities measured at FVTOCI

The fair values of securities as shown in the statement of financial position of the Bank and their costs at December 31 were as follows:

	<u>Cost</u>	<u>Unrealized loss</u>	<u>Fair value</u>
<b>2023</b>			
U.S. Treasury Tbill	14,969,269	(266,046)	14,703,223
<b>2022</b>			
U.S. Treasury Tbill	9,904,713	(391,667)	9,513,046

Annual interest rate on available-for-sale securities was 1.75% in 2023.

Following is a summary of changes in unrealized gains and losses of investment securities measured at FVTOCI:

	<b>2023</b>	<b>2022</b>
Balance at beginning of year	(391,667)	-
Net movement during the year	<u>125,621</u>	<u>(391,667)</u>
Balance at end of year	<u>(266,046)</u>	<u>(391,667)</u>

#### 10. Loans

A classification of loans grouped by economic activities is as follows:

	<b>2023</b>	<b>2022</b>
Commercial	13,811,858	20,418,141
Consumer	<u>2,332,755</u>	<u>2,176,511</u>
	16,144,613	22,594,652
Interest receivable	<u>14,630</u>	<u>93,518</u>
Sub-total loans	<u>16,159,243</u>	<u>22,688,170</u>
Reserve for expected credit losses	<u>(120,288)</u>	<u>(96,689)</u>
Total loans	<u>16,038,955</u>	<u>22,591,481</u>

The weighted average nominal interest rate earned on loans during the year ended December 31, 2023 was 5.75% (2022: 4.84%). All loans are granted at flat rate.

As of December 31, 2023, US\$14,294,755 (88%) of the Bank's loan portfolio was comprised of eight (8) individual loans (2022: US\$19,708,455 (87%) eight (8) individual loans).

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(Expressed in United States dollars)**10.1 Credit quality analysis of loans by stage:**

<b>2023</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b><u>Classification</u></b>				
Grade 1	16,032,794	-	-	16,032,794
Grade 2	-	-	-	-
Grade 3	-	-	111,744	111,744
Grade 5	-	-	75	75
Gross amount	16,032,794	-	111,819	16,144,613
Interest receivable	14,630	-	-	14,630
Reserve for expected credit losses	(54,091)	-	(66,197)	(120,288)
Net carrying value	15,993,333	-	45,622	16,038,955
<b>2022</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b><u>Classification</u></b>				
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	(64,806)	-	(31,883)	(96,689)
Net carrying value	22,510,544	-	80,937	22,591,481

**10.2 Movement of the reserve for expected credit losses on loans by stages**

The reserve for expected credit losses related to loans at amortized cost is broken down as follows:

<b>2023</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Balance at the beginning of the period	64,791	15	31,883	96,689
Transferred Stage 3	(10,700)	(15)	10,715	-
New financial assets originated	-	-	23,599	23,599
Balance at the end of the period	54,091	-	66,197	120,288
<b>2022</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Balance at the beginning of the period	19,633	-	65,586	85,219
Transferred Stage 3	33,703	-	(33,703)	-
New financial assets originated	11,455	15	-	11,470
Balance at the end of the period	64,791	15	31,883	96,689

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#### 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 Bank'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 Bank 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, 2023. The main assumptions described above may change as economic and market conditions change.

#### 11. Right-of-use assets

The details of the right-of-use assets are presented below:

<b>2023</b>	<b>Software and Servers</b>
<b>Cost:</b>	
As of January 1, 2023	-
Additions	<u>2,320,661</u>
As of December 31, 2023	<u>2,320,661</u>
<b>Accumulated depreciation:</b>	
As of January 1, 2023	-
Additions	<u>(98,913)</u>
As of December 31, 2023	<u>(98,913)</u>
<b>Net value</b>	<u>2,221,748</u>

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The book amounts of the lease liability and the movements made during the year are detailed below:

	<b>2023</b>
Balance at the beginning of the year	-
Additions	2,320,661
Credited interest	130,782
Advance payments	(540,000)
Leases amortization	(540,000)
	<hr/>
Balance at the end of the year	1,371,443

The current and non-current portions of the lease liability are detailed below:

	<b>2023</b>
Current	435,000
Non-current	936,443
	<hr/>
	1,371,443

The amounts recorded in the income statement related to leases are presented below:

	<b>2023</b>
Depreciation expense	98,913
Interest expense	130,782
Minor leases	31,566
Total	<hr/>
	261,261

The interest expense on lease liabilities is included net in the financial expenses item in the income statement.

**Towerbank, Ltd.**

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**Notes to financial statements  
for the year ended December 31, 2023**  
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Intangible assets are made up of programs and licenses that use computerized systems.

**2023**

	<b>Computer program</b>	<b>Advance on asset purchases</b>	<b>Total</b>
Cost:			
As of January 1, 2023	207,059	590,803	797,862
Additions	-	3,115,139	3,115,139
Adjustment	-	(540,000)	(540,000)
As of December 31, 2023	<u>207,059</u>	<u>3,165,942</u>	<u>3,373,001</u>
Accumulated depreciation:			
As of January 1, 2023	(155,984)	-	(155,984)
Additions	(7,157)	-	(7,157)
As of December 31, 2023	<u>(163,141)</u>	<u>-</u>	<u>(163,141)</u>
Net value	<u>43,918</u>	<u>3,165,942</u>	<u>3,209,860</u>

**2022**

	<b>Computer program</b>	<b>Advance on asset purchases</b>	<b>Total</b>
Cost:			
As of January 1, 2022	207,059	30,729	237,788
Additions	-	560,074	560,074
As of December 31, 2022	<u>207,059</u>	<u>590,803</u>	<u>797,862</u>
Accumulated depreciation:			
As of January 1, 2022	(148,826)	-	(148,826)
Additions	(7,158)	-	(7,158)
As of December 31, 2022	<u>(155,984)</u>	<u>-</u>	<u>(155,984)</u>
Net value	<u>51,075</u>	<u>590,803</u>	<u>641,878</u>

As of December 31, 2023, advances have been made for the purchase of intangible assets in the amount of \$2,575,139 (2022: \$560,074). These advances relate to programme improvements.

Intangible assets were presented in other assets at December 31, 2022.

## Towerbank, Ltd.

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### Notes to financial statements for the year ended December 31, 2023 (Expressed in United States dollars)

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#### 13. Other assets

A summary of other assets is as follows:

	2023	2022
Prepaid taxes and expenses	22,247	-
Others	332,204	984,580
	<u>354,451</u>	<u>984,580</u>

#### 14. Other liabilities

A summary of other liabilities is as follows:

	2023	2022
Cashier's checks	4,000	-
Others	48,722	47,318
	<u>52,722</u>	<u>47,318</u>

#### 15. Share capital

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

	2023	2022
<u>Issued</u>		
250,000 ordinary shares	250,000	250,000
9,750,000 redeemable preferred shares	9,518,847	9,518,847
	<u>9,768,847</u>	<u>9,768,847</u>
Additional paid-in-capital	3,431,153	3,431,153
	<u>13,200,000</u>	<u>13,200,000</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;

## **Towerbank, Ltd.**

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### **Notes to financial statements for the year ended December 31, 2023**

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- (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.

#### **16. Approval of financial statements**

The financial statements for the year ended December 31, 2023 were approved by management and authorized for their issuance on April 17, 2024.

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