

BANQUE NATIONALE DE CRÉDIT (BNC)

Financial Statements

September 30, 2020

(With Independent Auditors' Report Thereon)

BANQUE NATIONALE DE CRÉDIT (BNC)
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SEPTEMBER 30, 2020

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Independent auditors' report

The Board of Directors
Banque Nationale de Crédit (BNC):

Qualified opinion

We have audited the financial statements of Banque Nationale de Crédit (BNC), which comprise the balance sheet as at September 30, 2020, and the statements of income, of changes in net assets and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of BNC as at September 30, 2020, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in **schedules I to III** is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Basis for qualified opinion

As explained in **note 3 (j)**, investment properties, presented in Real Estate, must be presented at fair value in reference to IAS 40. The Bank possesses approximately 60 investment properties and, for five of them, has obtained appraisal reports revealing the existence of significant gains. However, Management of the Bank questions some of these gains based on market conditions and wishes to conduct additional analysis before recording them. If those gains had been recorded, this would have increased net income in 2020, as well as net assets and total assets as of September 30, 2020.

As explained in **note 3 (s)**, the Bank manages a defined benefit pension plan as well as a special fund payable to employees at their retirement. As presented in **note 19 (c)**, substantial provisions exist for these two funds. Expenses are recorded on a cash and lump-sum provision basis, and not on the basis of actuarial obligations, and the information presented in **notes 19 and 24** does not comply with International Financial Reporting Standards. There is no actuarial valuation of the pension plan nor of the special fund and, therefore, we have not been able to determine the actuarial surplus or liability and the related amortization.



As explained in **note 7**, the Bank holds two investments in interrelated companies: Lafito Industrial Free-Zone S.A. and Port Lafito S.A. We have not obtained any supporting documentation allowing us to establish, as at September 30, 2020, the fair value of these investments, as required by IFRS 9, in order to determine the capital gains or losses, if any. Consequently, if these capital gains or losses had been calculated and recorded in the results, the net income for 2020, local investments and net assets at September 30, 2020, would have been increased or decreased by the same value.

As of September 30, 2019, our auditors' report also contained the same qualifications mentioned above.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the «*Auditors' Responsibilities for the Audit of the Financial Statements*» section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Haiti, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Observation

In September 2019, a loan (**note 17 e**) of US\$ 20 million was contracted by BNC with BRH for a period of 90 days at an annual rate of 1.5%. This amount equivalent to G 1.3 billion was used, following an agreement between the institutions, to grant a loan to the National Telecommunications Council (CONATEL) at an interest rate of 5.5% per year. This loan (**note 10 e iii**) was to be repaid after 90 days with the option of renegotiating the terms. However, as of September 30, 2020, no payment has been made on this loan.

After several extensions of the maturity period, in response to a request from the Bank, the Ministry of the Economy and Finance (MEF), in its letter to September 30, 2020, informed the Bank that it is assuming the service of this debt until its extinction, in twelve equal quarterly installments of US\$ 1.67 million, plus interest, starting in October 2020. The repayment of the loan from the BRH will be made as and when repayments are received.

Consequently, as of September 30, 2020, no material provision has been recorded on this loan to CONATEL and our auditors' opinion has not been modified in this regard.



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 International Financial Reporting Standards (IFRS) 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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of the accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Mérové - Pierre - Cabinet d'Experts - Comptables

MÉROVÉ-PIERRE - CABINET D'EXPERTS-COMPTABLES

7, rue Lechaud Bourdon

Port-au-Prince, Haïti

April 30, 2021

BANQUE NATIONALE DE CRÉDIT
Balance Sheets ⁽¹⁾
September 30, 2020 and 2019
(Expressed in thousands of Haitian gourdes)

	Notes	2020	2019
ASSETS			
CASH AND CASH EQUIVALENTS	5	G 31,042,787	31,752,263
BRH BONDS, TREASURY BONDS AND DEBENTURES, NET	6	19,008,566	8,645,928
LOCAL INVESTMENTS	7	933,578	3,536,577
FOREIGN INVESTMENTS	8	6,951,292	11,479,439
FOREIGN EXCHANGE CONTRACTS	9	296,384	2,149,809
LOANS	10	24,887,372	22,465,676
Provision for expected credit losses		(2,551,792)	(1,208,724)
		22,335,580	21,256,952
RIGHT-OF-USE ASSETS, NET	11	161,964	-
FIXED ASSETS, NET	12	1,828,143	1,556,579
OTHERS			
Real estate	13	483,385	544,366
Goodwill	14	1,473,256	1,473,256
Other assets, net	15	406,873	239,149
Acceptances and letters of credit		340,182	357,913
		2,703,696	2,614,684
TOTAL ASSETS	G	85,261,990	82,992,231
LIABILITIES AND NET ASSETS			
DEPOSITS	16	60,814,478	61,670,686
LOANS AND DEBENTURES - BRH	17	8,228,296	5,145,103
OTHERS			
Local banks deposits	18	110,518	35,929
Other liabilities	19	7,616,143	6,751,547
Lease liabilities	11	110,605	-
Foreign exchange contracts	9	272,296	2,149,809
Commitments – acceptances and letters of credit		340,182	357,913
		8,449,744	9,295,198
TOTAL LIABILITIES		77,492,518	76,110,987
NET ASSETS			
Capital fund	22	3,000,000	3,000,000
Legal reserve		828,340	723,872
General reserve for loan losses	10	81,429	1,620,018
General reserve for real estate	13	364,095	345,175
Other reserve	25	79,500	79,500
Retained earnings		3,416,108	1,112,679
		7,769,472	6,881,244
TOTAL LIABILITIES AND NET ASSETS	G	85,261,990	82,992,231

⁽¹⁾ The information presented as of September 30, 2020 includes the new standards adopted on October 1, 2019

The notes are an integral part of the financial statements.

BANQUE NATIONALE DE CRÉDIT
Statements of Income ⁽¹⁾
Years ended September 30, 2020 and 2019
(Expressed in thousands of Haitian gourdes)

	Notes	2020	2019
INTEREST INCOME			
Loans	G	2,519,358	1,681,749
BRH bonds, Treasury bonds and debentures		2,154,079	1,644,691
Investments and others		<u>425,964</u>	<u>550,304</u>
		5,099,401	3,876,744
INTEREST EXPENSE			
Deposits		609,154	529,156
Others		<u>149,250</u>	<u>167,227</u>
		758,404	696,383
NET INTEREST INCOME			
		4,340,997	3,180,361
Provision for credit losses			
	21	(1,589,141)	(285,887)
Recoveries on loans written off			
		<u>2,328</u>	<u>4,526</u>
		2,754,184	2,899,000
OTHER INCOME (EXPENSES)			
Commissions		840,306	787,399
Exchange gain		320,609	112,026
Operations expenses		(152,720)	(116,227)
Others	23	<u>(1,056)</u>	<u>83,160</u>
		1,007,139	866,358
NET INTEREST INCOME AND OTHER INCOME			
		3,761,323	3,765,358
OPERATING EXPENSES			
Salaries and other employees' benefits	24	1,834,789	1,703,725
Premises and equipment		234,402	203,868
Depreciation	12	108,148	143,675
Rental charges	11	45,650	38,925
Other operating expenses		<u>493,661</u>	<u>632,200</u>
		2,716,650	2,722,393
NET INCOME FOR THE YEAR			
	G	1,044,673	1,042,965

⁽¹⁾ The information presented as of September 30, 2020 includes the new standards adopted on October 1, 2019

The notes are an integral part of the financial statements.

BANQUE NATIONALE DE CRÉDIT
Statements of Changes in Net Assets ⁽¹⁾
Years ended September 30, 2020 and 2019
(Expressed in thousands of Haitian gourdes)

	Notes	Capital fund	Retained earnings	Legal reserve	General reserve for loan losses (note 10)	General reserve for real estate	Other reserve (note 25)	Total
Balance as of September 30, 2018	G	3,000,000	2,082,841	619,576	160,000	260,175	49,500	6,172,092
<i>Impact of IFRS 9 adoption:</i>								
Provision for expected credit losses	20	-	(133,813)	-	-	-	-	(133,813)
Transfer to the general reserve for loan losses	20	-	160,000	-	(160,000)	-	-	-
Net impact		-	26,187	-	(160,000)	-	-	(133,813)
Balance as of September 30, 2018, adjusted	G	3,000,000	2,109,028	619,576	-	260,175	49,500	6,038,279
Net income for the year		-	1,042,965	-	-	-	-	1,042,965
Payment to the Public Treasury	3r)	-	(200,000)	-	-	-	-	(200,000)
Transfer to the legal reserve		-	(104,296)	104,296	-	-	-	-
Transfer to the general reserve for loan losses	10	-	(1,620,018)	-	1,620,018	-	-	-
Transfer to the general reserve for real estate	13	-	(85,000)	-	-	85,000	-	-
Other reserve		-	(30,000)	-	-	-	30,000	-
Balance as of September 30, 2019	G	3,000,000	1,112,679	723,872	1,620,018	345,175	79,500	6,881,244
Net income for the year		-	1,044,673	-	-	-	-	1,044,673
Payment to the Public Treasury	3r)	-	(156,445)	-	-	-	-	(156,445)
Transfer to the legal reserve		-	(104,468)	104,468	-	-	-	-
Transfer from the general reserve for loan losses	10	-	1,538,589	-	(1,538,589)	-	-	-
Transfer to the general reserve for real estate	13	-	(18,920)	-	-	18,920	-	-
Balance as of September 30, 2020	G	3,000,000	3,416,108	828,340	81,429	364,095	79,500	7,769,472

⁽¹⁾ The information presented as of September 30, 2020 includes the new standards adopted on October 1, 2019

The notes are an integral part of the financial statements.

BANQUE NATIONALE DE CRÉDIT
Statements of Cash Flows ⁽¹⁾
Years ended September 30, 2020 and 2019
(Expressed in thousands of Haitian gourdes)

	Notes	2020	2019
ACTIVITÉS D'EXPLOITATION			
Net income for the year	G	1,044,673	1,042,965
<i>Adjustments to reconcile net income for the year to net cash flows resulting from operating activities:</i>			
Provision for credit losses	21	1,589,141	285,887
Foreign exchange revaluation effect of the provision for credit losses in US dollars		(224,283)	239,219
Depreciation of fixed assets	12	108,148	143,675
Amortization of right-of-use assets	11	40,235	-
Gain on sale of real estate	23	(52,434)	(38,381)
Impairment loss on real estate investments	23	47,686	-
Impairment losses (gain) on capital instruments	23	6,228	(26,349)
<i>Changes in assets and liabilities resulting from operating activities:</i>			
Foreign exchange contracts		(24,088)	-
(Increase) decrease in bonds and debentures, net		(10,362,638)	4,819,342
Decrease (increases) in local investments		2,596,815	(2,836,393)
Decrease (increase) in foreign investments		4,528,951	(3,931,489)
Disbursements of loans, net		(2,440,223)	(5,735,569)
Additions to investment properties	13	(27,091)	-
Proceeds on sales of real estate		92,820	42,389
(Decrease) increase in deposits, net		(856,208)	8,983,757
Increase of local banks deposits		74,589	6,488
Lease liabilities	11	110,605	-
Changes in other assets and liabilities		<u>490,562</u>	<u>1,115,082</u>
Net cash flows (used in) provided by operating activities		(3,256,512)	4,110,623
INVESTING ACTIVITIES			
Acquisitions of fixed assets	12	<u>(379,712)</u>	<u>(226,852)</u>
Net cash flows used in investing activities		(379,712)	(226,852)
FINANCING ACTIVITIES			
Loans and debentures BRH		3,083,193	2,177,702
Payment to the Public Treasury		<u>(156,445)</u>	<u>(200,000)</u>
Net cash flows provided by financing activities		2,926,748	1,977,702
Net (decrease) increase in cash and cash equivalents		(709,476)	5,861,473
Cash and cash equivalents at beginning of year		36,257,062	22,027,944
Effect of foreign exchange rate fluctuations on cash and cash equivalents at beginning of year		<u>(4,504,799)</u>	<u>3,862,846</u>
Cash and cash equivalents at end of year	5 G	31,042,787	31,752,263

⁽¹⁾ The information presented as of September 30, 2020 includes the new standards adopted on October 1, 2019

The notes are an integral part of the financial statements.

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(1) ORGANIZATION

Banque Nationale de Crédit (BNC) is a Government-owned commercial bank, created by Law on August 17, 1979 as published in Le Moniteur on September 11, 1979. BNC results from the separation of the former Banque Nationale de la République d’Haiti (BNRH) into two banks: A Central Bank, Banque de la République d’Haiti (BRH), and a commercial bank, BNC. Although created on August 17, 1979, BNC started to operate independently on April 1, 1980, date of the segregation of BNRH assets and liabilities between BRH and BNC.

BNC’s main mission is to conduct all banking operations in conformity with the Decree of July 17, 2012 as well as with all other legislation relating to financial institutions controlling banking activities and operations in Haiti. BNC is managed by an independent Board of Directors, named by Presidential decree. BNC’s headquarter is located at 103, angle des rues des Miracles and du Quai in Port-au-Prince, Haïti and the bank operates a network of 37 branches throughout the country.

(2) BASIS FOR FINANCIAL STATEMENTS PREPARATION

(a) Accounting framework

The financial statements of BNC have been prepared in conformity with International Financial Reporting Standards (IFRS) except for the qualifications mentioned in the independent auditors’ report related to the fact that investment properties are not reflected at fair value, and to potential adjustments that could have been necessary if the actuarial valuations for the retirement pension plan and for the special fund had been obtained (**note 3 s**).and if the gains or losses on local investments had been determined (**note 7**).

The financial statements were approved by the Board of Directors on May 19, 2021.

Comparative figures

The main accounting policies described below have been applied consistently to all periods presented in the accompanying financial statements with the exception of a reclassification made to present payments received not yet allocated, net of the corresponding loans in assets.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(2) BASIS FOR FINANCIAL STATEMENTS PREPARATION (CONTINUED)

(b) Basis of measurement

These financial statements are presented on a historical cost basis, except for equity instruments held at fair value through profit or loss (**notes 7 and 8**) which are presented at fair value.

The methods used to measure the fair value are described in the corresponding notes (**3c**), (**3e**), (**3i**) and (**3j**).

(c) Presentation currency

These financial statements are prepared in Haitian Gourdes which is the Bank's functional currency. The financial information reported has been rounded to the nearest thousands.

(d) Use of estimates and judgment

In preparing these financial statements in conformity with International Financial Reporting Standards, Management had to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, contingent assets and liabilities, and income and expenses of the year. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed periodically. The impact of revisions to accounting estimates is recognized in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation and critical judgment in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are included in the following notes:

Notes 6, 7 and 8	Valuation of bonds, debentures and investments
Note 9	Valuation of foreign exchange contracts
Note 10	Valuation of the provision for expected credit losses and the general reserve for loan losses
Note 11	Valuation of right-of-use assets /leases liabilities
Note 12	Depreciation and valuation of fixed assets
Note 13	Valuation of real estate
Note 14	Valuation of goodwill
Note 15	Valuation of some other assets.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(2) BASIS FOR FINANCIAL STATEMENTS PREPARATION (CONTINUED)

(d) Use of estimates and judgment (continued)

According to Management, except for the adjustments that could have been necessary if investment properties were presented at fair value, if actuarial evaluations of the pension plan and of the special fund had been obtained, and if capital gains or losses on local investments had been determined, as reflected in the independent auditors' report, the financial statements were prepared on an adequate basis using fair judgment in all material respects and in accordance with the accounting principles summarized below.

(e) Covid-19

On March 11, 2020, the World Health Organization declared that Covid-19 had reached the global pandemic stage. Due to the increased uncertainty resulting from the unprecedented nature of the pandemic as well as the degree of complexity associated with reliable estimates, the exercise of judgment has increased even more. The expected credit losses model, under IFRS 9, is prospective and requires that forecasts of future events and economics conditions be used in determining credit risk and measuring credit loss.

Management believes that the assessment of credit losses at the end of each reporting period reflects reasonable and justifiable information about past events, current circumstances, as well as forecasts of events and economic conditions. At a time of great economic uncertainty, it is very difficult to predict events and gather data to assess expected credit loss calculations. The Bank applies expert credit judgment to adjust expected credit losses when it becomes evident that risk factors and known or expected information have not been taken into account in the initial assessment process of credit losses.

(3) SIGNIFICANT ACCOUNTING POLICIES

The accounting policies described below have been applied consistently to all periods presented in the financial statements herein.

On October 1, 2018, the Bank adopted:

- The impairment component of **IFRS 9** applicable to financial instruments. As permitted by the transitional provisions of IFRS 9, the Bank did not restate the comparative financial statements. This impact is reflected in retained earnings (**note 20**).

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **IFRS 15** (income from recurring activities from contracts with customers). The application of this principle had no impact on the financial statements.

On October 1, 2019, the Bank adopted **IFRS 16** (leases) using the modified retrospective method which allows no restatement of the comparative financial statements. According to this method, the following transactions are recorded on the date of initial recognition:

- Right-of-use assets are equal to the discounted amount of lease liabilities plus prepaid rent and initial direct costs incurred by the lessee.
- Lease liabilities are valued at the present value of lease payments that have not been paid yet. The lease payments are discounted using the lease's incremental borrowing rate in gourdes and / or dollars according to the contract currency.
- Rental contracts with a residual term of less than 12 months do not give rise to the recognition of an asset and a liability. The related rental payments are recognized directly in the statement of income.
- Contracts amounting to less than US\$ 5,000 or the gourdes equivalent of G 495,000, on an individual basis, are not considered.

The impact of IFRS 16 adoption on the financial position as at October 1, 2019 are described in **note 11**.

(a) Conversion of foreign currencies

In conformity with IAS 21, monetary assets and liabilities expressed in foreign currencies are converted in Haitian Gourdes at the exchange rate prevailing at the balance sheet date. Gains and losses resulting from this conversion are included in the statement of income.

Transactions in foreign currencies are translated at the exchange rate in effect at the transaction date. Gains and losses related to exchange operations are recorded in the statement of income.

The financial statements presented in **schedules I, II and III** were translated in US dollars according to the requirements of IAS 21. Under the requirements of this standard, assets and liabilities are translated at year-end exchange rate. Net assets accounts other than net income for the year are translated at year-end exchange rate. Income and expenses are translated at the average rate of exchange. All exchange differences resulting from such translation are reflected as a separate component in net assets.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Impairment of financial assets

In accordance with the requirements of IFRS 9, since October 1, 2018, the Bank applies a three-stage general impairment approach to measure the expected credit losses on all debt instruments and off-balance sheet items reflected at amortized cost.

Equity instruments and debt instruments kept at fair value through profit or loss are not subject to impairment.

This provision for expected credit losses under IFRS 9 is based on a series of assumptions and credit methodologies specific to the Bank and the banking system in general; they include:

- Changes in the credit risk rating of borrowers
- The expected life of the credit facilities
- The integration of forecasts
- Projections for the current environnement (ie: changes in macroeconomic conditions such as inflations, interest rate, exchange rates and the Gross National Product)
- The anticipated impacts of the Covid-19 crisis starting in 2020.

Management must therefore exercise significant judgment in establishing this provision for expected credit losses at each reporting date. The Central Bank's regulatory criteria which have always been in line with the internal management of the Bank in terms of credit risks, and which have the advantage of having been tested and validated, are also taken into account. The adjustments required with the application of IFRS 9 regarding the regulatory requirements are reflected in the reserve account (**note 3 u**).

This provision for expected credit losses (ECL) is determined by considering the classification of financial assets in different stages as follows:

Stage 1 Financial assets that have not suffered any significant deterioration in credit (less than 31 days due): BRH bonds, Treasury bonds and debentures (**note 6**), local investments at amortized cost (**note 7**), foreign investments at amortized cost (**note 8**), loans (**note 10**), and some financial assets in other assets (**note 15**) are considered in this category. Expected credit losses for this category are recorded for the next 12 months.

Stage 2 The financial assets listed above for which there has been a deterioration in credit since their initial recognition are considered as impaired assets. Financial assets (31-89 days due) are considered in this category. Expected credit losses for this category are recorded over the lifetime of the financial assets.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Impairment of financial assets (continued)

Stage 3 Financial assets for which significant events have had a negative impact on their future cash flows are considered in default. Financial assets (more than 89 days in arrears) are considered in this category. Expected credit losses for this category are also recorded over the lifetime of the financial assets.

Financial assets that are in default and for which the Bank has exhausted all available legal and other recourses are derecognized and are presented at the value of the recoverable guarantee.

The definition of default used to assess expected credit losses and to transfer financial instruments from one stage to another is consistent with the definition used for internal credit risk management purposes. The Bank considers that a financial instrument is in default when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred or that contractual payments are past due more than 89 days.

If the credit risk rating of a financial instrument improves, this asset is reclassified in the stage corresponding to its new status at the reporting date. This therefore results in transfers of provisions from one stage to another during the year.

Expected credit losses (ECL) by stage are calculated based on the following three factors:

- The Probability of Default (PD) for a financial asset or a category of financial assets (with similar risks) corresponding to the percentage of estimated loss.
- Exposure at Default (EAD) represents the expected exposure (principal and interest) in the event of default.
- Loss Given Default (LGD) represents the magnitude of the likely loss taking into account the amounts of recoverable guarantees.

Thereafter, expected credit losses are generally discounted at the effective interest rate of the respective financial instrument.

ECL are recorded in the provision for credit losses in the statement of income **(note 21)**.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Determination of fair value (continued)

IFRS 13 establishes a fair value hierarchy to enhance the consistency and comparability for fair value measurements and disclosures, which consists of the following three levels:

- **Level 1** which includes quoted prices (unadjusted) that an entity may access at the measurement date in active markets for identical assets or liabilities. A quoted price in an active market provides the most reliable indication of fair value.
- **Level 2** are inputs for assets or liabilities, other than market prices included in **Level 1** inputs, that are observable directly or indirectly. They include prices in non active markets for identical or similar assets.
- **Level 3** inputs are non observable inputs for assets at the measurement date. Non observable inputs should be used to measure fair value only to the extent that relevant observable input is not available.

The fair value of a financial asset corresponds to the price that would be received for the sale of a financial asset or paid for the transfer of a financial liability in a normal transaction between market participants at the measurement date. IFRS 13 defines the main market as the market with the highest volume and level of activity and the most profitable market as the market that maximizes the amount that would be received, or minimizes the amount that would be paid for the transaction in question in the absence of a main market.

For stock markets, the quoted values of active markets are used (**Level 1**). If there is no quoted price, fair value is determined using models that maximize the appreciation of observable inputs, as described in the related notes (**Level 2**).

(d) Cash and cash equivalents

Cash and cash equivalents are reflected at cost and represent amounts kept in cash, deposits at BRH as statutory reserves, deposits with other banks with a very short-term maturity and/or refundable on demand, and items in transit.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Investments

Investments are composed of local and foreign investments.

Local investments include BRH bonds, Treasury bonds and debentures, debentures from local companies, interbank loans to local banks and equity instruments.

Foreign investments include term deposits, US Treasury bonds, US governmental agencies debentures, private companies' debentures and equity instruments.

Upon initial recognition, the Bank classifies investments according to the economic model and the cash flow characteristics of each financial instrument.

Investments are therefore recognized either at amortized cost, or at fair value through profit or loss, according to the categories defined by IFRS 9.

*i) **At amortized cost.*** These investments are comprised of the following debt instruments: BRH bonds and Treasury bonds and debentures (**note 6**), United States Treasury and Government bonds, private companies' bonds and term deposits (**note 8**) and bonds in local institutions and interbank loans (**note 7**) which correspond only to repayments of principal and interest payments. Holding these investments is part of an economic model which objective is to hold assets in order to receive contractual cash flows. These investments have a fixed maturity and are held to maturity. They are recorded at amortized cost using the effective interest method, net of the provision for expected credit losses. Premiums, discounts and related transaction costs are amortized over the expected life of each instrument in interest income. Changes in value are not recorded but are disclosed in the notes to the financial statements.

Gains and losses realized on the disposal of these investments are recognized in the statement of income in the year in which they occur.

*iii) **Fair value through profit or loss.*** These investments consist of debt instruments: bonds of the United States Government, and bonds of private companies (**note 8**) and equity instruments in local companies (**note 7**) and in a foreign bank (**note 8**) which are recorded at their fair value, through profit and loss. These investments are generally acquired for resale or for the purpose of generating capital gains.

Transaction costs are charged directly to the income statement. Interest income, dividends and changes in fair value are recorded in the statement of income as well as the gains and losses realized upon disposal of these instruments.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Loans

Loans are recorded at amortized cost using the effective interest method, net of the allowance for expected credit losses.

Non-performing loans consist of loans in default payment for 90 days and more. Non-performing loans are considered current when principal and interest payments in arrears are paid and there is no longer any doubt regarding recovery of these loans.

At September 30, 2020, some loans have been granted a delay of principal repayment until December 31, 2020 in agreement with measures adopted during the Covid-19 crisis by the Central Bank (Circular no. 115-1). These loans continue to honor the interest payments.

Restructured loans are those for which the Bank has revised the terms due to deterioration in the financial situation of the borrower. These loans are reclassified as current loans when they meet the required criteria thereof.

Loans are written off against the impairment provision for loan losses when all restructuring and collection efforts are completed and it is unlikely that other amounts will be recovered. Recoveries of loans written off are recorded as revenue, when collected.

At year end, the Bank establishes a provision for expected credit losses representing an estimate of the impairment loss on the loan portfolio at that date in accordance with what is described in **note 3 b**. This provision takes into account data such as default or delinquency by a borrower, collateral value, future recovery possibilities and the financial situation of the borrower, that may impact future cash flows of a specific loan or of a group of loans with similar risks. This provision is also based on Management's experience and judgment. Credit card balances are provisioned at 100% once they exceed 180 days.

The provision for credit losses reflected in the statement of income represents the difference between the provision determined above and the provision at the beginning of the year, net of write-offs and of the foreign exchange effect resulting from the revaluation of the provision for expected credit losses expressed in US dollars.

The Bank also meets the Central Bank's requirements on provisions as defined in Circular 87. When the required provision for loan losses in accordance with the Central Bank's regulations exceeds the provision (IFRS) for expected credit losses reflected on the balance sheet, the excess of provision is recorded in the general reserve for loan losses, reflected in net assets (**note 3 u**).

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Right-of-use assets and lease liabilities

Leases are recognized in accordance with the requirements of IFRS 16, starting October 1, 2019.

At the commencement date, the Bank records a right-of-use asset and a lease liability for qualifying leases in accordance with IFRS 16.

Initial measurement of the right-of-use asset includes the amount of the initial measurement of the related lease liability, prepaid rent payments, initial direct costs incurred by the lessee and an estimate of dismantling costs of the underlying asset, less any lease incentives. This non-monetary asset is expressed in the functional currency of the Bank and is amortized on a straight-line basis, over the shortest period between the useful life of the underlying asset and the expected duration of the lease.

The lease liability is initially valued at the present value of the lease payments that have not yet been paid at the initial recognition date. The lease payments are discounted using the lessee incremental borrowing rate. This monetary liability is expressed in the currency of the corresponding lease contract and is remeasured when there is a change in the lease terms, a change in the assessment of an option to purchase the underlying asset, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments. The adjustment to the lease liability is recorded as an adjustment to the related right-of-use asset or is recorded in net income if the right-of-use asset has a zero balance.

In the case of variable contracts, which are valued as a function of an index, such as the exchange rate or a price fluctuation, the effect of the indexation is capitalized in the right-of-use asset and amortized over the remaining term of the contract.

Depreciation of the right-of-use asset as well as the financial expense according to the effective interest rate method, relating to lease liabilities, are recognized in the statement of income.

Accounting for leases under IFRS 16 involves judgment and requires the Bank to apply assumptions and estimates to determine:

- That the appropriate interest rates are used to discount lease liabilities.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Right-of-use assets and lease liabilities (continued)

- That the duration of the lease contracts is adequate. The Bank must therefore assess whether it has reasonable certainty that the option to renew or terminate the contract will be exercised, taking into account certain aspects such as: the contract, terms, the nature and location of the asset, the existence of significant leasehold improvements and the availability of alternate locations in the same area.

Method applicable before October 1, 2019

Rental payments relating to operating leases were recorded on a straight-line basis as rental expense in the statement of income.

(h) Fixed assets

Fixed assets are recorded at cost. Except for land, leasehold improvements and capital expenditures in progress, depreciation is calculated based on the estimated useful life using the straight-line method. Leasehold improvements are amortized over the lease terms using the straight-line method. Capital expenditures in progress will be transferred to their respective category of fixed assets, and then depreciated over their estimated useful life from the time they are ready for usage.

Depreciation rates applied to the main categories of fixed assets are as follows:

Buildings	2.8%
Computer equipment	20%
Fixtures and equipment	10%
Vehicles	20% and 25%
Electrical equipment	20%
Communication equipment	10% and 20%
Air conditioning system	10% and 20%
Security equipment	20%
Leasehold improvements	8% to 11%

The depreciation method, estimated useful lives and residual value of the various categories of fixed assets are reviewed at each year end.

Major disbursements for improvements and reconditioning are capitalized, and disbursements for maintenance and repairs are charged to expenses.

Gains or losses realized on disposals of fixed assets are recognized in the statement of income.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Properties held for sale

In conformity with IFRS 5, properties held for sale, presented in real estate, are properties received in settlement of unpaid loans, or repossessed in compensation for the balance of unpaid loans plus interest receivable at the time of default, plus recovery fees incurred by the Bank. Those properties are recorded at fair value at the transaction date.

The Bank has established an active sales program within which these properties should be actively commercialized in their actual state during a period not exceeding one year, unless there are circumstances outside the control of the Bank. Properties not in conformity with these criterias have been reclassified to investment properties.

The carrying value of these assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. In case of impairment, the carrying value is adjusted to the net realizable value which is equivalent to the estimated selling price in the normal course of business.

Fair value is established based on appraisals from independent real estate appraisers.

Per the banking Legislation, a reserve is required on properties held for sale (**note 3 k**) and is recorded in the general reserve for real estate in the statement of changes in net assets.

(j) Investment properties

Investment properties, presented in Real Estate, represent land and buildings held by the Bank for an unspecified period and use. They are kept at fair value determined by independent real estate appraisers, and are not depreciated, in conformity with IAS 40.

Those investment properties should be presented at fair value and, in that context, the Haitian legislation requires three evaluation reports obtained from independent real estate appraisers. Although fair value gains were noticed on some investment properties, Management considers it is premature to record those gains and wishes to perform additional analyses. This resulted in a qualification in the independent auditors' report.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Investment properties (continued)

All gains or losses in value resulting from a change in fair value of these investment properties are recorded in the statement of income.

Some of these buildings are rented to Government organizations and commercial companies. Rental income, as collected, and expenses related to the management of these buildings are recorded in the statement of income.

Per the banking Legislation, a reserve is required on investment properties (**note 3 k**) and is recorded in the general reserve for real estate in the statement of changes in net assets.

(k) General reserve for real estate

The general reserve for real estate is established by a transfer from retained earnings and represents the provisions required by the Central Bank with regards to the Bank Law of July 20, 2012. It is established as follows:

- At receipt, 30% of the fair value of properties received or repossessed in lieu of payment, from the date of application of the Law.
- The yearly impairment of 20% on all properties received or repossessed in lieu of payment and unsold after two years, up to 100% of the recorded value. This has been effective beginning as of December 3, 2015, as stated in the Instruction Letter no. 1 of the Central Bank dated December 3, 2013 regarding the implementation of Article 189.

This reserve is not subject to distribution and is not taken into account in regulatory capital. When the Bank disposes of real estate, the related general reserve is transferred back to retained earnings.

(l) Foreign exchange contracts

Foreign exchange contracts include forward contracts for commitments to exchange two currencies (gourdes and US dollars) at a future date at a predetermined exchange rate and on terms agreed to by both parties at the date of the contract. These contracts reflect amounts receivable in one currency and amounts to be remitted in another currency in accordance with the terms of the respective contracts.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Goodwill

Goodwill represents the excess of cost of acquisition over the fair value of the net identifiable assets and liabilities acquired. This intangible asset is not amortized in accordance with IFRS 3. Goodwill is subject to an annual impairment test or more frequently if events or changes in circumstances indicate an impairment. Goodwill is presented at cost less impairment loss. Impairment loss cannot be reversed. Management believes that there is no decrease in the book value of goodwill as of the date of these financial statements.

(n) Acceptances and letters of credit

The Bank's potential liability with respect to trade acceptances and letters of credit is reflected as a liability on the balance sheet.

The Bank's recourse against its customers in the case of a call on these commitments is reported as an asset for the same amount.

(o) Deposits and loans

Customers' deposits and loans are recorded at cost. Their fair value is assumed to be equal to their carrying value since the interest rates are indexed to current market rates.

(p) Local banks deposits

Local banks deposits from branches of commercial banks located in the provincial towns represent the mandatory cash reserve collected by BNC on behalf of BRH. These deposits do not carry interest. Their fair value is comparable to book value since they are very short-term deposits.

(q) Exoneration of income taxes and other taxes

In accordance with the Law of August 17, 1979, amended by the Decree of November 23, 2005, the Bank is exonerated from income taxes, government duties and other taxes on its own operations.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Payment to the Public Treasury

In accordance with the Law of August 17, 1979 and the Decree of November 23, 2005, a remittance of up to 25% of the net income of the Bank is due to the Public Treasury. The remaining balance will be used to constitute the required legal reserve of 10% as well as other special reserves set aside for investment, expansion and other activities as determined by the Board of Directors.

In 2020, following an agreement with the Ministry of Economy and Finance, an amount of G 156.4 million was paid to the Public Treasury for 2019.

The amount to be paid to the Public Treasury has not yet been determined for 2020.

(s) Pension plan and special fund

The Bank offers its employees a contributory end-of-career defined benefit pension plan that provides benefits based on the number of years of service and the average salary of the last five years of service of the beneficiaries.

The Bank has also set up a special fund payable to employees at their retirement resulting in special bonus payments for years of service, and severance payments.

No actuarial valuations of these plans are available. Charges are recorded on an estimated basis and not on the basis of the actuarial obligations. The actuarial surplus or deficit and related amortization are not determined.

International Financial Reporting Standards require that the Bank obtains an actuarial evaluation at the end of each year. Consequently, the information presented in **notes 19** and **24** is not in conformity with International Financial Reporting Standards.

(t) Legal reserve

In agreement with the Law on financial institutions, an amount of 10% of the net income is transferred every year in a reserve account in order to constitute the legal reserve, until such reserve reaches a maximum of 50% of the capital fund.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) General reserve for loan losses

The general reserve for loan losses is established by a transfer from retained earnings and represents the excess of the provision required by the Central Bank, to cover potential loan losses including the general provision on the loan portfolio, over the balance sheet impairment provision for expected credit losses based on International Financial Reporting Standards. This reserve is not subject to distribution.

(v) Interest

Interest income on loans is recorded on an accrual basis. Interest income on credit cards is capitalized up to 180 days. After this period, the outstanding balance is provisioned.

Interest income and expenses are accounted for using the effective interest method. Interest includes primarily interest income on BRH bonds, Treasury bonds and debentures, loans, and local and foreign investments, as well as interest expense on deposits and debt.

(w) Commissions

Commissions that are significant to the determination of the effective interest rates on financial assets and liabilities are included in the measurement of those effective interest rates.

Commission income and expenses which are similar to service fees are recognized in the statement of income when the services are rendered.

(x) Regulatory reserve

According to the cash reserve requirements of the Central Bank, as of September 30, 2020 and 2019, a reserve of 45% of liabilities in local currency and of 51% of liabilities in foreign currencies. The reserve on foreign currencies has to be maintained at 12,5% in gourdes. This requirement does not apply to the local banks deposits that are not part of the regulatory reserve.

From June 2015, the regulatory reserve requirement rate for deposits of non financial public enterprises is 100%.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) New standards, amendments and interpretations not yet adopted

In 2020, the Bank adopted IFRS 16.

As of the date of these financial statements, some standards, modifications and interpretations have been issued but not yet in effect as of September 30, 2020. These standards have not been taken into account in the preparation of the financial statements of the Bank.

In May 2017, the IASB published a new standard IFRS 17- Insurance Contracts which replaces the current standard IFRS 4. However, the IASB has provisionally decided to postpone the effective date of IFRS 17 for fiscal years beginning on or after January 1, 2022.

(4) RISK MANAGEMENT

Banking business involves many risks that require careful management because of their potential negative impact on the operations of a bank, its financial results and its assets. The main risks are as follows:

Liquidity risk;
Credit risk;
Market risks: foreign exchange and interest rates;
Money laundering and financing of terrorism risks.

Management of the Bank is aware that it must efficiently manage those risks in order to meet its financial objectives; therefore, it applies a focused and prudent set of procedures with regards to those risks. This set of procedures provides guidance to the various departments of the Bank accompanied with an internal control system that conforms to the industry and to Central Bank regulations. The internal control system allows the Board of Directors to ensure adequate control over the bank activities at all levels. In addition to a structured operational hierarchy, internal control also includes specialized committees that analyse risks, supervise the various departments and define the operational objectives of the Bank. Among those committees, there are the Management Committee, the Treasury Committee, the Credit Committee, the Audit and Compliance Committee, and the Security and Ethics Committee.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(4) RISK MANAGEMENT (CONTINUED)

Management's evaluation of the major risks of the Bank is as follows:

A) LIQUIDITY RISK

Liquidity risk is the risk that BNC does not have at the appropriate time the required liquidity to meet its current obligations, on and off-balance sheet. Prudent and effective management of liquidity is therefore essential as part of the policy to maintain market confidence and protect its capital.

To manage this risk on a daily basis, Management has put in place a prudent policy of cash management which allows the Bank to have sufficient liquidity to meet its current obligations at due date. In addition, Management closely monitors the maturity of deposits and loans as well as other resources and claims against those resources so as to ensure a proper matching between resources and obligations, while complying with the statutory requirements applicable to the Bank. The Treasury Committee meets on a weekly basis and monitors on a daily basis the operational needs of the Bank.

In general, the Bank is in compliance with the Central Bank regulations in terms of liquidity; it maintains the regulatory cash reserve required by Circular 72-3.

The maturity profile of the Bank's financial liabilities based on their initial contractual maturity is as follows as of September 30:

September 30, 2020

(In thousands of gourdes)	Current	1-3 months	3 month-1 year	More than a year	Total
Deposits: (note 16)					
Demand deposit	G 30,009,621	-	-	-	30,009,621
Savings deposits	21,161,363	-	-	-	21,161,363
Term deposits	<u>80,064</u>	<u>-</u>	<u>9,563,430</u>	<u>-</u>	<u>9,643,494</u>
Total deposits	<u>51,251,048</u>	<u>-</u>	<u>9,563,430</u>	<u>-</u>	<u>60,814,478</u>
Loans and debentures					
BRH (note 17)	1,694,403	1,706,390	1,775,024	3,052,479	8,228,296
Local bank deposits (note 18)	110,518	-	-	-	110,518
Commitments - acceptances and letters of credit	-	340,182	-	-	340,182
Foreign exchange contracts (note 9)	-	272,296	-	-	272,296
Lease liabilities	-	-	29,394	81,211	110,605
Other liabilities (note 19)	<u>2,386,559</u>	<u>283,800</u>	<u>2,632,552</u>	<u>2,313,232</u>	<u>7,616,143</u>
Total – others	4,191,480	2,602,668	4,436,970	5,446,922	16,678,040
Total	G 55,442,528	2,602,668	14,000,400	5,446,922	77,492,518

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(4) RISK MANAGEMENT (CONTINUED)

A) LIQUIDITY RISK (CONTINUED)

September 30, 2019

(In thousands of gourdes)	Current	1-3 months	3 months-1 year	More than a year	Total
Deposits: (note 16)					
Demand deposits	G 30,576,566	-	-	-	30,576,566
Savings deposits	20,468,941	-	-	322,467	20,791,408
Term deposits	<u>101,342</u>	<u>2,622,411</u>	<u>7,578,959</u>	<u>-</u>	<u>10,302,712</u>
Total deposits	<u>51,146,849</u>	<u>2,622,411</u>	<u>7,578,959</u>	<u>322,467</u>	<u>61,670,686</u>
Loans and debentures					
BRH (note 17)	29,577	1,908,658	112,903	3,093,965	5,145,103
Local bank deposits (note 18)	35,929	-	-	-	35,929
Commitments – letters of credit and acceptances	-	357,913	-	-	357,913
Foreign exchange contracts (note 9)	-	2,149,809	-	-	2,149,809
Other liabilities (note 19)	<u>987,018</u>	<u>248,423</u>	<u>3,196,423</u>	<u>2,319,683</u>	<u>6,751,547</u>
Total – others	1,052,524	4,664,803	3,309,326	5,413,648	14,440,301
Total	G 52,199,373	7,287,214	10,888,285	5,736,115	76,110,987

B) CREDIT RISK

The credit risk is the risk of financial loss resulting from the inability of a party to fulfill its financial and/or contractual obligations towards the Bank.

Monetary policies adopted by the Central Bank of Haïti and the Federal Reserve Bank in the United States of America or by other international institutions in the territories where the Bank holds financial assets, have an impact on the Bank's activities, its results and its financial position.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(4) RISK MANAGEMENT (CONTINUED)

B) CREDIT RISK (CONTINUED)

This risk affects the following significant financial assets:

(In thousand of gourdes)	2020	2019
Cash and cash equivalents (note 5):		
Deposits with BRH	G 23,301,325	17,608,932
Deposits with foreign banks	3,169,434	2,350,330
Items in transit	<u>322,871</u>	<u>145,635</u>
	<u>26,793,630</u>	<u>20,104,897</u>
Investments:		
BRH bonds, Treasury bonds and debentures, net (note 6)	19,008,566	8,645,928
Local investments (note 7)	933,578	3,536,577
Foreign investments (note 8)	<u>6,951,292</u>	<u>11,479,439</u>
	<u>26,893,436</u>	<u>23,661,944</u>
Foreign exchange contracts (note 9)	<u>296,384</u>	<u>2,149,809</u>
Credit:		
Loans, net (note 10)	<u>22,335,580</u>	<u>21,256,952</u>
Acceptances and letters of credit	<u>340,182</u>	<u>357,913</u>
Other assets, net (note 15)	<u>229,025</u>	<u>95,032</u>
	G <u>76,888,237</u>	<u>67,626,547</u>

i) Cash and cash equivalents

Cash and cash equivalents are held at financial institutions that the Bank considers as being sound. The financial viability of these institutions is reviewed periodically by Management. As of September 30, 2020 and 2019, 87% of cash and cash equivalents are kept at the Central Bank as reserve coverage. In general, Management considers that the credit risk related to cash and cash equivalents is nil.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(4) RISK MANAGEMENT (CONTINUED)

B) CREDIT RISK (CONTINUED)

ii) Investments

Investment risk occurs when a security decreases in value due to unfavorable financial performance, real or expected, of the issuer. To manage this risk, the Bank invests in financial instruments for which the operational and financial aspects can be managed with a return proportional to the assumed risks.

The Bank considers the BRH bonds, representing 4% of investments as of September 30, 2019 as financial instruments not a risk. Maturity of these bonds does not exceed 91 days and the Bank is confident that the BRH will honor its commitments in due course. As of September 30, 2020, there are no BRH bonds outstanding.

Management considers Treasury bonds, representing 70% and 32% of investments as of September 30, 2020 and 2019 as financial instruments at moderate risk. Management is confident that the Haitian Treasury will honor its commitments in due course.

Management considers the Treasury debentures, representing 0.2% of investments as of September 30, 2019, as financial instruments with low risk since they are guaranteed by the Central Bank. Management is confident that the Haitian Treasury will honor its commitments in due course. At September 30, 2020, there are no outstanding Treasury debentures.

Management considers as moderate the risk on its local investments in securities and debentures. On a regular basis, the Bank requests financial information in order to ensure adequate valuation. Furthermore, the Bank considers as low the risk on interbank loans.

As of September 30, 2020 and 2019, foreign investments are mainly composed of term deposits (84% and 67%) and debentures from government agencies (4% and 23%), representing 88% and 90% of those investments. Management considers as low the credit risk on the term deposits and on the debentures from government agencies. Management considers as moderate the credit risk on the other foreign investments.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(4) RISK MANAGEMENT (CONTINUED)

B) CREDIT RISK (CONTINUED)

iii) Credit

Policies and procedures established by the Bank allow an adequate management of this risk; thus:

- All new loans are analyzed, approved by the Credit Committee and adequately documented.
- The Credit Administration ensures that the guarantees required are in place before any disbursements.
- The loan portfolio is managed by a performing credit software and is rigorously and methodically followed-up by the Credit Department, the Credit Administration and the Credit Committee.
- Delinquent customers are followed up by the Credit Department, the Recovery Unit, the Legal Department and finally, by external legal counsels.
- Adequate specific provision and a general reserve are established against non performing loans. They represent 56% and 71% of non performing loans as of September 30, 2020 and 2019.
- In general, the Bank is in conformity with the requirements of the Central Bank with regards to loan classification and establishment of a provision for expected credit losses (Circular no. 87), the 50% limit of the US dollar loans versus total US dollar liabilities (Circular no. 97), and the concentration of credit risk (Circular no. 83.4) requirement, which limits, in relationship to its regulatory capital, the amount of credit that may be issued to a borrower, a group of borrowers, or to the major sectors of the economy.

iv) Foreign exchange contracts

The Bank considers the risk to be low on the foreign exchange contracts since the counterparties are liabilities.

v) Acceptances and letters of credit

The Bank considers the risk to be low on acceptances and letters of credit since the counterparties are liabilities.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(4) RISK MANAGEMENT (CONTINUED)

B) CREDIT RISK (CONTINUED)

vi) Other assets

The Bank considers as low the risk of non-payment on other financial assets that represent current transactions that are settled within a short period of time.

The geographic allocation of financial risk based on the ultimate location of the financial assets of the Bank is as follows:

(In thousands of gourdes)	2020	2019
<u>Cash and cash equivalents</u>		
Haïti	G 23,624,130	17,818,169
United States	3,110,374	2,206,390
Canada	53,960	72,948
Panama	4,923	6,971
England	243	419
	<u>26,793,630</u>	<u>20,104,897</u>
<u>Investments</u>		
Haïti	19,942,144	12,182,504
Panama	4,256,254	5,934,485
United States	1,047,056	4,136,399
Canada	1,647,982	1,408,556
	<u>26,893,436</u>	<u>23,661,944</u>
<u>Foreign exchange contracts</u>		
Haïti	<u>296,384</u>	<u>2,149,809</u>
<u>Credit</u>		
Haïti	<u>22,335,580</u>	<u>21,256,952</u>
<u>Acceptances and letters of credit</u>		
Haïti	<u>340,182</u>	<u>357,913</u>
<u>Other assets, net</u>		
Haïti	<u>229,025</u>	<u>95,032</u>
Total financial assets	G 76,888,237	67,626,547

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(4) RISK MANAGEMENT (CONTINUED)

C) MARKET RISK

Market risk arises from price fluctuations in the market and encompasses mainly the foreign exchange risk and the interest rate risk. The Bank's objective is to manage these risks within acceptable parameters in order to be profitable and to maximize its return on investment while preserving net assets.

i) Foreign exchange risk

Foreign exchange risk results from significant matching differences between the financial assets and liabilities denominated in the same currency, following changes in the value of that currency.

To manage that risk, the Bank has adopted a policy of not generally taking a foreign position in currencies exceeding three working days. Circular no. 81-5 of the Central Bank on foreign exchange risk, effective as of April 2017, stipulates that the foreign currency position, in absolute terms, must not exceed 0.5% of shareholders' equity on a daily basis, which limits the gain or loss that the Bank could incur on its position in foreign currencies.

As of September 30, 2020 and 2019, the net foreign exchange positions of the Bank, by currency, were as follows:

September 30, 2020

(In thousands of gourdes)	Gourdes	Dollars converted	Euros converted	Total
Cash and cash equivalents	G 15,694,374	15,342,444	5,969	31,042,787
BRH bonds, Treasury bonds and debentures	19,008,566	-	-	19,008,566
Local and foreign investments	808,103	7,076,767	-	7,884,870
Loans, net	17,630,835	4,704,745	-	22,335,580
Acceptances and letters of credit	4,061	336,121	-	340,182
Foreign exchange contracts	296,384	-	-	296,384
Other assets, net	97,337	131,688	-	229,025
Total financial assets	G 53,539,660	27,591,765	5,969	81,137,394
Deposits	37,339,554	23,474,924	-	60,814,478
Loans and bonds – BRH	6,909,910	1,318,386	-	8,228,296
Reserves of local banks	105,069	5,449	-	110,518
Commitments – acceptances of letters of credit	4,061	336,121	-	340,182
Lease liabilities	8,928	101,677	-	110,605
Foreign exchange contracts	-	272,296	-	272,296
Other liabilities	5,457,031	2,159,020	92	7,616,143
Total financial liabilities	G 49,824,553	27,667,873	92	77,492,518
Assets (liabilities), net	G 3,715,107	(76,108)	5,877	3,644,876

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(4) RISK MANAGEMENT (CONTINUED)

C) MARKET RISK (CONTINUED)

i) Foreign exchange risk (continued)

For each variation of one Gourde versus the US dollar and the Euro, the currency position in US dollars and Euros converted would result in an exchange gain or loss of respectively G 1.1 million and G 76 thousand, as the case may be.

September 30, 2019

(In thousands of gourdes)	Gourdes	Dollars converted	Euros converted	Total
Cash and cash equivalents	G 16,408,531	15,342,031	1,701	31,752,263
BRH bonds, Treasury bonds and debentures	8,645,928	-	-	8,645,928
Local and foreign investments	3,318,022	11,697,994	-	15,016,016
Loans, net	13,765,161	7,491,791	-	21,256,952
Acceptances and letters of credit	2,089	355,824	-	357,913
Foreign exchange contracts	2,149,809	-	-	2,149,809
Other assets, net	11,635	83,397	-	95,032
Total financial assets	G 44,301,175	34,971,037	1,701	79,273,913
Deposits	32,028,969	29,641,717	-	61,670,686
Loans and bonds – BRH	3,278,779	1,866,324	-	5,145,103
Reserves of local banks	30,188	5,741	-	35,929
Commitments – acceptances and letters of credit	2,089	355,824	-	357,913
Foreign exchange contracts	-	2,149,809	-	2,149,809
Other liabilities	<u>4,160,523</u>	<u>2,591,024</u>	<u>-</u>	<u>6,751,547</u>
Total financial liabilities	G 39,500,548	36,610,439	-	76,110,987
Assets (liabilities), net	G 4,800,627	(1,639,402)	1,701	3,189,926

For each variation of one Gourde versus the US dollar and the Euro, the currency position in US dollars and Euros converted would result in an exchange gain or loss of respectively G 18 million and G 17 thousand, as the case may be.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(4) RISK MANAGEMENT (CONTINUED)

C) MARKET RISK (CONTINUED)

i) Foreign exchange risk (continued)

The foreign exchange rates for the different currencies compared to the gourde were as follows:

	2020	2019
As of September 30		
US dollar	65.9193	93.3162
Euro	77.2706	101.9853
Average rates for the year		
US dollar	99.0000	85.0000
Euro	110.8637	93.8116

ii) Interest rate risk

This risk is related to any possible incidence of interest rates fluctuations on the net income and consequently, on net assets. It results from the inability to adjust interest rates as market evolves, to the extent that net interest margin decreases significantly or becomes negative. The amount of the risk is related to the magnitude and the evolution of interest rates, and of the significance and the maturities of the related financial instruments.

This risk is well managed by the Bank, due to the fact that a significant portion of its interest-bearing assets and liabilities, are short-term and bear interest at variable rates, thus allowing the Bank to rapidly modify the interest rates and accordingly reduce the risk. Also, fixed rate financial liabilities are covered, by more than 100%, by corresponding financial assets. Thus, as of September 30, 2020 and 2019, given the significant spread between fixed interest financial assets and liabilities, an increase or decrease in interest rates will increase or decrease the net interest margin.

The Bank maintains a close follow-up of the four following portfolios:

- Loans to and deposits from bank customers
- Local investments
- Foreign investments
- Debt.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(4) RISK MANAGEMENT (CONTINUED)

C) MARKET RISK (CONTINUED)

ii) Interest rate risk (continued)

Management regularly reviews the positions of those portfolios; it establishes the strategy of the Bank taking into account forecasted changes in interest rates, and recommends that all undesired or unforeseen interest rate risk be adequately covered.

At year end, the interest profile on the main interest-bearing financial instruments was as follows:

(In thousands of gourdes)	%	2020	%	2019
Fixed interest rates:				
Financial assets	61%	G 30,846,916	60%	26,531,120
Financial liabilities	36%	(17,871,790)	29%	(15,447,815)
Net		<u>12,975,126</u>		<u>11,083,305</u>
Variable interest rates:				
Financial assets	39%	19,436,132	40%	17,777,394
Financial liabilities	64%	(31,089,976)	71%	(32,317,512)
Net		<u>(11,653,844)</u>		<u>(14,540,118)</u>
Total of interest-bearing financial assets	100%	50,283,048	100%	44,308,514
Total of interest-bearing financial liabilities	100%	(48,961,766)	100%	(47,765,327)
Net		<u>G 1,321,282</u>		<u>(3,456,813)</u>

D) CAPITAL MANAGEMENT

Capital is defined as paid-in-capital, reserves and retained earnings. The Bank periodically evaluates its return on capital and aims at paying a reasonable return to the Public Treasury that does not impair its capacity to sustain its future development.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(4) RISK MANAGEMENT (CONTINUED)

D) CAPITAL MANAGEMENT

Capital adequacy requirements for banks operating in Haiti are set up and monitored by the Central Bank as Regulator. Banks must adhere to the following capital ratios under Central Bank Circular 88:

- **Ratio of assets/capital** - A maximum multiple of 20 times between total assets, plus some qualifying off-balance sheet assets, and regulatory capital.
- **Ratio of capital/risk-weighted assets** – The ratio of regulatory capital to risk-weighted assets must not be less than 12%. Risk-weighted assets comprise balance sheet and some off-balance sheet assets to which specific risk weights are assigned.

Regulatory capital consists mainly of permanent Tier 1 capital attributable to the Haitian Government excluding the general reserves for loan losses and real estate, and of Tier 2 capital mainly consisting of subordinated debt.

As of September 30, the Bank has the following ratios:

	2020	2019
Ratio assets / capital	12.00 times	12.77 times
Ratio capital / risk-weighted assets	33.6%	29.3%

E) MONEY LAUNDERING AND FINANCING OF TERRORISM

Conformity

Following the publication of the Laws of December 3, 2001, and that of November 14, 2013 relating to money laundering and financing of terrorism, the Bank has taken a series of measures to comply with legal requirements and prudential standards as prescribed by BRH through its circulars 99, 99-1 and 100, one of which resulted in the creation of a Compliance Office.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(4) RISK MANAGEMENT (CONTINUED)

E) MONEY LAUNDERING AND FINANCING OF TERRORISM

The Compliance Office reports directly to the Board of Directors, which approves its annual plan and sporadic actions. Monthly or extraordinary meetings are held as needed. This Office acts as an interface in all aspects of compliance with foreign correspondents, the BRH, the Central Financial Intelligence Unit (UCREF), and the Anti-Corruption Unit (ULCC). It is supported by all branch managers who also act as compliance officers.

Members of the Board of Directors, executives of the Controller and Compliance offices regularly attend international seminars on money laundering and financing of terrorism. The Know Your Customer (KYC) principle is mandatory for the management of all customers, and account opening forms have been modified accordingly, respecting local and international laws.

Technology

The Bank is equipped with modern IT tools to optimize its actions in the fight against money laundering and the financing of terrorism, including:

- an "Anti Money Laundering" (AML) monitoring software;
- a "Swift Sanction Screening" computer application that ensures that principals and beneficiaries are not part of international blacklists of individuals, institutions or countries;
- a computer application for the electronic routing of the declarations of transactions to UCREF.

Operations

Training sessions on money laundering and financing of terrorism are offered to all employees.

The correspondent banks of BNC conduct an annual assessment of the compliance mechanisms put in place by the Bank and adjustments are made following various recommendations and international requirements.

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BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(5) CASH AND CASH EQUIVALENTS

As of September 30, cash and cash equivalents are as follows:

(In thousands of gourdes)	2020	2019
Cash	G 4,249,157	11,647,366
Deposits with BRH (note 27)	23,301,325	17,608,932
Deposits with foreign banks	3,169,434	2,350,330
Items in transit	322,871	145,635
Total cash and cash equivalents	G 31,042,787	31,752,263

Cash and deposits with Banque de la République d'Haïti (BRH) are part of the regulatory cash reserve requirements that must be maintained in accordance with the related provisions of BRH (Central Bank) circulars. These deposits do not bear interest.

As of September 30, deposits with foreign banks are as follows:

(In thousands of gourdes)	2020	2019
Interest bearing accounts	G 3,104,581	2,169,356
Non-interest-bearing accounts	64,853	180,974
	G 3,169,434	2,350,330

Interest rates on interest bearing deposits with foreign banks were on average from 0.05% to 2.09% in 2020, and 2019.

Deposits in foreign banks include security deposits:

(In thousands of US\$ and gourdes)	2020		2019	
	US\$	Équivalent HTG	US\$	Équivalent HTG
Credit card transactions	1,352	89,180	1,343	125,337

As of September 30, cash and cash equivalents by currency are as follows:

(In thousands of gourdes)	2020	2019
Gourdes	G 15,694,374	16,408,531
US dollars	15,342,444	15,342,030
Euros	5,969	1,702
	G 31,042,787	31,752,263

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(6) BRH BONDS, TREASURY BONDS AND DEBENTURES

As of September 30, BRH bonds are as follows:

(In thousands of gourdes)		2020	2019
BRH BONDS			
Face value	G	-	1,000,000
Unearned interest		-	(30,555)
BRH BONDS, net	G	-	969,445
<i>Interest rates</i>		-	22.0%
<i>Maturity</i>		-	November 2019

As of September 30, Treasury bonds and debentures are as follows:

(In thousands of gourdes)		2020	2019
TREASURY BONDS			
Face value	G	19,250,000	7,900,000
Unearned interest		<u>(241,434)</u>	<u>(273,517)</u>
Treasury bonds, net	G	19,008,566	7,626,483
<i>Interest rates</i>		10.25% to 10.50%	22.25% to 22.50%
<i>Maturity</i>		October to December 2020	October - December 2019
TREASURY DEBENTURES			
Face value (a)	G	-	50,000
<i>Interest rates</i>		-	6.0%
<i>Maturity</i>		-	February 2020
Total Treasury bonds and debentures	G	19,008,566	7,676,483
Total BRH bonds, Treasury bonds and debentures, net (note 27)	G	19,008,566	8,645,928

- (a) These Treasury debentures were issued on March 4, 2015 under the agreement signed on January 30, 2015, by the Ministry of Economy and Finance, the Ministry of National Education and Continued Professional Training, and the Central Bank (BRH). This agreement concerns the issuance of Treasury bonds to finance the educational sector of which G 500 million were allocated to BNC. Those debentures are dematerialized and bear interest at the annual rate of 6%. They are repayable in 60 monthly equal installments, starting on March 30, 2015 according to the reimbursement schedule agreed upon with BRH. Cumulative interest to be earned on these debentures will total G 76 million of which G 625 thousand and G 5 million were recognized in 2020 and 2019.

Those debentures are deductible from the liabilities subject to the regulatory reserve. As of September 30, 2020, these debentures are redeemed.

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BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(7) LOCAL INVESTMENTS

As of September 30, local investments are as follows:

(In thousands of gourdes)		2020	2019
Investments held to maturity, at amortized cost, net (i)	G	432,376	3,052,598
Equity instruments at fair value through profit or loss, net (ii)		501,202	483,979
	G	933,578	3,536,577

(i) **Investments held to maturity at amortized cost** are as follows:

September 30, 2020

(In thousands of gourdes)		Cost	Interest rates	Maturity
US dollars bonds at cost of US\$ 1,276,000 - E-Power	G	84,124	9.0%	2024
US dollars bonds at cost of US\$ 1,000,000 - Alternative Insurance Company S.A.		39,552	7.5%	2022
Interbank investments		300,000	12.0%	October 2020
Total investments held to maturity at amortized cost		423,676		
Interest receivable		8,762		
Total investment held to maturity at amortized cost and interest receivable		432,438		
Provision for expected credit losses		(62)		
Total investments held to maturity at amortized cost, net	G	432,376		

The provision for expected credit losses on the above bonds has evolved as such:

(In thousands of gourdes)		Stage 1	
		2020	2019
Balance at of September 30, 2019	G	106	-
Impact of IFRS 9 adoption (note 20)		-	80
Foreign exchange effect		(31)	26
Reversal of provision for expected credit losses (note 21)		(13)	-
Balance as of September 30, 2020	G	62	106

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BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(7) LOCAL INVESTMENTS (CONTINUED)**September 30, 2019**

(In thousands of gourdes)	Cost	Interest rates	Maturity
US dollars bonds at cost of E-Power			
US\$ 1,276,000 (a)	G 119,087	9.0%	2024
US dollars bonds at cost of US\$ 1,000,000			
Alternative Insurance Company S.A.	93,315	7.5%	2022
Interbank investments	2,800,000	16.0% et 24.0%	Oct. et déc. 2019
Total investments held to maturity at amortized cost	3,012,402	-	-
Interest receivable	40,302	-	-
Total investment held to maturity at amortized cost and interest receivable	3,052,704	-	-
Provision for expected credit losses	(106)	-	-
Total investments held to maturity at amortized cost, net	G 3,052,598	-	-

a) In 2019, the maturity of these bonds was renewed for a period of five additional years to expire in 2024.

ii) **Equity instruments at fair value through profit or loss** are as follows:

September 30, 2020

(In thousands of gourdes)	Cost	Loss	Net value	% of Ownership	Number of common shares
Lafito Industrial Free-Zone S.A. (a)	G 332,256	-	332,256	8.78%	141,433
Port Lafito S.A. (b)	<u>65,992</u>	-	<u>65,992</u>	3.81%	<u>65,992</u>
	<u>398,248</u>	-	<u>398,248</u>		<u>207,425</u>
Société de Construction d'Immeubles et d'Ouvrages Publics S.A. (SCIOP S.A.) (c)	74,068	(37,034)	37,034	5.67%	1,207
Alternative Insurance Company S.A.	65,919	-	65,919	6.89%	250
Digital Satellite Systems S.A.	63,047	(63,047)	-	7.70%	26,380
Société Village Chateaublond S.A.	500	(500)	-	7.70%	50
Haitel	9,300	(9,299)	1	-	-
Total equity instruments, net	G 611,082	(109,880)	501,202	-	-

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(7) LOCAL INVESTMENTS (CONTINUED)

September 30, 2019

(In thousands of gourdes)		Cost	Loss	Net value	% of Ownership	Number of common shares
Lafito Industrial Free-Zone S.A. (a)	G	332,256	-	332,256	8.78%	141,433
Port Lafito S.A. (b)		65,992	-	65,992	3.81%	65,992
Société de Construction d'Immeubles et d'Ouvrages Publics S.A. (SCIOP S.A.) (c)		74,068	(30,068)	44,000	5.67%	1,207
Alternative Insurance Company S.A.		41,730	-	41,730	6.89%	250
Digital Satellite Systems S.A.		63,047	(63,047)	-	7.70%	26,380
Société Village Chateaublond S.A.		500	(500)	-	10.00%	50
Haitel		9,300	(9,299)	1	-	-
Total equity instruments, net	G	586,893	(102,914)	483,979	-	-

None of the above holdings exceed 20% of the share capital of the issuing companies or give the BNC significant influence over the operations of these companies.

The capital loss evolved as follows:

(In thousands of gourdes)		2020	2019
Balance at beginning of the year	G	102,914	102,914
Provision of the year (note 23)		6,966	-
Balance at end of year	G	109,880	102,914

- (a) The lack of documentation does not allow the determination of the fair value of this investment.
- (b) According to the equity investment agreement dated September 2013, BNC will have full ownership of the shares for a period not exceeding five years from their issuance, at the end of which, BNC will sell to the majority group all of the shares currently subscribed for at a price prorated to the appraised value of the identifiable net assets or the notional market value of these shares, whichever is greater. At the contract's expiry date in December 2018, the value of these shares had not yet been determined, according to the methodology provided for in the equity investment agreement.

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BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(7) LOCAL INVESTMENTS (CONTINUED)

On November 15, 2019, a shareholders' agreement was signed between Port Lafito S.A. and the Bank under which BNC became the definitive owner of the 65,992 shares with a book value of G 65.9 million.

The shareholders' agreement provides that a fair value assessment of these shares will be carried out and that any decrease in value, if any, will be offset by the transfer of real estate in favor of BNC. However, this information is not available at the date of the auditors' report.

- (c) The common shares of Société de Construction d'Immeubles et d'Ouvrages Publics S.A. (SCIOP) are allocated as follows as at September 30, 2020 and 2019 respectively: 50 Class A shares and 1,157 Class B shares.

(8) FOREIGN INVESTMENTS

As at September 30, foreign investments are in US dollars as follows:

(In thousands of gourdes)		2020	2019
Investments, at amortized cost, held to maturity, net (i)	G	6,418,356	10,651,672
Fixed maturity investments held for resale at fair value through profit or loss net, (ii)		417,275	613,342
Total fixed maturity investments		6,835,631	11,265,014
Interest receivable		15,019	73,002
Total fixed maturity investments and interest receivable		6,850,650	11,338,016
Equity instruments at fair value through profit or loss (iii)		100,642	141,423
Total foreign investments	G	6,951,292	11,479,439

- (i) As of September 30, 2020 and 2019, respectively G 533 million (US\$ 8.1 million) and G 2.9 billion (US\$ 31.0 million) of the investments held to maturity and all of the investments held for resale are managed by a renowned financial services company located in the United States of America. Management has developed with this manager a strategy to classify investments into different levels of risk while ensuring prudent diversification. The average returns of these portfolios in 2020 and 2019 were 2.41 % and 2.42%.

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BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(8) FOREIGN INVESTMENTS (CONTINUED)

Investments at amortized cost held to maturity are as follows:

September 30, 2020

(In thousands of gourdes)	Cost	Fair value	Gain (loss)	Interest Rate	Maturity
Treasury bonds USA	G 133,738	143,053	9,315	1.25%	July 2023
Debentures in private companies	98,880	104,607	5,727	3.30%	October 2022 to August 2024
Debentures in US government agencies	301,505	311,942	10,437	2.23%	October 2021 to February 2031
US dollar term deposits in foreign banks	5,885,996	5,885,996	-	0.01% to 0.90%	October 2020 to March 2021
Total investments at amortized cost	G 6,420,119	6,445,598	25,479	-	
Provision for expected credit losses	(1,763)	-	-	-	-
Total investments at amortized cost, net	G 6,418,356	-	-	-	-

September 30, 2019

(In thousands of gourdes)	Cost	Fair value	Gain (loss)	Interest rate	Maturity
Treasury bonds USA	G 115,373	117,556	2,183	1.25%	July 2023
Debentures in private companies	139,974	134,921	(5,053)	3.30%	October 2022 to August 2024
Debentures in US government agencies	2,641,662	2,652,109	10,447	2.32%	September 2021 to October 2031
US dollar term deposits in foreign banks (a)	7,757,230	7,757,230	-	1.30% to 2.50%	January 2020 to December 2022
Total investments at amortized cost	G 10,654,239	10,661,816	7,577	-	
Provision for expected credit losses	(2,567)	-	-	-	-
Total investments at amortized cost, net	G 10,651,672	10,661,816	7,577	-	-

(a) As of September 30, 2019, these term deposits include an amount of G 139 million (US\$ 1.5 million) pledged as collateral for letters of credit.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(8) FOREIGN INVESTMENTS (CONTINUED)

The provision for expected credit losses on investments held to maturity at amortized cost is as follows:

(In thousands of gourdes)	Stage 1	
	2020	2019
Balance as of September 30, 2019	G 2,567	-
Impact of IFRS 9 application (note 20)	-	2,280
Reversal of provision for expected credit losses (note 21)	(50)	(554)
Foreign exchange effect	(754)	841
Balance as of September 30, 2020	G 1,763	2,567

(ii) Fixed maturity investments held for resale, measured at fair value through profit or loss are as follows:

(In thousands of gourdes)	2020	2019
Term deposits	G 132,303	162,755
<i>Interest rates</i>	<i>0.15% to 0.20%</i>	<i>1.30% to 2.50%</i>
<i>Maturity</i>	<i>October 2020-December 2022</i>	<i>September 2019 -October 2022</i>
Debentures in private companies	G 284,972	450,587
<i>Interest rates</i>	<i>1.85% to 4.00%</i>	<i>1.85% to 4.15%</i>
<i>Maturity</i>	<i>February 2022 to October 2032</i>	<i>February 2022 to October 2032</i>
	G 417,275	613,342

(iii) Equity instruments measured at fair value through profit or loss are as follows :

(In thousands of gourdes)	2020	2019
Banco Latino Americano de Comercio Exterior S.A.	G 100,642	141,423
<i>Number of common shares</i>	<i>58,947</i>	<i>58,947</i>

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(8) FOREIGN INVESTMENTS (CONTINUED)

As of September 30, the fair value is as follows:

As of September 30, 2020

(In thousands of gourdes)	Balance 30/9/19	Exchange Impact	Gain (note 23)	Fair value 30/9/20
Banco Latino Americano de Comercio Exterior S.A.	G 141,423	(41,519)	738	100,642

As of September 30, 2019

(In thousands of gourdes)	Balance 30/9/18	Exchange impact	Gain (note 23)	Fair value 30/9/19
Banco Latino Americano de Comercio Exterior S.A.	G 86,294	28,780	26,349	141,423

(9) FOREIGN EXCHANGE CONTRACTS

As of September 30, these foreign exchange contracts are as follows:

(In thousands of gourdes)	2020	2019
Foreign exchange contracts in assets (note 27) :		
Contracts with BRH (a)	G 296,384	-
Contracts with BRH (b)	-	1,246,435
Échange difference (i)	-	430,746
	296,384	1,677,181
Contracts with customers (c)	-	472,628
Total	G 296,384	2,149,809
Foreign exchange contracts in liabilities (note 27) :		
Contracts with BRH (a)	G 272,296	-
Contracts with BRH (b)	-	1,677,181
	272,296	1,677,181
Contracts with customers (c)	-	472,628
Total	G 272,296	2,149,809

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(9) FOREIGN EXCHANGE CONTRACTS (CONTINUED)

- a) In 2020, as part of its monetary policy, the BRH intervened on the foreign exchange market by injecting in BNC currencies intended to be sold to customers. The selling rate is set by the BRH and unsold currencies will be remitted to the BRH at the initial rate used during the injection. As at September 30, 2020, unsold currencies total \$ 4.1 million in assets, or G 296.4 million at the initial rate, and G 272.3 million in liabilities at the year-end rate. In the event of the subsequent depreciation of the gourde, the BNC will return the funds received in US dollars at the initial rate used during the injection. Subsequent to September 30, 2020, a total of US\$ 2.3 million has been remitted to the BRH.
- b) The 2019 balance results from a contract entered into on August 24, 2018 with an expiry date of March 29, 2019 which was renewed on April 3, 2019 for a six-month period expiring in September 2019. The amount of this contract is US\$ 40.3 million and is repayable in installments in US dollars to the BRH; in return, the BRH will reimburse the equivalent in gourdes by monthly installments calculated at the historical rate at the signing of the contract, of G 69.35; this contract does not bear interest. As of September 30, 2020, this amount has been fully reimbursed. However, on that date, an amount of G 31.5 million receivable from BMPAD (**note 15**), representing a foreign exchange difference, was repaid in October 2020.
- c) These amounts represent foreign exchange transactions (US dollars) for customers operating mainly in the petroleum sector (G 447 million) and for loan disbursements in US dollars (G 25 million).

According to the forward contracts between Bank and BRH, these amounts will not be taken into account in the calculation of regulatory structural positions which will be exempt from the penalty for insufficient reserve requirements.

- (i) The exchange differences resulting from these contracts are detailed as follows :

(In thousands of gourdes)	2020	2019
Exchange difference guaranteed by BMPAD	G -	430,746

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(10) LOANS, NET

As of September 30, locally issued loans are as follows:

(In thousands of gourdes)		2020	2019
Commercial loans	G	5,873,228	4,448,968
<i>Business loans guaranteed by BRH (a) :</i>			
Energy sector		-	853,605
Transport sector		-	397,777
Agricultural sector		<u>282,000</u>	-
		<u>282,000</u>	<u>1,251,382</u>
<i>Loans guaranteed by the Ministère de l'Économie et des Finances (MEF) (note 27) (b) :</i>			
Ministère de l'Économie et des Finances (note 17a)		4,091,180	1,691,000
State entreprises		<u>991,821</u>	<u>1,621,495</u>
		<u>5,083,001</u>	<u>3,312,495</u>
<i>Consumer loans guaranteed by the Haitian Government:</i>			
Public sector agents (c)		1,911,125	2,200,841
Members of Parliament (d)		-	2,908
		<u>1,911,125</u>	<u>2,203,749</u>
<i>Loans financed by BRH (e) :</i>			
Free Zones		925,478	938,274
Communications sector		1,318,386	1,866,324
Hotel sector		<u>874,006</u>	<u>815,782</u>
		<u>3,117,870</u>	<u>3,620,380</u>
Overdrafts		1,849,767	1,506,577
Mortgages "Kay Pam" (f)		1,304,271	1,107,126
Consumer loans		724,203	680,703
Loans and advances to employees		357,891	471,090
Credit cards		234,574	245,476
Managed loans – pension plan (note 19)		466	502
Restructured loans		<u>148,479</u>	<u>223,856</u>
		<u>20,886,875</u>	<u>19,072,304</u>
<i>Arrears of 90 days and more :</i>			
Loans financed by BRH (Free Zone) (g)		1,374,910	1,374,910
Energy sector		1,026,562	-
Credit cards		98,079	82,300
Other loans		<u>1,058,889</u>	<u>1,727,188</u>
		<u>3,558,440</u>	<u>3,184,398</u>
Total – Loans	G	24,445,315	22,256,702
Interest receivable		442,057	208,974
Total loans and interest receivable		<u>24,887,372</u>	<u>22,465,676</u>
Provision for expected credit losses		<u>(2,551,792)</u>	<u>(1,208,724)</u>
Total loans, net	G	22,335,580	21,256,952

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(10) LOANS (CONTINUED)

- (a) As of September 30, 2020 and 2019, the terms for business loans guaranteed by the BRH are as follows:

2020	Interest rates	Maturity
Energy sector	17.0%	2021 and 2023
Agricultural sector (i)	6.0%	2020

2019	Interest rates	Maturity
Energy sector	17.0%	2019, 2021 and 2023
Transport sector (ii)	10.0%	2023

- (i) Loans to the agricultural sector were made to finance increased agricultural production. Loans totaling G 282 million as of September 30, 2020 are covered by a letter of guarantee from the BRH guaranteeing full repayment in the event of default
- (ii) As of September 30, 2020, loans to the transport sector have been repaid by the BRH. And, on that date, the guarantee received from the BRH for this purpose totaling G 85.2 million (**note 19b**) has not yet been surrendered.

- (b) As of September 30, 2020 and 2019, the terms of loans guaranteed by the MEF are as follows:

2020	Interest rates	Maturity
Ministère de l'Économie et des Finances	7.0%	2021
State entreprises	5.5% and 11.5%	2024 and 2025

2019	Interest rates	Maturity
Ministère de l'Économie et des Finances	7.0%	2017
State entreprises	5.5% and 11.5%	2024 and 2025

- (c) Loans granted to Public Sector agents are guaranteed by the Haitian Government, within a loan program. Following amendment no. 5, as of September 30, 2016, this program to which also participates Banque Populaire Haïtienne, amounts to G 3.0 billion in which BNC participates for G 2.3 billion. Individual loans granted by this program cannot exceed G 500 thousand. For this program, the Haitian Government has made guarantee deposits (**note 19 b**) and is committed to further deposits, as necessary. Management of the Bank is confident that the guarantee from the Haitian Government applies to the full outstanding portfolio.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(10) LOANS (CONTINUED)

- (d) Loans granted to Members of Parliament are also guaranteed at 100% by the Haitian Government and cannot exceed G 800,000 for Deputies and G 1,000,000 for Senators. This program amounts to G 125 million. These loans are guaranteed by deposits from the Haitian Government (**note 19b**) that is committed to further deposits, as per the agreement.
- (e) The terms and conditions for loans financed by the Bank of the République d’Haiti (BRH) which were granted from borrowings, are as follows:

	Interest rates	Maturity
Free Zones	5.5%, 7.0% and 12.0%	2027, 2032 and 2036
Communications sector (iii)	5.5%	2023
Hotel sector	6.0% and 6.5%	2029 and 2030

As of September 30, 2020 and 2019, of the total loans financed by BRH, G 2,7 billion and G 3.2 billion are guaranteed by MEF.

- (iii) The loan to the communications sector was granted to a state-owned enterprise in September 2019. The amount granted of US\$ 20 million is financed by a loan from the BRH (**note 17 c**) and is guaranteed by the MEF. This loan at a rate of 5.5% per annum, initially for a period of 90 days with the option of renegotiations, was subsequently restructured in November 2020 with quarterly repayments over a period of 36 months.
- (f) In an agreement signed on July 13, 2011, BRH pledged to support the BNC for the Kay Pam program providing housing mortgages in gourdes; the duration of the loans cannot exceed 30 years. The initial interest rate on these loans is 8% and may change depending on market conditions; however, it can only be revised after 10 years by mutual agreement between the parties. In the event that the BNC draws its excess reserves, BRH is committed to advance funds over a period of 20 years at a rate that ensures the maintenance of the margin on the portfolio.
- (g) Loan financed by the BRH, overdue on September 30, 2020, was granted to a state-owned enterprise in 2017. It is covered by a letter of guarantee from the MEF in the amount of G 1.2 billion.

As of September 30, the loan balances, net in various currencies, are as follows:

(In thousands of gourdes)	2020	2019
Loans in gourdes	G 17,630,835	13,765,161
Loans in US dollars	<u>4,704,745</u>	<u>7,491,791</u>
	G 22,335,580	21,256,952

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(10) LOANS (CONTINUED)

As of September 30, 2020, the aging of loans is as follows:

(In thousands of gourdes)		Current 1-30 days	31-60 days	61-89 days	Total
Loans financed by BRH	G	3,117,870	-	-	3,117,870
Loans to the Haitian Gouvernement - MEF		4,091,180	-	-	4,091,180
Overdrafts		1,849,767	-	-	1,849,767
Credit cards		203,739	30,835	-	234,574
Other categories		<u>10,500,792</u>	<u>587,530</u>	<u>505,162</u>	11,593,484
	G	19,763,348	618,365	505,162	20,886,875
%		95%	3%	2%	100%

(In thousands of gourdes)		90 – 180 days	181 - 359 days	More than 360 days	Total
Loans financed by BRH Free Zone	G	-	-	1,374,910	1,374,910
Energy sector		-	1,026,562	-	1,026,562
Credit cards		15,415	82,664	-	98,079
Other categories		<u>211,486</u>	<u>363,700</u>	<u>483,703</u>	1,058,889
	G	226,901	1,472,926	1,858,613	3,558,440
%		7%	41%	52%	100%

As of September 30, 2020, loans were covered by the following guarantees:

(In thousands of gourdes)		Haitian Government	Mortgages	Cash collateral (note 16)	Total
Current loans	G	3,071,894	3,329,717	1,100,368	7,501,979
Default loans 90 days and more		<u>2,406,388</u>	<u>755,056</u>	-	3,161,444
	G	5,478,282	4,084,773	1,100,368	10,663,423
%		52%	38%	10%	100%

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(10) LOANS (CONTINUED)

As of September 30, 2019, the aging of loans is as follows:

(In thousands of gourdes)		Current 1-30 days	31-60 days	61-89 days	Total
Current loans					
Loans financed by BRH	G	3,620,380	-	-	3,620,380
Loans to the Haitian					
Government - MEF		1,645,492	-	-	1,645,492
Overdrafts		1,091,636	414,941	-	1,506,577
Credit cards		182,437	8,891	54,148	245,476
Other categories		<u>9,367,096</u>	<u>1,371,825</u>	<u>1,338,457</u>	<u>12,077,378</u>
	G	15,907,041	1,795,657	1,392,605	19,095,303
%		83%	10%	7%	100%

(In thousands of gourdes)		90 – 180 days	181 – 359 days	More than 360 days	Total
Loans financed					
by BRH – (Free Zone)	G	-	1,374,910	-	1,374,910
Overdrafts		-	88,007	-	88,007
Credit cards		11,742	70,558	-	82,300
Other categories		<u>589,569</u>	<u>357,660</u>	<u>691,952</u>	<u>1,639,181</u>
	G	601,311	1,891,135	691,952	3,184,398
%		18%	60%	22%	100%

As of September 30, 2019, loans were covered by the following guarantees:

(In thousands of gourdes)		Haitian Government	Mortgages	Cash collateral (note 16)	Total
Current loans	G	3,890,844	4,116,324	937,481	8,944,649
Default loans		<u>3,020,401</u>	<u>1,080,153</u>	<u>37,326</u>	<u>4,137,880</u>
	G	6,911,245	5,196,477	974,807	13,082,529
%		53%	40%	7%	100%

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(10) LOANS (CONTINUED)

As of September 30, 2020 and 2019, the guarantees of the Haitian Government include:

(In thousands of gourdes)	2020	2019
Loans to Public Sector agents and Members of Parliament	G 2,160,104	2,223,841
Deposits received for loans and documentary credits	<u>3,318,178</u>	<u>4,687,404</u>
	G 5,478,282	6,911,245

Average interest rates on performing loans are as follows:

	2020	2019
Commercial loans:		
In gourdes	12%	12%
In US dollars	10%	10%
Commercial loans guaranteed by the Haitian Government		
In gourdes	7%	5%
In US dollars	13%	13%
Consumer loans guaranteed by the Haitian Government		
In gourdes	13%	12%
Overdrafts		
In gourdes	15%	11%
In US dollars	12%	12%
Loans financed by BRH	6%	6%
Credit cards-in gourdes and US dollars	39%	39%
Loans and advances to employees	6%	6%
Restructured loans	9%	9%
Other loans in gourdes	20%	14%
Other loans in US dollars	20%	7%

As of September 30, 2020 and 2019, members of the Board of Directors have performing loans totaling G 22.7 million and G 35.4 million respectively (**note 27**). These loans were granted at rates granted to Bank employees in accordance with the procedures in place.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(10) LOANS (CONTINUED)

The provision for expected credit losses on **loans for the entire portfolio** has evolved as follows:

(In thousands of gourdes)		Total 2020	Total 2019
Balance at the beginning of year before the impact of the application of IFRS 9	G	1,208,724	656,795
Impact of IFRS 9 application (note 20)		-	91,888
Balance at the beginning of the year, adjusted	G	1,208,724	748,683
Provision for credit losses (note 21)		1,557,349	248,744
Foreign exchange effect		(195,754)	211,297
Write-offs		(18,527)	-
Balance at the end of the year	G	2,551,792	1,208,724

As of September 30, 2020 and 2019, the provision for expected credit losses required in accordance with the provisions of circular 87 of the Central Bank totaled G 2,633 million and G 2,828 million respectively. This provision is covered as follows:

(In thousands of gourdes)		2020	2019
Provision for expected credit losses	G	2,551,792	1,208,724
General reserve for loan losses, adjusted (note)		81,429	1,620,018
Total circular BRH	G	2,633,221	2,828,742

Note: As of September 30, 2019, this reserve does not take into account the letter of guarantee of G 1.2 billion from the Ministry of Finance, which is not admissible in the calculation of the reserves, according to the prescriptions of BRH Circular 87. As of September 30, 2020, this guarantee has not been taken into account in the calculation of provisions for expected credit losses since no payment has been received during the financial year from the guarantor who had committed to the service of the debt.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(10) LOANS (CONTINUED)

The variations by stage **for the entire portfolio** have evolved as follows:

(In thousands of gourdes)	Non impaired Loans		Impaired loans	Default loans	Total
	Stage 1	Stage 2	Stage 3		
Loans and interest receivable at September 30, 2018	G 15,548,307	500,069	589,843		16,638,219
<i>Provision for expected credit losses, adjusted</i>	(471,683)	(7,903)	(269,097)		(748,683)
Balance as of September 30, 2018 adjusted, net	15,076,624	492,166	300,746		15,889,536
Variations of the year :					
Loans and interest receivable	(2,952,521)	5,408,977	3,371,001		5,827,457
<i>Provision for expected credit losses</i>	308,422	(66,125)	(702,338)		(460,041)
	(2,644,099)	5,342,852	2,668,663		5,367,416
Loans and interest receivable at September 30, 2019	12,595,786	5,909,046	3,960,844		22,465,676
<i>Provision for expected credit losses</i>	(163,261)	(74,028)	(971,435)		(1,208,724)
Balance as of September 30, 2019, net	12,432,525	5,835,018	2,989,409		21,256,952
Variations of the year :					
Loans and interest receivable	5,259,558	(3,530,216)	692,354		2,421,696
<i>Provision for expected credit losses</i>	(80,854)	44,552	(1,306,766)		(1,343,068)
	5,178,704	(3,485,664)	(614,412)		1,078,628
Loans and interest receivable at September 30, 2020	17,855,344	2,378,830	4,653,198		24,887,372
<i>Provision for expected credit losses</i>	(244,115)	(29,476)	(2,278,201)		(2,551,792)
Balance as of September 30, 2020, net	G 17,611,229	2,349,354	2,374,997		22,335,580

As of September 30, 2020 and 2019, impaired loans include :

	2020	2019
Loans in arrears – 90 days and more	G 3,558,440	3,184,398
Other loans (i)	1,094,758	776,446
	G 4,653,198	3,960,844

(i) These other loans are classified in phase 3 although they are up to date because in Management's assessment, based on the criteria mentioned above in **note 3b**, they require larger provisions.

(Continued)

BANQUE NATIONALE DE CREDIT
Notes to financial statements

(10) LOANS (CONTINUED)

b) The provision for expected losses on **loans for credit cards** has evolved as follows:

(In thousands of gourdes)	Total 2020	Total 2019
Balance at the beginning of year before the impact of the application of IFRS 9	G 80,442	35,759
Impact of IFRS 9	-	21,976
Balance at beginning of year, adjusted	G 80,442	57,735
Provision for credit losses	30,141	22,707
Write-offs	(8,590)	-
Balance at end of year	G 101,993	80,442

The variations by stage for the portfolio are as follows

(In thousands of gourdes)		Non impaired loans	Impaired loans	Default loans	Total
		Stage 1	Stage 2	Stage 3	
Loans at September 30, 2018	G	191,996	18,357	58,657	269,010
<i>Provision for expected credit losses</i>		(3,452)	(3,800)	(50,483)	(57,735)
Balance as of September 30, 2018 adjusted, net		188,544	14,557	8,174	211,275
Variations of the year :					
Loans		22,454	12,669	23,643	58,766
<i>Provision for expected credit losses</i>		(701)	(2,071)	(19,935)	(22,707)
		21,753	10,598	3,708	36,059
Loans as of September 30, 2019		214,450	31,026	82,300	327,776
<i>Provision for expected credit losses</i>		(4,153)	(5,871)	(70,418)	(80,442)
Balance as of September, 30 2019, net		210,297	25,155	11,882	247,334
Variations of the year:					
Loans		12,969	(8,360)	15,779	20,388
<i>Provision for expected credit losses</i>		1,323	4,967	27,841	(21,551)
		14,292	(3,393)	(12,062)	(1,163)
Loans as of September 30, 2020		227,419	22,666	98,079	348,164
<i>Provision for expected credit losses</i>		(2,830)	(904)	(98,259)	(101,993)
Balance as of September 30, 2020, net	G	224,589	21,762	(180)	246,171

(i) As of September 30, 2020 and 2019, default loans are loans of 90 days or more.

(Continued)

BANQUE NATIONALE DE CREDIT
Notes to financial statements

(10) LOANS (CONTINUED)

c) The provision for expected credit losses on **other loans** has evolved as follows :

(In thousands of gourdes)		Total 2020	Total 2019
Balance at the beginning of year before the impact of the application of IFRS 9	G	1,128,282	621,036
Impact of IFRS 9 application		-	69,912
Balance at the beginning of the year, adjusted	i	1,128,282	690,948
Provision for credit losses		1,527,808	226,037
Foreign exchange effect		(195,754)	211,297
Write-offs		(9,937)	-
Balance at the end of year	G	2,450,399	1,128,282

The variations by stage for the current year are as follows :

(In thousands of gourdes)	Non impaired loans		Impaired loans	Default Loans	Total
	Stage 1		Stage 2	Stage 3	
Loans and interest as					
as of September 30, 2018	G	15,356,311	481,712	531,186	16,369,209
<i>Provision for expected credit losses</i>		(468,231)	(4,103)	(218,614)	(690,948)
Balance as of September 30, 2018 adjusted, net		14,888,080	477,609	312,572	15,678,261
Variations of the year:					
Loans and interest receivable		(2,974,975)	5,396,308	3,347,358	5,768,691
<i>Provision for expected credit losses</i>		309,123	(64,054)	(682,403)	(437,334)
		(2,665,852)	5,332,254	2,664,955	5,331,357
Loans and interest receivable					
As of September 30, 2019	G	12,381,336	5,878,020	3,878,544	22,137,900
<i>Provision for expected credit losses</i>		(159,108)	(68,157)	(901,017)	(1,128,282)
Balance as of September 30, 2019, net		12,222,228	5,809,863	2,977,527	21,009,618
Variations of the year :					
Loans and interest receivable		5,246,589	(3,521,856)	676,575	2,401,308
<i>Provision for expected credit losses</i>		(82,177)	339,585	(1,278,925)	(1,321,517)
		5,164,412	(3,482,271)	(602,350)	1,079,791
Loans and interest receivable					
as of September 30, 2020		17,627,925	2,356,164	4,555,119	24,539,208
<i>Provision for expected credit losses</i>		(241,285)	(28,572)	(2,179,942)	(2,449,799)
Balance as of September 30, 2020, net	G	17,386,640	2,327,592	2,375,177	22,089,409

(Continued)

BANQUE NATIONALE DE CREDIT
Notes to financial statements

(10) LOANS (CONTINUED)

As at September 30, 2020 and 2019, default loans include:

		2020	2019
Arrears loans – 90 days and more	G	3,460,361	3,102,098
Other loans (i)		<u>1,094,758</u>	<u>776,446</u>
	G	4,555,119	3,878,544

- (i) These other loans are classified in stage 3 although they are up to date because, according to Management's assessment based on the criteria mentioned above in **note 3b**, they require larger provisions, including a loan from the hotel sector totaling G 393 million and G 576 million as of September 30, 2020 and 2019, respectively.

During the year ended September 30, 2020, the Bank granted significant moratoriums totaling G 1,177,295, or 5% of the portfolio, because of the economic situation affected by political unrest and Covid-19.

(11) RIGHT-OF-USE ASSETS, NET AND LEASE LIABILITIES

Right-of-use-of assets relate mainly to lease contracts for space leased by the Bank for its administrative offices and its branch network.

Right-of-use assets, net

Right-of-use assets have evolved as follows :

Cost

(In thousands of gourdes)		2020
Balance at October 1, 2019 (i)	G	202,199
Additions		<u>-</u>
Balance as of September 30, 2020	G	202,199

Accumulated amortization

(In thousands of gourdes)		2020
Balance as of October 1, 2019	G	-
Amortization		<u>40,235</u>
Balance as of September 30, 2020	G	40,235
Right-of-use assets, net	G	161,964

- (i) Right-of-use assets as of October 1, 2019 include prepaid rents totaling G 10.3 million.

(Continued)

BANQUE NATIONALE DE CREDIT
Notes aux états financiers

(11) RIGHT- OF-USE ASSETS, NET AND LEASE LIABILITIES (CONTINUED)

Lease liabilities

Lease liabilities have evolved as follows :

(In thousands of gourdes)		USD		2020
		Converted	HTG	TOTAL
Balance as of October 1, 2019	G	181,780	10,083	191,863
Interest on lease liabilities		1,652	231	1,883
Rent payments		(28,386)	(1,386)	(29,772)
Foreign exchange effect on contracts in US dollars		(53,369)	-	(53,369)
Balance as of September 30, 2020	G	101,677	8,928	110,605
Short-term portion		28,199	1,195	29,394
Long-term portion		73,478	7,733	81,211
Total	G	101,677	8,928	110,605

The undiscounted contractual payments to be made in respect of rental obligations are as follows:

(In thousands of gourdes)		USD		TOTAL
		Converted	HTG	
Less than 1 year	G	29,020	1,386	30,406
Between 1 year and 2 years		27,496	1,386	28,882
Between 2 and 5 years		35,972	4,158	40,130
More than 5 years		40,894	2,772	43,666
Total	G	133,382	9,702	143,084

The charges relating to leases recognized in the statement of income, under rental charges are as follows:

(In thousands of gourdes)		2020	2019
Interest of lease liabilities	G	1,883	-
Amortization of right-of-use assets		40,235	-
Expenses recognized in leasing contracts, of which the underlying asset is of low value		3,532	-
Rent expenses		-	38,925
Total	G	45,650	38,925

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(12) FIXED ASSETS

Fixed assets, at cost, have evolved as follows:

(In thousands of gourdes)

Cost	Balance at 9/30/19	Acquisitions	Disposals (c)	Transfers	Balance at 9/30/20
Land	G 103,153	-	-	-	103,153
Land and buildings (a)	705,712	96,793	-	129,019	931,524
Computer equipment	93,741	13,437	(20,494)	60,614	147,298
Fixtures and equipment	140,151	25,105	(11,153)	18,229	172,332
Vehicles	43,416	25,481	(10,179)	18,631	77,349
Electrical equipment	65,698	31,817	(251)	8,721	105,985
Communication equipment	28,983	1,900	(18,584)	13,868	26,167
Air conditioning system	26,172	7,450	(6,877)	5,307	32,052
Security equipment	24,412	10,506	(1,943)	62,391	95,366
Leasehold improvements	43,673	997	(5,636)	3,742	42,776
Investments in progress (b)	<u>692,411</u>	<u>166,226</u>	<u>-</u>	<u>(320,522)</u>	538,115
	G 1,967,522	379,712	(75,117)	-	2,272,117

Accumulated depreciation has evolved as follows:

(In thousands of gourdes)

Accumulated depreciation	Balance at 9/30/19	Depreciation	Disposals	Balance at 9/30/20
Buildings	G 136,998	21,518	-	158,516
Computer equipment	56,075	24,509	(20,494)	60,090
Fixtures and equipment	60,744	20,293	(11,153)	69,884
Vehicles	26,857	10,677	(10,179)	27,355
Electrical equipment	10,803	7,317	(251)	17,869
Communication equipment	21,292	4,136	(18,584)	6,844
Air conditioning system	17,437	4,015	(6,877)	14,575
Security equipment	13,912	10,491	(1,943)	22,460
Leasehold improvements	19,825	5,192	(5,636)	19,381
Investments in progress (d)	<u>47,000</u>	<u>-</u>	<u>-</u>	47,000
	G 410,943	108,148	(75,117)	443,974
	G 1,556,579			1,828,143

a) The subledger of the Bank does not present separately the cost of land and buildings acquired several years ago.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(12) FIXED ASSETS (CONTINUED)

- b) As of September 30, 2020, investments in progress include G 342 million for the construction and improvement of branches, G 129 million for computer equipment, G 45 million in fixtures and equipment.
- c) Disposals include fully depreciated assets.
- d) As of September 30, this amount is an estimate of the potential depreciation on fixed assets in usage not yet reclassified to their categories.

(13) REAL ESTATE

As of September 30, real estate includes:

(In thousands of gourdes)		2020	2019
Properties held for sale (a)	G	8,296	48,390
Investment properties (b)		<u>475,089</u>	<u>495,976</u>
Total real estate	G	483,385	544,366

Properties held for sale have evolved as follows during the year:

(In thousands of gourdes)		2020	2019
Balance the beginning of the year	G	48,390	48,390
Sales for the year		(40,094)	-
Balance at end of year	G	8,296	48,390

- (a) As of September 30, 2020 and 2019, sales contracts exist for properties held for sale and deposits have been received as guarantees (**note 19**). In 2020, sales of properties held for sale generated gains of G 26.1 million (**note 23**).

Investment properties have evolved as follows during the year:

(In thousands of gourdes)		2020	2019
Balance at beginning of year	G	495,976	499,984
Sales for the year (i)		(292)	(4,008)
Additions		27,091	-
Loss of value (note 23)		<u>(47,686)</u>	<u>-</u>
Balance at the end of year	G	475,089	495,976

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(13) REAL ESTATE (CONTINUED)

- (i) In 2020 and 2019, sales of investment properties generated gains of G 26.3 million and G 38.4 million (**note 23**).

In 2019, rental income from investment properties was G 953 thousand (**notes 23 and 27**). There was no rental in 2020.

As of September 30, real estate, net of reserves, is as follows:

(In thousands of gourdes)		2020	2019
Properties held for sale	G	8,296	48,390
Reserve of 30%		-	(5,000)
Properties held for sale, net	G	8,296	43,390
Investment properties	G	475,089	495,976
Reserve of 30%		(26,265)	(25,574)
Reserve of 20%		(337,830)	(314,601)
Investment properties, net		110,994	155,801
Total real estate, net of reserves	G	119,290	199,191

General reserve for real estate

As described of **note 3 (k)**, the general reserve for real estate has evolved as follows:

(In thousands of gourdes)		2019	2018
<u>Reserve of 30%</u>			
Balance at beginning of year	G	30,574	30,574
Reserve of the year		691	-
Reversal of reserve on properties sold		(5,000)	-
Balance at end of year	G	26,265	30,574
<u>Reserve of 20%</u>			
Balance at beginning of year	G	314,601	229,601
Reserve of the year		23,555	85,000
Reversal of reserve on properties sold		(326)	-
Balance at end of year	G	337,830	314,601
Total – reserve on real estate	G	364,095	345,175

- a) The 20% reserve does not apply to investment properties being rented, totaling G 33.6 million.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(14) GOODWILL

Goodwill results from the transfer of the assets and liabilities of SOCABANK to BNC as of March 1, 2007. Goodwill was not impaired in 2020.

(15) OTHER ASSETS, NET

As of September 30, other assets are as follows:

(In thousands of gourdes)		2020	2019
Accounts receivable – customers	G	206,884	197,329
Account receivable net – transfers (a)		118,938	-
Receivable – BMPAD (note 9 b)		31,490	59,794
Others		<u>86,747</u>	<u>53,630</u>
		444,059	310,753
Provision for expected credit losses (b)		<u>(215,034)</u>	<u>(215,721)</u>
		<u>229,025</u>	<u>95,032</u>
Prepaid expenses		92,618	78,508
Office supplies		71,953	52,859
Artwork		<u>13,277</u>	<u>12,750</u>
		177,848	144,117
Total other assets, net	G	406,873	239,149

(a) During 2020, the Bank signed a partnership agreement with Caribbean Center S.A. allowing the Bank to receive and pay transfers. At September 30, 2020, the balance represents net transfers.

(b) The provision for expected credit losses on other assets has thus evolved:

(In thousands of gourdes)		Stage I	
		2020	2019
Balance at the beginning of the year	G	215,721	197,784
Impact of the application of IFRS 9 (note 20)		-	482
Provision for credit losses (note 21)		24,516	5,068
Write-offs for the year		-	(14,097)
Foreign exchange effect		<u>(25,203)</u>	26,484
Balance as of September 30, 2020	G	215,034	215,721

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(16) DEPOSITS

As of September 30, deposits are as follows:

(In thousands of gourdes)		2020	2019
Demand deposits:			
Gourdes	G	18,014,789	15,286,329
US dollars		<u>11,994,832</u>	<u>15,290,237</u>
	G	30,009,621	30,576,566
Savings deposits:			
Gourdes	G	13,969,691	11,601,917
US dollars		<u>7,191,672</u>	<u>9,189,491</u>
	G	21,161,363	20,791,408
Term deposits:			
Gourdes	G	5,355,074	5,140,723
US dollars		<u>4,288,420</u>	<u>5,161,989</u>
	G	9,643,494	10,302,712
Total deposits	G	60,814,478	61,670,686
Deposits in Gourdes	G	37,339,554	32,028,969
Deposits in US dollars		<u>23,474,924</u>	<u>29,641,717</u>
Total deposits	G	60,814,478	61,670,686

Average interest rates on deposits are as follows:

		2020	2019
Savings deposits:			
Gourdes		0.20%	0.18%
US dollars		0.10%	0.09%
Term deposits:			
Gourdes		7.00%	10.67%
US dollars		2.50%	2.14%
Savings-checking deposits:			
Gourdes		0.05%	0.04%
US dollars		0.02%	0.02%

As of September 30, 2020 and 2019, two public sector entities and one public/private company hold demand deposits in gourdes totaling G 6.5 billion and G 5.9 billion (**note 27**). In addition, these same public sector entities also hold US dollar demand deposits totaling G 3.5 billion and G 5.7 billion (**note 27**). These demand deposits carry overnight interest rates of 0.11%.

As at September 30, 2020 and 2019, deposits by members of the Board of Directors totalled G 31.6 million and G 61.6 million respectively (**note 27**). These deposits bear interest under the Bank's normal conditions.

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BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(16) DEPOSITS (CONTINUED)

As at September 30, 2020 and 2019, demand deposits of Haitian government ministries, corporations and agencies totalled G 3.8 billion and G 3.2 billion respectively and do not bear interest (**note 27**). In addition, the Fonds de Pension Civile holds three term deposits in gourdes totalling G 3.3 billion (**note 27**) bearing respectively interest of 4.0%, 7.0% in 2020 and 6.25% and 15.96% in 2019.

As of September 30, deposits pledged for loans are as follows:

(In thousands gourdes)		2020	2019
Deposits in gourdes	G	647,029	507,859
Deposits in US dollars		<u>453,339</u>	<u>466,948</u>
Total (note 10)	G	1,100,368	974,807

(17) LOANS AND DEBENTURES - BRH

As of September 30, the loans and debentures obtained from the Bank of the Republic of Haiti for the financing of programs and development projects are as follows, with the corresponding loans conditions disclosed in **note 10**.

(In thousands of gourdes)		2020	2019
<u>LOANS BRH</u>			
Gourdes :			
Haitian Government (a)	G	3,334,791	-
Free Zones (b)		1,915,203	2,043,144
Hotel sector (c)		504,916	460,634
Industriel sector (d)		<u>380,000</u>	<u>-</u>
		<u>6,134,910</u>	<u>2,503,778</u>
Dollars :			
Communications sector (e)		<u>1,318,386</u>	<u>1,866,325</u>
	G	<u>7,453,296</u>	<u>4,370,103</u>
<u>DEBENTURES BRH</u>			
Loan related to the Socabank acquisition (f)	G	<u>275,000</u>	<u>275,000</u>
<i>Maturity</i>		<i>September 2030</i>	<i>September 2030</i>
<i>Interest rate</i>		<i>1.0%</i>	<i>1.0%</i>
Hotel sector (g)		<u>500,000</u>	<u>500,000</u>
<i>Maturity</i>		<i>November 2023</i>	<i>November 2023</i>
<i>Interest rate</i>		<i>2.0%</i>	<i>2.0%</i>
	G	775,000	775,000
Total loans and debentures - BRH (note 27)	G	8,228,296	5,145,103

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(17) LOANS AND DEBENTURES – BRH (CONTINUED)

- (a) The loan - Haitian Government of G 5.0 billion was granted to finance a loan to the Ministry of Economy and Finance which has a balance of G 4.1 billion as of September 30, 2020 (**note 10**). This amount disbursed on July 3, 2020 is repayable in a single payment in 90 days at a variable rate of 1% per year. According to the loan agreement, loan repayments are conditional on loan payments by the MEF. As of September 30, 2020, the loan balance is G 3.3 billion.
- (b) The balances of the Free Zone loans of G 1,915 billion and G 2.043 billion are composed of:
- A loan of G 617 million disbursed in several instalments. This 15-year refinancing is at a fixed rate of 1.5% repayable monthly in equal tranches of G 3.9 million. In 2020, a moratorium was granted for the repayment of capital. As at September 30, 2020 and 2019, the balances of this loan are G 542 million and G 566 million.
 - A loan of G 1.250 billion disbursed in several instalments. This 15-year refinancing is at a fixed rate of 3.0% repayable monthly in equal tranches of G 7.7 million starting in 2019. As at September 30, 2020 and 2019, the balances of this loan are G 1.060 billion and G 1.168 billion.
 - A loan of G 340 million disbursed in several instalments. This 15-year refinancing is at a fixed rate of 3.0% repayable monthly in equal tranches of G 2.0 million. In 2020, a moratorium was granted and no payments were made in 2020. The repayment schedule has been amended and the balances of this loan as of September 30, 2020 and 2019, are G 313 million and G 309 million.
- (c) The hotel sector loan is a G 459 million loan disbursed in a single instalment with a 24-month grace period. The interest is added monthly to the original principal to form, together with the principal, the basis for the repayment schedule. This 10-year financing is at a fixed rate of 1.0%. As of September 30, 2020 and 2019, the balances of this loan are G 505 million and G 461 million.
- (d) The industrial sector loan balance of G 380 million is a loan disbursed in one installment with a grace period of 12 months. This loan is repayable over a period of 10 years at the rate of 1%. As of September 30, 2020, the balance of this loan is 380 million.

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BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(17) LOANS AND DEBENTURES – BRH (CONTINUED)

- (e) As at September 30, 2020 and 2019, the balance of the communications sector loan of G 1.318 billion and G 1.866 billion) (US\$ 20 million) is a short-term loan in US dollars disbursed in a single instalment repayable in 90 days at a rate of 1.5% per year. This loan was used to finance a loan to a state enterprise (**note 10 e iii**). However, the Bank requested an extension for the repayment of the loan which is conditional on the payment of the loan. The repayment of the loan due to BRH will be made as and when loan payments are received from the state enterprise.
- (f) BRH subordinated debenture as part of the replenishment of equity following the acquisition of Socabank in 2007.
- (g) BRH subordinated debentures for the financing of loans granted to the hotel sector.

(18) LOCAL BANKS DEPOSITS

Local banks deposits by currency are as follows:

(In thousands of gourdes)		2020	2019
Local bank deposits in gourdes	G	105,069	30,188
Local bank deposits in US dollars		<u>5,449</u>	<u>5,741</u>
	G	110,518	35,929

These deposits do not bear interest.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(19) OTHER LIABILITIES

As of September 30, other liabilities are as follows:

(In thousands of gourdes)	2020	2019
Amounts received as collateral for loans:		
Letters of guarantee - US dollars (a)	G 1,150,714	1,284,321
Letters of guarantee -gourdes (a)	281	281
Loans - US dollars (b)	399,296	565,248
Loans -Gourdes (b)	501,495	541,546
	<u>2,051,786</u>	<u>2,391,396</u>
Due to employees and pensioners (c)	2,383,644	2,114,631
Certified and bank checks	981,976	426,348
Prepaid debit cards	625,450	414,045
Due to ministries and public entities (note 27)	456,177	346,990
Interest payable	283,800	248,423
Deposits received on properties held for sale (note 13 a)	198,564	25,410
Restricted deposits	202,607	144,100
Provision for expected credit losses on credit commitments (d)	77,081	72,283
Mobile bank - deposits (e)	34,211	30,101
Transfer payable	28,823	77,377
Abandoned deposits	14,971	62,752
Construction guarantees	10,110	-
Due to BRH, non interest bearing (note 27)	3,000	3,000
Du to Public Treasury (note 27)	16,545	2,193
Fiduciary funds – pension plan (note 10)	466	502
Interest received in advance	-	34,248
Other	246,932	357,748
Total other liabilities	G 7,616,143	6,751,547

(a) As of September 30, 2020 and 2019, the amounts received as collateral for the letters of guarantee - US\$ are for two private companies. For one of these companies, the amounts were received from the Central Bank as collateral: G 898 million in 2020 and G 1,271 million in 2019, or US\$ 13.6 million **(note 27)**. As for the letters of guarantee-gourdes, the amounts were mainly received from one the of two private companies mentioned above.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(19) OTHER LIABILITIES (CONTINUED)

(b) The deposits received as a guarantee for loans in gourdes are as follows:

(In thousands of gourdes)		2020	2019
Guarantee deposits received from the Haitian Government for a private company - US dollars (notes 10a and 27)	G	393,604	557,223
Other deposits received as guarantee		<u>5,692</u>	<u>8,025</u>
	G	399,296	565,248
Guarantee deposits received from the Haitian Government - gourdes (notes 10 and 27)			
Guaranteed loans – Public Sector agents	G	344,468	388,880
Guaranteed loans – Transport sector (i)		85,223	85,223
Guaranteed loans – Members of Parliament		16,875	16,875
Guaranteed loans – Recapitalisation program (ii)		<u>45,666</u>	<u>45,666</u>
		492,232	536,644
Other deposits received in gourdes as guarantees		9,262	4,902
	G	501,494	541,546

(i) As of September 30, 2020 and 2019, these amounts are received from BRH as collateral for loans granted to the transport sector (**note 10a**). As of September 30, 2020 these loans are repaid by BRH.

(ii) The recapitalisation program is terminated; related loans were reimbursed or covered by the guarantee. This program had benefited victims of vandalism, hurricanes and arson.

(c) As of September 30, due to employee and pensioners are as follows:

(In thousands of gourdes)		2020	2019
Provision for the pension plan (i)	G	1,709,005	1,477,066
Special fund (ii)		552,437	521,433
Provision for bonuses to employees and pensioners		65,401	54,148
Special fund for contractual employees (iii)		<u>56,801</u>	<u>61,984</u>
	G	2,383,644	2,114,631

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(19) OTHER LIABILITIES (CONTINUED)

- (i) The provision for the pension plan is determined by the Board of Directors. In 2020 and 2019, allocations of G 279.4 million and G 351.2 million, approved by the Board of Directors, have been established. The balance has evolved as such:

(In thousands of gourdes)		2020	2019
Balance at beginning of the year	G	1,477,066	1,151,595
Contribution to the pension plan (note 24)		279,435	351,200
Employees' contribution to the pension plan		87,477	67,534
Payroll of pensioners		(125,858)	(101,028)
Foreign exchange effect		(9,115)	<u>7,765</u>
Balance at end of year	G	1,709,005	1,477,066

- (ii) Since August 1, 2009, a 2% deduction from their salaries has been accumulated in the special fund payable to employees who have more than 20 years of service, payable when they retire. In 2020 and 2019, the Bank contributed G 21.6 million and G 18.0 million **(note 24)** to this fund. Furthermore, as at September 30, 2020 and 2019, the Board of Directors decided to add G 50.0 million and G 43.6 million **(note 24)** respectively to this fund, in order to increase this provision.

Balances have evolved as follows:

(In thousands of gourdes)		2020	2019
Balance at the beginning of the year	G	521,433	468,981
Contributions to the special fund (note 24)		21,600	18,000
Additional contributions to the special fund (note 24)		50,000	43,602
Employees' contributions		12,587	10,876
Translation adjustment		(336)	336
Payments made		(52,847)	<u>(20,362)</u>
Balance at end of year	G	552,437	521,433

There has been no actuarial valuation of the pension plan and the special fund and therefore, the information disclosed does not comply with the requirements of International Financial Reporting Standards.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(19) OTHER LIABILITIES (CONTINUED)

- (iii) This other special fund is for contractual employees and those who do not participate in the pension plan. The Bank and the employees contribute to that fund. In 2020 and 2019, the Bank's contributions were G 5.8 million and G 4.4 million respectively (**note 24**). The cumulative amount is remitted to the employee upon departure from the Bank.

The balances have evolved as follows:

(In thousands of gourdes)		2020	2019
Balance at the beginning of year	G	61,984	46,053
Contributions to special fund (note 24)		5,836	4,441
Contributions from employees		5,836	4,719
Payments made		(7,559)	-
Foreign exchange effect		<u>(9,296)</u>	<u>6,771</u>
	G	56,801	61,984

- (d) The provision for expected credit losses on credit commitments (**note 26**) evolved as follows:

(In thousands of gourdes)		2020	2019
Balance at beginning of year	G	72,283	-
Impact of the application of IFRS 9 (note 20)		-	39,083
Provision for credit losses (note 21)		7,339	32,629
Foreign exchange effect		(2,541)	571
Balance at end of year	G	77,081	72,283

- (e) Mobile banking is a product that enables bank transactions through cell phones. As of September 30, 2020 and 2019, this liability represents customers' deposits for future transactions.

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BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(20) IMPACT OF THE APPLICATION OF IFRS 9

The impact of applying the provisions of IFRS 9 with respect to the impairment of financial assets is as follows.

(In thousands of gourdes)	Initial provision in accordance with IAS 39 as reflected prior to Septembre 30, 2018	IFRS 9 impact adjustments	Provision for expected credit losses under IFRS 9 as of September 30, 2018
<u>BALANCE SHEET</u>			
Local investments at amortized cost (note 7)	G -	80	80
Foreign investments (note 8)	-	2,280	2,280
Loans (note 10)	656,795	91,888	748,683
Other assets (note 15)	197,784	482	198,266
Credit commitments – other liabilities (note 19)	-	39,083	39,083
TOTAL BALANCE SHEET	G 854,579	133,813	988,392

The reversal on the general reserve for loan losses is as follows:

(In thousands of gourdes)	Balance at 30/9/2018 before ajustement	Adjustment	Balance at 30/9/2018 after ajustement
Impact on the general reserve for loan losses	G 160,000	160,000	-

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(21) PROVISION FOR CREDIT LOSSES

The provision(reversal of provision) for credit losses on balance sheet and off-balance sheet commitments items is as follows:

(In thousands of gourdes)		2020	2019
Local investments, at amortized cost (note 7)	G	(13)	-
Foreign investments, at amortized cost (note 8)		(50)	(554)
Loans (note 10)		1,557,349	248,744
Other assets (note 15)		24,516	5,068
Credit commitments – other liabilities (note 19 d)		7,339	32,629
TOTAL	G	1,589,141	285,887

(22) CAPITAL FUND

As per the Decree of November 23, 2005, published in the Official Journal Le Moniteur no. 95 on December 19, 2005, reorganizing Banque Nationale de Crédit, the authorized capital of the Bank had been set at G 500 million, composed of the former capital increased by retained earnings up to the approved limit. On April 1, 2013, the Bank received the approval from the Ministry of Economy and Finance (MEF) to increase the authorized capital of the Bank to G 1.5 billion from retained earnings.

On February 1, 2017, the Bank received approval from the Ministry of Economy and Finance (MEF) to increase the Bank's authorized capital to G 3.0 billion from retained earnings.

(23) OTHER INCOME AND EXPENSES

Other income and expenses are as follows:

(In thousands of gourdes)		2020	2019
Capital gain on equity instruments			
- BLADEX (note 8 iii)	G	738	26,349
Capital loss on equity instruments – SCIOP (note 7 c)		(6,966)	-
Gain on sales of real estate (note 13)		52,434	38,381
Rental income from real estate (notes 13 and 27)		-	953
Impairment loss on investment properties (note 13)		(47,686)	-
Others		424	17,477
Total other income and expenses	G	(1,056)	83,160

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(24) SALARIES AND OTHER EMPLOYEES BENEFITS

Salaries and other employees benefits are as follows:

(In thousands of gourdes)		2020	2019
Salaries	G	804,813	671,334
Representation fees and bonuses		281,019	246,735
Contributions to the pension plan (note 19 c i)		279,435	351,200
Other social benefits		183,252	176,134
Payments to pensioners		75,600	67,800
Additional contribution to the special fund (note 19 c ii)		50,000	43,602
Payroll taxes		35,912	31,381
Contributions to the special fund (note 19 c ii)		21,600	18,000
Transport		19,573	18,930
Contributions to the special fund for Contractual employees (note 19 c iii)		5,836	4,441
Autres dépenses de personnel		77,749	74,168
Total salaries and other employees benefits	G	1,834,789	1,703,725

(25) OTHER RESERVE

In view of future activities, the Board of Directors decided to create a reserve of G 49.5 million from retained earnings.

The purpose of this decision is to provide the Bank with funding for special schooling and health programs, and/or related to natural disasters. The annual amount that may be transferred to this reserve is limited to 4% of the Bank's net income. However, this percentage may be modified subsequently by a Board decision. No amount was carried to the reserve in 2020.

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BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(26) COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, the Bank undertakes various commitments and has contingent liabilities as follows:

(In thousands gourdes)		2020	2019
Letters of guarantee	G	340,182	357,913
Unused balance of authorized overdrafts		989,032	923,638
Unused balance on credit cards		523,809	468,602
Total credit commitments	G	1,853,023	1,750,153

The provision for expected credit losses on credit commitments totalling respectively G 77.0 million and G 72.2 million at September 30, 2020 and 2019 is presented in other liabilities (**note 19**).

The above credit commitments represent the maximum amount of additional credit that the Bank could disburse on overdrafts and credit cards. These amounts are not necessarily representative of the credit risk because many of these agreements are contracted for a limited period of time of less than one year, and will expire or be terminated without being used.

As of September 30, 2020, the Bank was party to litigation both against and in favor of the Bank. According to the Bank's legal counsels, to date, the positions taken by the Bank are well founded. The Bank does not anticipate any eventual settlement of litigation that could materially affect its financial situation nor the results of its operations.

(27) RELATED PARTIES

The most significant related parties of BNC are the Cental Bank (BRH), other government financial institutions, Ministries, government corporations and entities. The Board members and their companies are also related parties.

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(27) RELATED PARTIES (CONTINUED)

As of September 30, related party balances are as follows:

(In thousands of gourdes)	2020	2019
Assets:		
Deposits with BRH (note 5)	G 23,301,325	17,608,932
BRH bonds, Treasury bonds and debentures, net (note 6)	19,008,566	8,645,928
Foreign exchange contracts (note 9)	296,384	1,677,181
Loans to Government-owned corporations financed by BRH	2,693,296	3,241,234
Loans to Ministry of Economy and Finance (note 10 a)	4,091,180	1,691,000
Loans to Government-owned companies (note 10)	991,821	1,621,495
Loans to Board members (note 10)	22,715	<u>35,415</u>
	G 50,405,287	34,521,185
Liabilities:		
Deposits from Public sector liabilities:		
Gourdes (note 16)	G 6,474,350	5,871,728
Dollars US (note 16)	3,454,263	<u>5,655,403</u>
Sub-total	9,928,613	<u>11,527,131</u>
Term deposits of the Civil Pension Plan (note 16)	3,298,932	3,255,188
Deposits of ministries and public enterprises (note 16)	3,831,651	3,240,337
Deposits held by Board members (note 16)	31,578	<u>61,586</u>
Sub-total	17,090,774	<u>18,084,242</u>
Forward exchange contracts (note 9)	296,384	1,677,181
Loans and debentures - BRH (note 17)	8,228,296	5,145,103
Loan-BRH (note 19)	3,000	3,000
Amounts received as collateral for loans from the Haitian Government:		
Letter of guarantee-US dollars (note 19 a)	897,747	1,270,820
Loans US dollars (note 19 b)	393,604	557,223
Loans gourdes (note 19 b)	492,232	<u>536,644</u>
Sub total	27,402,037	<u>27,214,213</u>
Amounts due to Ministries and public enterprises (note 19)	456,177	346,990
Due to Public Treasury (note 19)	16,545	<u>2,193</u>
	G 27,874,759	27,623,396

(Continued)

BANQUE NATIONALE DE CRÉDIT
Notes to financial statements

(27) RELATED PARTIES (CONTINUED)

During the years, related party transactions are as follows:

(In thousands of gourdes)	2020	2019
Interest income:		
BRH bonds, Treasury bonds and debentures	G 2,154,079	1,644,691
Loans to Ministry of Economy and Finance	336,765	-
Loans to State companies	204,284	-
Loans to Government enterprises	<u>157,322</u>	<u>125,568</u>
	<u>2,852,450</u>	<u>1,770,259</u>
Interest expense:		
Loans and debentures BRH	<u>(97,422)</u>	<u>(53,135)</u>
Net interest income, net	<u>2,755,028</u>	<u>1,717,124</u>
Other revenue:		
Commissions for services rendered to BRH	43,511	34,771
Rental income from real estate (note 23)	<u>-</u>	<u>953</u>
	<u>43,511</u>	<u>35,724</u>
Other expenses:		
Penalties – BRH	<u>-</u>	<u>(4,203)</u>
	G -	(4,203)
Total - revenu, net	G 2,798,539	1,748,645

BANQUE NATIONALE DE CRÉDIT**Balance Sheets****September 30, 2020 and 2019****(Expressed in thousands of US dollars)**

	2020	2019
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 470,921	340,265
BRH BONDS, TREASURY BONDS AND DEBENTURES, NET	288,361	92,652
LOCAL INVESTMENTS	14,162	37,899
FOREIGN INVESTMENTS	105,452	123,017
FOREIGN EXCHANGE CONTRACTS	4,496	23,038
LOANS	377,543	240,994
Provision for expected credit loss	<u>(38,711)</u>	<u>(12,953)</u>
	338,832	228,041
RIGHT-OF-USE ASSETS, NET	2,457	-
FIXED ASSETS, NET	27,733	16,681
OTHERS		
Real estate	7,333	5,834
Goodwill	22,349	15,788
Other assets, net	6,173	2,563
Acceptances and letters of credit	<u>5,161</u>	<u>3,835</u>
	41,016	28,020
TOTAL ASSETS	\$ 1,293,430	889,613
LIABILITIES AND NET ASSETS		
DEPOSITS	922,560	660,879
LOANS AND DEBENTURES – BRH	124,824	55,136
OTHERS		
Local banks deposits	1,677	385
Other liabilities	115,536	72,598
Lease liabilities	1,678	-
Foreign exchange contracts	4,131	23,038
Commitments – acceptances and letters of credit	<u>5,161</u>	<u>3,835</u>
	128,183	99,856
TOTAL LIABILITIES	1,175,567	815,871
NET ASSETS		
Capital fund	45,510	32,149
Legal reserve	12,566	7,757
General reserve for loan losses	1,235	17,361
General reserve for real estate	5,523	3,699
Other reserve	1,206	852
Retained earnings	<u>51,823</u>	<u>11,924</u>
	117,863	73,742
TOTAL LIABILITIES AND NET ASSETS	\$ 1,293,430	889,613

BANQUE NATIONALE DE CRÉDIT
Statements of Income
Years ended September 30, 2020 and 2019
(Expressed in thousands of US dollars)

	2020	2019
INTEREST INCOME		
Loans	\$ 25,448	19,759
BRH bonds, Treasury bonds and debentures	21,758	19,324
Investments and others	<u>4,303</u>	<u>6,465</u>
	51,509	45,548
INTEREST EXPENSE		
Deposits	6,153	6,217
Others	<u>1,508</u>	<u>1,965</u>
	7,661	8,182
NET INTEREST INCOME	43,848	37,366
Provision for credit losses	(16,052)	(3,359)
Recoveries on loans written off	<u>24</u>	<u>55</u>
	27,820	34,062
OTHER INCOME (EXPENSES)		
Commissions	8,488	9,251
Exchange gain	3,238	978
Operations expenses	(1,543)	(1,366)
Others	<u>(11)</u>	<u>1,316</u>
	10,172	10,179
NET INTEREST INCOME AND OTHER INCOME	37,992	44,241
OPERATING EXPENSES		
Salaries and other employees' benefits	18,533	20,017
Premises and equipment	2,368	2,395
Depreciation	1,092	1,688
Rental charges	461	458
Other operating expenses	<u>4,986</u>	<u>7,428</u>
	27,440	31,986
NET INCOME FOR THE YEAR	\$ 10,552	12,255

BANQUE NATIONALE DE CRÉDIT
Statements of Changes in Net Assets
Years ended September 30, 2020 and 2019
(Expressed in thousands of US dollars)

	Capital fund	Retained earnings	Legal reserve	General reserve for loan losses	General reserve for real estate	Other reserve	Total
Balance as of September 30, 2018	\$ 42,872	29,765	8,854	2,286	3,718	707	88,202
<i>Impact of IFRS 9 adoption:</i>							
Provision for expected credit losses	-	(1,912)	-	-	-	-	(1,912)
Transfer of the general reserve for loan losses	-	2,286	-	(2,286)	-	-	-
Net impact	-	374	-	(2,286)	-	-	(1,912)
Balance as of September 30, 2018, adjusted	\$ 42,872	30,139	8,854	-	3,718	707	86,290
Net income for the year	-	12,255	-	-	-	-	12,255
Payment to the Public Treasury	-	(2,350)	-	-	-	-	2,350
Transfer to the legal reserve	-	(1,225)	1,225	-	-	-	-
Transfer of the general reserve for loan losses	-	(19,034)	-	19,034	-	-	-
Transfer to the general reserve for real estate	-	(999)	-	-	999	-	-
Other reserve	-	(352)	-	-	-	352	-
Translation adjustment	(10,723)	(6,510)	(2,322)	(1,673)	(1,018)	(207)	(22,453)
Balance as of September 30, 2019	\$ 32,149	11,924	7,757	17,361	3,699	852	73,742
Net income for the year	-	10,552	-	-	-	-	10,552
Payment to the Public Treasury	-	(1,580)	-	-	-	-	(1,580)
Transfer to the legal reserve	-	(1,055)	1,055	-	-	-	-
Transfer from the general reserve for loan losses	-	15,541	-	(15,541)	-	-	-
Transfer to the general reserve for real estate	-	(191)	-	-	191	-	-
Translation adjustment	13,361	16,632	3,754	(585)	1,633	354	35,149
Balance as of September 30, 2020	\$ 45,510	51,823	12,566	1,235	5,523	1,206	117,863