Financial Statements of

OCCIDENTAL BANK (BARBADOS) LTD.

December 31, 2019

(With Independent Auditors' Report Thereon)

Occidental Bank (Barbados) Ltd.

Contents

KPMG

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Occidental Bank (Barbados) Ltd.

Opinion

We have audited the financial statements of Occidental Bank (Barbados) Ltd. ("the Bank"), which comprise the statement of financial position as at December 31, 2019, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with 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 Barbados and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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INDEPENDENT AUDITORS' REPORT, CONTINUED

To the Shareholder of Occidental Bank (Barbados) Ltd., continued

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 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.

A further description of the auditors' responsibilities for the audit of the financial statements is located at the Institute of Chartered Accountants of Barbados' website at: http://www.icab.bb/about-icab/auditing. This description forms part of our auditors' report.

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Chartered Accountants
Bridgetown, Barbados
February 20, 2020

Occidental Bank (Barbados) Ltd.

Statement of financial position
December 31, 2019
(In US dollars)

Assets	**Note**	**2019**	**2018**
Cash	7	118,523,922	24,818,278
Investment securities	8	208,123,764	189,807,982
Accrued interest investments		3,895,079	3,395,277
Loans to customer at amortised cost	9	110,258,952	97,015,988
Property and equipment, net		112,475	134,654
Right- of-use assets	10	211,388	-
Other assets:			
Other accounts receivable	11	24,382	24,398
Other assets	12	111,889	168,906
Total other assets		136,271	193,304
Total assets		441,261,851	315,365,483

Occidental Bank (Barbados) Ltd.

Statement of financial position
December 31, 2019
(In US dollars)

Liabilities and equity	Note	2019	2018
Deposits:			
Interest bearing checking accounts		78,009,150	59,245,169
Time deposits		330,912,863	231,501,519
Total deposits	13	408,922,013	290,746,688
Lease liabilities	14	218,441	-
Other liabilities	15	161,928	83,448
Total liabilities		409,302,382	290,830,136
Equity:			
Share capital and share premium	16	18,239,034	18,239,034
Reserves		11,678,105	6,013,425
Retained earnings		2,042,330	282,888
Total equity		31,959,469	24,535,347
Total liabilities and equity		441,261,851	315,365,483

The notes are an integral part of the financial statements.

Approved by the Board of Directors on February 20, 2020

.... **Chairman**

.... **Director**

Occidental Bank (Barbados) Ltd.

Statement of income
For the year ended December 31, 2019
(In US dollars)

	Note	2019	2018
Interest income:			
Overnight funds		1,165,438	765,590
Securities purchased under agreements to resell		-	42,897
Loan to customers		4,460,909	3,811,075
Investment securities		5,976,666	5,867,602
Total interest income		11,603,013	10,487,164
Interest expense:			
Customer deposits		(7,515,153)	(6,307,194)
Lease liabilities		(16,802)	-
Total interest expense		(7,531,955)	(6,307,194)
Net interest income		4,071,058	4,179,970
(Impairment loss) reversal of investment securities	6	(9,669)	53,589
Reversal of (impairment loss) other account receivable		51,276	(51,276)
Loan impairment charges	6	(499,830)	(1,259,675)
Net interest income after impairment charges		3,612,835	2,922,608
Other operating income (expense):			
Fees and commissions income		866,164	778,553
Commissions expense		(211,143)	(186,272)
Net fee and commission income		655,021	592,281
Foreign exchange		(41)	(1,218)
Net gain (loss) on investment securities at FVOCI	8	593,269	(157,876)
Net loss on investment securities at FVTPL		(81,334)	-
Dividends income	18	-	39,473
Other income		26,236	42,861
Total other operating income		1,193,151	515,521
Total operating income, net		4,805,986	3,438,129
General and administrative expenses:			
Salaries and other employee benefits		(1,115,153)	(1,151,555)
Professional fees and services	18	(277,899)	(306,061)
Depreciation and amortization		(198,422)	(127,335)
Other expenses		(868,594)	(751,988)
Total general and administrative expenses		(2,460,068)	(2,336,939)
Net profit		2,345,918	1,101,190

The notes are an integral part of the financial statements.

Occidental Bank (Barbados) Ltd.

Statement of comprehensive income
For the year ended December 31, 2019
(In US dollars)

	Note	2019	2018
Net profit		2,345,918	1,101,190
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Net change in fair value - equity investment at FVOCI		368,976	624,891
		368,976	624,891
Items that are or may be reclassified subsequently to profit or loss			
Changes in investment securities:			
Net change in fair value - debt securities at FVOCI		5,302,497	(3,324,412)
Net amount transferred to profit or loss	8	(593,269)	157,876
		4,709,228	(3,166,536)
Total net comprehensive income (loss) of the year		7,424,122	(1,440,455)

The notes are an integral part of the financial statements.

Occidental Bank (Barbados) Ltd.

Statement of changes in equity
For the year ended December 31, 2019
(In US dollars)

	Note	Share Capital	Share Premium
Balance at December 31, 2017		10,075,000	8,164,0
Impact of adopting IFRS 9 at January 1, 2018 (see Note 5)		-	
		10,075,000	8,164.0
Plus comprehensive income comprised of:			
Net profit for the year		-	
Other comprenhensive income		-	
Total comprehensive loss for the year		-	
Transfer to reserve fund		-	
Balance at December 31, 2018	16	10,075,000	8,164,(
Plus comprehensive income comprised of:			
Net profit for the year		-	
Other comprenhensive income		-	
Total comprehensive income for the year		-	
Transfer to reserve fund		-	
Balance at December 31, 2019	16	10,075,000	8,164,(

The notes are an integral part of the financial statements.

Occidental Bank (Barbados) Ltd.

Statement of financial position
December 31, 2019
(In US dollars)

Liabilities and equity	**Note**	**2019**	**2018**
Deposits:			
Interest bearing checking accounts		78,009,150	59,245,169
Time deposits		330,912,863	231,501,519
Total deposits	13	408,922,013	290,746,688
Lease liabilities	14	218,441	-
Other liabilities	15	161,928	83,448
Total liabilities		409,302,382	290,830,136
Equity:			
Share capital and share premium	16	18,239,034	18,239,034
Reserves		11,678,105	6,013,425
Retained earnings		2,042,330	282,888
Total equity		31,959,469	24,535,347
Total liabilities and equity		441,261,851	315,365,483

The notes are an integral part of the financial statements.

Approved by the Board of Directors on February 20, 2020

.... **Chairman**

.... **Director**

Occidental Bank (Barbados) Ltd,

Statement of cash flows
For the year ended December 31, 2019
(In US dollar)

	Note	2019	2018
Cash flows from operating activities:			
Net profit		2,345,918	1,101,190
Adjustments for:			
Net interest income		(4,071,058)	(4,179,970)
Increase in provision for loan impairment		499,830	1,259,675
Impairment (reversal of) loss on investment		9,669	(53,589)
(Reversal of) impairment loss other account receivable		(51,276)	51,276
Depreciation and amortization		198,422	127,335
Net (gain) loss on sale of securities		(593,269)	157,876
Net loss on investments securities at FVTPL		81,334	-
Cash used by operating activities before changes in operating assets and liabilities		(1,580,430)	(1,536,207)
Changes in operating assets and liabilities:			
Loans to customers		(14,011,619)	2,787,230
Other accounts receivable		51,292	2,631
Other assets		(61,120)	(55,600)
Customers' deposits		117,504,531	(75,063,522)
Other liabilities		61,677	(46,869)
Interest received		11,364,511	13,654,679
Interest paid		(6,844,359)	(7,552,121)
Net cash provided by (used in) operating activities		106,484,483	(67,809,779)
Cash flows from investing activities:			
Acquisition of securities		(89,415,903)	(59,153,638)
Sales and redemptions of investment	8	76,688,116	48,590,000
Acquisition of property and equipment		(29,071)	(13,156)
Net cash used in investing activities		(12,756,858)	(10,576,794)
Cash flow from financing activities:			
Payments of lease liabilities	14	(21,981)	-
Net cash used in financing activities		(21,981)	-
Increase (decrease) in cash during the year		93,705,644	(78,386,573)
Cash, beginning of year		24,818,278	103,204,851
Cash, end of year	7	118,523,922	24,818,278

The notes are an integral part of the financial statements.

1. Reporting Entity

Occidental Bank (Barbados) Ltd. (hereinafter, "the Bank") was incorporated under the laws of Barbados on May 16, 1991 and is licensed to carry on banking and trust businesses from and within Barbados. The registered office of the Bank is located at Chelsea House, Chelsea Road, St. Michael, Barbados. The Bank is a wholly-owned subsidiary of Banco de Occidente, S. A. (hereinafter, "the parent Bank") which is incorporated under the laws of the Republic of Colombia. The ultimate parent of the Bank is Grupo Aval Acciones y Valores, S.A., a company incorporated under the laws of the Republic of Colombia.

These financial statements present the financial position, the financial performance and cash flows of the Bank as a separate entity. These financial statements are the basis to be part of the consolidated financial statements of Banco de Occidente, S.A.

These financial statements were approved by the Board of Directors on February 20, 2020.

2. Basis of Preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

2.2 Basis of measurement

The financial statements are prepared on a historical cost and amortized cost basis except for investment securities which are carried at fair value.

2.3 Functional and presentation currency

These financial statements are presented in United States of America dollars, which is the Bank's functional currency.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following accounting policies:

Accounting policy 4 (a)	Fair value measurement
Accounting policy 4 (b)	Impairment of non-financial assets
Accounting policy 4 (c)	Classification of financial assets and financial liabilities
Accounting policy 4 (h)	Income tax

3. Change in Accounting Policies

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the last annual financial statements:

IFRS 16 Leases:

The Bank applied IFRS 16 with a date of initial application of January 1, 2019, using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated. The details of the changes in accounting policies are disclosed below.

A. Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. Under IFRS 16, the Bank assesses whether a contract is or contains a lease based on the new definition of a lease.

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

B. As a lessee

As a lessee, the Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognizes right-of-use assets and lease liabilities for most leases, that is, these leases are in the statement of financial position.

However, the Bank has elected not to recognize right-of-use assets and lease liabilities for some leases of low value assets. The Bank presents lease liabilities in other liabilities in the statement of financial position.

i. ***Leases classified as operating leases under IAS 17***

Previously, the Bank classified property and equipment leases as operating leases under IAS 17. The lease agreements are usually for 10 years and may include extension options. The terms of the lease are negotiated on an individual basis, which comprise a variety of conditions and terms. The lease agreements do not impose covenants; however, these leased assets may not be allocated as guarantee for loans.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as of January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Bank used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.

- Excluded initial direct costs from measuring right-of-use assets at the date of initial application.

(In US dollars)

3. Change in Significant Accounting Policies, continued

ii. Leases previously classified as finance leases

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

C. Impacts of financial statements

On transition to IFRS 16, the Bank recognized right of use assets of $240,422 and lease liabilities of $240,422.

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 7.501%.

Operating lease commitments at December 31, 2018 in accordance with NIC 17	322,700
Discounted using the incremental debt rate of 7,501%	240,422
Lease liabilities recognised at January 1, 2019	240,422

Leases

Policy applicable as of January 01, 2019

A lease contract refers to an agreement by means of which a lessor assigns in favour of a lessee the right to use an asset during a determined period of time, in exchange for a payment or a series of payments.

The Bank acts as lessor and lessee of several properties and equipment. The lease contracts are usually entered into for fixed periods ranging between 1 and 10 years but may include extension options. The lease terms are negotiated on an individual basis and contain a broad range of different terms and conditions.

The extension and termination options included in the Bank's leases are used in order to maximize the operating flexibility in terms of contracts' management. Most of the extension and termination options held are exercisable simultaneously by the Bank and by the respective counterparty.

i. As lessee

The leases are recognized as an asset for the right of use and the corresponding liability on the date on which the asset rented is available for its use by the Bank. Each lease payment is allocated among the liability and the financial cost. The financial cost is charged in the statement of earnings during the lease period, in order to produce a constant periodic interest rate over the remaining balance of the liability for each period. The asset for the right of use is depreciated during the shortest useful life of the asset and the lease term, using the straight-line method.

The assets and liabilities arising from leases are initially measured based on the present value. The lease liabilities include the net present value of the following lease payments:

- Fixed payments (including substantial fixed payments), less any outstanding lease rewards.
- Variable lease payment based on an index or rate.
- Amounts expected to be paid by the lessee under residual value guarantees.

3. Change in Significant Accounting Policies, continued

Leases

- The purchase option exercise price whenever the lessee should be reasonably certain of exercising said option; and
- Payments of fines for terminating the lease, if the lease condition reflects that the lessee has exercised this option.

The lease payments are discounted using the implicit interest rate in the lease, whenever such rate could be determined, or the incremental indebtedness rate.

The assets for the right of use are measured at cost and comprise the following:

- The amount of the initial measurement of the lease liability
- Each lease payment made on or before the starting date
- Every direct initial cost; and
- Restoration costs.

<u>Short-term leases and leases of low value assets</u>
Payments associated with short-term leases and leases of low value assets are recorded under the straight-line method as expenses in the statement of income. The term of the short-term leases is of 12 months or less. Low value assets comprise computer equipment.

ii. As lessor

When assets are leased under the financial lease modality, the present value of the future payments of the lease is recorded as an account receivable. The difference between the gross amount pending to be collected and the present value of the account receivable is recorded as financial income.

The account receivable is repaid by allocating each of the rental fees among the financial income and the repayment of principal in each accounting period, so that the recording of financial income reflects in each of the periods, a constant rate of return over the net financial investment made by the lessor in the financial lease.

Whenever the assets should be leased under the operating lease regime, the asset is included in the statement of financial position according to the nature of the asset. Income derived from operating leases is recognized during the term of the lease contract based on the straight-line method.

4. Significant Accounting Policies

(a) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument is a quoted price in an active market. If a market for a financial instrument is not active, then the Bank establishes fair value using a valuation technique. The decision of whether a market is active may include, but is not limited to, consideration of factors such as the volume and frequency of trading activity, and the availability of price and volume of the offers and sales. In markets that are not active, the assurance that the transaction price provides evidence of fair value or to determine that adjustments to transaction prices are necessary to measure the fair value of the instrument, requires additional work during the valuation process.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during the change has occurred.

(b) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

(c) Financial assets and financial liabilities

I. Classification of financial assets

On initial recognition, a financial assets is classified as measured, i.e. either at amortized cost (AC), fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

1. The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

2. The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

4. Significant Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

I. Classification of financial assets, continued

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

1. The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

2. The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment by investment basis if applicable.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at AC or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. For the time being, the Bank will not make use of this option.

A financial asset is classified in one of the aforementioned categories at the time of its initial recognition.

Under IFRS 9, the derivative embedded in contracts - where the host is a financial asset under the scope of IFRS 9 - are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Bank's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

4. Significant Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

I. Classification of financial assets, continued

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows
- leverage features;
- prepayment and extension terms
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Interest rates on certain retail loans made by the Bank are based on standard variable rates (SVRs) that are set at the discretion of the Bank. SVRs are generally based on a central bank rate in a particular jurisdiction and also include a discretionary spread. In these cases, the Bank will assess whether the discretionary feature is consistent with the SPPI criterion by considering a number of factors, including whether:

- the borrowers are able to prepay the loans without significant penalties;
- the market competition ensures that interest rates are consistent between banks; and
- any regulatory or customer protection framework is in place that requires banks to treat customers fairly.

All of the Bank's retail loans and certain fixed-rate corporate loans contain prepayment features.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

4. Significant Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

I. Classification of financial assets, continued

The following accounting policies are applied to the subsequent measurement of the financial assets.

Financial assets at fair value through profit or loss (FVTPL), these assets are subsequently measured at fair value. Net profits and losses, including revenue derived from interest or dividends, are recorded in profit and loss.

Financial assets at amortized cost (AC), these assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced due to losses derived from impairment. Revenues from interests, foreign exchange profits and losses and impairment are recorded in profits or losses. Any profits or losses in de-recognition are recorded in profit and loss.

Debt investments at fair value through other comprehensive income (FVOCI), these assets are subsequently measured at fair value. Revenue derived from calculated interests using the effective interest method, earnings derived from difference in exchange rate and losses due to impairment, are recorded in profit and loss. Other net earnings and losses due to valuation are recorded in other comprehensive income (OCI). In de-recognition, accumulated profits and losses in OCI are reclassified in profit and loss due to realization of OCI.

Equity investments with changes in other comprehensive income (FVOCI), these assets are subsequently measured at fair value. Dividends are recorded as income in profit and loss unless such dividends clearly represent recovery of any portion of the investment cost. Other net profits and losses are recognized in OCI and never reclassified to profit and loss.

II. Impairment of financial assets

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Debt instruments (FVOCI)
- Other accounts receivable
- Loans portfolio
- Deposits in banks

IFRS 9 requires recognizing provision due to impairment of financial assets at fair value in OCI for an amount equal to an expected impairment loss in a period of twelve months subsequent to the cut-off date of the financial statements or during the remaining life of the instruments. The expected loss during the remaining life of the instruments refers to the expected losses resulting from all the possible impairment events over the expected life of the financial instruments, while the expected losses in the period of twelve months refer to the portion of expected losses that would result from possible impairment events within the twelve months following the reporting date of the financial statements.

4. Significant Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

Under IFRS 9, reserves for losses will be recognized for an amount equal to lifetime ECL, except in the following cases where the amount recognized is equal to the 12 months ECL subsequent to the measurement date:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

The impairment requirements of IFRS 9 are complex and require estimates and assumptions by management, particularly in the following areas:

- To assess if the credit risk has significantly increased since its initial recognition; and
- To include forward-looking information at the time of measuring expected losses due to impairment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Definition of default

Under IFRS 9, the Bank will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

Objective evidence of impairment in fixed income instruments includes the following concepts, among other:

- external ranking of issuer or instrument in D.
- contractual payments are not made when due or within the term or grace period stipulated.
- there is virtual certainty of suspension of payments.
- it is likely that the same will become in bankruptcy, or that any bankruptcy petition or similar action would be filed.
- the financial asset does not fit in any active market given its financial difficulties.

4. **Significant Accounting Policies, continued**

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

In assessing whether a borrower is in default, the Bank will consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.

The Bank will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain revolving facilities (e.g. credit cards and overdrafts), the date when the facility was first entered into could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment, which is discussed below.

Credit risk grades

The Bank will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Bank will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

For some portfolios, information purchased from external credit reference agencies is also used.

4. Significant Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and unemployment.

For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

The Bank's approach to incorporating forward – looking information into this assessment is discussed below.

The Bank has set forth a general framework that includes both quantitative and qualitative information in order to determine if the credit risk of a financial asset has significantly increased since its initial recognition.

The initial framework is aligned to the internal process of the Bank in order to manage the credit risk.

The corresponding criteria in order to determine if the credit risk has significantly increased will vary depending on each portfolio and shall include limits based on defaults.

The Bank assesses if the credit risk of a particular exposure has significantly increased since its initial recognition if, based on the quantitative modelling of the Bank, the probability of expected impairment during the remaining life should increase according to the rating level of the customer (if increase is significant, the same will exceed the threshold). When determining the increase of the credit risk, the expected impairment loss during the remaining life is adjusted by changes in maturities.

In certain circumstances, using judgment of experts in credit and whenever relevant historic information should be available, the Bank may determine that any exposure has suffered a significant increase in credit risk if particular qualitative factors may indicate the aforementioned and these factors may not be completely captured by its quantitative analysis carried out periodically. As a limit, and as required by IFRS 9, the Bank will assume that a significant increase of credit risk occurs not later than when the asset has been in default for more than 30 days. The Bank will determine days of default by counting the days since the last date on which a full payment has not been received.

The Bank will monitor the effectiveness of the criteria used to identify significant increases in the credit risk based on regular reviews in order to confirm that:

- Criteria are able to identify significant increases in the credit risk before any exposure should fall in impairment.
- Criteria is not aligned with the point of time whenever an asset should be more than 30 days overdue.
- Average time in order to identify any significant increase in credit risk and default seem to be reasonable.
- Exposures are not generally transferred directly from the Bank of expected impairment probability during the following twelve months to the Bank of impaired credits.
- There is no unjustified volatility in the provision for impairment of transfers among groups with probability of expected loss during the following twelve months and the probability of expected loss during the remaining life of the credits.

4. Significant Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

Derecognition

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

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

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit impairment of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

4. Significant Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Restructured

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit risk. Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

Inputs in measurement of ECLs

The key inputs into the measurement of ECLs are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on internally collected data comprising both qualitative and quantitative factors. If a counterparty or exposure migrates among the several rankings, this shall result in a change in the estimated PD. PDs will be estimated considering the expiration in contractual terms of the exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD.

LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

4. Significant Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- Instrument type
- credit risk ranking
- guarantee
- initial recognition date
- remaining term for expiration
- industry
- geographic location of borrower

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

4. **Significant Accounting Policies, continued**

(c) *Financial assets and financial liabilities, continued*

II. Impairment of financial assets, continued

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts:* generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component:* the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI:* no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in retained earnings.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are recognised when cash is received and are included in "impairment losses on financial instruments" in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due

Forecast of forthcoming economic conditions

Under IFRS 9, the Bank will include information with forecasts of forthcoming economic conditions, both in order to assess if the credit risk of an instrument has significantly increased since its initial recognition, as well as in order to measure the ECL. Based on the recommendations of the Market Risk Committee of the Group, using economic experts, and considering a variety of external current and projected information, the Bank will draft a "base case" of the forecast of the relevant economic variables, as well as a range representative of other projected potential scenarios. This process involves the development of two or more additional economic scenarios and considers the probabilities related to each result.

External information may include economic data and publication of forecasts by governmental committees and monetary authorities in the countries where the Bank operates, supranational organizations such as OECD and the International Monetary Fund, and academic forecasts, as well as forecasts of the private sector.

It is expected that the base case represents the most probable result and aligned with the information used by the Bank for other purposes, such as strategic planning and budgeting. The other scenarios would represent more optimistic and pessimistic results. The Bank intends also to carry out periodic stress testing in order to calibrate the determination of these other representative scenarios.

4. Significant Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

The Bank is currently in the process of identifying and documenting key guidelines of credit risk and credit losses for each portfolio of financial instruments and, using analysis of historic data, estimating ratios among macroeconomic variables, credit risk and credit losses.

(d) Interest income and expense

Interest income and expense are recognized in the statement of income for all interest bearing instruments on an accrual basis, using the effective yield method based on the actual purchase price.

(e) Recognition of income, costs and expenses

Fees and commissions are generally recognized on an accrual basis. Commissions and fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction.

Other costs and expenses are recognized on an accrual basis.

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

4. Significant Accounting Policies, continued

(e) Recognition of income, costs and expenses, continued

II. Impairment of financial assets, continued

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking service	The Bank provides banking services to retail and corporate customers, including account management, overdraft facilities, foreign currency transactions and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Asset management service	The Bank provides asset management services. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on a monthly basis.	Revenue from asset management services is recognised over time as the services are provided.

(f) Dividend income

Dividends on equity instruments are recognized in the statement of income as 'Dividend income' when the Bank's right to receive payment is established.

(g) Cash

For purposes of the statement of cash flows, cash and cash equivalents are comprised of cash and deposits in banks with original maturities of less than three months.

(h) Income Tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current also includes any tax arising from dividends.

(In US dollars)

4. Significant Accounting Policies, continued

(h) Income Tax, continued

Deferred tax - The taxation charge is determined on the basis of tax effect accounting, and is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

(i) Uniformity in presentation of the financial statements

Some figures of the 2018, financial statements have been reclassified in order to conform their presentation to that for 2019.

(j) Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Bank's financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).

5. Financial assets and financial liabilities

Classification of financial assets and financial liabilities
The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments:

December 31, 2019	Note	FVTPL	FVOCI	Amortised cost	Total carrying amount
Cash	7		-	118,523,922	118,523,922
Investment securities	8	394,356	207,729,408	-	208,123,764
Loans to customers at amortised cost	9		-	110,258,952	110,258,952
Other accounts receivable	11		-	24,382	24,382
Total financial assets		394,356	207,729,408	228,807,256	436,931,020
Deposits	13		-	408,922,013	408,922,013
Total financial liabilities			-	408,922,013	408,922,013

December 31, 2018	Note	FVOCI	Amortised cost	Total carrying amount
Cash	7	-	24,818,278	24,818,278
Investment securities	8	189,807,982	-	189,807,982
Loans to customers at amortised cost	9	-	97,015,988	97,015,988
Other accounts receivable	11	-	24,398	24,398
Total financial assets		189,807,982	121,858,664	311,666,646
Deposits	13	-	290,746,688	290,746,688
Total financial liabilities		-	290,746,688	290,746,688

(In US dollars)

6. Financial risk management

The Bank has exposure to the following risks from financial instruments: credit, liquidity, market, operational and capital risks.

6.1 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading assets is managed independently. The market risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to debt securities is managed as a component of market risk.

Credit quality analysis
The following table sets out information about the credit quality of the investment securities:

	2019		2018	
	Stage 1 12 month ECL	**Total**	**Stage 1 12 month ECL**	**Total**
Debt securities at FVOCI				
AAA	-	-	4,794,621	4,794,621
AA-	-	-	1,033,863	1,033,863
A+	2,036,410	2,036,410	2,675,906	2,675,906
A	4,538,930	4,538,930	6,316,065	6,316,065
A-	6,905,796	6,905,796	2,168,516	2,168,516
BBB+	20,203,101	20,203,101	13,851,061	13,851,061
BBB	1,004,536	1,004,536	6,562,905	6,562,905
BBB-	156,390,019	156,390,019	133,472,289	133,472,289
BB+	1,521,000	1,521,000	1,563,929	1,563,929
BB	-	-	14,015,025	14,015,025
BB-	-	-	1,532,856	1,532,856
Ba2	5,325,219	5,325,219	-	-
Baa2	5,723,655	5,723,655	-	-
Baa3	1,198,461	1,198,461	-	-
B+	1,465,330	1,465,330	772,971	772,971
Debt securities at FVTPL				
B-	394,356	394,356	-	-
	206,706,813	206,706,813	188,760,007	188,760,007

The investments securities as December 31, 2019 are up to date and do not present objective evidence of impairment.

The equity investment for US$1,416,951 (2018: US$1,047,975) is not included in this analysis.

(In US dollars)

6. Financial risk management, continued

6.1 Credit risk, continued

Credit quality analysis, continued

The following table sets out information about the loans at amortised cost impaired and not impaired according to category risk:

	2019			
Loans at amortised cost	**Stage 1 12 months ECL**	**Stage 2 Lifetime ECL not credit impaired**	**Stage 3 Lifetime ELC credit impaired**	**Total**
AA – Normal	106,194,083	247,230	-	106,441,313
A – Acceptable	692,881	56,373	-	749,254
BB – Acceptable	1,559,354	-	-	1,559,354
B – Appreciable	-	374,228	-	374,228
CC – Appreciable	216,560	-	-	216,560
E – Bad	-	-	2,181,985	2,181,985
Gross carrying amount	108,662,878	677,831	2,181,985	111,522,694
Loss allowance	(786,212)	(53,412)	(424,118)	(1,263,742)
Amortised cost	107,876,666	624,419	1,757,867	110,258,952

	2018			
Loans at amortised cost	**Stage 1 12 months ECL**	**Stage 2 Lifetime ECL not credit impaired**	**Stage 3 Lifetime ELC credit impaired**	**Total**
AA – Normal	92,875,426	-	-	92,875,426
A – Acceptable	614,577	80,024	-	694,601
BB – Acceptable	1,633,912	111,512	-	1,745,424
CC – Appreciable	-	-	214,473	214,473
D – Significant	-	-	185,938	185,938
E – Bad	-	-	2,979,117	2,979,117
Gross carrying amount	95,123,915	191,536	3,379,528	98,694,979
Loss allowance	(624,592)	(39,602)	(1,014,797)	(1,678,991)
Amortised cost	94,499,323	151,934	2,364,731	97,015,988

(In US dollars)

6. Financial risk management, continued

6.1 Credit risk, continued

Credit quality analysis, continued

The following tables show reconciliation from the opening to the closing balance of the loss allowance by class of financial instruments.

	2019	
Debt investments securities at FVOCI	**Stage 1 12 months ECL**	**Total**
Closing Balance at December 31, 2018	69,676	69,676
Net remeasurement of loss allowance	9,669	9,669
Balance at December 31, 2019	79,345	79,345

	2018	
Debt investments securities at FVOCI	**Stage 1 12 months ECL**	**Total**
Closing Balance at December 31, 2017	-	-
Adoption of IFRS 9, January 01, 2018	123,265	123,265
Reversal of the loss allowance	(53,589)	(53,589)
Balance at December 31, 2018	69,676	69,676

	2019			
Loans to customers at amortised cost	**Stage 1 12 Months ECL**	**Stage 2 Lifetime ECL not credit impaired**	**Stage 3 Lifetime ECL credit impaired**	**Total**
Closing balance at December 31, 2018	624,592	39,602	1,014,797	1,678,991
Stage 1 to Stage 2	(6,142)	6,142	-	-
Stage 1 to Stage 3	(7,853)	-	7,853	-
Stage 2 to Stage 3	-	(39,602)	39,602	-
Stage 3 to Stage 1	434	-	(434)	-
Charge of the year	175,181	47,270	277,379	499,830
Write off	-	-	(915,079)	(915,079)
Balance at December 31 , 2019	786,212	53,412	424,118	1,263,742

(In US dollars)

6. Financial risk management, continued

6.1 Credit risk, continued

Credit quality analysis, continued

	2018			
Loans to customers at amortised cost	**Stage 1 12 months ECL**	**Stage 2 Lifetime ECL not credit impaired**	**Stage 3 Lifetime ECL credit impaired**	**Total**
Closing balance at December 31, 2017	159,824	948	976,103	1,136,875
Adoption of IFRS 9, January 01, 2018	389,882	7,015	-	396,897
Balance at January 01, 2018	549,706	7,963	976,103	1,533,772
Stage 1 to Stage 2	(2,305)	2,305	-	-
Stage 1 to Stage 3	(25,458)	-	25,458	-
Stage 2 to Stage 3	-	(7,347)	7,347	-
Charge of the year	102,649	36,681	1,120,345	1,259,675
Write off	-	0	(1,114,456)	(1,114,456)
Balance at December 31, 2018	624,592	39,602	1,014,797	1,678,991

The contractual amount outstanding on financial assets that were written off during the year ended December 31, 2019 and that are still subject to enforcement activity is $877,527 (2018: $377,006).

Forward-looking information

The Bank includes forward-looking information in its assessment, both regarding the significant increase of the credit risk of an instrument as of its initial recognition, as well as of the Expected Credit Losses (ECL) estimation. Based on three scenarios of the macroeconomic variables applicable to each model, the probability of default is affected. Furthermore, the result of the ECL is equal to the weighting of the probability of occurrence of each scenario.

The expected scenario represents the most likely result. It is aligned with the information used by Grupo Aval for other purposes, such as strategic planning and budget. The other two scenarios represent the most optimistic result and the most pessimistic result.

The Bank has identified and documented the key factors with respect to credit risk and credit losses for each portfolio of financial instruments and, through an analysis of historical data, has estimated the ratios among the macroeconomic variables, the credit risk, and the credit losses.

The main macroeconomic variables and scenarios used on December 31, 2019 are as follows:

	2019			2020		
	Unfavorable Scenario	Base scenario	Favorable Scenario	Unfavorable Scenario	Base scenario	Favorable Scenario
Annual CPI variation	3,72%	3,83%	3,95%	2,46%	3,38%	4,07%
GDP growth	3,01%	3,20%	3,57%	2,17%	3,22%	4,19%
Rate of unemployment	10,72%	10,25%	10,01%	11,12%	10,22%	9,30%
Fixed Term Deposit Rate	4,48%	4,5%	4,52%	3,96%	4,53%	5,49%
Effective Interest Rate	0,76%	0,66%	0,57%	0,66%	1,16%	1,42%

The forecast takes into account the one year lagged behind GDP growth, which means that the information of 2019 is needed in order to be able to forecast the risk of default for 2020.

6. Financial risk management, continued

6.1 Credit risk, continued

Credit quality analysis, continued

6.1.1 Credit exposure policy

Credit exposure is assessed at the level of the client and not just at the level of the sector that the client operates in. Maximum exposure limits are determined in accordance with the scale of the client's financial and operational situation.

When an indebtedness credit level is approved, the maximum exposure level is defined as well as any special conditions affecting the client. However, if the manager detects unfavourable changes in the client's financial condition, environment, or any other issue involving increased risk to the Bank, he has the option to cease making additional disbursements to the client's account and perform a reassessment of the client's indebtedness level, either to maintain the commercial relationship with no change, or to reduce risk exposure, or even to totally cease extending credit to the client.

6.1.2. Policy to grant loans

Indebtedness levels are approved by the Board of Directors. Once the documentation to conduct the credit evaluation is available, the documents are submitted to Banco de Occidente Credit Division to be in turn submitted to the Credit Committee of the Director General. As a result of the above, a recommendation is made to allow the Board of Directors of parent Bank to make the final decision to approve or reject the loan.

The credit evaluation of any client takes into consideration the cash flows necessary for its operation together with a maturity profile of the client's financial obligations. In general, to evaluate the risk, the following criteria, named "the 5 Cs of credit", are taken into account, namely:

- Character: Honesty. The client applying for credit must be reputable and reliable in all respects. If any doubt exists as to the client's credit worthiness, the client is rejected and, thus is not able to receive any service from the Bank.
- Capacity: Management. In order to grant a loan, the Bank needs to know the client's ability, experience and management skills as well as the capacity of the other employees of the client. This is an exercise that is performed by the Board of Directors utilizing the knowledge of its members and other information supplied by the respective managers.
- Conditions: In performing its risk evaluation, the Bank considers factors such as analysis of sector, dynamics, perspectives, and the risk associated with clients, suppliers, competitors, related sectors and Government.
- Capital: The Bank also gives consideration to the client's financial and operational situation, ability to pay, indebtedness and other profitability issues.
- Collateral: Evaluation of alternative payment sources (securities).

6. Financial risk management, continued

6.1.2. Policy to grant loans, continued

Before granting any loan, the credit risk level of each client is determined by applying rating models. The Bank reviews credit limits granted to clients annually. A 90-day term is used in assessing operations capability. A financial and operational risk analysis is conducted on the client and its co-obligors, using financial information and qualitative and quantitative non-financial information (behaviour). A profitability analysis evaluation is also performed by the Bank.

In order to establish the maximum exposure limits, the client's estimated risk level is taken into account using the rating models and the maximum amount to be granted, which is considered an indication of the maximum amount recommended to service the client's short-term.

For the industry, commerce, and services segments, the amount to be lent is calculated as the lower value of the amount to be lent for sales and the amount to be lent for net worth.

For the construction segment, the amount to be lent is the lower value of the amount to be lent for asset and the amount to be lent for net worth.

For financial entities the amount to be lent is determined based on net worth.

The amount to be lent suggested by the above methodology is a guide of the potential exposure of any client in function of risk. The amount to be approved, however, may be higher or lower, at the approver's discretion, taking into account other issues in addition to the rating model. For example, when the credit is supported by securities such as foreign bank endorsement or first class financial entity guarantees, credit granted can be higher to that suggested by the model.

6.1.3 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and banks, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined in the following paragraphs.

(In US dollars)

6. Financial risk management, continued

6.1.4 Administration policy and collateral management

Collateral must be chosen according to liquidity, i.e., based on the ability to negotiate the property pledge. Collateral evaluation is based on technical appraisals made by experts.

Collateral and other credit enhancements, by themselves, are not sufficient support to grant any loan. An exception may be made when dealing with securities from foreign banks.

	2019	2018
Loans to customers	111,522,694	98,694,979
Less collateral	(28,986,317)	(41,262,199)
Net exposure	82,536,377	57,432,780

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

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

	Maximum exposure	
	2019	2018
Cash	118,523,922	24,818,278
Investments securities	208,123,764	189,807,982
Loans to customers at amortised cost	110,258,952	97,015,988
Total	436,906,638	311,642,248

The preceding table represents the most critical scenario of exposure to credit risk of the Bank at December 31, 2019 without taking into account credit guarantees or other increases thereof.

As previously indicated, 52% of the total maximum exposure stems from loans to customers and bank deposits (December 31, 2018: 39%); and 48% represents its investment securities (December 31, 2018: 61%).

Management trusts its ability to continue maintaining the exposure level to risk under control, based on the following:

- As of December 31, 2019, 96% of the loan portfolio (2018: 95%) was classified in the first two categories of the internal classification system, that is, AA and A.
- As of December 31, 2019, 98% (2018: 95%) of the loan portfolio is not past due or impaired.

(In US dollars)

6. Financial risk management, continued

6.1.6 Concentration of risk of financial assets with credit risk exposure

The following table breaks down the Bank's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support) as categorized by industry and geographical regions:

	Cash		Investment securities		Loans to customer at amortised cost, gross value		Commitments	
	2019	2018	2019	2018	2019	2018	2019	2018
Industry concentration								
Corporate	-	-	5,710,491	7,536,262	80,917,219	54,542,106	-	-
Financial institutions	118,523,922	24,818,278	49,328,792	60,009,283	-	-	22,774,843	41,742,715
Government	-	-	153,084,481	122,262,437	-	-	-	-
Customers	-	-	-	-	29,448,076	42,726,649	-	-
	118,523,922	24,818,278	208,123,764	189,807,982	110,365,295	97,268,755	22,774,843	41,742,715
Geographical sectors								
Colombia	8,685	17,896	164,057,394	128,840,947	61,108,539	81,711,997	22,774,843	41,742,715
Latin American, the Caribbean and other	982	2,041	14,753,357	14,199,759	29,757,840	8,932,495	-	-
United States of America	115,471,408	24,424,991	24,782,189	35,308,266	759,507	1,125,072	-	-
United Kingdom	3,042,847	373,350	-	-	-	-	-	-
Brazil	-	-	-	7,061,625	8,300,000	-	-	-
Panama	-	-	4,530,824	4,397,385	10,439,409	5,499,191	-	-
	118,523,922	24,818,278	208,123,764	189,807,982	110,365,295	97,268,755	22,774,843	41,742,715

6.1.7 Loans

(a) Loans are summarized as follows:

	2019	2018
Neither past due nor impaired	107,497,840	92,304,776
Individually impaired	2,867,455	4,963,979
Gross	110,365,295	97,268,755
Accrued interest receivable	1,157,399	1,426,224
Less:		
Allowance for impairment	(1,263,742)	(1,678,991)
Total	110,258,952	97,015,988

(b) Loans re-negotiated

Renegotiation of a credit means any exceptional mechanism implemented by the Bank to modify the terms of the loan originally agreed with the debtor, in order to allow the debtor to cancel the obligation, considering its actual ability to pay.

As part of its policy, the Bank classifies loans re-negotiated in the same category as those debts that have been previously restructured or debts with high risk. The loans that have been restructured are summarized as follows:

	2019	2018
Renegotiated loans to customers		
- Continuing to be impaired after restructuring	769,277	697,052

6. Financial risk management, continued

6.2 Liquidity risk management

Liquidity risk is the risk that the Bank may become unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sale of assets, or potentially the inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

6.2.1 Liquidity risk management process

The Bank has in place a policy framework contained within the liquidity risk management system (SARL, as per its Spanish acronym); the SARL includes, in addition to the policies defined, the limits to be monitored, as well as the measurement methodologies necessary for the efficient management of the liquidity risk to which the entity is exposed.

In order to measure the liquidity risk, the Bank calculates, on a monthly basis, the maturity GAP pertaining to the assets and liabilities. The results of the model do not consider, for the cash flow forecasts, statistics such as prepayments and renewal percentages, but only the contractual conditions. As an exception to the aforementioned, concerning financial liabilities without contractual expiration date, the percentage share of the deposits' stability is calculated pursuant to historical behavior, by means of a statistic model.

As part of the liquidity risk analysis, the bank carries out internal measurements which are the basis in order to evaluate, under normal and stressed conditions, the liquidity behavior of the entity in the short and medium term; furthermore, the deposits' stability is measured (based on statistical analysis which enable to quantify, with a predetermined confidence level, the stability of the deposits both with and without contractual expiration), the indebtedness levels, the structure of assets and liabilities, the liquidity level of the assets, the availability of financing facilities and the overall effectiveness of the management of assets and liabilities; the aforementioned, intended to maintain the sufficient liquidity (including liquid assets, guarantees and collaterals) in order to face potential own or systemic stress scenarios.

On a monthly basis, and in addition to the liquidity profile analysis through the GAP, the system provides early warning indicators with respect to deposits' concentration which enable to determine the degree of dependence on liquidity consistent with the revenue sources.

Through the risks committee and the board of the directors, the senior management of the entity becomes aware of the liquidity situation and adopts the pertinent decisions taking into account the high quality liquidity assets which should be maintained, the tolerance concerning liquidity management or minimum liquidity, the strategy for loans granting and deposits taking, the policies involving placement of liquidity surplus, the changes in the existing products' characteristics, as well as new products, the spreading of the funding sources in order to avoid concentrations of deposits in few investors or savers, the results of the bank, and the changes in the balance structure.

6. Financial risk management, continued

6.2.1 Liquidity risk management process, continued

Hereinafter, in the charts below, you may find the liquidity GAP as of December 31, 2019 and 2018 (Unaudited).

	Demand up to 7 days (a)	Over 8 days to 1 month (b)	Over 1 month to 3 months (c)	Over 3 months to 6 months (d)	Over 6 months to 12 months (e)	Over 1 year to 2 years (f)	Over 2 year to 5 years (g)	Over 5 years (h)	Total
Decemeber 31, 2019 (in thousands of US$)									
Assets:									
Cash	118,524	-	-	-	-	-	-	-	118,524
Investments	-	6,907	40,255	7,352	14,836	70,165	37,663	49,198	226,376
Loans	4,122	12,210	23,752	19,432	19,318	4,449	27,826	3,604	114,713
Total assets	122,646	19,117	64,007	26,784	34,154	74,614	65,489	52,802	459,613
Liabilities:									
Demand deposits	15,507	-	-	-	-	-	-	62,502	78,009
Time deposits	4,148	29,851	138,308	39,426	109,432	9,999	1,956	3,360	336,480
Total liabilites	19,655	29,851	138,308	39,426	109,432	9,999	1,956	65,862	414,489
GAP measures									
RSA - RSL (gap)	102,991	(10,734)	(74,301)	(12,641)	(75,278)	64,615	63,533	(13,060)	
Cumulative Gap	102,991	92,257	17,956	5,314	(69,964)	(5,349)	58,184	45,124	

	Demand up to 7 days (a)	Over 8 days to 1 month (b)	Over 1 month to 3 months (c)	Over 3 months to 6 months (d)	Over 6 months to 12 months (e)	Over 1 year to 2 years (f)	Over 2 year to 5 years (g)	Over 5 years (h)	Total
Decemeber 31, 2018 (in thousands of US$)									
Assets:									
Cash	24,818	-	-	-	-	-	-	-	24,818
Investments	-	1,245	4,772	5,789	13,853	88,014	75,872	19,069	208,614
Loans	2,349	8,939	24,394	26,384	15,817	9,637	9,982	3,626	101,128
Total assets	27,167	10,184	29,166	32,173	29,670	97,651	85,854	22,695	334,560
Liabilities:									
Demand deposits	15,491	-	-	-	-	-	-	43,754	59,245
Time deposits	9,173	25,788	26,568	65,762	60,620	35,829	8,464	3,360	235,564
Total liabilites	24,664	25,788	26,568	65,762	60,620	35,829	8,464	47,114	294,809
GAP measures									
RSA - RSL (gap)	2,503	(15,604)	2,598	(33,589)	(30,950)	61,822	77,390	(24,419)	
Cumulative Gap	2,503	(13,101)	(10,503)	(44,092)	(75,042)	(13,220)	64,170	39,751	

6. Financial risk management, continued

6.2.1 Liquidity risk management process, continued

The previous liquidity calculations are prepared assuming a normal liquidity situation in accordance with the contractual cash-flows and historical experiences of the Bank. For cases of extreme liquidity events derived from withdrawal of deposits, the Bank has contingency plans in place that include the existence of credit facility lines of other entities, other special deposits-taking and support rendered through resources provided by the parent Bank. During the periods ended on December 31, 2019 and 2018, the entity did not need to make use of such credit lines of last resort.

As a supplement, the Bank carried out analysis of expirations for financial assets and liabilities containing the following undiscounted remaining contractual expirations:

	Less than 1 month	1 -3 months	3 -6 months	6 -12 months	1 - 5 years	More than 5 years	Total
Decemeber 31, 2019							
(in thousands of US$)							
Cash	118,575	-	-	-	-	-	118,575
Investments	6,907	40,255	7,352	14,836	107,828	49,198	226,376
Loans	16,333	23,752	19,432	19,318	32,275	3,604	114,715
Total	141,815	64,007	26,784	34,154	140,103	52,802	459,666
Demand deposits	78,009	-	-	-	-	-	78,009
Time deposits	34,000	138,308	39,426	109,432	11,955	3,360	336,481
Total	112,009	138,308	39,426	109,432	11,955	3,360	414,490

	Less than 1 month	1 -3 months	3 -6 months	6 -12 months	1 - 5 years	More than 5 years	Total
Decemeber 31, 2018							
(in thousands of US$)							
Cash	24,818	-	-	-	-	-	24,818
Investments	1,245	4,772	5,789	13,853	163,886	19,069	208,614
Loans	11,288	24,394	26,384	15,817	19,619	3,626	101,128
Total	37,351	29,166	32,173	29,670	183,505	22,695	334,560
Demand deposits	59,245	-	-	-	-	-	59,245
Time deposits	34,961	26,568	65,762	60,620	44,293	3,360	235,564
Total	94,206	26,568	65,762	60,620	44,293	3,360	294,809

(In US dollars)

6. Financial risk management, continued

6.3 Off balance

6.3.1 Financial guarantees and other financial facilities

Financial guarantees are also included in the table shown in Note 19 based on the most recent contractual maturity date.

	2019	2018
Stand-by letters of credit	22,774,843	41,742,715

6.4 Market risk

Market risk is the risk that changes according to market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's /issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

6.4.1. Market Risk Management

The Bank in its international business vocation, within the conduct of its operations, for securities portfolio and liquidity management trades in international investment markets.

Any definition of market risk policies and limits should be consulted, in the first instance, in Barbados effective Laws, and the guidelines given from the parent Bank.

The maximum exposures to be defined for each type of risk should be consistent with the Bank's technical capital. Established limits shall be reviewed periodically and timely, so as to recognize the changing markets and its effect on market participants.

The Bank monitors negotiations of financial instruments entered into to ensure proper diversification of the portfolio and efficiently operate in the financial system.

The process undertaken by the Bank to manage market risk starts with achieving and receiving information concerning exchange rates, indices, stocks prices and transactions, which are supplied by different areas or information structures such as investment managers, operational areas and technological applications.

6.4.1.1 Market Risk Measurement Techniques

The Bank measures and quantifies the expected losses from exposure to market risk from treasury operations and cash operations, through the Department of Market Risk Management at parent Bank. The main features of the standard methodology used in the Bank are set out below:

- Standardized model of Value at Risk (VaR) in blocks as suggested by the Basel Committee.
- Calculation of sensitivities to changes in interest rates and control.
- Implementation of systems for the quantitative measurement of market risk (FINAC-VAR application).

(In US dollars)

6. Financial risk management, continued

6.4.1. Market Risk Management, continued

6.4.1.1 Market Risk Measurement Techniques

Once the information managed by these three techniques is available, the following reports are prepared for presentation to the Board and other Corporate Governance units of the Bank:

1. OBB Portfolio Composition:
   a. Present value of portfolio by type of classification, mainly portfolio at FVOCI.
   b. Present value of fixed-term deposits.
   c. Assessment of current portfolio of OBB (purchase IRR, IRR and maturing market).

2. Portfolio VaR OBB:
   a. Value at Risk per paper.
   b. Participation of VaR by issuer.
   c. Historical performance of VaR and its relation to the present value.
   d. Sensitivity of Portfolio by applying 50, 100, 150 and 200 bp.

6.4.1.2 Software

The VaR software for the Barbados portfolio runs on a model developed by the firm FINAC (Finanzas y Actuaria), through the FINAC-VAR application.

FINAC-VAR is a tool which allows a daily estimation regarding VaR of the portfolio in a clear, simple and timely mode. It is able to collect the necessary information sources in order to carry out a reliable VaR calculation by estimating volatilities with respect to the risk factors of any and all securities as defined by the Bank. The above-mentioned volatilities are estimated at 99% confidence level and multiplied by the present value of each security in order to obtain its corresponding VaR. Total VaR corresponds to the aggregate of the latter.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following.

- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a 1% probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

6.4.1.3 VaR summary

The following table summarizes the VaR of the portfolio at December 31:

	2019	2018
High	1,221,617	1,509,791
Average	904,066	1,113,389
Low	761,252	827,954

(In US dollars)

6. Financial risk management, continued

6.4.1.4 Sensitivity Analysis

The following table summarizes the December 31, 2019 securities portfolio's exposure over its net present value taking into consideration an increase in the fluctuation of the market reference interest rate from 25 to 200 basis points:

Type	Present value	25 BP	50 BP	75 BP	100 BP	150 BP	200 BP
Investment securities	210,601,892	(1,247,984)	(2,491,252)	(3,718,257)	(4,929,286)	(7,304,539)	(9,619,196)
	210,601,892	(1,247,984)	(2,491,252)	(3,718,257)	(4,929,286)	(7,304,539)	(9,619,196)

The following table summarizes the securities portfolio exposition over its net present value taking into consideration a decrease in the fluctuation of the market reference interest rate from 25 to 200 basis points:

Type	Present value	25 PB	50 PB	75 PB	100 PB	150 PB	200 PB
Investments securities	210,601,892	1,288,526	2,582,377	3,893,708	5,222,841	7,845,262	10,398,809
	210,601,892	1,288,526	2,582,377	3,893,708	5,222,841	7,845,262	10,398,809

(In US dollars)

6. ***Financial risk management, continued***

6.4.2 Foreign exchange risk

The following table summarizes the Bank's exposure to the foreign exchange risk at December 31:

	BDS$	Euro	Colombian peso	Total
December 31, 2019				
Assets				
Cash	982	3,042,847	8,686	3,052,515
Total	982	3,042,847	8,686	3,052,515
Liabilities				
Customers´ deposits	-	3,043,504	-	3,043,504
Total	-	3,043,504	-	3,043,504
Net financial position on statement of financial position	982	(657)	8,686	9,011
December 31, 2018				
Total financial assets	2,041	373,350	17,896	393,287
Total financial liabilities	-	375,184	-	375,184
Net financial position on statement of financial position	2,041	(1,834)	17,896	18,103

6.4.2 Foreign exchange risk, continued

The Bank has established foreign currency exposure limits, with the goal of achieving minimum exposure. When the above mentioned exposure is over the minimum established value, the Bank may contract some derivatives to mitigate the risks in foreign currency.

6.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from all of the Bank operations.

The Basel Committee on Bank Regulations defines operational risk management as "the risk of loss", resulting from inadequate or incorrect internal processes, persons and systems, or due to external events.

In order to carry-out an adequate management of the operational risk, comply with Central Bank of Barbados regulations and create added value for the Bank, an Operational Risk Management System has been implemented, which methodology includes the processes description, identification of the main risks, definition of criterion to evaluate risks and controls, qualification of inherent risk (gross or without controls), of controls and residual risks (net or after controls), construction of the risk maps and prioritize risks, elaboration of action plans to mitigate risks, among others. This methodology allows permanently managing operations through monitoring, self-management, consolidation of risks and event recording and assessment.

In order to manage the information of processes, risks, controls, risk indicators, progress of action plans, among others, in an integral manner, the parent Bank have carried out the implementation of ORM - Operational Risk Manager, a technology tool which carries out the above function and makes possible the proper functioning of Operational Risk Management System.

6. ***Financial risk management, continued***

6.5 Operational risk, continued

6.5.1 Management of risk of asset laundering and financing of terrorism (Unaudited)

The Bank has been fully executing the "SARLAFT" (Asset Laundering and Financing of Terrorism Management System) based on the international COSO ERM methodology. The SARLAFT developed by the Bank contains the proper internal controls which allow it to mitigate risks of both Asset Laundering and the Financing of Terrorism, as well as legal, reputational, operational and contagion risks, exercising due control, monitoring and timely reporting, seeking to satisfy the expectations of supervising authorities, as well as foreign correspondent banks.

It further merits highlighting that the Bank has the commitment of its employees and management; it fully complies with the timely forwarding of sundry reports and information to oversight entities; it exhibits a proper compliance structure duly trained in Risk Management with emphasis on the prevention of Asset Laundering and Financing of Terrorism; it has an advanced monitoring scheme; it has a functional and interactive education program for the Prevention of Asset Laundering and Financing of Terrorism targeted to all employees; and likewise it has a widely acknowledged methodology for the scoring of various risks, generating agents and focusing on the prevention of Asset Laundering and Financing of Terrorism.

6.5.2 Risk-Based Focus (Unaudited)

The SARLAFT risk management system is structured under the international COSO ERM methodology and is made effective through systematic and procedural tools adapted to international standards.

This methodology identifies AL/FT risks in each one of the susceptible processes and provides procedures and controls for the Bank to protect itself from being used in direct or indirect fashion as an instrument for asset laundering and/or channelling of resources toward the performance of terrorist activities.

6.5.3 Know your Customer (KYC) and Commercial Relationships

The Bank encourages its employees to comply with the policy of client documentation and to apply the procedures for the Prevention of Asset Laundering and Financing of Terrorism, as well as the process of due diligence in their enrolment of clients "Know your customer" (KYC).

The KYC policy has procedures for procuring effective, efficient and timely knowledge of current customers and potential customers, as well as for verifying other information and supporting documentation as necessary.

6.5.4 Monitoring of operations and customer analysis

The Bank analyses all the operations performed by customers. It has specific conditions by type of economic activity, historical data on transactions and type of operations in validating whether such operations are related to their economic activity and financial information.

In its detailed analysis customer knowledge is considered, as well as the market analysis on its economic activity.

6. *Financial risk management, continued*

6.5 Operational risk, continued

6.5.5 Validation from the OFAC and UN lists

The Bank complies with customer control under the OFAC and UN lists.

Due to the foregoing, whoever is reported in those lists cannot be considered as potential clients or cannot be mentioned in any sort of contractual relationship.

These instructions apply to customers, vendors, employees, users, legal representatives and persons authorized in accounts, partners and contributors.

6.5.6 Politically Exposed Persons (PEPS) (Unaudited)

The Bank has implemented, for persons categorized as PEPS, a policy duly approved by the Board of Directors. Essentially, prior to being enrolled as a customer, extended due diligence checks are carried out on these individuals. In addition, after becoming a customer, such checks are continuously performed to manage and track the specific risk that these individuals present to the Bank.

6.6 Capital management risk

The Bank manages its capital to ensure:

- Compliance with the requirements established by the Central Bank of Barbados (CBB).
- The continuation as a going concern while maximizing returns to the shareholder through the optimization of the debt and equity balance.
- Maintenance of a capital base, strong enough to withstand the performance of its business.

The Bank as an entity regulated by the CBB, is required to maintain a minimum paid-in capital based on its risk weighted assets.

The adequacy of capital and the use of regulatory capital are monitored by the Bank's management, based on guidelines and techniques developed by the Central Bank of Barbados. The information requirements are sent to the regulatory entity on a quarterly basis.

The CBB requires that capital funds may not be less than 8% of its risk weighted assets. For these purposes, assets should be considered net of their respective allowances or reserves and with the specified considerations of the CBB. The Financial Superintendence of Colombia requires that capital funds may not be less than 9% of its risk weighted assets.

(In US dollars)

6. *Financial risk management, continued*

The table below summarizes the composition of the paid-in capital required by the CBB as at December 31:

	2019	2018
Primary capital (Tier 1)		
Shares capital	10,075,000	10,075,000
Premium per share and reserve fund	16,299,832	15,713,353
Retained earnings (audited)	282,888	282,888
Total	26,657,720	26,071,241
Primary capital (Tier 2)		
Fair value reserves	3,542,310	(1,535,894)
Collective allowance for impairment	674,967	499,537
Investment in financial subsidiary not consolidated in national systems	1,416,951	1,047,975
Total	5,634,228	11,618
Total Tier 1 + Tier 2	32,291,948	26,082,859
Risk-weighted assets and contingencies	294,097,897	263,620,988
Paid-in capital		
Total regulatory capital Tier 1 (Barbados) expressed in percentage over risk-weighted assets	9.06%	9.78%
Total regulatory capital Tier 2 (Colombia) expressed in percentage over risk-weighted assets	10.02%	9.20%
Regulatory paid-in required	8.00%	8.00%
Internal paid-in required	9.00%	9.00%

Reserve fund

The International Financial Services Act of 2002 requires that a reserve fund must be established equal to not less than 25% of earnings of the year before any dividend is paid, until the amount of the reserve is equal to the amount paid in capital.

7. **Cash**

Cash is detailed below:

	2019	2018
Due from banks		
Demand deposits	118,523,922	24,818,278
Total	118,523,922	24,818,278

(In US dollars)

8. Investment securities

Details of investment securities are as follow:

	2019	2018
Securities at FVOCI	207,729,408	189,807,982
Securities at FVTPL	394,356	0
Total	208,123,764	189,807,982

	At fair value	
	2019	2018
Securities at FVOCI		
Debt securities – Listed	206,312,457	188,760,007
Equity investment – Unlisted	1,416,951	1,047,975
	207,729,408	189,807,982
Securities at FVTPL		
Debt securities – Listed	394,356	-
	394,356	-

The Bank maintains investment securities at FVOCI in a related company Fiduciaria de Occidente, S. A. for strategic purpose, represented by 111,678 (2018: 111,678) common shares representing 0.581% ownership in this company, with a carrying value at December 31, 2019 of $1,416,951 (2018: $1,047,975). The Bank during the year changed its intrinsic value to fair value. During 2019, the Bank did not sell any portion of these securities. The change in fair value on this investment was $368,976.

Annual interest yield rates in investment securities as of December 31, 2019 fluctuated between 2.04% and 6.23% (2017: 2.04% and 6.23%).

During 2019, the Bank sold and redeemed investments securities at FVOCI of $76,688,116 (2018: $48,590,000), which generated a net realized gain of $593,269 (2018 net realized loss: $157,876). Additionally, the unrealized gain on investments securities at FVOCI as of December 31, 2019 amounts to $3,542,310 (2018: unrealized loss $1,535,894) which are presented in the statement of changes in equity.

9. Loans to customers at amortised cost

The following is a summary of loans to customers at amortised cost:

	2019	2018
Loans	110,365,295	97,268,755
Acrrued interests receivables	1,157,399	1,426,224
Allowance for impairment	(1,263,742)	(1,678,991)
Total	110,258,952	97,015,988

(In US dollars)

10. Right-of-use assets

The Bank leases an administrative office for a period of 10 years. Previously, these leases were classified as operating leases under IAS 17.

The following table shows information about the leases according with IFRS 16:

	2019
Balance at January 1, 2019	240,422
Amortisation right-of-use assets	(29,034)
Balance at December 31, 2019	211,388

11. Other accounts receivable

The following is a summary of other accounts receivable:

	2019	2018
Commissions	1,151	714
Dividends	-	3,353
Other	23,231	20,331
Total	24,382	24,398

12. Other assets

The following is a summary of other assets:

	2019	2018
Prepaid expenses	55,869	56,472
Software license	42,690	102,294
Leasing in advance	10,417	7,227
Guarantee deposits	2,913	2,913
Total	111,889	168,906

13. Deposits

A summary of customers' deposits is as follows:

	Average interest rate 2019	Payable on notice	Payable on fixed date	2019	2018
Interest bearing checking account:	0.25%				
Individuals		57,565,899	-	57,565,899	10,657,471
Corporate		20,443,251	-	20,443,251	48,587,698
		78,009,150	-	78,009,150	59,245,169
Time deposits:	2.59%				
Individuals		-	51,515,260	51,515,260	62,508,120
Corporate		-	279,397,603	279,397,603	168,993,399
		-	330,912,863	330,912,863	231,501,519
Total				408,922,013	290,746,688

(In US dollars)

14. Lease liabilities

Maturity analysis - contractual undiscounted cash flows

	2018
Less than one year	38,724
Between one and five years	193,620
More than five years	90,356
Total undiscounted lease liabilities	322,700

Amounts recognised in statement of income

	2019
Interest expense on lease liabilities	16,802
Expenses relating to leases of short-term and low value	7,997

Amounts recognised in statement of cash flows

	2019
Total cash outflow for leases	46,781

As at December 31, 2019 the total amount of cash derived from leases, recorded in the statement of cash flows, comprises the portion of repayment to principal as financing activity amounting up to US$21,981, the portion of interests equal to US$16,802, and the portion corresponding to short term lease agreements equal to US$7,998, as operating activity. As at December 31, 2019 the lease liabilities is US$218,441.

(a) Real estate leases

The Bank takes on lease an administrative office where the representation office is located. The lease agreements of offices are usually entered into for a period of 10 years.

(b) Other leases

The Bank also takes on lease multifunction printers. These agreements are normally agreed for terms 1 year without containing any clause for the purpose of determining a term extension option; however, the renegotiation of the same is highly likely.

15. Other liabilities

The following is a summary of other liabilities:

	2019	2018
Labor liabilities	52,439	48,565
Employees' withholding	20,998	17,438
Other liabilities	83,626	11,208
Other current accounts	4,865	6,237
Total	161,928	83,448

(In US dollars)

16. Share capital and share premium

The share capital and the premium per share as of December 31 is shown below:

	2019	2018
Shares issued	2,015	2,015
Par value per share	5,000	5,000
Share capital	10,075,000	10,075,000
Premium per share	8,164,034	8,164,034
Total	18,239,034	18,239,034

17. Provision for taxes

The Bank is a valid licensee under the provisions of the International Financial Services Act. The tax rates applicable to such a company are as follows:

- 2.5% on taxable profits and gains up to BDS$10,000,000 (approximately $5,000,000);
- 2% on such profits and gains exceeding BDS$10,000,000 but not exceeding BDS$20,000,000;
- 1.5% on such profits and gains exceeding BDS$20,000,000 but not exceeding BDS$30,000,000; and
- 0.25% on such profits and gains exceeding BDS$30,000,000.

According to current tax regulations, tax returns on corporate income may be subject to review by tax authorities for the past nine years.

At December 31, 2019, the Bank maintains accumulated tax losses by $1,617,275 (BDS$3,218,378), that can be fully applied against future profits. The Bank does not recognise deferred tax assets, as it does not estimate fiscal profit in future years.

These accumulated tax losses are distributed as follows:

Expiry year	Tax loss to be applied per year	
	US$	BDS$
2020	1,617,275	3,218,378

(In US dollars)

18. Related party transactions

The Bank had the following transactions and balances with the parent Bank, which are not disclosed elsewhere in these financial statements:

	Key personnel and management		Members of the same group		Group controlled (Entities under the control of key and management personnel)	
	2019	2018	2019	2018	2019	2018
Assets						
Current account	-	-	8,686	17,896	-	-
Investment securities	-	-	1,416,951	484,053	-	-
Loans to customer at amortised cost	466,748	240,758	-	-	171,539	
Dividends receivable	-	-	-	3,353	-	-
Others assets	-	-	2,913	2,913	-	-
Liabilities						
Deposits	10,363	20,061	-	-	-	-
Time deposits	1,737,214	2,565,047	10,165,884	5,028,356	1,047,548	1,129,327

	Key personnel and management		Members of the same group		Group controlled (Entities under the control of key and management personnel)	
	2019	2018	2019	2018	2019	2018
Profit or loss						
Interest income:						
Investment securities	-	-	-	42,897	-	-
Loan to customers	10,072	7,908	-	-	-	-
Dividend	-	-	-	39,473	3,381	-
Interest expense:						
Customer deposits	49,810	14,375	303,381	27,523	34,821	16,652
General and administrative expenses:						
Employee benefits	151,405	114,329	-	-	-	-
Expenses outsourcing services	-	-	132,063	129,133	-	-

During 2019, the Bank maintained with the parent Bank the following transactions: cash by US$8,686 (2018: US$17,896), dividends income $nil (2018: US$42,897), outsourcing expenses by US$96,000 (2018: US$96,000).

At December 31, 2019, the loan with a related party is fully guaranteed with deposits in the same Bank.

19. Commitments and contingencies

The most significant commitments of the Bank are as follows:

	2019	2018
Stand-by letters of credits	22,774,843	41,742,715

Stand-by letters of credit recognize the opening of letters of credit issued by the Bank or by its own account, as well as the responsibility acquired from the confirmation of letters of credit issued by another bank. At December 31, 2019, stand-by letters of credit are fully guaranteed with deposits in the same bank.

As of December 31, 2019, there are no legal claims filed against the Bank; therefore, contingencies for possible losses have not been recognised.

(In US dollars)

20. Securities received in custody

At December 31, 2019, the Bank held securities received in custody $43,248,501 (2018: $58,159,305).

21. Fair values of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free interest rates, credit spreads and other premises used in estimating discount rates and equity prices.

The table below summarizes the carrying value and fair value of the financial asset and liabilities:

	Carrying amount	Fair Value	Carrying amount	Fair Value
	2019		2018	
Assets				
Investment securities	208,123,764	208,123,764	189,807,982	189,807,982
Loans to customers at amortised cost	110,258,952	110,182,549	97,015,988	96,428,384
Liabilities				
Time deposits	330,912,863	329,092,306	231,501,519	229,668,230

(In US dollars)

21. Fair values of financial instruments, continued

The table below analyses financial instruments measured at fair value on a recurring basis. These instruments are classified into different levels of fair value hierarchy considering the input and valuation techniques used.

	Level 1	Level 2	Total
December 31, 2019			
Investment securities at FVOCI:			
Listed securities	22,022,546	184,289,911	206,312,457
Unlisted securities			1,416,951
Total			207,729,408
Investment securities at FVTPL:			
Listed securities	-	394,356	394,356
Total			394,356
December 31, 2018			
Investment securities at FVOCI			
Listed securities	28,995,346	159,764,661	188,760,007
Unlisted securities			1,047,975
Total			189,807,982

For investments in securities traded in active markets, fair value is determined by the reference price of the instrument published in the stock market, published in electronic systems of market information or prices provided by price vendors. When independent prices are not available, fair values are determined using valuation techniques with reference to observable market data.

During 2019, there have been no transfers of investment securities.

The following table sets out the fair values of financial instruments not measured at fair value. These instruments are classified into different levels of the fair value hierarchy considering the input and valuation techniques used.

	Measurement of fair value at December 31, 2019	
	Level 3	Total
Financial assets		
Loans to customers at amortised cost	110,182,549	110,182,549
	110,182,549	110,182,549
Financial liabilities		
Time deposits	329,092,306	329,092,306
	329,092,306	329,092,306

	Measurement of fair value at December 31, 2018	
	Level 3	Total
Financial assets		
Loans to customers at amortised cost	96,428,384	96,428,384
	96,428,384	96,428,384
Financial liabilities		
Time deposits	229,668,230	229,668,230
	229,668,230	229,668,230

21. Fair values of financial instruments, continued

The table below describes the evaluation techniques and input used in determining the fair value of financial liabilities and assets not measured at fair value categorized as Level 3:

Type of financial instrument	Valuation technique and significant input
Loans to customer at amortised cost	Fair value of loans is estimated using discounted cash flow techniques, applying current market interest rates for new loans with similar remaining maturities and terms.
Time deposits	Fair value of time deposits is estimated using discounted cash flow techniques, applying current market interest rates that are offered for deposits of similar maturities and terms.

22. Subsequent events

The Bank has assessed the events subsequent to December 31, 2019 to assess the possible need for their recognition or disclosure in the accompanying financial statements. Such events were evaluated up to February 27, 2020, the date on which such statements were available for issuance. Based on this evaluation, we determined that there were no subsequent events which require recognition or disclosure in the financial statements.