Financial Statements of

OCCIDENTAL BANK (BARBADOS) LTD.

December 31, 2020

(With Independent Auditors' Report Thereon)

Occidental Bank (Barbados) Ltd.

Contents **Pages**

KPMG
Hastings
Christ Church, BB 15154
Barbados West Indies
Telephone: (246) 434-3900
Fax: (246) 427-7123

P. O. Box 690C
Bridgetown, Barbados

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Occidental Bank (Barbados) Ltd.

Opinion

We have audited the financial statements of Occidental Bank (Barbados) Ltd. (hereinafter, "the Bank"), which comprise the statement of financial position as at December 31, 2020, 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, 2020, 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

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: https://www.icab.bb/ICAB_Public/Resource_Library/Technical_and_Professional_Matters/Auditing/. This description forms part of our auditors' report.

KPMG

Chartered Accountants
Bridgetown, Barbados
March 9, 2021

Statement of financial position
December 31, 2020
(In US dollars)

Assets	**Note**	**2020**	**2019**
Cash	6	67,422,465	118,523,922
Investment securities	7	134,427,032	208,123,764
Accrued Interest Investments		1,967,357	3,895,079
Loans to customer at amortised cost	8	102,266,688	110,258,952
Property and equipment, net		73,933	112,475
Right-of-use assets	9	-	211,388
Other assets:			
Other accounts receivable	10	48,524	24,382
Other assets	11	132,066	111,889
Total other assets		180,590	136,271
Total assets		306,338,065	441,261,851

The notes are an integral part of the financial statements.

Liabilities and equity	Note	2020	2019
Deposits:			
Interest bearing checking accounts		121,072,897	78,009,150
Time deposits		148,742,684	330,912,863
Total deposits	12	269,815,581	408,922,013
Lease liabilities	13	-	218,441
Other liabilities	14	235,674	161,928
Total liabilities		270,051,255	409,302,382
Equity:			
Share capital and share premium	15	18,239,034	18,239,034
Reserves		14,308,112	11,678,105
Retained earnings		3,739,664	2,042,330
Total equity		36,286,810	31,959,469
Total liabilities and equity		306,338,065	441,261,851

The notes are an integral part of the financial statements.

Approved by the Board of Directors on March 09, 2021

.... **Chairman**

.... **Director**

Occidental Bank (Barbados) Ltd.

Statement of Income
For the year ended December 31, 2020
(In US dollars)

	Note	2020	2019
Interest income:			
Overnight funds		581,760	1,165,438
Loan to customers		3,704,621	4,460,909
Investment securities		5,042,698	5,976,666
Total interest income		9,329,079	11,603,013
Interest expense:			
Customer deposits		(6,014,577)	(7,515,153)
Lease liabilities		(14,805)	(16,802)
Total interest expense		(6,029,382)	(7,531,955)
Net interest income		3,299,697	4,071,058
Impairment loss investment securities	5	(124,500)	(9,669)
Impairment loss other account receivable		-	51,276
Loan impairment charges	5	(1,230,630)	(499,830)
Net interest income after impairment charges		1,944,567	3,612,835
Other operating income (expense):			
Fees and commissions income		948,031	866,164
Commissions expense		(202,620)	(211,143)
Net fee and commission income		745,411	655,021
Foreign exchange		1,246	(41)
Net gain on investment securities at FVOCI	7	3,047,271	593,269
Net gain (loss) on investment securities at FVTPL		39,380	(81,334)
Dividends income	7	51,106	-
Other income		117,577	26,236
Total other operating income		4,001,991	1,193,151
Total operating income, net		5,946,558	4,805,986
General and administrative expenses:			
Salaries and other employee benefits		(941,104)	(1,115,153)
Professional fees and services		(286,523)	(277,899)
Depreciation and amortization	9	(177,155)	(198,422)
Other expenses		(813,597)	(868,594)
Total general and administrative expenses		(2,218,379)	(2,460,068)
Net profit before taxes		3,728,179	2,345,918
Income tax	16	(91,640)	-
Net profit		3,636,539	2,345,918

The notes are an integral part of the financial statements.

Occidental Bank (Barbados) Ltd.

Condensed Statement of comprehensive income
For the year ended December 31, 2020
(In US dollars)

	Note	2020	2019
Net profit		3,636,539	2,345,918
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Net change in fair value - equity investments at FVOCI	7	65,014	368,976
Net change of the year		65,014	368,976
Items that are or may be reclassified subsequently to profit or loss			
Change in investments securities:			
Net change in Fair Value - debt securities at FVOCI		3,673,059	5,302,497
Net amount transferred to profit or loss	7	(3,047,271)	(593,269)
Total other comprehensive income		625,788	4,709,228
Total net comprehensive income of the year		4,327,341	7,424,122

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, 2020

(In US dollars)

	Note	Share Capital	Share Premium	Reserve Fund	Fair value Reserve	Total Reserves	Retained Earnings	Total
Balance at December 31, 2018		10,075,000	8,164,034	7,549,319	(1,535,894)	6,013,425	282,888	24,535,347
Plus comprehensive income comprised of:								
Net profit for the year		-	-	-	-	-	2,345,918	2,345,918
Other comprenhensive income		-	-	-	5,078,204	5,078,204	-	5,078,204
Total comprehensive income for the year		-	-	-	5,078,204	5,078,204	2,345,918	7,424,122
Transfer to reserve fund		-	-	586,476	-	586,476	(586,476)	-
Balance at December 31, 2019	15	10,075,000	8,164,034	8,135,795	3,542,310	11,678,105	2,042,330	31,959,469
Plus comprehensive income comprised of:								
Net profit for the period		-	-	-	-	-	3,636,539	3,636,539
Other comprenhensive income		-	-	-	690,802	690,802	-	690,802
Total comprehensive income for the year		-	-	-	690,802	690,802	3,636,539	4,327,341
Transfer to reserve fund		-	-	1,939,205	-	1,939,205	(1,939,205)	-
Balance at December 31, 2020	15	10,075,000	8,164,034	10,075,000	4,233,112	14,308,112	3,739,664	36,286,810

The notes are an integral part of the financial statements.

Occidental Bank (Barbados) Ltd,

Statement of cash flows
For the year ended December 31, 2020
(In US dollar)

	Note	2020	2019
Cash flows from operating activities:			
Net profit		3,636,539	2,345,918
Adjustments for:			
Net interest income		(3,299,697)	(4,071,058)
Dividends income		(51,106)	-
Increase in provision for loan impairment	8	1,230,630	499,830
Impairment loss on investment		124,500	9,669
Reversal of impairment other account receivable		-	(51,276)
Depreciation and amortization		177,155	198,422
Loss on disposal of property and equipment		9,485	-
Gain on cancellation of right of use		(12,465)	-
Net gain on investment securities at FVOCI	7	(3,047,271)	(593,269)
Net (gain) loss on investments securities at FVTPL		(39,380)	81,334
Income tax		91,640	-
Cash from operating activities before changes in operating assets and liabilities		(1,179,970)	(1,580,430)
Changes in operating assets and liabilities:			
Investment securities at FVTPL		431,449	394,346
Loans to customers		6,570,077	(14,011,619)
Other accounts receivable		(24,142)	51,292
Other assets		(39,568)	(61,120)
Customers' deposits		(141,068,058)	117,504,531
Other liabilities		(9,662)	61,677
Tax paid		(23,037)	-
Interest received		11,448,358	11,364,511
Interest paid		(4,052,952)	(6,844,359)
Net cash (used in) from operating activities		(127,947,505)	106,878,829
Cash flows from investing activities:			
Acquisition of securities		(91,816,126)	(89,415,903)
Sales and redemptions of investment	7	168,734,362	76,688,116
Acquisition of property and equipment		(49,153)	(29,071)
Net cash from (used in) investing activities		76,869,083	(12,756,858)
Cash flow from financing activities:			
Payments of lease liabilities		(23,035)	(21,981)
Net cash (used in) from financing activities		(23,035)	(21,981)
(Decrease) increase in cash and cash equivalents during the year		(51,101,457)	93,705,644
Cash, beginning of year		118,523,922	24,818,278
Cash, end of year	6	67,422,465	118,523,922

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.

2. Basis of Preparation

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

These financial statements were approved by the Board of Directors on March 9, 2021.

2.2 Basis of measurement
The financial statements are prepared on a historical cost and amortised 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 3 (a)	Fair value measurement
Accounting policy 3 (b)	Impairment of non-financial assets
Accounting policy 3 (c)	Classification of financial assets and financial liabilities
Accounting policy 3 (h)	Income tax

3. 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 enough 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 the factors that market participants would consider 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 asset 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 AC 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.

3. 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.

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 assesses 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 realised.

3. 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 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 include a discretionary spread. In these cases, the Bank will assess whether the discretionary feature is consistent with the SPPI criterion by considering several factors, including whether:

- the borrowers can 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 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 per 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.

3. 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 amortised cost using the effective interest method. The amortised 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.

3. Significant Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

Reserves for losses will be recognised 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

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.

3. Significant Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

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.

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

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.

3. Significant Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

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. 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.

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.

3. Significant Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

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 can 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.

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.

3. Significant Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

Modified financial assets

The contractual terms of a loan may be modified for several 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.

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 period 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.

3. Significant Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

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.

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 it 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 considering 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.

3. Significant Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped based on 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 group remain appropriately homogeneous.

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 AC:* 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 enough 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

3. Significant Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

Forecast of forthcoming economic conditions

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.

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 recognised 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 recognised 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 are 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.

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.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income and from other financial instruments at FVTPL.

3. Significant Accounting Policies, continued

(e) Recognition of income, costs and expenses

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition
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 recognised 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.

Deferred tax - The taxation charge is determined based on 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.

3. Significant Accounting Policies, continued

(i) Standards issued but not yet effective

A number of new standards and amendments to 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 and amended standards in preparing these financial statements.

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

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).

(j) Leases

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, 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 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 recognised 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.

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.

(In US dollars)

3. Significant Accounting Policies, continued

(j) Leases, continued

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.

Short-term leases and leases of low value assets

Payments associated with short-term leases and leases of low value assets are posted 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. 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:

2020	Note	AC	FVTPL	FVOCI	Total carrying amount
Cash	6	67,422,465	-	-	67,422,465
Investment securities	7	-	2,145	134,424,887	134,427,032
Loans to customers at AC	8	102,266,688	-	-	102,266,288
Other accounts receivable	10	48,524	-	-	48,524
Total financial assets		169,737,677	2,145	134,424,887	304,164,709
Deposits	12	269,815,581	-	-	269,815,581
Total financial liabilities		269.815,581	-	-	269.815,581

(In US dollars)

4. Financial assets and financial liabilities, continued

2019	Note	AC	FVTPL	FVOCI	Total carrying amount
Cash	6	118,523,922	-	-	118,523,922
Investment securities	7	-	394,356	207,729,408	208,123,764
Loans to customers at AC	8	110,258,952	-	-	110,258,952
Other accounts receivable	10	24,382	-	-	24,382
Total financial assets		228,807,256	394,356	207,729,408	436,931,020
Deposits	12	408,922,013	-	-	408,922,013
Total financial liabilities		408,922,013	-	-	408,922,013

5. Financial risk management

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

5.1. 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:

	2020		2019	
	Stage 1 12 month ECL	Total	Stage 1 12 month ECL	Total
Debt securities at FVOCI				
AAA	8,958,260	8,958,261	-	-
A+	1,023,521	1,023,521	2,036,410	2,036,410
A	1,063,786	1,063,786	4,538,930	4,538,930
A-	-	-	6,905,796	6,905,796
BBB+	3,967,423	3,967,423	20,203,101	20,203,101
BBB	7,523,708	7,523,708	1,004,536	1,004,536
BBB-	78,402,994	78,402,994	156,390,019	156,390,019
BB+	16,109,103	16,109,103	1,521,000	1,521,000
BB	5,309,519	5,309,519	-	-
BB-	7,964,681	7,964,681	-	-
Ba2	-	-	5,325,219	5,325,219
Baa2	-	-	5,723,655	5,723,655
Baa3	-	-	1,198,461	1,198,461
B+	2,619,928	2,619,926	1,465,330	1,465,330
Debt securities at FVTPL				
B-	2,145	2,145	394,356	394,356
	132,945,067	132,945,067	206,706,813	206,706,813

(In US dollars)

5. Financial risk management, continued

5.1. Credit risk, continued

Credit quality analysis, continued

As of December 31, 2020, the Bank maintains deposits in banks for US$67,422,465 (2019: US$118,523,922). The deposits are held in financial institutions applying the limits established in the counterparty risk policy, with the credit risk ratings between A- and Baa2 granted by Standard and Poor's and Moodys.

The investments securities as December 31, 2020 are up to date and do not present objective evidence of impairment.

The equity investment for US$1,481,965 (2019: US$1,416,951) is not included in this analysis.

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

	2020			
Loans at AC	**Stage 1 12 months ECL**	**Stage 2 Lifetime ECL not credit impaired**	**Stage 3 Lifetime ELC credit impaired**	**Total**
AA – Normal	98,469,783	205,797	363,418	99,038,997
A – Acceptable	249,039	369,468	126,561	745,068
BB – Acceptable	170,293	-	-	170,293
B – Appreciable	-	-	1,333,594	1,333,594
CC – Appreciable	-	-	559,523	559,523
D – Appreciable	-	-	117,443	117,443
E – Bad	-	-	2,093,115	2,093,115
Gross carrying amount	98,889,113	575,265	4,593,654	104,058,033
Loss allowance	(583,452)	-	(1,207,893)	(1,791,345)
Total	98,305,663	575,265	3,385,761	102,266,688

	2019			
Loans at AC	**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	(621,555)	(53,412)	(588,775)	(1,263,742)
Total	108,041,323	624,419	1,593,210	110,258,952

(In US dollars)

5. Financial risk management, continued

5.1. 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.

	2020	
Debt investments securities at FVOCI	**Stage 1 12 months ECL**	**Total**
Balance at the beginning of the year	79,345	79,345
New financial assets originated or purchased	139,184	139,184
Financial assets that have been derecognised	(22,257)	(22,257)
Net remeasurement of loss allowance	7,573	7,573
Balance at the end of the year	203,845	203,845

	2019	
Debt investments securities at FVOCI	**Stage 1 12 months ECL**	**Total**
Balance at the beginning of the year	69,676	69,676
New financial assets originated or purchased	43,529	43,529
Financial assets that have been derecognised	(34,102)	(34,102)
Net remeasurement of loss allowance	242	242
Balance at the end of the year	79,345	79,345

	2020			
Loans to customers at AC	**Stage 1 12 Months ECL**	**Stage 2 Lifetime ECL not credit impaired**	**Stage 3 Lifetime ECL credit impaired**	**Total**
Balance at the beginning of the year	621,555	53,412	588,775	1,263,742
Stage 1 to Stage 2	(3,079)	3,079	-	-
Stage 2 to Stage 3	-	(3,079)	3,079	-
Net remesuarement of loss allowance	(21,612)	468,928	783,314	1,230,630
Write off	(13,412)	(522,340)	(167,275)	(703,027)
Balance at end of the year	583,452	-	1,207,893	1,791,345

	2019			
Loans to customers at AC	**Stage 1 12 months ECL**	**Stage 2 Lifetime ECL not credit impaired**	**Stage 3 Lifetime ECL credit impaired**	**Total**
Balance at the beginning of the year	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)	-
Net remesuarement of loss allowance	10,524	47,270	442,036	499,830
Write off	-	-	(915,079)	(915,079)
Balance at end of the year	621,555	53,412	588,775	1,263,742

The contractual amount outstanding on financial assets that were written off during the year ended December 31, 2020 and that are still subject to enforcement activity is $703,027 (2019: $877,527).

5. Financial risk management, continued

5.1. Credit risk, continued

Impact of COVID-19 pandemic
The emergence of the coronavirus disease 2019 (COVID-19) and its fast spreading around the world during the second quarter of 2020 has resulted in a series of circumstances with adverse effects for both the social and economic environment where the Bank carries out its operations and businesses. It has been necessary for Governments to implement controls trying to mitigate the fast spreading of the virus, such as ordering preventive confinements, restricting mobility and transportation, suspending or regulating the provision of non-essential services, promoting and disclosing strict sanitary measures and changes in traditional work scheme for employees, among others, which implies significant changes in the usual dynamics in which the Bank has provided its services to the public, and continuous evaluation of the areas that may be impacted as long as the pandemic continues and governments respond to its evolution.

The global impact includes the slowdown in the economy, a situation that is being closely monitored by the Bank, continually evaluating the effects on its operations and businesses. This situation continues to be monitored by the Bank’s management, evaluating any adverse impact that could arise both in the operational results and financial position as well as the Bank's liquidity and taking appropriate measures that allow minimizing the unfavourable effects that may occur during the 2020 financial year.

As of December 31, 2020, the following aspects have been evaluated, which in some cases have impacted on the financial statements and the Bank's operations and based on the period after the date of these financial statements and until the issuance thereof, continue to be monitored by management to address their effects on the Bank's operations and those of its clients.

Impairment of financial instruments - Loan portfolio
The financial instruments that are within the scope of the expected credit loss model (ECL) have been evaluated considering the impacts that the COVID-19 pandemic is having on the ECL due to the measures adopted by the government of the country and region where the Bank operates.

The impacts that have been generated in the Bank relating to the impairment of financial instruments are based on the following two aspects:

- ECL Measurement at 12 months (stage 1) or for the entire instrument duration (stage 2 or 3, as appropriate); and
- The ECL estimate considers:

  ✓ Credit risk, whose behaviour has varied for the Bank according to the economic segments of its loan portfolios at AC, increase in the case of clients whose businesses have been negatively affected; that is, in economic sectors where ECL percentages have increased ever since the end of the first quarter of 2020.
  ✓ The risk amount (exposure at default), taking into consideration it has been observed that the affected debtors of the Bank have resorted to unused credit quotas, have stopped making payments at their discretion, or are taking longer than usual to pay; and
  ✓ The estimated loss as a result of non-compliance (loss because of non-compliance).

(In US dollars)

5. Financial risk management, continued

5.1. Credit risk, continued

The Bank incorporates prospective information in its evaluation of both the significant increase in the credit risk of an instrument since the initial recognition, as well as the PCE estimation. Based on three scenarios of the macroeconomic variables applicable to each model, the estimate of the probability of default is affected. Consequently, the PCE result is the product of the weighting of the occurrence probability of each scenario.

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

The Bank has identified and documented key factors of credit risk and credit losses for each financial instrument portfolio. Historical data analysis has estimated the relationships between macroeconomic variables, credit risk, and credit losses.

Macroeconomic variables used in ECL calculation

	2020			2021		
	Unfavourable	**Base**	**Favourable**	**Unfavourable**	**Base**	**Favourable**
Inflation (*)	1,29%	1,40%	1,51%	2,26%	2,69%	3,08%
GDP Growth (*)	(7,37%)	(7,30%)	(7,19%)	3,89%	4,86%	5,85%
Unemployment rate (*)	17,94%	17,18%	16,58%	16,31%	14,43%	12,90%
Fixed term deposit (*)	2,08%	2,05%	2,09%	2,04%	2,31%	2,64%
Interest rate (*)	1,75%	1,75%	1,75%	1,75%	2,25%	2,75%

(*) The consumables presented correspond to the macroeconomic variables of Colombia. For the determination of the forward-looking information factor incorporated in the calculations of the allowance for PCE of loans to CA, the main macroecomic variables are used for the Republic of Colombia since the cash flows of loans come mainly from that country.

Weighted probabilities assigned to the before and after COVID-19 scenarios

	Unfavourable	**Base**	**Favourable**
December 31,2020	23.33%	55.00%	21.67%

Below is the ECL reserve details for loans at AC:

Portfolio	**December 30, 2020**	**December 31, 2019**
Commercial	1,791,345	1,263,742

(In US dollars)

5. Financial risk management, continued

5.1. Credit risk, continued

The Bank continues to permanently monitor the information that allows identifying on time the possible impacts on ECL.

Fair values
Price volatility in the markets as a result of COVID-19 spreading affected the fair values of financial assets and liabilities, which for accounting purposes are measured at fair value on the reporting date.

Customer relief
The actions taken or suggested by the government where the Parent Bank operates, have been applied in accordance with Circular 07 and 014 of the Financial Superintendence of Colombia. The reliefs have had three types of applications: principal, interest, and principal plus interest. Additionally, as of August, the execution of the Debtor Accompaniment Plan (PAD in Spanish) ordered by the Colombian Banking Regulator began. It included measures similar to those set forth by the Superintendence of Banks of Panama (see note 18); the segmentation of clients by risk groups, have promoted the generation of reliefs to clients (companies or individuals) between the months of April and June 2020 in relation to loans or loan agreements in force. It has implied the renegotiation of their terms including, among others, the granting of grace periods, the deferral of installments, the extension of terms and the extension of credit quotas. As of December 31, 2020, approximately 52 applications have been received, and 100% have been successfully processed.

The following chart summarizes the relief quantity granted per portfolio and its effects on the Bank's results:

	Commercial
Amount of relief loans granted	52
% of relief loans / total loans	28%

5.1.1 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 Bank detects unfavourable changes in the client’s financial condition, environment, or any other issue involving increased in credit risk, the Bank, he has the option to cease making additional disbursements to the client’s 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.

5.1.2. 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.

5. Financial risk management, continued

5.1 Credit risk, continued

5.1.2. Policy to grant loans, continued

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 considered, 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 considers the client's financial and operational situation, ability to pay, indebtedness and other profitability issues.
- Collateral: Evaluation of alternative payment sources (securities).

5.1.3. 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 considered 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, considering 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.

5.1.4 Risk limit control and mitigation policies

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

(In US dollars)

5. Financial risk management, continued

5.1 Credit risk, continued

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.

5.1.5 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 enough support to grant any loan. An exception may be made when dealing with securities from foreign banks.

	2020	**2019**
Loans to customers	104,058,526	111,522,694
Less collateral	(19,631,704)	(28,986,317)
Net exposure	84,426,822	82,536,377

5.1.6 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	
	2020	**2019**
Cash	67,422,465	118,523,922
Investments securities	134,427,032	208,123,764
Loans to customers at AC	102,266,688	110,258,952
Total	304,116,185	436,906,638

The preceding table represents the most critical scenario of exposure to credit risk of the Bank at December 31, 2020 without considering credit guarantees or other increases thereof.

As previously indicated, 56% of the total maximum exposure stems from loans to customers and bank deposits (December 31, 2019: 52%); and 44% represents its investment securities (December 31, 2019: 48%).

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

- As of December 31, 2020, 94.87% of the loan portfolio (2019: 96%) was classified in the first two categories of the internal classification system, that is, AA and A.
- As of December 31, 2020, 99% (2019: 98%) of the loan portfolio is not past due or impaired.

(In US dollars)

5. Financial risk management, continued

5.1.7 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 considering any collateral held or other credit support) as categorized by industry and geographical regions:

	Cash		Investment securities		Loans to customer at AC		Commitments	
	2020	2019	2020	2019	2020	2019	2020	2019
Industry concentration								
Corporate		-	1,756,442	5,710,491	81,001,862	80,271,272		-
Financial institutions	67,422,465	118,523,922	51,696,040	49,328,792	-	-	25,074,205	22,774,843
Government	-	-	80,974,550	153,084,481	-	-	-	-
Customers	-	-	-	-	21,264,826	29,987,680	-	-
Total	67,422,465	118,523,922	134,427,032	208,123,764	102,266,688	110,258,952	25,074,205	22,774,843
Geographical sectors								
Colombia	1,161	8,685	92,627,511	164,057,394	32,880,634	60,814,270	25,074,205	22,774,843
Latin American, the Caribbean and other	586	982	10,358,336	14,753,357	45,677,255	29,878,242	-	-
United States of America	66,528,479	115,471,408	14,376,236	24,782,189	49,508	775,395	-	-
United Kingdom	892,239	3,042,847	-	-	-	-	-	-
Brazil	-	-	7,964,681	-	5,281,602	8,316,815	-	-
Panama	-	-	9,100,268	4,530,824	18,377,689	10,474,230	-	-
Total	67,422,465	118,523,922	134,427,032	208,123,764	102,266,688	110,258,952	25,074,205	22,774,843

With regard to the geographical concentration of the loans, these are grouped by the country of incorporation or fiscal address; however, the source of repayment or of the cash flows of the loans come mainly from the Republic of Colombia.

5.1.8 Loans

(a) Loans are summarized as follows:

	2020	2019
Neither past due nor impaired	98,498,537	107,497,840
Individually impaired	4,593,654	2,867,455
Gross	103,092,191	110,365,295
Accrued interest receivable	965,841	1,157,399
Less:		
Allowance for impairment	(1,791,344)	(1,263,742)
Total	102,266,688	110,258,952

(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:

	2020	2019
Renegotiated loans to customers		
- Continuing to be impaired after restructuring	658,364	769,277

5. Financial risk management, continued

5.1 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.

5.2.1 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.

5. Financial risk management, continued

5.1. Liquidity risk management, continued

5.2.1 Liquidity risk management process, continued

Hereinafter, in the charts below, you may find the regulatory liquidity GAP as of December 31, 2020 and 2019 (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 years to 5 years (g)	Over 5 years (h)	Total
December 31, 2020 (in thousands of US$)									
Assets:									
Deposits in banks	67,422	-	-	-	-	-	-	-	67,422
Investments securities	-	1,535	540	3,998	67,198	23,419	21,582	21,970	140,242
Loans	3,187	7,421	22,458	11,979	22,284	19,488	18,129	3,573	108,519
Total assets	70,610	8,956	22,998	15,977	89,483	42,907	39,711	25,543	316,184
Liabilities									
Demand deposits	20,323	-	-	-	-	-	-	100,750	121,073
Time deposits	1,594	11,698	42,729	47,350	38,959	4,158	1,181	3,360	151,028
Total liabilities	21,917	11,698	42,729	47,350	38,959	4,158	1,181	104,110	272,101
GAP measures									
RSA - RSL (gap)	48,693	(2,742)	(19,731)	(31,372)	50,523	38,749	38,530	(78,567)	
Cumulative Gap	48,693	45,951	26,220	(5,152)	45,371	84,120	122,650	44,083	

	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 years to 5 years (g)	Over 5 years (h)	Total
December 31, 2019 (in thousands of US$)									
Assets:									
Deposits in banks	118,524	-	-	-	-	-	-	-	118,524
Investments securities	-	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 liabilities	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	

Due to the information showed in the above table is based on a regulatory requirement does not tied out with financial position statement.

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, 2020 and 2019, the entity did not need to make use of such credit lines of last resort.

5. Financial risk management, continued

5.2.1 Liquidity risk management process, continued

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
December 31, 2020							
(in thousands of US$)							
Assets							
Deposits in banks	67,422	0	0	0	0	0	67,422
Investments securities	1,535	540	3,998	67,198	45,001	21,970	140,242
Loans	10,608	22,458	11,979	22,284	37,617	3,573	108,519
Total	79,565	22,998	15,977	89,483	82,618	25,543	316,184
Liabilities							
Demand deposits	121,073	0	0	0	0	0	121,073
Time deposits	13,291	42,729	47,350	38,959	5,339	3,360	151,028
Total	134,364	42,729	47,350	38,959	5,339	3,360	272,101

	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 securities	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	138,307	39,426	109,432	11,955	3,360	336,480
Total	112,009	138,307	39,426	109,432	11,955	3,360	414,489

Due to the fact that the information showed in the above table is based on a regulatory requirement, it does not tie out with financial position statement.

5.3 Off balance

5.3.1 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.

	2020	2019
Stand-by letters of credit	25,074,205	22,774,843

5.4 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.

5. Financial risk management, continued

5.4.1. 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, 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.

5.4.1.1 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).

5.4.1.1 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.

5.4.1.2 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.

(In US dollars)

5. Financial risk management, continued

5.4.1.2 Software, continued

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.

5.4.1.3 VaR summary

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

	2020	**2019**
High	8,798,639	1,221,617
Average	2,273,633	904,066
Low	539,653	761,252

5.4.1.4 Sensitivity Analysis

The following table summarizes the December 31, 2020 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
Investments securities	134,912,425	(739,939)	(1,468,759)	(2,186,703)	(2,894,008)	(4,277,611)	(5,621,342)
	134,912,425	(739,939)	(1,468,759)	(2,186,703)	(2,894,008)	(4,277,611)	(5,621,342)

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	134,912,425	751,115	1,513,469	2,287,325	2,986,192	4,464,625	5,805,768
	134,912,425	751,115	1,513,469	2,287,325	2,986,192	4,464,625	5,805,768

(In US dollars)

5. Financial risk management, continued

5.4.2 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, 2020				
Assets				
Cash	586	892,239	1,162	893,987
Total	586	892,239	1,162	893,987
Liabilities				
Customers´ deposits	-	892,432	-	892,432
Total	-	892,432	-	892,432
Net financial position on statement of financial position	586	(193)	1,162	1,555
December 31, 2019				
Total financial assets	982	3,042,847	8,686	3,052,515
Total financial liabilities	-	3,043,504	-	3,043,504
Net financial position on statement of financial position	982	(657)	8,686	9,011

5.4.2 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.

5.5 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 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.

5. Financial risk management, continued

5.5.1 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.

5.5.2 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.

5.5.3 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.

5.5.4 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.

5.6 Operational risk, continued

5.6.5 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.

5. Financial risk management, continued

5.5 Operational risk, continued

5.6.6 <u>Politically Exposed Persons (PEPS) (Unaudited)</u>

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.

5.7 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)

5. Financial risk management, continued

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

	2020	2019
Primary capital (Tier 1)		
Shares capital	10,075,000	10,075,000
Premium per share and reserve fund	18,239,034	16,299,832
Retained earnings (reviewed or audited)	293,013	282,888
Total	28,607,047	26,657,720
Primary capital (Tier 2)		
Fair value reserves	4,233,112	3,542,310
Collective allowance for impairment	583,451	674,967
Investment in financial subsidiary not consolidated in national systems (*)	1,481,965	1,416,951
Total	6,298,528	5,634,228
Total Tier 1 + Tier 2	34,905,575	32,291,948
Risk-weighted assets and contingencies	271,959,609	294,097,897
Paid-in capital		
Total regulatory capital Tier 1 (Barbados) expressed in percentage over risk-weighted assets	10.52%	9.06%
Total regulatory capital Tier 2 (Colombia) expressed in percentage over risk-weighted assets	11.39%	10.02%
Regulatory paid-in required	8.00%	8.00%
Internal paid-in required	9.00%	9.00%

(*) equity investments in a subsidiary of Parent Bank.

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.

6. Cash

Cash is detailed below:

	2020	2019
Due from banks		
Demand deposits	67,422,465	118,523,922
Total	67,422,465	118,523,922

(In US dollars)

7. Investment securities

Details of investment securities are as follow:

	2020	2019
Securities at FVOCI	134,424,887	207,729,408
Securities at FVTPL	2,145	394,356
Total	134,427,032	208,123,764

	At fair value	
	2020	2019
Securities at FVOCI		
Debt securities – Listed	132,942,922	206,312,457
Equity investment – Unlisted	1,481,965	1,416,951
	134,424,887	207,729,408
Securities at FVTPL		
Debt securities – Listed	2,145	394,356
	2,145	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 (2019: 111,678) common shares representing 0.581% ownership in this company, with a carrying value at December 31, 2020 of $1,481,965 (2019: $1,416,951). The Bank during the year changed its intrinsic value to fair value. During 2020, the Bank did not sell any portion of these securities. The change in fair value on this investment was $65,014 (2019: $368,976).

Annual interest yield rates in investment securities as of December 31, 2020 fluctuated between 0.86% and 6.23% (2019: 2.04% and 6.23%).

During 2020, the Bank sold and redeemed investments securities at FVOCI of $168,734,362 (2019: $76,688,116), which generated a net realized gain of $3,047,271 (2019: $593,269). Additionally, the unrealised gain on investments securities at FVOCI as of December 31, 2020 amounts to $4,233,112 (2019: unrealised gain $3,542,310) which are presented in the statement of changes in equity.

8. Loans to customers at AC

The following is a summary of loans to customers at AC:

	2020	2019
Loans	103,092,190	110,365,295
Accrued interests' receivables	965,843	1,157,399
Allowance for impairment	(1,791,345)	(1,263,742)
Total	102,266,688	110,258,952

(In US dollars)

9. Right-of-use assets

The following table show reconciliation from the opening to the closing balance of the right-of-use assets:

	2020	2019
Cost:		
At the beginning of the year	240,422	240,422
Increase by change in variables lease	10,905	-
Cancellation (see note 13)	(251,327)	-
Balance at the end of the year	-	240,422
Accumulated amortisation:		
At the beginning of the year	(29,034)	-
Amortisation	(28,448)	(29,034)
Cancellation (see note 13)	57,482	-
Balance at the end of the year	-	(29,034)
Net balance at the end of the year	-	211,388

The Bank leases an administrative office for a period of 10 years.

10. Other accounts receivable

The following is a summary of other accounts receivable:

	2020	2019
Other	31,156	23,231
Dividends	15,210	-
Commissions	2,158	1,151
Total	48,524	24,382

11. Other assets

The following is a summary of other assets:

	2020	2019
Prepaid expenses	73,777	55,869
Supplier’s advance	22,902	10,417
Software license	20,956	42,690
Prepaid tax	11,518	-
Guarantee deposits	2,913	2,913
Total	123,066	111,889

(In US dollars)

12. Deposits

A summary of customers' deposits is as follows:

	Average interest rate 2020	Payable on notice	Payable on fixed date	2020	2019
Interest bearing checking account:	0.25%				
Corporate		112,442,710		112,442,710	20,443,251
Individuals		8,630,187		8,630,187	57,565,899
Subtotal		121,072,897		121,072,897	78,009,150
Time deposits:	1.89%				
Corporate			105,235,709	105,235,709	279,397,603
Individuals			43,506,975	43,506,975	51,515,260
Subtotal			148,742,684	148,742,684	330,912,863
Total				269,815,581	408,922,013

13. Lease liabilities

The following table show reconciliation from the opening to the closing balance of the lease liabilities:

	2020	2019
Balance at the beginning of the year	218,441	240,422
New contracts	10,905	-
Payments	(23,035)	(21,981)
Cancelations (see (II)(a))	(206,311)	-
Balance at the end of the year	-	218,441

A summary of lease records is detailed as follows:

I. Amounts recognised in statement of income

	2020	2019
Interest expense on lease liabilities	2,338	16,802
Expenses relating to leases of short-term and low value	8,097	7,997

II. Amounts recognised in statement of cash flows

	2020	2019
Total cash outflow for leases	45,937	46,781

As at December 31, 2020, 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$23,035 (2019: US$21,981), the portion of interests equal to US$14,805 (2019: US$16,802), and the portion corresponding to short term lease agreements equal to US$8,097 (2019: US$7,997), as operating activity.

(In US dollars)

13. Lease liabilities, continued

(a) Real estate and other leases

The Bank cancel the lease agreements that was took for an administrative office where the representation office was located due to and other low-value assets lease (see note 9).

14. Other liabilities

The following is a summary of other liabilities:

	2020	2019
Income tax	91,640	-
Technological developments	45,000	-
Suppliers' provision	41,607	9,984
Auditor fees	25,434	55,543
Advertising and market	14,220	11,470
Other liabilities	17,773	10,904
Labor liabilities	-	52,439
Employees' withholding	-	20,998
Other current accounts	-	4,865
Total	235,674	161,928

15. Share capital and share premium

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

	2020	2019
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

(In US dollars)

16. 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.

In recent years, the supervisory authority of Barbados has made certain regulatory and fiscal changes within which is the repeal of the International Financial Services Act (IFSA), which governed the international financial services sector. In this regard, the Financial Institutions Act, Cap 324A was amended to include new provisions under the Financial Institutions (amendment) Act, 2018 for the entities which were previously licensed under the IFSA. Under this new tax scheme scheme, no longer allows taking advantage of the carryover loss from previous terms to determine the taxable base.

During 2020, an income tax was generated for $91,640, corresponding to 2.5% on the profit before tax. This tax was calculated based on the new tax scheme.

At December 31, 2019, the Bank maintains accumulated tax losses by $1,617,275 (BDS$3,218,378), then 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.

17. 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		Companies members of the Parent Bank		Other affiliated companies and the ultimate parent	
	2020	2019	2020	2019	2020	2019
Assets						
Current account	-	-	1,161	8,686	0	-
Investment securities	-	-	1,481,965	1,416,951	0	-
Loans to customer at AC	319,512	466,748	-	-	170,293	171,539
Dividends receivable	-	-	15,210	-	-	-
Other assets	-	-	2,913	2,913	-	-
Liabilities						
Deposits	6,649	10,363	-	-	-	-
Time deposits	1,276,113	1,737,214	7,549,240	10,165,884	28,349	1,047,548

	Key personnel and management		Companies members of the Parent Bank		Other affiliated companies and the ultimate parent	
	2020	2019	2020	2019	2020	2019
Profit or loss						
Interest income:						
Loan to customers	9,332	10,072	-	-	3,855	3,831
Dividends	-	-	51,106	-	-	-
Interest expense:						
Customer deposits	26,275	49,810	48,877	303,381	311	34,821
General and administrative expenses:						
Employee benefits	26,299	151,405	-	-	-	-
Expenses outsourcing services	0	-	123,299	132,063	-	-

(In US dollars)

17. Related party transactions, continued

During 2020, the Bank maintained with the parent Bank the following transactions: cash by US$1,161 (2019: US$8,686), dividends receivable $15,210 (2019: $0) and dividends income $51,106 (2019: US$0), outsourcing expenses by US$96,000 (2019: US$96,000).

At December 31, 2020 and 2019, the loan with a related party is fully guaranteed with deposits in the same Bank.

18. Commitments and contingencies

The most significant commitments of the Bank are as follows:

	2020	2019
Stand-by letters of credits	25,074,205	22,774,843

Stand-by letters of credit recognise 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, 2020 and 2019, stand-by letters of credit are fully guaranteed with deposits in the same bank.

As of December 31, 2020, there are no legal claims filed against the Bank; therefore, contingencies for possible losses have not been recognised.

19. Securities received in custody

At December 31, 2020, the Bank held securities received in custody $35,312,149 (2019: $43,248,501).

20. 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.

(In US dollars)

20. Fair values of financial instruments, continued

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:

	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Investment securities	134,427,032	134,427,032	208,123,764	208,123,764
Loans to customers at AC	102,266,688	102,536,067	110,258,952	110,182,549
Liabilities				
Time deposits	148,742,684	147,265,891	330,912,863	329,092,306

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, 2020			
Investment securities at FVOCI:			
Listed securities	8,958,261	123,984,661	132,942,922
Unlisted securities			1,481,965
Total			134,424,887
Investment securities at FVTPL:			
Listed securities	-	2,145	2,145
Total			2,145
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

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 2020 and 2019, there have been no transfers of investment securities.

(In US dollars)

20. Fair values of financial instruments, continued

	Measurement of fair value 2020	
	Level 3	**Total**
Financial assets		
Loans to customers at AC	102,536,067	102,536,067
	102,536,067	102,536,067
Financial liabilities		
Time deposits	147,265,891	147,265,891
	147,265,891	147,265,891

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 2019	
	Level 3	**Total**
Financial assets		
Loans to customers at AC	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

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 AC	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.