

Financial Statements of  
**OCCIDENTAL BANK (BARBADOS) LTD.**  
December 31 2017  
(With Independent Auditors' Report Thereon)

## **Occidental Bank (Barbados) Ltd.**

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**Independent Auditors' Report**

To the Shareholder of Occidental Bank (Barbados) Ltd.

*Opinion*

We have audited the financial statements of Occidental Bank (Barbados) Ltd. ("the Bank"), which comprise the statement of financial position as at December 31, 2017, 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, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

*Basis for Opinion*

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



## **Independent Auditors' Report**

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

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

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

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

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

### *Auditors' Responsibilities for the Audit of the Financial Statements*

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

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

A handwritten signature of the KPMG firm, written in a cursive, blue ink style.

Chartered Accountants  
Bridgetown, Barbados  
February 21, 2018

# Occidental Bank (Barbados) Ltd.

## Statement of financial position

December 31, 2017

(In US dollars)

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Assets	Note	2017	2016
Cash and cash equivalents	4, 5	103,204,851	44,029,113
Investment securities available for sale	4, 6	187,147,196	162,713,741
Loans to customer, net	4, 7	98,376,994	89,269,294
Property and equipment, net		171,121	74,111
Other assets:			
Accrued interest receivables:			
Loans		1,203,092	980,413
Investments		3,259,694	3,253,895
Other accounts receivable	8	27,029	26,103
Other assets	9	<u>191,017</u>	<u>226,372</u>
Total other assets		<u>4,680,832</u>	<u>4,486,783</u>
Total assets		<u><u>393,580,994</u></u>	<u><u>300,573,042</u></u>

**Occidental Bank (Barbados) Ltd.**

**Statement of financial position**

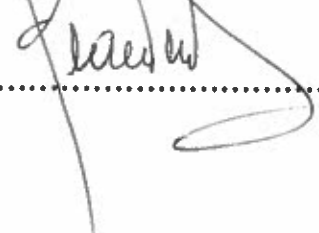
**December 31, 2017**


(In US dollars)

Liabilities and equity	Note	2017	2016
Deposits:			
Interest bearing checking accounts		76.692.892	78.133.635
Time deposits		<u>285.891.699</u>	<u>195.643.593</u>
Total deposits	4, 10	<u>362.584.591</u>	<u>273.777.228</u>
Other liabilities:			
Accrued interest payable		4.470.546	2.473.843
Other liabilities	11	<u>130.317</u>	<u>183.343</u>
Total other liabilities		<u>4.600.863</u>	<u>2.657.186</u>
Total liabilities		<u>367.185.454</u>	<u>276.434.414</u>
Equity:			
Share capital and share premium	12	18.239.034	18.239.034
Reserves		6.553.600	5.710.963
Retained earnings		<u>1.602.906</u>	<u>188.631</u>
Total equity		<u>26.395.540</u>	<u>24.138.628</u>
Total liabilities and equity		<u>393.580.994</u>	<u>300.573.042</u>

The notes are an integral part of the financial statements.

**Approved by the Board of Directors on February 21, 2018**

  
 ..... Chairman

  
 ..... Director

## Occidental Bank (Barbados) Ltd.

### Statement of income

For the year ended December 31, 2017

(In US dollars)

	Note	2017	2016
Interest income:			
Overnight funds		378,147	12,243
Securities purchased under agreements to resell		41,639	56,468
Loan to customers		3,625,402	3,086,733
Investment securities	6	<u>5,360,116</u>	<u>4,609,964</u>
Total interest earned		<u>9,405,304</u>	<u>7,765,408</u>
Interest expense:			
Customer deposits		<u>(5,993,664)</u>	<u>(4,837,996)</u>
Total interest expense		<u>(5,993,664)</u>	<u>(4,837,996)</u>
Net interest income		3,411,640	2,927,412
Loan impairment charges	7	<u>(1,393,976)</u>	<u>(1,019,974)</u>
Net interest income after loan impairment charges		<u>2,017,664</u>	<u>1,907,438</u>
Other operating income (expense):			
Fees and commissions income		726,572	532,140
Commissions expense		<u>(161,366)</u>	<u>(63,099)</u>
Net fee and commission income		565,206	469,041
Foreign exchange		(400)	74,332
Net gain on financial instruments held for trading		18,658	57,083
Net gain on sale and redemption of securities		1,505,522	958,389
Dividends income	14	55,403	35,162
Other income		<u>254,481</u>	<u>98,240</u>
Total other operating income		<u>2,398,870</u>	<u>1,692,247</u>
Total operating income, net		<u>4,416,534</u>	<u>3,599,685</u>
General and administrative expenses:			
Salaries and other employee benefits		(1,141,566)	(1,020,627)
Professional fees and services	14	(340,418)	(248,132)
Depreciation and amortization		(32,153)	(13,954)
Other expenses		<u>(765,186)</u>	<u>(899,748)</u>
Total general and administrative expenses		<u>(2,279,323)</u>	<u>(2,182,461)</u>
Net profit		<u><u>2,137,211</u></u>	<u><u>1,417,224</u></u>

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, 2017 (In US dollars)

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	Note	2017	2016
Net profit		2,137,211	1,417,224
Other comprehensive income:			
Changes in securities available for sale:			
Net change in fair value		1,625,223	4,871,547
Net amount transferred to profit or loss		<u>(1,505,522)</u>	<u>(958,389)</u>
	6	<u>119,701</u>	<u>3,913,158</u>
Total net comprehensive income of the year		<u><u>2,256,912</u></u>	<u><u>5,330,382</u></u>

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, 2017

(In US dollars)

Note	Share Capital	Share Premium	Reserve Fund	Fair value Reserve	Total Reserves	Retained Earnings	Total	
<b>Balance at December 31, 2015</b>	12	10,075,000	8,164,034	4,593,872	(3,150,373)	1,443,499	(874,287)	18,808,246
Plus comprehensive income comprised of:								
Net profit for the year		-	-	-	-	1,417,224	1,417,224	
Other comprehensive income		-	-	3,913,158	3,913,158	-	3,913,158	
Total comprehensive income for the year		-	-	3,913,158	3,913,158	1,417,224	5,330,382	
Transfer to reserve fund		-	-	354,306	-	354,306	(354,306)	-
<b>Balance at December 31, 2016</b>	12	10,075,000	8,164,034	4,948,178	762,785	5,710,963	188,631	24,138,628
Plus comprehensive income comprised of:								
Net profit for the year		-	-	-	-	2,137,211	2,137,211	
Other comprehensive income		-	-	119,701	119,701	-	119,701	
Total comprehensive income for the year		-	-	119,701	119,701	2,137,211	2,256,912	
Transfer to reserve fund		-	-	722,936	-	722,936	(722,936)	-
<b>Balance at December 31, 2017</b>	12	10,075,000	8,164,034	5,671,114	882,486	6,553,600	1,602,906	26,395,540

The notes are an integral part of the financial statements.

**Occidental Bank (Barbados) Ltd.****Statement of cash flows****For the year ended December 31, 2017**

(In US dollars)

	Note	2017	2016
<b>Cash flows from operating activities:</b>			
<b>Net profit for the year</b>		2,137,211	1,417,224
<b>Adjustments for:</b>			
Net interest income		(3,411,640)	(2,927,412)
Increase in provision for loan impairment		1,393,976	1,019,974
Depreciation and amortization		32,153	13,954
Net gain on sale of securities		(1,505,522)	(958,389)
<b>Cash used in operating activities before changes in operating assets and liabilities</b>		<u>(1,353,822)</u>	<u>(1,434,649)</u>
<b>Changes in operating assets and liabilities:</b>			
Investment securities at fair value through profit or loss		-	9,054,650
Securities purchased under agreements to resell		-	10,009,190
Loans to customers		(9,107,700)	(744,522)
Other accounts receivable		(926)	8,847
Other assets		35,355	132,361
Customers' deposits		88,807,363	46,855,090
Other liabilities		(53,026)	15,020
Interest received		12,081,852	7,765,347
Interest paid		(3,996,961)	(4,837,996)
<b>Net cash provided by operating activities</b>		<u>86,412,135</u>	<u>66,823,338</u>
<b>Cash flows from investing activities:</b>			
Acquisition of securities available for sale		(145,095,917)	(98,713,537)
Sales and redemptions of securities available for sale	6	117,955,654	36,200,000
Acquisition of property and equipment		(96,134)	(51,132)
<b>Net cash used in investing activities</b>		<u>(27,236,397)</u>	<u>(62,564,669)</u>
<b>Increase in cash and cash equivalents during the year</b>		59,175,738	4,258,669
<b>Cash and cash equivalents, beginning of year</b>		44,029,113	39,770,444
<b>Cash and cash equivalents, end of year</b>		<u>103,204,851</u>	<u>44,029,113</u>

The notes are an integral part of the financial statements.

# Occidental Bank (Barbados) Ltd.

## Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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### 1. Reporting Entity

Occidental Bank (Barbados) Ltd. (“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. (“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 results of operations and cash flows of the Bank as a separate entity. These financial statements are the basis to be part of the consolidated financial statements of Banco de Occidente, S.A.

These financial statements were approved by the Board of Directors on February 21, 2018.

### 2. Basis of Preparation

#### 2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### 2.2 Basis of measurement

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

#### 2.3 Functional and presentation currency

These financial statements are presented in United States 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 in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are included in the following accounting policies and notes:

Accounting policy 3 (3.2)	Fair value measurement
Accounting policy 3 (3.10)	Impairment of non-financial assets
Accounting policy 3 (3.11)	Financial assets and financial liabilities
Accounting policy 3 (3.14)	Income tax

# Occidental Bank (Barbados) Ltd.

## Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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### 3. Significant Accounting Policies

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

#### *3.1 Investment securities*

Investments securities are classified as of settlement date, initially measured at fair value plus incremental costs related to the transaction, and subsequently are accounted for, based on the classifications kept in accordance with instruments' characteristics and the objective for which their acquisition was determined. The Bank classifies its investments as securities valued at fair value through profit or loss and available for sale.

##### *3.1.1 Securities at fair value through profit or loss:*

Securities valued at fair value through profit or loss are trading securities which were either acquired to generate a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities with fair value changes are recognized through profit or loss based on quoted bid prices. All related realized and unrealized gains and losses are included in net gains on financial instruments held for trading.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention are recognized at settlement date. Any changes in fair value between the trade date and settlement date are recognized in profit and loss.

##### *3.1.2 Available for sale*

Available for sale investments are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available for sale investments are carried at fair value.

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available for sale debt security investments are recognized in profit or loss.

Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

##### *3.1.3 Assets pledged as collateral*

Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'assets pledged as collateral', if the transferee has the right to sell or re-pledge them.

#### *3.2 Fair value measurement*

IFRS 13 Fair Value Measurement, establishes a single framework for measuring fair value and disclosures about fair value measurement, when those measurements are required or permitted by other IFRSs. This standard unifies the fair value definition and replaces and expands disclosures in other IFRSs, including IFRS 7, Financial Instruments: Disclosure.

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 3. Significant Accounting Policies, continued

##### 3.2 Fair value measurement, continued

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

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

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

The best evidence of the fair value of a financial instrument is a quoted price in an active market. If a market for a financial instrument is not active, then the Bank establishes fair value using a valuation technique. The decision of whether a market is active may include, but is not limited to, consideration of factors such as the volume and frequency of trading activity, and the availability of price and volume of the offers and sales. In markets that are not active, the assurance to get 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.

##### 3.3 Loans to customers

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

##### 3.4 Deposits

The Bank is funded mainly by customer deposits. These are recognized as the principal balance and interest is recognized in an account payable, which are reversed when customers make cash disbursements.

##### 3.5 Interest income and expense

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

##### 3.6 Recognition of income, costs and expenses

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

Other costs and expenses are recognized on an accrual basis.

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 3. Significant Accounting Policies, continued

##### 3.7 *Dividend income*

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

##### 3.8 *Cash and Cash Equivalents*

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.

##### 3.9 *Sale and repurchase agreements*

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral, with the counterparty liability being included in deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are presented in a separate caption in the statement of financial position. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements, using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

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

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

##### 3.11 *Financial assets and financial liabilities*

###### 3.11.1 *Recognition*

The Bank initially recognizes originated loans, receivables, deposits and debt securities issued on the date that they are originated. All other financial assets and financial liabilities are initially recognized on the trade date at which time the Bank becomes a party to the contractual provisions of the instrument.

###### 3.11.2 *Classification*

See accounting policies 3 (3.1), (3.3) and (3.10).

###### 3.11.3 *Derecognition*

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

###### 3.11.4 *Amortized cost measurement*

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 3. Significant Accounting Policies, continued

##### 3.11.5 *Identification and measurement of impairment*

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows of the assets that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer; default or delinquency by a borrower; restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider; indications that a borrower or issuer will enter bankruptcy; the disappearance of an active market for a security; or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Bank considers evidence of impairment for loans and held-to-maturity investment securities at specific asset level. All loans and advances and held-to maturity investment securities are assessed for specific impairment.

In assessing impairment, the Bank uses statistical modelling of the probability of default, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Impairment losses on assets measured at amortized costs are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Interest on impaired loans continues to be recognized through the unwinding of the discount, if deemed as material.

Impairment losses are recognized in profit or loss and reflected in an allowance against loans to customers. The Bank writes off a loan, either partially or in full, and any related allowance for impairment losses, when the Bank determines that there is no realistic prospect of recovery.

Restructured loans are loans for which the original contractual terms have been modified to provide terms that are less than those the Bank would be willing to accept for new loans with similar risks given the deteriorating financial condition of the borrower.

##### 3.12 *Contingent accounts*

Contingent accounts are recorded as economic facts or circumstances that may potentially affect the Bank's financial structure. Additionally, those operations are recorded either when an entity might acquire a right or assume an obligation to assume whose outcome is conditional on an event occurring or not, depending on factors not wholly within the control of the Bank. These include guarantees granted, provided bank guarantees, unused letters of credit opened, and other contingencies.

##### 3.13 *Memorandum accounts*

These accounts record transactions with third parties, which by their nature do not affect the Bank's financial position. They also include recorded accounts which are for internal control and business information. Memorandum accounts debit or credit may be included depending on the nature of the operation. They also contain the value of the loans classified by maturity, reciprocal transactions with affiliates and the value of tax inflation adjustments of monetary assets and equity, when applicable.

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 3. Significant Accounting Policies, continued

##### 3.14 Income Tax

*Current tax* - Current tax payable is based on taxable income for the year. Taxable income differs from net profit as reported in the statement of income because it excludes income or expenses that are taxable or deductible in other years and also excludes such income or expenses that are never taxable or deductible. The Bank's liability for current tax is calculated using the tax rate in effect or substantively in effect on the date of the statement of financial position.

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

##### 3.15 New standards not yet adopted

At the date of statement of financial position there are standards, amendments and interpretations which are not effective for the year ended December 31, 2017, therefore, have not been applied in preparing the financial statements. The most significant is the following:

- IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 Financial Instruments: Recognition and Measurement.

In October 2017, the IASB issued *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*. The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Bank will apply IFRS 9 as issued in July 2014 initially on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date. Based on assessments undertaken to date, the total estimated adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of the Bank's equity at 1 January 2018 is approximately \$543,000, related to impairment requirements (see (ii)).

The above assessment is preliminary because not all transition work has been finalized. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Bank to revise its accounting processes and internal controls and these changes are not yet complete;
- although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended period;
- the Bank has not finalized the testing and assessment of controls over its new IT systems and changes to its governance framework;
- the Bank is refining and finalizing its models for ECL calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalizes its first financial statements that include the date of initial application.



## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 3. Significant Accounting Policies, continued

##### *i. Classification – Financial assets*

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortized cost, FVOCI and FVTPL. It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified 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.

All financial assets not classified as measured at amortized cost or FVOCI as described above are 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 amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition.

##### **Business model assessment**

The Bank will make an assessment of the objective of the business model in which a financial 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 that will be considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice, including 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 realizing cash flows through the sale of 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

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 3. Significant Accounting Policies, continued

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

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be 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, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, The Bank will consider the contractual terms of the instrument. This will include 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 this assessment, the Bank will consider:

- 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 for the time value of money – e.g. periodic reset of interest rates.

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

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

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

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

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 3. Significant Accounting Policies, continued

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 paramount, 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.

#### Impact assessment

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows:

- Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortized cost under IAS 39 will in general also be measured at amortized cost under IFRS 9.
- Debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortized cost, FVOCI or FVTPL, depending on the particular circumstances.
- Loans and advances to customers and investment securities that are designated as at FVTPL under IAS 39 will in general continue to be measured at FVTPL under IFRS 9.
- The majority of the equity investment securities that are classified as available-for-sale under IAS 39 will be measured at FVTPL under IFRS 9. However, some of these equity investment securities are held for long-term strategic purposes and will be designated as at FVOCI on 1 January 2018.

The Bank has estimated that, on the adoption of IFRS 9 at 1 January 2018, will not have impact on equity for these changes in classification financial assets.

#### ii. *Impairment – Financial assets, loan commitments and financial guarantee contracts*

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ model.

This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- loan to customer; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognized on equity investments.

IFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Bank will recognize loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognized will be 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date. The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment-grade’; and
- other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 3. Significant Accounting Policies, continued

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

#### Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: 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: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: 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 present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

#### Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing 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.

This definition is largely consistent with the definition that will be used for regulatory purposes.

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.

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 3. Significant Accounting Policies, continued

##### Significant increase in credit risk

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

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

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

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

##### Credit risk grades

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

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

##### Generating the term structure of PD

Credit risk grades will be a primary input into the determination of the term structure of PD for exposures. The Bank will collect performance and default information about its credit risk exposures analyzed by jurisdiction, by type of product and borrower and by credit risk grading. For some portfolios, information purchased from external credit reference agencies may also be used.

The Bank will employ 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 will include 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 macroeconomic indicators are likely to 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.

##### Determining whether credit risk has increased significantly

The Bank has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with The Bank's internal credit risk management process.

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 3. Significant Accounting Policies, continued

The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

The Bank will deem the credit risk of a particular exposure to have increased significantly since initial recognition if:

Since initial recognition. In measuring increases in credit risk, remaining lifetime ECLs are adjusted for changes in maturity.

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, The Bank may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, the Bank will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

#### Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value.

Under IFRS 9, 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:

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

The Bank renegotiates loans to customers in financial difficulties to maximize collection opportunities and minimize 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.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 3. Significant Accounting Policies, continued

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD will reflect 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 will evaluate the borrower's payment performance against the modified contractual terms and consider various behavioral indicators.

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 behavior over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

#### Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- PD;
- Loss given default (LGD); and
- Exposure at default (EAD).

These parameters will be derived from internally developed statistical models and other historical data. They will be adjusted to reflect forward-looking information as described below.

PD estimates are estimates at a certain date, which will be 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 compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs will be estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Bank will estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models will 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, loan-to-value (LTV) ratios are likely to be a key parameter in determining LGD. LGD estimates will be calibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They will be 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 will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortization, and prepayments. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts. For some financial assets, The Bank will determine EAD 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 will measure ECLs 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.

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 3. Significant Accounting Policies, continued

For retail overdrafts and certain corporate revolving facilities that include both a loan and an undrawn commitment component, the Bank will measure ECLs over a period longer than the maximum contractual period if the Bank contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank 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 will be estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

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

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The Bank will be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information will be used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECLs are as follows.

#### **Forward-looking information**

Under IFRS 9, the Bank will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Bank will formulate a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on advice from the Group Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information. This process will involve developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organizations such as the Organization for Economic Co-operation and Development and the International Monetary Fund, and selected private sector and academic forecasters.

The base case will represent a most-likely outcome and be aligned with information used by the Bank for other purposes, such as strategic planning and budgeting. The other scenarios will represent more optimistic and more pessimistic outcomes. The Bank will also periodically carry out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These key drivers include interest rates, unemployment rates and GDP forecasts. Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 to 15 years.



## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 3. Significant Accounting Policies, continued

The economic scenarios used will be approved by the Group Credit Committee.

##### **Impact assessment**

The most significant impact on the Bank's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

The Bank has estimated that, on the adoption of IFRS 9 at 1 January 2018, the impact of the increase in loss allowances (before tax) will be approximately \$543,000. Loss allowances on unsecured products with longer expected lives such as overdrafts and credit cards will be most affected by the new impairment requirements.

##### *iii. Disclosures*

IFRS 9 will require extensive new disclosures, in particular about credit risk and ECLs.

##### *iv. Transition*

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes.

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognized in retained earnings and reserves as at 1 January 2018.

- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If a debt investment security has low credit risk at 1 January 2018, then The Bank will determine that the credit risk on the asset has not increased significantly since initial recognition.
- IFRS 15 Revenue from Contracts, replaces IAS 18 Revenue, IAS 11 Construction Agreements and IFRIC 13 Customers Loyalty Programs. IFRS 15 is effective for annual periods, beginning on or after January 1, 2018, requires to acknowledge revenue derived from ordinary activities of customers, other than revenue derived from financial instruments and financial leases agreements, under specific rules for recognised. IFRS 15 sets forth that the aforementioned revenue must be recognised in such way that the transfer of goods or services committed to the customer is recorded for an amount that reflects the consideration to which the Bank expects to be entitled. Under this new assumption, the Bank recognizes revenue derived from ordinary activities, other than revenue derived from financial instruments, by applying the following stages:
  - Identification of agreement with customer.
  - Identification of performance obligations under agreement.
  - Determination of transaction price.
  - Allocation of transaction price within performance obligations.
  - Recognition of income insofar as the Bank satisfies each performance obligation before customers.

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 3. Significant Accounting Policies, continued

According to the criteria mentioned above, the main changes applicable to the Bank are intended to determine income other than income derived from financial instruments and from leases agreements.

Top-level preliminary assessment carried out by the Bank indicates that implementation of IFRS 15 will not have material impact on the timing of recognition with respect to the other Bank's revenue corresponding to the aforementioned transactions.

The Bank intends to adopt said rule using the amended retrospective approach, which means that cumulative impact derived from such adoption shall be recognized in retained earnings as of January 1, 2018, and that comparative figures will not be restated.

The Bank estimates that the effect derived from the IFRS 15 implementation as of January 1, 2018 will not have impact on equity due to the nature of the financial transactions of the Bank.

- IFRS 16 Leases replaces IAS 17 Leases. This rule eliminates classification of leases, and establishes that the same must be recognized in similar way as financial leases and measured at present value pertaining to the leases' future payments. IFRS 16 shall come into force for the annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that should also adopt IFRS 15 – Revenue from Contracts with Customers.

IFRS 16 introduces a single accounting recording model of leases in the statement of financial situation. The lessee recognizes the right to use the asset representing the right to use the asset received in lease, and a lease liability representing the obligation to make the corresponding lease payments. There are certain optional exemptions for short-term leases of very low-value goods.

#### 4. Financial risk management

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

##### 4.1 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 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 and derivatives included in trading assets is managed as a component of market risk.

##### 4.1.1 Credit exposure policy

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

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

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 4. Financial risk management, continued

##### 4.1.2 *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 Banco de Occidente Barbados to make the final decision to approve or reject the loan.

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

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

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

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

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

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

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

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

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 4. Financial risk management, continued

##### 4.1.3 *Risk limit control and mitigation policies*

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

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

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

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

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

##### 4.1.4 *Administration policy and collateral management*

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

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

	<u>2017</u>	<u>2016</u>
Loans at book value	99,513,869	90,369,745
Less collateral	<u>(49,666,902)</u>	<u>(38,801,903)</u>
Net exposure	<u>49,846,967</u>	<u>51,567,842</u>

##### 4.1.5 *Provisions' Policy*

The classification procedures are based on the credit quality of each borrower. Such classification is used to determine impairment provisions which are recognized for financial reporting, reflecting the possible losses that would be incurred in collection of loans based on objective evidence of impairment, granted collateral and what is stipulated by International Financial Reporting Standards.

The Bank considers evidence of impairment at both an individual and collective level.

Management considers that a loan is impaired if it has been evaluated in a rating higher than BB and applies an individual methodology for allowance for loan impairment for each impaired loan considering future cash flows to recover.

All loans that are not individually impaired are then collectively assessed for impairment by grouping together with similar risk characteristic, in respect of losses that have been incurred but have not been identified.

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 4. Financial risk management, continued

##### 4.1.5 *Provisions' Policy, continued*

The table below shows the classification of the loan portfolio:

Rating	2017	2016
AA	90,500,182	85,134,647
A	2,283,267	2,920,358
BB	92,423	64,985
B	2,805,962	159,116
CC	369,870	708,759
D	549,971	781,880
E	<u>2,912,194</u>	<u>600,000</u>
	<u>99,513,869</u>	<u>90,369,745</u>

##### 4.1.6 *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	
	2017	2016
Cash and cash equivalents	103,204,851	44,029,113
Investments in securities available for sale	187,147,196	162,713,741
Loans to customers, net	<u>98,376,994</u>	<u>89,269,294</u>
Total	<u>388,729,041</u>	<u>296,012,148</u>

The preceding table represents the most critical scenario of exposure to credit risk of the Bank at December 31, 2017 without taking into account credit guarantees or other increases thereof.

As previously indicated, 52% of the total maximum exposure stems from loans to customers and bank deposits (December 31, 2016: 45%); and 48% represents its securities available for sale (December 31, 2016: 55%).

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

- As of December 31, 2017, 93% of the loan portfolio (2016: 97%) was classified in the first two categories of the internal classification system, that is, AA and A.
- As of December 31, 2017, 95% (2016: 94%) of the loan portfolio is not past due or impaired.

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements

For the year ended December 31, 2017

(In US dollars)

#### 4. Financial risk management, continued

##### 4.1.7 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 taking into account any collateral held or other credit support) as categorized by industry and geographical regions:

	<u>Deposits in banks</u>		<u>Investments</u>		<u>Loans</u>		<u>Commitments</u>	
	2017	2016	2017	2016	2017	2016	2017	2016
Industry concentration								
Corporate	-	-	17,567,057	21,563,804	47,982,517	52,496,644	-	-
Financial institutions	103,204,851	44,029,113	50,494,204	26,316,824	-	-	51,499,340	48,506,558
Government	-	-	119,085,935	114,833,113	-	-	-	-
Customers	-	-	-	-	<u>51,531,352</u>	<u>37,873,101</u>	-	-
	<u>103,204,851</u>	<u>44,029,113</u>	<u>187,147,196</u>	<u>162,713,741</u>	<u>99,513,869</u>	<u>90,369,745</u>	<u>51,499,340</u>	<u>48,506,558</u>
Geographical sectors								
Colombia	8,788	5,577	141,835,627	142,156,132	96,265,558	82,753,397	51,499,340	48,506,558
Latin American, the Caribbean and other	61,281	2,385	10,841,658	11,441,129	2,950,000	4,066,667	-	-
United States of America	102,766,919	43,273,614	32,480,786	4,648,838	-	-	-	-
United Kingdom	367,863	747,537	-	-	-	-	-	-
Brazil	-	-	999,995	4,467,642	-	-	-	-
Panama	-	-	<u>989,130</u>	-	<u>298,311</u>	<u>3,549,681</u>	-	-
	<u>103,204,851</u>	<u>44,029,113</u>	<u>187,147,196</u>	<u>162,713,741</u>	<u>99,513,869</u>	<u>90,369,745</u>	<u>51,499,340</u>	<u>48,506,558</u>

## Occidental Bank (Barbados) Ltd.

Notes to the financial statements  
For the year ended December 31, 2017  
(In US dollars)

### 4. Financial risk management, continued

#### 4.1.8 *Loans*

(a) *Loans are summarized as follows:*

	<u>2017</u>	<u>2016</u>
Neither past due nor impaired	94,744,268	85,368,615
Individually impaired	<u>4,769,601</u>	<u>5,001,130</u>
<b>Gross</b>	99,513,869	90,369,745
Less:		
Allowance for impairment	<u>1,136,875</u>	<u>1,100,451</u>
<b>Total</b>	<u>98,376,994</u>	<u>89,269,294</u>

#### (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:

	<u>2017</u>	<u>2016</u>
Renegotiated loans to customers		
- Continuing to be impaired after restructuring	<u>1,439,722</u>	<u>1,405,562</u>

#### 4.2 *Liquidity risk management*

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

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 4. Financial risk management, continued

##### 4.2.5 *Liquidity risk management process*

The Bank's liquidity risk management process outlined within the policy determined by the Board of Directors and monitored by the Finance Committee includes:

##### a) Policies:

- The policies and strategies defined for the short, medium and long term liquidity management are reviewed by the Bank.
- The structural portfolio has time, issuer risk and VAR limits, which reduce and minimize the impact on the liquidity.
- Several holding criteria have been adopted regarding the portfolio, favouring sovereign bonds and low risk, identifiable corporate bonds, short term and easy settlement.
- To have a custody and compliance account in order to minimize the risks.

##### b) Limits:

As a result of the constant examinations and the historic evaluations of liquidity requirements that indicate a daily need of 1 million dollars for disbursements, the following liquidity policies have been established:

1. In accordance with the daily liquidity needs, and the liabilities steady share, a weekly minimum liquidity limit of 10 million dollars was established.

##### c) Measurement:

The liquidity risk measurement is performed by means of assets, liabilities and off-balance sheet positions maturity analysis, assigning the financial statement recorded balances, in the time bands outlined by the Central Bank of Barbados (CBB) (interest included).

Up to December 31, 2017, the liquidity gap in the 7 days band indicates a result of \$12.396 million (December 31, 2016: \$35.659 million) while the cumulative 30 days gap is of \$(3.291) million (December 31, 2016: \$50.115 million).

##### 4.2.6 *Administration of treasury liquidity*

Portfolio structuring: Front Office submits to the Finance Committee, on a weekly basis, analyses and proposals, which the committee uses to make the decisions on portfolio investment structural investment.

The Barbados Front Office submits a proposal to create a trading portfolio with clear-cut limits of amounts, duration, stop loss, and tenure. This facilitates the comparison of actual performance with monthly budgets and provides a means of attracting the Bank's clients who are not currently involved in any transactions in the respective product.



## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

#### 4. Financial risk management, continued

##### 4.2.7 *Liquidity risk exposure*

The key measure used by the Bank for liquidity risk management is the rate of net liquid assets over deposits received from customers. Net liquid assets are cash and cash equivalents and debt securities, for which there is an active and liquid market, less any other deposits received from banks, issued debt instruments, other financings and commitments with maturity within the following month.

The amounts disclosed in the following table are the contractual undiscounted cash flows with the specified considerations of the Central Bank of Barbados.

	Demand up to 7 days	Over 8 days to 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	Total
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	
<b>December 31, 2017</b>									
<b>(in thousands of US\$)</b>									
Assets									
Deposits in banks	103,205	-	-	-	-	-	-	-	103,205
Investments	-	7,806	2,802	3,211	10,192	37,522	128,797	15,521	205,851
Loans	<u>4,687</u>	<u>8,673</u>	<u>20,305</u>	<u>20,102</u>	<u>19,972</u>	<u>8,218</u>	<u>18,225</u>	<u>2,634</u>	<u>102,816</u>
Total assets	<u>107,892</u>	<u>16,479</u>	<u>23,107</u>	<u>23,313</u>	<u>30,164</u>	<u>45,740</u>	<u>147,022</u>	<u>18,155</u>	<u>411,872</u>
Liabilities									
Demand deposits	76,693	-	-	-	-	-	-	-	76,693
Time deposits	<u>18,893</u>	<u>32,076</u>	<u>35,671</u>	<u>92,402</u>	<u>74,148</u>	<u>13,722</u>	<u>26,268</u>	<u>3,360</u>	<u>296,540</u>
Total liabilities	<u>95,586</u>	<u>32,076</u>	<u>35,671</u>	<u>92,402</u>	<u>74,148</u>	<u>13,722</u>	<u>26,268</u>	<u>3,360</u>	<u>373,233</u>
GAP measures									
RSA - RSL (gap)	12,306	(15,597)	(12,564)	(69,089)	(43,984)	32,018	120,754	14,795	-
Cumulative Gap	12,306	(3,291)	(15,855)	(84,944)	(128,928)	(96,910)	23,844	38,639	-

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

#### 4. Financial risk management, continued

##### 4.2.3 *Liquidity risk exposure, continued*

	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
<b>December 31, 2016</b>									
<b>(in thousands of US\$)</b>									
Assets									
Deposits in banks	44,029	-	-	-	-	-	-	-	44,029
Investments	-	21,736	7,112	999	5,652	13,414	111,418	24,459	184,790
Loans	685	10,341	14,607	26,155	17,821	11,924	9,120	2,385	93,038
Interest receivable	4,260	-	-	-	-	-	-	-	4,260
<b>Total assets</b>	<b>48,974</b>	<b>32,077</b>	<b>21,719</b>	<b>27,154</b>	<b>23,473</b>	<b>25,338</b>	<b>120,538</b>	<b>26,844</b>	<b>326,117</b>
Liabilities									
Demand deposits	9,212	-	-	-	-	-	-	68,922	78,134
Time deposits	1,581	17,621	31,054	39,709	47,597	59,746	3,759	3,124	204,191
Interest payable	2,498	-	-	-	-	-	-	-	2,498
Other liabilities	24	-	-	-	-	-	-	-	24
<b>Total liabilities</b>	<b>13,315</b>	<b>17,621</b>	<b>31,054</b>	<b>39,709</b>	<b>47,597</b>	<b>59,746</b>	<b>3,759</b>	<b>72,046</b>	<b>284,847</b>
GAP measures									
RSA - RSL (gap)	35,659	14,456	(9,335)	(12,555)	(24,124)	(34,408)	116,779	(45,202)	-
Cumulative Gap	35,659	50,115	40,780	28,225	4,101	(30,307)	86,472	41,270	-

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 4. Financial risk management, continued

##### 4.3 Off balance

##### 4.3.1 Financial guarantees and other financial facilities

Financial guarantees are also included in the table shown in Note 16 based on the most recent contractual maturity date.

	<u>2017</u>	<u>2016</u>
Stand-by letters of credit	<u>51,499,340</u>	<u>48,506,558</u>

##### 4.4 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.

##### 4.4.1. 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 Banco de Occidente Headquarters.

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

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

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

##### 4.4.1.1 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 Banco de Occidente. 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).

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 4. Financial risk management, continued

##### 4.4.1.1 Market Risk Measurement Techniques, continued

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 available for sale.
  - 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.

##### 4.4.1.2 Software

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

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

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

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

##### 4.4.1.3 VaR summary

The following table summarizes the VaR of the portfolio at December 31, 2017:

	<u>2017</u>	<u>2016</u>
High	1,719,804	2,328,317
Average	1,250,925	1,174,228
Low	893,082	721,156

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

#### 4. Financial risk management, continued

##### 4.4.1.4 Sensitivity Analysis

The following table summarizes the December 31, 2017 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
Available for sale	189,983,807	(1,203,778)	(2,409,526)	(3,603,258)	(4,785,127)	(7,113,888)	(9,397,004)
	<u>189,983,807</u>	<u>(1,203,778)</u>	<u>(2,409,526)</u>	<u>(3,603,258)</u>	<u>(4,785,127)</u>	<u>(7,113,888)</u>	<u>(9,397,004)</u>

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
Available for sale	189,983,807	1,244,402	2,487,157	3,742,274	5,010,433	7,585,929	10,214,834
	<u>189,983,807</u>	<u>1,244,402</u>	<u>2,487,157</u>	<u>3,742,274</u>	<u>5,010,433</u>	<u>7,585,929</u>	<u>10,214,834</u>

##### 4.4.2 Foreign exchange risk

The following table summarizes the Bank's exposure to the foreign exchange risk at December 31, 2017:

	<u>US\$</u>	<u>Euro</u>	<u>Colombian peso</u>	<u>Total</u>
<b>December 31, 2017</b>				
<b>Assets</b>				
Deposits in banks	102,828,200	367,863	8,788	103,204,851
Investment securities	187,147,196	-	-	187,147,196
Loans	98,376,994	-	-	98,376,994
Other assets	<u>4,677,897</u>	<u>2,935</u>	<u>-</u>	<u>4,680,832</u>
	<u>393,030,287</u>	<u>370,798</u>	<u>8,788</u>	<u>393,409,873</u>
<b>Liabilities</b>				
Customers' deposits	362,215,571	369,020	-	362,584,591
Other liabilities	<u>4,600,863</u>	<u>-</u>	<u>-</u>	<u>4,600,863</u>
	<u>366,816,434</u>	<u>369,020</u>	<u>-</u>	<u>367,185,454</u>
<b>Net financial position on statement of financial position</b>	<u>26,213,853</u>	<u>1,778</u>	<u>8,788</u>	<u>26,224,419</u>
Credit commitments - Stand-by letters	<u>51,499,340</u>	<u>-</u>	<u>-</u>	<u>51,499,340</u>
<b>December 31, 2016</b>				
Total financial assets	<u>299,743,858</u>	<u>749,496</u>	<u>5,577</u>	<u>300,498,931</u>
Total financial liabilities	<u>275,685,850</u>	<u>748,564</u>	<u>-</u>	<u>276,434,414</u>
<b>Net financial position on statement of financial position</b>	<u>24,058,008</u>	<u>932</u>	<u>5,577</u>	<u>24,064,517</u>
Credit commitments - Stand-by letters	<u>48,506,558</u>	<u>-</u>	<u>-</u>	<u>48,506,558</u>

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 4. Financial risk management, continued

##### 4.4.2 *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.

##### 4.5 *Operational risk*

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

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

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

In order to manage the information of processes, risks, controls, risk indicators, progress of action plans, among others, in an integral manner, Headquarters 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.

##### 4.5.1 *Management of risk of asset laundering and financing of terrorism (Unaudited)*

Occidental Bank (Barbados) Ltd. 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 Occidental Bank (Barbados) Ltd. 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.

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 4. Financial risk management, continued

##### 4.5.2 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.

##### 4.5.3 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.

##### 4.5.4 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.

##### 4.5.5 Validation from the OFAC and UN lists

Occidental Bank (Barbados) Ltd. 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.

##### 4.5.6 Politically Exposed Persons (PEPS) (Unaudited)

Occidental Bank (Barbados) Ltd. 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.

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 4. Financial risk management, continued

##### 4.6 Capital management risk

The Bank manages its capital to ensure:

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

The Bank as an entity regulated by the Central Bank of Barbados (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 Central Bank of Barbados 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 Central Bank of Barbados. The Financial Superintendence of Colombia requires that capital funds may not be less than 9% of its risk weighted assets.

The table below summarizes the composition of the paid-in capital required by the Central Bank of Barbados (CBB) as at December 31, 2017:

	<u>2017</u>	<u>2016</u>
<b>Primary capital (Tier 1)</b>		
Shares capital	10,075,000	10,075,000
Premium per share and reserve fund	13,835,148	13,112,212
Retained earnings	<u>1,602,906</u>	<u>188,631</u>
Total	<u>25,513,054</u>	<u>23,375,843</u>
<b>Primary capital (Tier 2)</b>		
Fair value reserves	882,486	762,785
Collective allowance for impairment	<u>154,204</u>	<u>138,273</u>
Total	<u>26,549,744</u>	<u>24,276,901</u>
<b>Risk-weighted assets and contingencies</b>	<u>275,199,953</u>	<u>246,387,934</u>
<b>Paid-in capital</b>		
Total regulatory capital Tier 1 (Barbados) expressed in percentage over risk-weighted assets	9.27%	9.49%
Total regulatory capital Tier 2 (Colombia) expressed in percentage over risk-weighted assets	9.65%	9.85%
Regulatory paid-in required	8.00%	8.00%
Internal paid-in required	9.00%	9.00%

##### Reserve fund

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



## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 5. Cash and cash equivalents

Cash and bank deposits are detailed below:

	<u>2017</u>	<u>2016</u>
Due from banks		
Demand deposits	103,204,851	44,029,113
Cash and cash equivalents at end of year	<u>103,204,851</u>	<u>44,029,113</u>

#### 6. Investment securities

Details of securities are as follows:

	<u>At fair value</u>		<u>Nominal value</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>Securities available for sale</b>				
Debt securities – at fair value:				
– Listed	186,724,112	162,299,792	172,943,000	148,701,000
– Unlisted, at cost	<u>423,084</u>	<u>413,949</u>	<u>459,871</u>	<u>415,808</u>
	<u>187,147,196</u>	<u>162,713,741</u>	<u>173,402,871</u>	<u>149,116,808</u>

The Bank maintains securities available for sale in a related company Fiduciaria de Occidente, S. A. represented by 103,816 (2016: 103,604) common shares representing 0.581% ownership in this company, with a carrying value at December 31, 2017 of \$423,084 (2016: \$413,949).

Annual interest yield rates in investment securities as of December 31, 2017 fluctuated between 1.71% and 6.23% (2016: 1.02% and 8.81%).

During 2017 the Bank sold and redeemed securities available-for-sale of \$117,955,654 (2016: \$36,200,000), which generated a net realized gain of \$1,505,522 (2016: \$958,389). Additionally, the unrealized income on securities available for sale as of December 31, 2017 amounts to \$882,486 (December 31, 2016: unrealized gain \$762,785) which are presented in the statement of changes in equity.

#### 7. Loans to customers

The following is a summary of loans to customers:

	<u>2017</u>	<u>2016</u>
Loans to customers	99,513,869	90,369,745
Allowance for impairment	<u>(1,136,875)</u>	<u>(1,100,451)</u>
	<u>98,376,994</u>	<u>89,269,294</u>

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 7. Loans to customers, continued

The movement of the allowance for loan impairment comprises:

	<u>2017</u>	<u>2016</u>
Opening balance	1,100,451	653,736
Charge for the year	1,393,976	1,019,974
Write-off	(1,357,552)	(611,852)
Recoveries	<u>-</u>	<u>38,593</u>
Ending balance	<u>1,136,875</u>	<u>1,100,451</u>

#### 8. Other accounts receivable

The following is a summary of other accounts receivable:

	<u>2017</u>	<u>2016</u>
Commissions	2,935	1,959
Dividends	2,688	5,061
Other	<u>21,406</u>	<u>19,083</u>
	<u>27,029</u>	<u>26,103</u>

#### 9. Other assets

The following is a summary of other assets:

	<u>2017</u>	<u>2016</u>
Pre-paid expenses	5,857	-
Guarantee deposits	2,913	2,913
Leasing in advance	9,664	6,957
Datapro software	<u>172,583</u>	<u>216,502</u>
	<u>191,017</u>	<u>226,372</u>

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

#### 10. Deposits

A summary of customers' deposits is as follows:

	Average interest rate 2017	Payable notice	Payable fixed date	2017	2016
Interest bearing checking account	0.25%				
Individuals		7,629,428	-	7,629,428	7,068,773
Corporate		<u>69,063,464</u>	-	<u>69,063,464</u>	<u>71,064,862</u>
		<u>76,692,892</u>	-	<u>76,692,892</u>	<u>78,133,635</u>
Term deposits	2.37%				
Individuals		-	49,948,218	49,948,218	45,087,431
Corporate		-	<u>235,943,481</u>	<u>235,943,481</u>	<u>150,556,162</u>
		-	<u>285,891,699</u>	<u>285,891,699</u>	<u>195,643,593</u>
				<u>362,584,591</u>	<u>273,777,228</u>

#### 11. Other liabilities

The following is a summary of accounts payable and other liabilities:

	2017	2016
Checks issued not paid	-	4,440
Employees' withholding	18,794	16,752
Other current accounts	6,521	3,356
Labor liabilities	58,156	113,295
Other liabilities	<u>46,846</u>	<u>45,500</u>
	<u>130,317</u>	<u>183,343</u>

#### 12. Share capital and share premium

The share capital and the premium per share as of December 31, 2017 is shown below:

	2017	2016
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	<u>8,164,034</u>	<u>8,164,034</u>
	\$ <u>18,239,034</u>	\$ <u>18,239,034</u>

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 13. Provision for taxes

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

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

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

At December 31, 2017, the Bank maintains accumulated tax losses by \$4,668,679 (BDS\$9,337,358), that can be fully applied against future profits. The Bank does not recognise deferred tax assets, as it does not estimate fiscal profit in future years.

These accumulated tax losses are distributed as follows:

<u>Years</u>	<u>Tax loss to be applied per year</u>	
	<u>US\$</u>	<u>BDS\$</u>
2018	884,470	1,768,940
2019	674,312	1,348,624
2020	<u>3,109,897</u>	<u>6,219,794</u>
	<u>4,668,679</u>	<u>9,337,358</u>

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

#### 14. Related party transactions

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

	Key personnel and management		Members of the same group		Group controlled (Entities under the control of key and management personnel)	
	2017	2016	2017	2016	2017	2016
<b>Assets</b>						
Current account	-	-	9,861	5,577	-	-
Investment	-	-	423,084	413,949	-	-
Dividends receivable	-	-	2,688	5,061	-	-
Account receivable	-	-	270	560	-	-
Others assets	-	-	2,913	2,913	-	-
<b>Liabilities</b>						
Deposits	-	-	4,862,815	4,206,000	-	-
Time deposits	126,979	124,901	4,210,000	6,163,031	686,980	525,193
Accrued interest payable	628	661	34,196	32,800	9,868	6,926
	Key personnel and management		Members of the same group		Group controlled (Entities under the control of key and management personnel)	
	2017	2016	2017	2016	2017	2016
<b>Profit or loss</b>						
<b>Interest income:</b>						
Investments	-	-	41,639	56,467	-	-
Dividend	-	-	55,403	35,162	-	-
Commission income	-	-	8,675	5,213	-	-
<b>Interest expense:</b>						
Deposits	2,119	1,083	101,108	125,178	19,240	12,256
<b>General and administrative expenses:</b>						
Employee benefits	172,935	167,646	-	-	-	-
Expenses outsourcing services	-	-	126,000	126,000	-	-

#### 15. Commitments

The most significant commitments of the Bank are as follows:

	2017	2016
Stand-by letters of credits	51,499,340	48,506,558

Stand-by letters of credit recognize the opening of letters of credit issued by the Bank or by its own account, as well as the responsibility acquired from the confirmation of letters of credit issued by another bank.

#### 16. Securities received in custody

At December 31, 2017, the Bank held securities received in custody \$85,486,984 (2016: \$28,220,198).

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 17. Fair values of financial instruments

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

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

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

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

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

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

	<b>Book Value</b>	<b>Fair Value</b>	<b>Book Value</b>	<b>Fair Value</b>
	<b>2017</b>		<b>2016</b>	
<b>Assets</b>				
Investments in securities available for sale, listed	187,147,196	187,147,196	162,299,792	162,299,792
Loans to customers	98,376,994	99,689,100	89,269,294	89,694,958
<b>Liabilities</b>				
Time deposits	285,891,699	285,044,338	195,643,593	196,945,256

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

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#### 17. Fair values of financial instruments, continued

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

	Level 1	Level 2	Total
<b>December 31, 2017</b>			
Investment securities available for sale, listed	25,979,843	160,744,269	186,724,112
Unlisted securities			423,084
Total			<u>187,147,196</u>
<b>December 31, 2016</b>			
Investment securities available for sale, listed	-	162,299,792	162,299,792
Unlisted securities			413,949
Total			<u>162,713,741</u>

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 2017, there have been no transfers of securities available for sale.

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.

	<u>Measurement of fair value at December 31, 2017</u>	
	<u>Level 3</u>	<u>Total</u>
<b>Financial Assets</b>		
Loans to customers	<u>99,689,100</u>	<u>99,689,100</u>
	<u>99,689,100</u>	<u>99,689,100</u>
<b>Financial Liabilities</b>		
Time deposits	<u>285,044,338</u>	<u>285,044,338</u>
	<u>285,044,338</u>	<u>285,044,338</u>

## Occidental Bank (Barbados) Ltd.

### Notes to the financial statements For the year ended December 31, 2017 (In US dollars)

#### 17. Fair values of financial instruments, continued

	<u>Measurement of fair value at December 31, 2016</u>	
	<u>Level 3</u>	<u>Total</u>
<b>Financial Assets</b>		
Loans to customers	<u>89,694,958</u>	<u>89,694,958</u>
	<u>89,694,958</u>	<u>89,694,958</u>
<b>Financial Liabilities</b>		
Time deposits	<u>196,945,256</u>	<u>196,945,256</u>
	<u>196,945,256</u>	<u>196,945,256</u>

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

<u>Type of financial instrument</u>	<u>Valuation technique and significant input</u>
Loans	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.

#### 18. Subsequent events

The Bank has assessed the events subsequent to December 31, 2017 to assess the possible need for their recognition or disclosure in the accompanying financial statements. Such events were evaluated up to February 21, 2018, the date on which such statements were available for issuance. Based on this evaluation, we determined that there were no subsequent events which require recognition or disclosure in the financial statements.