Financial Statements of

# OCCIDENTAL BANK (BARBADOS) LTD.

December 31, 2018

(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, 2018, 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, 2018, 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.

KPMG

# 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.

KPMG

Chartered Accountants
Bridgetown, Barbados
February 21, 2019

## Occidental Bank (Barbados) Ltd.

**Statement of financial position**
**December 31, 2018**
(In US dollars)

| **Assets** | **Note** | **2018** | **2017** |
|---|---|---|---|
| Cash | 6, 7 | 24,818,278 | 103,204,851 |
| Investment securities | 6, 8 | 189,807,982 | 187,147,196 |
| Loans to customers at amortised cost | 6, 9 | 97,015,988 | 99,580,086 |
| Property and equipment, net | | 134,654 | 171,121 |
| Other assets: | | | |
| Accrued interest receivables | | 3,395,277 | 3,259,694 |
| Other accounts receivable | 10 | 24,398 | 27,029 |
| Others | 11 | 168,906 | 191,017 |
| Total other assets | | 3,588,581 | 3,477,740 |
| Total assets | | 315,365,483 | 393,580,994 |

## Occidental Bank (Barbados) Ltd.

**Statement of financial position**
**December 31, 2018**
(In US dollars)

| Liabilities and equity | Note | 2018 | 2017 |
|---|---|---|---|
| Deposits: | | | |
| Interest bearing checking accounts | | 59.245.169 | 76.692.892 |
| Time deposits | | 228.275.900 | 285.891.699 |
| Accrued interest payable | | 3.225.619 | 4.470.546 |
| Total deposits | 6, 12 | 290.746.688 | 367.055.137 |
| Other liabilities | 13 | 83.448 | 130.317 |
| Total liabilities | | 290.830.136 | 367.185.454 |
| Equity: | | | |
| Share capital and share premium | 14 | 18.239.034 | 18.239.034 |
| Reserves | | 6.013.425 | 6.553.600 |
| Retained earnings | | 282.888 | 1.602.906 |
| Total equity | | 24.535.347 | 26.395.540 |
| Total liabilities and equity | | 315.365.483 | 393.580.994 |

The notes are an integral part of the financial statements.

**Approved by the Board of Directors on February 21, 2019**

.................................... **Chairman**

.................................... **Director**

## Occidental Bank (Barbados) Ltd.

**Statement of income**
**For the year ended December 31, 2018**
(In US dollars)

| | Note | 2018 | 2017 |
|---|---|---|---|
| Interest income: | | | |
| Overnight funds | | 765,590 | 378,147 |
| Securities purchased under agreements to resell | | 42,897 | 41,639 |
| Loan to customers | | 3,811,075 | 3,625,402 |
| Investment securities | | 5,867,602 | 5,360,116 |
| Total interest earned | | 10,487,164 | 9,405,304 |
| Interest expense: | | | |
| Customer deposits | | (6,307,194) | (5,993,664) |
| Total interest expense | | (6,307,194) | (5,993,664) |
| Net interest income | | 4,179,970 | 3,411,640 |
| Reversal of impairment on investment | | 53,589 | - |
| Other account receivable impairment charges | | (51,276) | - |
| Loan impairment charges | 9 | (1,259,675) | (1,393,976) |
| Net interest income after impairment charges | | 2,922,608 | 2,017,664 |
| Other operating income (expense): | | | |
| Fees and commissions income | | 778,553 | 726,572 |
| Commissions expense | | (186,272) | (161,366) |
| Net fee and commission income | | 592,281 | 565,206 |
| Foreign exchange | | (1,218) | (400) |
| Net gain on financial instruments held for trading | | - | 18,658 |
| Net (loss) gain on sale and redemption of securities | 8 | (157,876) | 1,505,522 |
| Dividends income | 16 | 39,473 | 55,403 |
| Other income | | 42,861 | 254,481 |
| Total other operating income | | 515,521 | 2,398,870 |
| Total operating income, net | | 3,438,129 | 4,416,534 |
| General and administrative expenses: | | | |
| Salaries and other employee benefits | | (1,151,555) | (1,141,566) |
| Professional fees and services | 16 | (306,061) | (340,418) |
| Depreciation and amortization | | (49,623) | (32,153) |
| Other expenses | | (829,700) | (765,186) |
| Total general and administrative expenses | | (2,336,939) | (2,279,323) |
| Net profit | | 1,101,190 | 2,137,211 |

The notes are an integral part of the financial statements.

# Occidental Bank (Barbados) Ltd.

**Statement of comprehensive income**
**For the year ended December 31, 2018**
(In US dollars)

| | Note | 2018 | 2017 |
|---|---|---|---|
| Net profit | | 1,101,190 | 2,137,211 |
| Other comprehensive income: | | (2,699,521) | |
| Changes in investment securities: | | | |
| Net change in fair value | | (2,699,521) | 1,625,223 |
| Net amount transferred to profit or loss | | 157,876 | (1,505,522) |
| | 8 | (2,541,645) | 119,701 |
| Total net comprehensive (loss) income of the year | | (1,440,455) | 2,256,912 |

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, 2018**
(In US dollars)

| | Note | Share Capital | Share Premium | Reserve Fund | Fair value Reserve | Total Reserves | Retained Earnings | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2016** | **14** | 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 comprenhensive 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) | - |
| **Balance at December 31, 2017** | **14** | 10,075,000 | 8,164,034 | 5,671,114 | 882,486 | 6,553,600 | 1,602,906 | 26,395,540 |
| Impact of adopting IFRS 9 at January 1, 2018 (see Note 5) | | - | - | - | 123,265 | 123,265 | (543,003) | (419,738) |
| | | 10,075,000 | 8,164,034 | 5,671,114 | 1,005,751 | 6,676,865 | 1,059,903 | 25,975,802 |
| Plus comprehensive income comprised of: | | | | | | | | |
| Net profit for the year | | - | - | - | - | - | 1,101,190 | 1,101,190 |
| Other comprenhensive income | | - | - | - | (2,541,645) | (2,541,645) | - | (2,541,645) |
| Total comprehensive loss for the year | | - | - | - | (2,541,645) | (2,541,645) | 1,101,190 | (1,440,455) |
| Transfer to reserve fund | | - | - | 1,878,205 | - | 1,878,205 | (1,878,205) | - |
| **Balance at December 31, 2018** | **14** | 10,075,000 | 8,164,034 | 7,549,319 | (1,535,894) | 6,013,425 | 282,888 | 24,535,347 |

The notes are an integral part of the financial statement.

## Occidental Bank (Barbados) Ltd.

**Statement of cash flows**
**For the year ended December 31, 2018**
(In US dollar)

| | Notes | 2018 | 2017 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| **Net profit for the year** | | 1,101,190 | 2,137,211 |
| **Adjustments for:** | | | |
| Net interest income | | (4,179,970) | (3,411,640) |
| Increase in provision for loan impairment | 9 | 1,259,675 | 1,393,976 |
| Reversal of impairment on investment | | (53,589) | - |
| Increase in provision for other account recivable | | 51,276 | - |
| Depreciation and amortization | | 49,623 | 32,153 |
| Net loss (gain) on sale of securities | | 157,876 | (1,505,522) |
| **Cash used in operating activities before changes in operating assets and liabilities** | | (1,613,919) | (1,353,822) |
| **Changes in operating assets and liabilities:** | | | |
| Loans to customers | | 2,787,230 | (9,107,700) |
| Other accounts receivable | | 2,631 | (926) |
| Other assets | | 22,111 | 35,355 |
| Customers' deposits | | (75,063,522) | 88,807,363 |
| Other liabilities | | (46,869) | (53,026) |
| Interest received | | 13,654,679 | 12,081,852 |
| Interest paid | | (7,552,121) | (3,996,961) |
| **Net cash (used in) provided by operating activities** | | (67,809,780) | 86,412,135 |
| **Cash flows from investing activities:** | | | |
| Acquisition of securities | | (59,153,638) | (145,095,917) |
| Sales and redemptions of securities | 8 | 48,590,000 | 117,955,654 |
| Acquisition of property and equipment | | (13,156) | (96,134) |
| **Net cash used in investing activities** | | (10,576,794) | (27,236,397) |
| **(Decrease) increase in cash during the year** | | (78,386,574) | 59,175,739 |
| **Cash beginning of year** | | 103,204,852 | 44,029,113 |
| **Cash end of year** | | 24,818,278 | 103,204,852 |

The notes are an integral part of the financial statements.

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

These financial statements were approved by the Board of Directors on February 21, 2019.

## 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 and amortized cost basis except for investment securities which are carried at fair value.

*2.3 Functional and presentation currency*

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

*2.4 Use of estimates and judgements*

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

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

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

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

## 3. Change in Accounting Policies

Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 4 to all periods presented in these financial statements:

A) **IFRS 9 *Financial Instruments:***

The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarized below.

**Classification of financial assets and financial liabilities**

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profits or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

**Impairment of financial assets**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model (ECL).

Under IFRS 9, credit losses are recognised earlier than under IAS 39.

**Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively except as described below:

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as of January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - Determination of the business model within which a financial asset is held.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

B) **IFRS 15 Revenue from Ordinary Activities derived from Contracts with Customers*:***

The Bank has adopted IFRS 15, as of January 1, 2018, the date of its entry into force.

According to assessment carried out by the Bank, this standard has not caused any impact on the accounting policies intended to recognize the income resulting from fees and commissions.

Adoption of IFRS 15 did not cause any impact on the timeliness, nor on the amount of income resulting from fees and commissions derived from agreements with customers, and neither on the related assets and liabilities recognized by the Bank. Accordingly, the impact on the comparative information is limited to the new disclosure requirements.

## 4. Significant Accounting Policies

Except for the changes explained in Note 3, the Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

*(a) 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.

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

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

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

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

*(b) 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.

*(c) Financial assets and financial liabilities*

**I. Classification of financial assets**
**Policy applicable from 1 January 2018**
On initial recognition, a financial assets is classified as measured, i.e. either at amortized cost (AC), FVOCI or FVTPL.

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

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

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

**4. Significant Accounting Policies, continued**

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

**I. Classification of financial assets, continued**

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

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

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

**Business model assessment**

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

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

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

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

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

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

## 4. Significant Accounting Policies, continued

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

### I. Classification of financial assets, continued

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

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

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

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

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

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

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

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

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

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

**4. Significant Accounting Policies, continued**

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

**I. Classification of financial assets, continued**

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

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

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

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

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

The effect of adopting IFRS 9 on the accounting balances of the financial assets as of January 1, 2018 relates to the changes in categories, as well as to the new impairment requirements, as explained hereinafter.

The following notes hereinafter explain the original measurement in accordance with the respective categories under IFRS 9, as well as the new measurement categories under IFRS 9 for each type of financial asset of the Bank as of January 1, 2018.

***Investment securities***
***Policy applicable before 1 January 2018***

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.

- *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.

**4. Significant Accounting Policies, continued**

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

**I. Classification of financial assets, continued**

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.

- *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.

**Loans to customers**
**Policy applicable before 1 January 2018**

Loans are non – derivate financial assets with or determinable payment that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

**II. Impairment of financial assets**
**Policy applicable from 1 January 2018**

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:
- Debt instruments;
- Other accounts receivable
- Loans portfolio

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

**4. Significant Accounting Policies, continued**

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

**II. Impairment of financial assets, continued**

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

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

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

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

**Measurement of ECLs**

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

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

**Definition of default**

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

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

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

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

**4. Significant Accounting Policies, continued**

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

**II. Impairment of financial assets, continued**

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

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

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

**Significant increase in credit risk**

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

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

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

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

**Credit risk grades**

The Bank allocates each exposure 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 is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

**Generating the term structure of PD**

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

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

**4. Significant Accounting Policies, continued**

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

**II. Impairment of financial assets, continued**

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

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

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

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

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

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

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

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

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

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

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

**4. Significant Accounting Policies, continued**

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

**II. Impairment of financial assets, continued**

**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 derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with current accounting policy.

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

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

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

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

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

**Inputs in measurement of ECLs**

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

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

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

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

**4. Significant Accounting Policies, continued**

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

**II. Impairment of financial assets, continued**

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

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

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

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

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

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

- instrument type
- credit risk ranking
- guarantee
- initial recognition date
- remaining term to maturity
- industry
- geographic location of borrower

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

**4. Significant Accounting Policies, continued**

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

**II. Impairment of financial assets, continued**

**Forecast of forthcoming economic conditions**

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

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

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

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

***Identification and measurement of impairment***
**Policy applicable before 1 January 2018**
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.

**4. Significant Accounting Policies, continued**

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

**II. Impairment of financial assets, continued**

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.

*(d) Interest income and expense*

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

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

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

**Performance obligations and revenue recognition policies – applicable from 1 January 2018**

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

**4. Significant Accounting Policies, continued**

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

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

| Type of service | Nature and timing of satisfaction of performance obligations, including significant payment terms | Revenue recognition under IFRS 15 (applicable from 1 January 2018) |
|---|---|---|
| Retail and corporate banking service | The Bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions and servicing fees.<br>Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis.<br>Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place.<br>Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank. | Revenue from account service and servicing fees is recognised over time as the services are provided.<br>Revenue related to transactions is recognised at the point in time when the transaction takes place. |
| Asset management service | The Bank provides asset management services.<br>Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on a monthly basis. | Revenue from asset management services is recognised over time as the services are provided. |

*(f) Dividend income*

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

*(g) Cash 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.

**4. Significant Accounting Policies, continued**

*(h) Income Tax*

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

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

*(i) New International Financial Reporting Standard (IFRS) not yet adopted:*

**• Leases IFRS 16:**

The Bank is required to adopt IFRS 16 Leases from 1 January 2019. The Bank has initial assessed the estimated impact that the initial application of IFRS 16 will have on its financial statements, as described below. The actual impact of adopting the standard on 1 January 2019 may change because:

- the Bank has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Bank presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases,* IFRIC 4 *Determining whether an Arrangement contains a Lease,* SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

**Leases in which the Bank is a lessee**

The Bank has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Bank's lease portfolio, the Bank's assessment of whether it will exercise any lease renewal options and the extent to which the Bank chooses to use practical expedients and recognition exemptions.

The Bank will recognise new assets and liabilities for its operating leases of office premises. The nature of expenses related to these leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of- use assets and interest expense on lease liabilities.

Previously, the Bank recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

On the basis of the information currently available, the Bank estimates that on January 1, 2019, it will recognize lease liabilities for $245,704 and assets by right of use by $245,704 (Unaudited).

(In US dollars)

**4. Significant Accounting Policies, continued**

The Bank plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach.

The Bank plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

**5. Financial assets and financial liabilities**

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

| December 31, 2018 | Note | FVOCI | Amortised cost | Total carrying amount |
|---|---|---|---|---|
| Cash | 7 | - | 24,818,278 | 24,818,278 |
| Investment securities | 8 | 189,807,982 | - | 189,807,982 |
| Loans to customers at amortised cost | 9 | - | 97,015,988 | 97,015,988 |
| Other accounts receivable | 10 | - | 24,398 | 24,398 |
| Total financial assets | | 189,807,982 | 121,858,664 | 311,666,646 |
| Deposits | 12 | - | 290,746,688 | 290,746,688 |
| Total financial liabilities | | - | 290,746,688 | 290,746,688 |

| December 31, 2017 | Note | Available for sale | Loans and receivables | Other amortised cost | Total carrying amount |
|---|---|---|---|---|---|
| Cash | 7 | - | 103,204,851 | - | 103,204,851 |
| Investment securities | 8 | 187,147,196 | - | - | 187,147,196 |
| Loans to customers at amortised cost | 9 | - | 99,580,086 | - | 99,580,086 |
| Other accounts receivable | 10 | - | 27,029 | - | 27,029 |
| Total financial assets | | 187,147,196 | 201,811,966 | - | 389,959,162 |
| Deposits | 12 | - | - | 367,055,137 | 367,055,137 |
| Total financial liabilities | | - | - | 367,055,137 | 367,055,137 |

**B. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9**
The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018:

| | Note | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying amount under IAS 39 | New carrying amount under IFRS 9 |
|---|---|---|---|---|---|
| Cash | 7 | Loans and receivables | Amortised cost | 103,204,851 | 103,204,851 |
| Investment securities | 8 | Available for sale | FVOCI | 187,147,196 | 187,147,196 |
| Loans to customers at amortised cost | 9 | Loans and receivables | Amortised cost | 99,580,086 | 99,183,189 |
| Other accounts receivable | 10 | Loans and receivables | Amortised cost | 27,029 | 4,188 |
| **Total financial assets** | | | | 389,959,162 | 389,539,424 |
| Deposits | 12 | Amortised cost | Amortised cost | 367,055,137 | 367,055,137 |
| **Total financial liabilities** | | | | 367,055,137 | 367,055,137 |

(In US dollars)

**5. Financial assets and financial liabilities, continued**

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

| | IAS 39 carrying amount 31 December 2017 | Reclassification | Remeasurement | IFRS 9 carrying amount 1 January 2018 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| **Amortised cost** | | | | |
| Cash | | | | |
| Opening balance | 103,204,851 | | | |
| Closing balance | | | | 103,204,851 |
| Loans to customers at amortized cost: | | | | |
| Opening balance | 99,580,086 | | | |
| Remeasurement | | | (396,897) | |
| Closing balance | | | | 99,183,189 |
| Other accounts receivable: | | | | |
| Opening balance | 27,029 | | | |
| Remeasurement | | | (22,841) | |
| Closing balance | | | | 4,188 |
| Total amortised cost | 202,811,966 | | (419,738) | 202,392,228 |
| **Available for sale** | | | | |
| Investment securities: | | | | |
| Opening balance | 187,147,196 | | | |
| To FVOCI | | (187,147,196) | | |
| Closing balance | | | | - |
| **FVOCI** | | | | |
| Investment securities: | | | | |
| Opening balance | - | | | |
| From available for sale | | 187,147,196 | | |
| Closing balance | | | | 187,147,196 |
| Total FVOCI | | 187,147,196 | | 187,147,196 |
| **Financial liabilities** | | | | |
| **Amortised cost** | | | | |
| Deposits | | | | |
| Opening balance | 367,055,137 | | | |
| Closing balance | | | | 367,055,137 |
| Total amortised cost | 367,055,137 | | | 367,055,137 |

(In US dollars)

**5. Financial assets and financial liabilities, continued**

The following table analyses the impact of transition to IFRS 9 on reserves and retained earnings:

| | Impact of adopting IFRS 9 at 1 January 2018 |
|---|---|
| **Fair value reserve** | |
| Closing balance under IAS 39 (31 December 2017) | 882,486 |
| Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI | 123,265 |
| Opening balance under IFRS 9 (1 January 2018) | 1,005,751 |
| **Retained earnings** | |
| Closing balance under IAS 39 (31 December 2017) | 1,602,906 |
| Recognition of expected credit losses under IFRS 9 (including other accounts receivables and financial assets at FVOCI) | (543,003) |
| Opening balance under IFRS 9 (1 January 2018) | 1,059,903 |

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39; to
- The opening ECL allowance determined in accordance with IFRS 9 as of 1 January 2018.

| | 31 December 2017 (IAS 39) | Reclassification | Remeasurement | 1 January 2018 (IFRS 9) |
|---|---|---|---|---|
| Loans and receivables under IAS 39/financial assets at amortised cost under IFRS 9 (includes, loans to customers and other accounts receivables) | 1,136,875 | - | 419,738 | 1,556,613 |
| | 1,136,875 | - | 419,738 | 1,556,613 |
| Available for sale investment securities under IAS 39/debt financial assets at FVOCI under IFRS 9 | - | - | 123,265 | 123,265 |
| **Total** | **1,136,875** | **-** | **543,003** | **1,679,878** |

## 6. Financial risk management

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

### *6.1 Credit risk*

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

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

(In US dollars)

## 6. Financial risk management, continued

*6.1 Credit risk, continued*

*Credit quality analysis*

The following table sets out information about the credit quality of the investment at FVOCI (2018) and available for sale (2017):

| Debt investment securities at FVOCI | 2018 Stage 1 12 month ECL | 2018 Total | 2017 Total |
|---|---|---|---|
| AAA | 4,794,621 | 4,794,621 | 3,961,547 |
| AA- | 1,033,863 | 1,033,863 | 5,169,849 |
| A+ | 2,675,906 | 2,675,906 | - |
| A | 6,316,065 | 6,316,065 | - |
| A- | 2,168,516 | 2,168,516 | 4,198,103 |
| BBB+ | 13,851,061 | 13,851,061 | 29,219,865 |
| BBB | 6,562,905 | 6,562,905 | 116,199,558 |
| BBB- | 133,472,289 | 133,472,289 | 20,686,409 |
| BB+ | 1,563,929 | 1,563,929 | 3,265,009 |
| BB | 14,015,025 | 14,015,025 | 3,206,992 |
| BB- | 1,532,856 | 1,532,856 | - |
| B+ | 772,971 | 772,971 | 816,780 |
| Not rated | 1,047,975 | 1,047,975 | 423,084 |
| **Notional value** | 189,807,982 | 189,807,982 | 187,147,196 |

The investments at FVOCI as December 31, 2018 are up to day and do not present objective evidence of impairment.

(In US dollars)

**6. Financial risk management, continued**

*6.1 Credit risk, continued*

*Credit quality analysis, continued*
The following table sets out information about the loans at amortized cost impaired and not impaired according to category risk:

| | 2018 | | | | |
|---|---|---|---|---|---|
| **Loans at amortised cost** | **Stage 1 12 months ECL** | **Stage 2 Lifetime ECL not credit impaired** | **Stage 3 Lifetime ELC credit impaired** | **Total** | **2017 Total** |
| AA | 92,875,426 | - | - | 92,875,426 | 91,444,968 |
| A | 614,577 | 80,024 | - | 694,601 | 2,311,233 |
| BB | 1,633,912 | 111,512 | - | 1,745,424 | 92,857 |
| B | - | - | - | - | 2,893,805 |
| CC | - | - | 214,473 | 214,473 | 374,681 |
| D | - | - | 185,938 | 185,938 | 553,344 |
| E | - | - | 2,979,117 | 2,979,117 | 3,046,073 |
| Gross carrying amount | 95,123,915 | 191,536 | 3,379,528 | 98,694,979 | 100,716,961 |
| Loss allowance | (624,592) | (39,602) | (1,014,797) | (1,678,991) | (1,136,875) |
| **Amortised cost** | 94,499,323 | 151,934 | 2,364,731 | 97,015,988 | 99,580,086 |

The following tables show reconciliation from the opening to the closing balance of the loss allowance by class of financial instruments. Comparative amounts for 2017 represent the allowance account for credit losses and reflect the measurement basis under IAS 39.

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

(In US dollars)

## 6. Financial risk management, continued

*6.1 Credit risk, continued*

*Credit quality analysis, continued*

| | 2018 | | | | 2017 |
|---|---|---|---|---|---|
| **Loans to customers at amortised cost** | **Stage 1 12 months ECL** | **Stage 2 Lifetime ECL not credit impaired** | **Stage 3 Lifetime ECL credit impaired** | **Total** | **Total** |
| Closing Balance at December 31, 2017 | 159,824 | 948 | 976,103 | 1,136,875 | 1,100,451 |
| Adoption of IFRS 9, January 01, 2018 | 389,882 | 7,015 | - | 396,897 | - |
| Balance at January 01, 2018 | 549,706 | 7,963 | 976,103 | 1,533,772 | - |
| Stage 1 to Stage 2 | (2,305) | 2,305 | - | - | - |
| Stage 1 to Stage 3 | (25,458) | - | 25,458 | - | - |
| Stage 2 to Stage 3 | - | (7,347) | 7,347 | - | - |
| Charge of the year | 102,649 | 36,681 | 1,120,345 | 1,259,675 | 1,393,976 |
| Write off | - | - | (1,114,456) | (1,114,456) | (1,357,552) |
| Balance at December 31, 2018 | 624,592 | 39,602 | 1,014,797 | 1,678,991 | 1,136,875 |

The contractual amount outstanding on financial assets that were written of during the year ended December 31, 2018 and that are still subject to enforcement activity is $377,006.

### *6.1.1 Credit exposure policy*

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

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

### *6.1.2. Policy to grant loans*

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

**6. Financial risk management, continued**

*6.1.2. Policy to grant loans, continued*

- 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.

*6.1.3 Risk limit control and mitigation policies*

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

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

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

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

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

(In US dollars)

**6. Financial risk management, continued**

*6.1.4 Administration policy and collateral management*

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

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

| | 2018 | 2017 |
|---|---|---|
| Loans to customers | 98,694,979 | 100,716,961 |
| Less collateral | (41,262,199) | (49,666,902) |
| Net exposure | 57,432,780 | 51,050,059 |

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

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

| | Maximum exposure | |
|---|---|---|
| | 2018 | 2017 |
| Cash | 24,818,278 | 103,204,851 |
| Investments securities | 189,807,982 | 187,147,196 |
| Loans to customers at amortised cost | 97,015,988 | 99,580,086 |
| Total | 311,642,248 | 389,932,133 |

The preceding table represents the most critical scenario of exposure to credit risk of the Bank at December 31, 2018 without taking into account credit guarantees or other increases thereof.

As previously indicated, 39% of the total maximum exposure stems from loans to customers and bank deposits (December 31, 2017: 52%); and 61% represents its investments securities at FVOCI (December 31, 2017: 48%).

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

- As of December 31, 2018, 95% of the loan portfolio (2017: 93%) was classified in the first two categories of the internal classification system, that is, AA and A.
- As of December 31, 2018, 96% (2017: 95%) of the loan portfolio is not past due or impaired.

(In US dollars)

**6. Financial risk management, continued**

*6.1.6 Concentration of risk of financial assets with credit risk exposure*

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

| | Deposits in banks | | Investments | | Loans | | Commitments | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Industry concentration | | | | | | | | |
| Corporate | - | - | 7,536,262 | 17,567,057 | 54,542,106 | 47,982,517 | - | - |
| Financial institutions | 24,818,278 | 103,204,851 | 60,009,283 | 50,494,204 | - | - | 41,742,715 | 51,499,340 |
| Government | - | - | 122,262,437 | 119,085,935 | - | - | - | - |
| Customers | - | - | - | - | 42,726,649 | 51,531,352 | - | - |
| | 24,818,278 | 103,204,851 | 189,807,982 | 187,147,196 | 97,268,755 | 99,513,869 | 41,742,715 | 51,499,340 |
| Geographical sectors | | | | | | | | |
| Colombia | 17,896 | 8,788 | 128,840,947 | 141,835,627 | 81,711,997 | 96,265,558 | 41,742,715 | 51,499,340 |
| Latin American, the Caribbean and other | 2,041 | 61,281 | 14,199,759 | 10,841,658 | 8,932,495 | 2,950,000 | - | - |
| United States | 24,424,991 | 102,766,919 | 35,308,266 | 32,480,786 | 1,125,072 | - | - | - |
| United Kingdom | 373,350 | 367,863 | - | - | - | - | - | - |
| Brazil | - | - | 7,061,625 | 999,995 | - | - | - | - |
| Panama | - | - | 4,397,385 | 989,130 | 5,499,191 | 298,311 | - | - |
| | 24,818,278 | 103,204,851 | 189,807,982 | 187,147,196 | 97,268,755 | 99,513,869 | 41,742,715 | 51,499,340 |

*6.1.7 Loans*

*(a) Loans are summarized as follows:*

| | 2018 | 2017 |
|---|---|---|
| Neither past due nor impaired | 92,304,776 | 94,744,268 |
| Individually impaired | 4,963,979 | 4,769,601 |
| **Gross** | 97,268,755 | 99,513,869 |
| Accrued interest receivable | 1,426,224 | 1,203,092 |
| Less: | | |
| Allowance for impairment | (1,678,991) | (1,136,875) |
| **Total** | 97,015,988 | 99,580,086 |

*(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:

| | 2018 | 2017 |
|---|---|---|
| Renegotiated loans to customers | | |
| - Continuing to be impaired after restructuring | 697,052 | 1,439,722 |

## 6. Financial risk management, continued

*6.2 Liquidity risk management*

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

*6.2.1 Liquidity risk management process*

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

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

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

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

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

### 6. Financial risk management, continued

*6.2.1 Liquidity risk management process, continued*

Hereinafter, in the charts below, you may find the liquidity GAP as of December 31, 2018 and December 31, 2017 (Unaudited).

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

## 6. Financial risk management, continued

*6.2.1 Liquidity risk management process, continued*

| | Demand up to 7 days (a) | Over 8 days to 1 month (b) | Over 1 month to 3 months ( c ) | Over 3 months to 6 months (d) | Over 6 months to 12 months ( e ) | Over 1 year to 2 years (f) | Over 2 year to 5 years (g) | Over 5 years (h) | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Decemeber 31, 2017** | | | | | | | | | |
| **(in thousands of US$)** | | | | | | | | | |
| 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 | 4,687 | 8,673 | 20,305 | 20,102 | 19,972 | 8,218 | 18,225 | 2,634 | 102,816 |
| Total assets | 107,892 | 16,479 | 23,107 | 23,313 | 30,164 | 45,740 | 147,022 | 18,155 | 411,872 |
| Liabilities | | | | | | | | | |
| Demand deposits | 6,966 | - | - | - | - | - | - | 69,727 | 76,693 |
| Time deposits | 18,893 | 32,076 | 35,671 | 92,402 | 74,148 | 13,722 | 26,268 | 3,360 | 296,540 |
| Total liabilites | 25,859 | 32,076 | 35,671 | 92,402 | 74,148 | 13,722 | 26,268 | 73,087 | 373,233 |
| GAP measures | | | | | | | | | |
| RSA - RSL (gap) | 82,033 | (15,597) | (12,564) | (69,089) | (43,984) | 32,018 | 120,754 | (54,932) | |
| Cumulative Gap | 82,033 | 66,436 | 53,872 | (15,217) | (59,201) | (27,183) | 93,571 | 38,639 | |

The previous liquidity calculations are prepared assuming a normal liquidity situation in accordance with the contractual cash-flows and historical experiences of the Bank. For cases of extreme liquidity events derived from withdrawal of deposits, the Bank has contingency plans in place that include the existence of credit facility lines of other entities, other special deposits-taking and support rendered through resources provided by the parent bank. During the periods ended on December 31, 2018 and December 31, 2017, the entity did not need to make use of such credit lines of last resort.

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

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

| | Less than 1 month | 1 -3 months | 3 -6 months | 6 -12 months | 1 - 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Decemeber 31, 2017** | | | | | | | |
| **(in thousands of US$)** | | | | | | | |
| Deposits in banks | 103,205 | - | - | - | - | - | 103,205 |
| Investments | 7,806 | 2,802 | 3,211 | 10,192 | 166,319 | 15,521 | 205,851 |
| Loans | 13,360 | 20,305 | 20,102 | 19,972 | 26,443 | 2,634 | 102,816 |
| | 124,371 | 23,107 | 23,313 | 30,164 | 192,762 | 18,155 | 411,872 |
| Demand deposits | 76,693 | - | - | - | - | - | 76,693 |
| Time deposits | 50,969 | 35,671 | 92,402 | 74,148 | 39,990 | 3,360 | 296,540 |
| | 127,662 | 35,671 | 92,402 | 74,148 | 39,990 | 3,360 | 373,233 |

**6. Financial risk management, continued**

*6.3 Off-balance sheet risks*

*6.3.1 Financial guarantees and other financial facilities*

Financial guarantees are also included in Note 17 based on the most recent contractual maturity date.

| | 2018 | 2017 |
|---|---|---|
| Stand-by letters of credit | 41,742,715 | 51,499,340 |

*6.4 Market risk*

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

*6.4.1. Market Risk Management*

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

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

**6. Financial risk management, continued**

*6.4.1. Market Risk Management, continued*

*6.4.1.1 Market Risk Measurement Techniques*

The Bank measures and quantifies the expected losses from exposure to market risk from treasury operations and cash operations, through the Department of Market Risk Management at 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).

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.

*6.4.1.2 Software*

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

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

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

- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a 1% probability that losses could exceed the VaR.

- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

(In US dollars)

**6. Financial risk management, continued**

*6.4.1.3 VaR summary*

The following table summarizes the VaR of the portfolio at December 31, 2018:

| | 2018 | 2017 |
|---|---|---|
| High | 1,509,791 | 1,719,804 |
| Average | 1,113,389 | 1,250,925 |
| Low | 827,954 | 893,082 |

*6.4.1.4 Sensitivity Analysis*

The following table summarizes the December 31, 2018 securities portfolio's exposure over its net present value taking into consideration an increase in the fluctuation of the market reference interest rate from 25 to 200 basis points:

| Type | Present value | 25 BP | 50 BP | 75 BP | 100 BP | 150 BP | 200 BP |
|---|---|---|---|---|---|---|---|
| Investments at FVOCI | 192,155,283 | (975,337) | (1,960,157) | (2,936,624) | (3,904,832) | (5,816,849) | (7,696,945) |
| | 192,155,283 | (975,337) | (1,960,157) | (2,936,624) | (3,904,832) | (5,816,849) | (7,696,945) |

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 |
|---|---|---|---|---|---|---|---|
| Investmentd at FVOCI | 192,155,283 | 1,019,756 | 2,030,225 | 3,049,444 | 4,077,515 | 6,160,633 | 8,280,428 |
| | 192,155,283 | 1,019,756 | 2,030,225 | 3,049,444 | 4,077,515 | 6,160,633 | 8,280,428 |

(In US dollars)

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

*6.4.2 Foreign exchange risk*

The following table summarizes the Bank's exposure to the foreign exchange risk at December 31, 2018:

| | US$ | Euro | Colombian peso | Total |
|---|---|---|---|---|
| **December 31, 2018** | | | | |
| **Assets** | | | | |
| Deposits in banks | 24,427,032 | 373,350 | 17,896 | 24,818,278 |
| Investment securities | 189,807,982 | - | - | 189,807,982 |
| Loans to customers, at amortised cost | 97,015,988 | - | - | 97,015,988 |
| Other assets | 3,587,867 | 714 | - | 3,588,581 |
| | 314,838,869 | 374,064 | 17,896 | 315,230,829 |
| **Liabilities** | | | | |
| Customers´ deposits | 290,371,504 | 375,184 | - | 290,746,688 |
| Other liabilities | 83,448 | - | - | 83,448 |
| | 290,454,952 | 375,184 | - | 290,830,136 |
| **Net financial position on statement of financial position** | 24,383,917 | (1,120) | 17,896 | 24,400,693 |
| Credit commitments - Stand-by letters | 41,742,715 | - | - | 41,742,715 |
| **December 31, 2017** | | | | |
| Total financial assets | 393,030,287 | 370,798 | 8,788 | 393,409,873 |
| Total financial liabilities | 366,816,434 | 369,020 | - | 367,185,454 |
| **Net financial position on statement of financial position** | 26,213,853 | 1,778 | 8,788 | 26,224,419 |
| Credit commitments - Stand-by letters | 51,499,340 | - | - | 51,499,340 |

*6.4.2 Foreign exchange risk, continued*

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

*6.5 Operational risk*

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

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

In order to carry out an adequate management of the operational risk, comply with Central Bank of Barbados regulations and create added value for the Bank, an Operational Risk Management System has been implemented, which methodology includes the description of processes, identification of the main risks, definition of criterion to evaluate risks and controls, qualification of inherent risk (gross or without controls), controls and residual risks (net or after controls), construction of the risk maps and priority 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.

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

*6.5 Operational risk, continued*

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

*6.5.1 Management of risk of money laundering and financing of terrorism (Unaudited)*

Occidental Bank (Barbados) Ltd. has been fully executing the "SARLAFT" (Money 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 Money 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 Money Laundering and Financing of Terrorism; it has an advanced monitoring scheme; it has a functional and interactive education program for the Prevention of Money 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 Money Laundering and Financing of Terrorism.

*6.5.2 Risk-Based Focus (Unaudited)*

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

This methodology identifies ML/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 money laundering and/or channelling of resources toward the performance of terrorist activities.

*6.5.3 Know your Customer (KYC) and Commercial Relationships*

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

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

*6.5.4 Monitoring of operations and customer analysis*

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

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

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

*6.5.5 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.

*6.5.6 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.

*6.6 Capital management risk*

The Bank manages its capital to ensure:

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

The Bank as an entity regulated by the 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.

(In US dollars)

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

The table below summarizes the composition of the paid-in capital required by the Central Bank of Barbados (CBB) as at December 31, 2018:

| | 2018 | 2017 |
|---|---|---|
| **Primary capital (Tier 1)** | | |
| Shares capital | 10,075,000 | 10,075,000 |
| Premium per share and reserve fund | 15,713,353 | 13,835,148 |
| Retained earnings | 282,888 | 1,602,906 |
| Total | 26,071,241 | 25,513,054 |
| **Primary capital (Tier 2)** | | |
| Fair value reserves | 1,535,894 | 882,486 |
| Collective allowance for impairment | 499,537 | 154,204 |
| Total | 28,106,672 | 26,549,744 |
| **Risk-weighted assets and contingencies** | 263,620,988 | 275,199,953 |
| **Paid-in capital** | | |
| Total regulatory capital Tier 1 (Barbados) expressed in percentage over risk-weighted assets | 9.89% | 9.27% |
| Total regulatory capital Tier 2 (Colombia) expressed in percentage over risk-weighted assets | 10.66% | 9.65% |
| Regulatory paid-in required | 8.00% | 8.00% |
| Internal paid-in required | 9.00% | 9.00% |

Reserve fund

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

**7. Cash**

Cash are detailed below:

| | 2018 | 2017 |
|---|---|---|
| Due from banks | | |
| Demand deposits | 24,818,278 | 103,204,851 |
| Cash | 24,818,278 | 103,204,851 |

(In US dollars)

## 8. Investment securities

Details of securities are as follows:

| | At fair value through OCI | | Nominal value | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Securities available for sale** | | | | |
| Debt securities – at fair value: | | | | |
| – Listed | 188,760,007 | 186,724,112 | 181,593,000 | 172,943,000 |
| – Unlisted | 1,047,975 | 423,084 | 484,053 | 459,871 |
| | 189,807,982 | 187,147,196 | 182,077,053 | 173,402,871 |

The Bank maintains securities Investments at FVOCI in a related company Fiduciaria de Occidente, S. A. represented by 111,678 (2017: 103,816) common shares representing 0.581% ownership in this company, with a carrying value at December 31, 2018 of $1,047,975 (2017: $423,084). The Bank during the year changed its intrinsic value to fair value based on market prices.

Annual interest yield rates in investment securities as of December 31, 2018 fluctuated between 2.04% and 6.23% (2017: 1.71% and 6.23%).

During 2018 the Bank sold and redeemed securities investments at FVOCI of $48,590,000 (2017: $117,955,654), which generated a net realized loss of $157,876 (2017 net realized gain: $1,505,522). Additionally, the unrealized loss on securities investments at FVOCI as of December 31, 2018 amounts to $1,535,894 (December 31, 2017: unrealized gain $882,486) which are presented in the statement of changes in equity.

## 9. Loans to customers at amortised cost

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

| | 2018 | 2017 |
|---|---|---|
| Loans | 97,268,755 | 99,513,869 |
| Acrrued interests receivables | 1,426,224 | 1,203,092 |
| Allowance for impairment | (1,678,991) | (1,136,875) |
| | 97,015,988 | 99,580,086 |

(In US dollars)

## 10. Other accounts receivable

The following is a summary of other accounts receivable:

| | 2018 | 2017 |
|---|---|---|
| Commissions | 714 | 2,935 |
| Dividends | 3,353 | 2,688 |
| Other | 20,331 | 21,406 |
| | 24,398 | 27,029 |

## 11. Other assets

The following is a summary of other assets:

| | 2018 | 2017 |
|---|---|---|
| Pre-paid expenses | 56,472 | 5,857 |
| Guarantee deposits | 2,913 | 2,913 |
| Leasing in advance | 7,227 | 9,664 |
| Datapro software | 102,294 | 172,583 |
| | 168,906 | 191,017 |

## 12. Deposits

A summary of customers' deposits is as follows:

| | Average interest rate 2018 | Payable on notice | Payable on fixed date | 2018 | 2017 |
|---|---|---|---|---|---|
| Interest bearing checking account: | 0.25% | | | | |
| Individuals | | 10,657,471 | - | 10,657,471 | 7,629,428 |
| Corporate | | 48,587,698 | - | 48,587,698 | 69,063,464 |
| | | 59,245,169 | - | 59,245,169 | 76,692,892 |
| Term deposits: | 2.52% | | | | |
| Individuals | | - | 61,584,527 | 61,584,527 | 49,948,218 |
| Corporate | | - | 166,691,373 | 166,691,373 | 235,943,481 |
| | | - | 228,275,900 | 228,275,900 | 285,891,699 |
| Accrued interest payable | | | | 3,225,619 | 4,470,546 |
| | | | | 290,746,688 | 367,055,137 |

(In US dollars)

## 13. Other liabilities

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

| | 2018 | 2017 |
|---|---|---|
| Employees' withholding | 17,438 | 18,794 |
| Other current accounts | 6,237 | 6,521 |
| Labor liabilities | 11,208 | 58,156 |
| Other liabilities | 48,565 | 46,846 |
| | 83,448 | 130,317 |

## 14. Share capital and share premium

The share capital and the premium per share as of December 31, 2018 is shown below:

| | 2018 | 2017 |
|---|---|---|
| Shares issued | 2,015 | 2,015 |
| Par value per share | 5,000 | 5,000 |
| | | |
| Share capital | 10,075,000 | 10,075,000 |
| Premium per share | 8,164,034 | 8,164,034 |
| | 18,239,034 | 18,239,034 |

## 15. 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, 2018, 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:

| Expiry year | Tax loss to be applied per year | |
|---|---|---|
| | US$ | BDS$ |
| 2018 | 884,470 | 1,768,940 |
| 2019 | 674,312 | 1,348,624 |
| 2020 | 3,109,897 | 6,219,794 |
| | 4,668,679 | 9,337,358 |

(In US dollars)

## 16. 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) | |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| **Assets** | | | | | | |
| Current account | - | - | 17,896 | 9,861 | - | - |
| Investment | - | - | 484,053 | 423,084 | - | - |
| Loan | 240,758 | - | - | - | - | |
| Dividends receivable | - | - | 3,353 | 2,688 | - | - |
| Account receivable | - | - | - | 270 | - | - |
| Others assets | - | - | 2,913 | 2,913 | - | - |
| **Liabilities** | | | | | | |
| Deposits | 20,061 | - | - | 4,862,815 | - | - |
| Time deposits | 2,565,047 | 127,607 | 5,028,356 | 4,244,196 | 1,129,327 | 696,848 |

| | Key personnel and management | | Members of the same group | | Group controlled (Entities under the control of key and management personnel) | |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| **Profit or loss** | | | | | | |
| **Interest income:** | | | | | | |
| Investments | - | - | 42,897 | 41,639 | - | - |
| Loan | 7,908 | - | - | - | - | |
| Dividend | - | - | 39,473 | 55,403 | - | - |
| Commission income | - | - | - | 8,675 | - | - |
| **Interest expense:** | | | | | | |
| Deposits | 14,375 | 2,119 | 27,523 | 101,108 | 16,652 | 19,240 |
| **General and administrative expenses:** | | | | | | |
| Employee benefits | 114,329 | 172,935 | - | - | - | - |
| Expenses outsourcing services | - | - | 129,133 | 126,000 | - | - |

At December 31, 2018, the loan with a related party is fully guaranteed with deposits in the same Bank.

## 17. Commitments

The most significant commitments of the Bank are as follows:

| | **2018** | **2017** |
|---|---|---|
| Stand-by letters of credits | 41,742,715 | 51,499,340 |

Stand-by letters of credit recognize the opening of letters of credit issued by the Bank or by its own account, as well as the responsibility acquired from the confirmation of letters of credit issued by another bank. At December 31, 2018, stand-by letters of credit are fully guaranteed with deposits in the same bank.

(In US dollars)

**18. Securities received in custody**

At December 31, 2018, the Bank held securities received in custody $58,159,305 (2017: $85,486,984).

**19. 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:

| | Book Value | Fair Value | Book Value | Fair Value |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| **Assets** | | | | |
| Investments securities | 189,807,982 | 189,807,982 | 187,147,196 | 187,147,196 |
| Loans to customers, net | 97,015,988 | 96,428,384 | 99,580,086 | 99,689,100 |
| **Liabilities** | | | | |
| Time deposits | 228,275,900 | 229,668,230 | 285,891,699 | 285,044,338 |

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.

(In US dollars)

## 19. Fair values of financial instruments, continued

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| **December 31, 2018** | | | |
| Investment securities at FVOCI, listed | 28,995,346 | 159,764,661 | 188,760,007 |
| Unlisted securities | | | 1,047,975 |
| Total | | | 189,807,982 |
| **December 31, 2017** | | | |
| Investment securities available for sale, listed | 25,979,843 | 160,744,269 | 186,724,112 |
| Unlisted securities | | | 423,084 |
| Total | | | 187,147,196 |

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 2018, there have been no transfers of investment securities.

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

| | Measurement of fair value at December 31, 2018 | |
|---|---|---|
| | **Level 3** | **Total** |
| **Financial Assets** | | |
| Loans to customers | 96,428,384 | 96,428,384 |
| | 96,428,384 | 96,428,384 |
| **Financial Liabilities** | | |
| Time deposits | 229,668,230 | 229,668,230 |
| | 229,668,230 | 229,668,230 |

| | Measurement of fair value at December 31, 2017 | |
|---|---|---|
| | **Level 3** | **Total** |
| **Financial Assets** | | |
| Loans to customers | 99,689,100 | 99,689,100 |
| | 99,689,100 | 99,689,100 |
| **Financial Liabilities** | | |
| Time deposits | 285,044,338 | 285,044,338 |
| | 285,044,338 | 285,044,338 |

## 19. Fair values of financial instruments, continued

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

| Type of financial instrument | Valuation technique and significant input |
|---|---|
| Loans | 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. |

## 20. Subsequent events

The Bank has assessed the events subsequent to December 31, 2018 to assess the possible need for their recognition or disclosure in the accompanying financial statements. Such events were evaluated up to February 21, 2019, the date on which such statements were available for issuance. Based on this evaluation, we determined that there were no subsequent events which require re667cognition or disclosure in the financial statements.