Financial Statements of

OCCIDENTAL BANK (BARBADOS) LTD.

December 31, 2023

(With Independent Auditors' Report Thereon)

Occidental Bank (Barbados) Ltd.

Contents	**Pages**

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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, 2023, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material 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, 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

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 International Code of Ethics for Professional Accountants (including International Independence Standards) (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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the unaudited information included on pages 37 to 38, but does not include other disclosures in the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

KPMG

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Shareholder of Occidental Bank (Barbados) Ltd.

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 Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG

Chartered Accountants
Bridgetown, Barbados
March 11, 2024

Occidental Bank (Barbados) Ltd.

Statement of Financial Position
December 31, 2023
(In US dollars)

Assets	Note	2023	2022
Cash	6	41,029,687	76,898,822
Investment securities	7	91,445,994	81,915,669
Loans to customers at amortised cost	8	140,398,662	112,394,955
Property and equipment, net		281,232	89,954
Other assets:			
Deferred tax assets	14	11,677	2,532
Other accounts receivable	9	159,834	15,577
Other assets	10	178,601	167,554
Total other assets		350,112	185,663
Total assets		273,505,687	271,485,063

The notes are an integral part of the financial statements.

Occidental Bank (Barbados) Ltd.

Statement of Financial Position
December 31, 2023
(In US dollars)

Liabilities and equity	Note	2023	2022
Liabilities:			
Deposits:			
Interest bearing checking accounts		69,642,265	84,241,080
Time deposits		164,656,603	157,184,320
Total deposits	11	234,298,868	241,425,400
Other liabilities	12	894,339	770,182
Total liabilities		235,193,207	242,195,582
Equity:			
Share capital and share premium	13	18,239,034	18,239,034
Reserves		4,599,640	(117,306)
Retained earnings		15,473,806	11,167,753
Total equity		38,312,480	29,289,481
Total liabilities and equity		273,505,687	271,485,063

The notes are an integral part of the financial statements.

Approved by the Board of Directors on March 11, 2024

.... **Chairman** .... **Director**

Occidental Bank (Barbados) Ltd.

Statement of Income
For the year ended December 31, 2023
(In US dollars)

	Note	2023	2022
Interest income calculated using the effective interest method:			
Overnight funds		2,278,605	628,178
Loans to customers		8,357,559	5,951,497
Investment securities		3,855,474	2,904,478
Total interest income		14,491,638	9,484,153
Interest expense:			
Customer deposits		(8,022,301)	(3,356,524)
Total interest expense		(8,022,301)	(3,356,524)
Net interest income		6,469,337	6,127,629
(Impairment) reversal of losses on investment securities	5	(33,776)	39,717
Reversal (impairment) losses on loans	5	249,787	(292,414)
Recoveries of amounts previously written off		9,214	8,519
Net interest income after impairment charges		6,694,562	5,883,451
Other operating income (expense):			
Fees and commission income		493,265	568,902
Commissions expense		(229,587)	(217,289)
Net fee and commission income		263,678	351,613
Foreign exchange		(541)	(14,099)
Net (loss) on investments securietes at FVOCI	7	(107,507)	(122,703)
Net gain on investments securietes at FVTPL		0	
Dividend income		37,200	61,407
Other income		2,879	1,015
Total other operating income		195,709	277,233
Total operating income, net		6,890,271	6,160,684
General and administrative expenses:			
Salaries and other employee benefits		(702,246)	(674,010)
Professional fees and services		(934,379)	(800,038)
Depreciation and amortization		(32,645)	(43,350)
Other expenses		(733,369)	(738,362)
Total general and administrative expenses		(2,402,639)	(2,255,760)
Net profit before taxes		4,487,632	3,904,924
Income tax	14	(181,579)	(163,535)
Net profit		4,306,053	3,741,389

The notes are an integral part of the financial statements.

Occidental Bank (Barbados) Ltd.

Statement of Comprehensive Income
For the year ended December 31, 2023
(In US dollars)

	Note	2023	2022
Net profit		4,306,053	3,741,389
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Equity investments at FVOCI - net change in fair value	7	400,257	(280,150)
		400,257	(280,150)
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (FVOCI debt instruments):			
Debt investments at FVOCI - net change in fair value		4,209,182	(7,376,364)
Debt investments at FVOCI - net amount reclassified to profit or loss	7	107,507	122,703
		4,316,689	(7,253,661)
Total other comprehensive income (loss)		4,716,946	(7,533,811)
Total net comprehensive income (loss) of the year		9,022,999	(3,792,422)

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, 2023
(In US dollars)

	Note	13 Share Capital	13 Share Premium	Reserve Fund	Fair value Reserve	Total Reserves	Retained Earnings	Total
Balance at December 31, 2021		10,075,000	8,164,034	10,075,000	(2,658,495)	7,416,505	7,426,364	33,081,903
Plus comprehensive income comprised of:								
Net profit for the year							3,741,389	3,741,389
Other comprenhensive (loss) income								
Net change in fair value of equity investments at FVOCI		-	-	-	(280,150)	(280,150)	-	(280,150)
Net change in fair value of debt investment securities		-	-	-	(7,376,364)	(7,376,364)	-	(7,376,364)
Net amount transferred to profit or loss		-	-	-	122,703	122,703	-	122,703
Total other comprehensive loss for the year		-	-	-	(7,533,811)	(7,533,811)	-	(7,533,811)
Total comprehensive (loss) income for the year		-	-	-	(7,533,811)	(7,533,811)	3,741,389	(3,792,422)
Balance at December 31, 2023	15	10,075,000	8,164,034	10,075,000	(10,192,306)	(117,306)	11,167,753	29,289,481
Plus comprehensive income comprised of:								
Net profit for the year		-	-	-	-	-	4,306,053	4,306,053
Other comprehensive (loss) income								
Net change in fair value of equity investments at FVOCI		-	-	-	400,257	400,257	-	400,257
Net change in fair value of debt investments at FVOCI		-	-	-	4,209,182	4,209,182	-	4,209,182
Net amount transferred to profit or loss		-	-	-	107,507	107,507	-	107,507
Total other comprehensive loss for the year		-	-	-	4,716,946	4,716,946	-	4,716,946
Total comprehensive income for the year		-	-	-	4,716,946	4,716,946	4,306,053	9,022,999
Balance at December 31, 2023	15	10,075,000	8,164,034	10,075,000	(5,475,360)	4,599,640	15,473,806	38,312,480

The notes are an integral part of the financial statements.

Occidental Bank (Barbados) Ltd.

Statement of Cash Flows
For the year ended December 31, 2023
(In US dollar)

	Note	2023	2022
Cash flows from operating activities:			
Net profit		4,306,053	3,741,389
Adjustments for:			
Net interest income		(6,469,337)	(6,127,629)
Dividend income		(37,200)	(61,407)
(Reversal of) impairment losses on loans	8	(249,787)	292,414
Impairment (reversal of) on investment securities		33,776	(39,717)
Depreciation and amortization		32,645	43,350
Net loss on investments securities at FVOCI		107,507	122,703
Income tax		181,579	163,535
Net cash used in operating activities before changes in operating assets and liabilities		(2,094,764)	(1,865,362)
Changes in:			
Loans to customers		(27,106,564)	10,576,164
Other accounts receivable		(133,721)	43,927
Other assets		(20,192)	(5,968)
Customers' deposits		(9,160,110)	1,520,721
Other liabilities		7,437	210,592
		(36,413,150)	12,345,436
Interest received		13,796,295	9,138,418
Dividends received		26,664	64,841
Interest paid		(5,988,723)	(3,088,350)
Income tax paid		(64,859)	(134,991)
Net cash (used in) provided by operating activities		(30,738,537)	16,459,992
Cash flows from investing activities:			
Acquisition of securities		(99,047,298)	(29,282,020)
Sales and redemptions of investment securities	7	94,120,593	44,161,671
Acquisition of property and equipment		(203,893)	(4,573)
Net cash (used in) provided by investing activities		(5,130,598)	14,875,078
(Decrease) increase in cash and cash equivalents during the year		(35,869,135)	31,335,070
Cash at beginning of year		76,898,822	45,563,752
Cash and cash equivalent at of year	6	41,029,687	76,898,822

The notes are an integral part of the financial statements.

1. Reporting Entity

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

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

2. Basis of Preparation

2.1 Statement of compliance

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

These financial statements were approved by the Board of Directors on March 11, 2024.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

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

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

Accounting policy 3 (a)	Fair value measurement on Level 3 investment securities (see note 18)

3. Material Accounting Policies

The Bank has consistently applied the following accounting policies to all periods presented in the financial statements, except if mentioned otherwise.

(a) Fair value measurement

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

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

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

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

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

(b) Impairment of non-financial assets

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

(c) Financial assets and financial liabilities

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

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

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

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

3. Material Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

I. Classification of financial assets, continued

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

1. The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
2. The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at AC or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The Bank has not used this option for the current and prior years.

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

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

3. Material Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

I. Classification of financial assets, continued

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

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

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

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

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

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

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

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

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

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

3. Material Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

I. Classification of financial assets, continued

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

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

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

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

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

II. Impairment of financial assets

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

- Debt instruments
- Other accounts receivable
- Loans portfolio
- Deposits in banks
- Letters of credit

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

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

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

3. Material Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

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

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

Measurement of ECLs

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

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

Definition of default

The Bank will consider a financial asset to be in default when:

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

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

- 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 becoming probable that the borrower will restructure the assets as a result of bankruptcy due to the borrower´s inability to pay its credit obligations.
- the financial asset does not fit in any active market given its financial difficulties.

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

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

3. Material Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

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

Significant increase in credit risk

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

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

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

The threshold, when calibrated, turned out to be 0.02. The difference between the PD lifetime follow-up and the PD lifetime granting is 0.015, which is less than 0.02. It will only pass due to an increase if the difference is greater than 0.02. To calibrate the thresholds, historical information of the clients is considered.

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

Credit risk grades

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

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

3. Material Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

The Bank use the following credit rating grades:

- AA – Normal: Loans paid on time or less than thirty (30) days in arrears. A loan is considered normal when the debtor's operating cash flow is sufficient or exceeds the amount required to service the debt until its cancellation.
- A – Acceptable: Loans classified within this category are those having some weaknesses. Additionally, the general status of his/her business and the collateral supporting his/her financial commitments require special attention for the recovery of the loan, avoiding damage to the debtor's payment capacity.
- BB - B – Acceptable: A loan must be classified within this category when the operating cash flow or another payment source classified as a primary payment source is inadequate and jeopardizes the recovery of debt balances. The bank must evaluate the seizure of the collateral, taking into consideration its marketable value, if the loan deficiencies are not corrected on time.
- CC - D – Appreciable: Loans grouped within this category are those that are very hard to recover due to the fact that the debtor has a very deteriorated financial and economic situation. Normally, the bank has already started legal action because the debtor's income sources, constituted collateral or capital will only permit the bank to recover a part of the loan.
- E – Bad: Loans belonging to this category are all those whose impossibility of recovery is so evident that they cannot justify being considered financial assets and must be promptly written off, irrespective of the possibility that the bank may recover the owed sums either partially or totally. Also included in this category are loans granted to companies whose ability to generate resources depends on other companies that are also in a precarious financial position in facing their commitments due to their own indebtedness, their operational incapacity, or the situation of the economic sector to which the business belongs.

Generating the term structure of PD

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

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

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

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

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

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

3. Material Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

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 (social situations, payment record, collateral security/guarantees received, credit bureau reports, debt collection processes, breaches of non-financial covenants, consideration of external factors, including local, regional and national, as well as economic factors) and analysis performed based on the Bank historical experience, expert credit assessment and forward-looking information, may indicate the aforementioned and these factors may not be completely captured by its quantitative analysis carried out periodically. As a limit, and as required by IFRS 9, the Bank will assume that a significant increase of credit risk occurs not later than when the asset has been in default for more than 30 days. The Bank will determine days of default by counting the days since the last date on which a full payment has not been received.

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

- Criteria can identify significant increases in the credit risk before any exposure should fall in impairment.
- Criteria do not align with the point in time when an asset becomes 30 days past due.
- Average time in order to identify any significant increase in credit risk and default seem to be reasonable.
- Exposures are not generally transferred directly 12-month ECL measurement to credit impaired.
- There is no unjustified volatility in the provision for impairment of transfers among groups with probability of expected loss during the following twelve months and the probability of expected loss during the remaining life of the credits.

Derecognition

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

3. Material Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

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

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

Modified financial assets

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

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

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

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

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

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

Restructured

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit risk. Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of 6 months before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month period ECLs.

3. Material Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

Inputs in measurement of ECLs

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

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

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

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

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

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

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

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

3. Material Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

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

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

3. Material Accounting Policies, continued

(c) Financial assets and financial liabilities, continued

II. Impairment of financial assets, continued

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

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

Forecast of forthcoming economic conditions

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.

(d) Interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation
Interest income calculated using the effective interest method presented in the statement of income includes:

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI.

3. Material Accounting Policies, continued

(e) Recognition of income, costs and expenses

Fees and commissions are generally recognised on an accrual basis. Commissions and fees mainly arise from retail and corporate banking services, other than loan origination

Other costs and expenses are recognized on an accrual basis.

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers are measured based on the consideration specified in a contract with a customer.

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

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

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

(f) Dividend income

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

(g) Cash

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

(In US dollars)

3. Material 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 based on tax effect accounting and is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

(i) Fair value reserve

The fair value reserve comprises:
- the cumulative net change in the fair value of equity securities measured at FVOCI; and
- the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are derecognized or reclassified. This amount is increased by the amount of loss allowance.

4. Financial assets and financial liabilities

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

2023	Note	AC	FVOCI	Total carrying amount
Cash	6	41,029,687	-	41,029,687
Investment securities	7	-	91,445,994	91,445,994
Loans to customers at AC	8	140,398,662	-	140,398,662
Other accounts receivable	9	159,834	-	159,834
Total financial assets		181,588,183	91,445,994	273,034,177
Deposits	11	234,298,868	-	234,298,868
Total financial liabilities		234,298,868	-	234,298,868

2022	Note	AC	FVOCI	Total carrying amount
Cash	6	76,898,822	-	76,898,822
Investment securities	7	-	81,915,669	81,915,669
Loans to customers at AC	8	112,394,955	-	112,394,955
Other accounts receivable	9	15,577	-	15,577
Total financial assets		189,309,354	81,915,669	271,225,023
Deposits	11	241,425,400	-	241,425,400
Total financial liabilities		241,425,400	-	241,425,400

(In US dollars)

5. Financial risk management

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

5.1. Credit risk

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

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

Credit quality analysis

The following table sets out information about the credit quality of the investment securities, based on ratings reported by risk rating agencies:

	2023		2022	
	Stage 1 12 month ECL	Total	Stage 1 12 month ECL	Total
Debt securities at FVOCI				
AAA	12,464,545	12,464,545	-	-
A+	2,964,510	2,964,510	-	-
A	2,463,225	2,463,225	-	-
BBB	3,885,152	3,885,152	4,206,798	4,206,798
BBB-	7,598,401	7,598,401	2,072,034	2,072,034
BBB+	7,100,635	7,100,635	-	-
BB+	46,195,217	46,195,217	70,797,848	70,797,848
BB	610,294	610,294	450,430	450,430
BB-	2,614,924	2,614,924	988,450	988,450
Baa1	1,971,600	1,971,600	775,832	775,832
Ba1	2,339,175	2,339,175	1,786,220	1,786,220
	90,207,678	90,207,678	81,077,612	81,077,612

The equity investments for US$1,238,316 (2022: US$838,057) are not included in this analysis.

As of December 31, 2023, the Bank maintains deposits in banks for US$41,029,687 (2022: US$76,898,822). The deposits are held in financial institutions applying the limits established in the counterparty risk policy, with the credit risk ratings between A- and BBB+ granted by Standard and Poor's and Moodys.

(In US dollars)

5. Financial risk management, continued

5.1. Credit risk, continued

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

Loans at AC	2023 Stage 1 12 months ECL	Stage 2 Lifetime ECL not credit impaired	Stage 3 Lifetime ELC credit impaired	Total
AA – Normal	140,027,295	-	-	140,027,295
A – Acceptable	171,262	124,797	-	296,059
B – Acceptable	-	-	-	-
D – Appreciable	-	-	-	-
E – Bad	-	-	1,566,233	1,566,233
Gross carrying amount	140,198,557	124,797	1,566,233	141,889,587
Loss allowance	(513,691)	-	(977,234)	(1,490,925)
Total	139,684,866	124,797	588,999	140,398,662

Loans at AC	2022 Stage 1 12 months ECL	Stage 2 Lifetime ECL not credit impaired	Stage 3 Lifetime ELC credit impaired	Total
AA – Normal	110,635,837	61,195	-	110,697,032
A – Acceptable	-	120,740	-	120,740
B – Acceptable	42,219	-	1,613,542	1,655,761
D – Appreciable	-	-	222,829	222,829
E – Bad	-	-	1,782,760	1,782,760
Gross carrying amount	110,678,056	181,935	3,619,131	114,479,122
Loss allowance	(671,602)	-	(1,412,565)	(2,084,167)
Total	110,006,454	181,935	2,206,566	112,394,955

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

	2023		2022	
Debt investments securities at FVOCI	**Stage 1 12 months ECL**	**Total**	**Stage 1 12 months ECL**	**Total**
Balance at the beginning of the year	47,781	47,781	87,498	87,498
New financial assets originated or purchased (*)	37,972	37,972	11,905	11,905
Financial assets that have been derecognized (*)	(17,163)	(17,163)	(44,410)	(44,410)
Net remeasurement of loss allowance (*)	12,967	12,967	(7,212)	(7,212)
Balance at the end of the year	81,557	81,557	47,781	47,781

(*) The increase in the ECL allowance on investments securities at FVOCI is US$33,776 (2022: decrease of US$39,717)

(In US dollars)

5. Financial risk management, continued

5.1. Credit risk, continued

Credit quality analysis, continued

	2023			
Loans to customers at AC	**Stage 1 12 Months ECL**	**Stage 2 Lifetime ECL not credit impaired**	**Stage 3 Lifetime ECL credit impaired**	**Total**
Balance at the beginning of the year	671,602	-	1,412,565	2,084,167
Stage 1 to Stage 3	-	-	-	-
Stage 3 to Stage 1	-	-	-	-
Stage 2 to Stage 1	-	-	-	-
New financial assets originated or purchased (*)	364,878	-	-	364,878
Net remeasurement of loss allowance (*)	(173,368)	-	-	(173,368)
Financial assets that have been derecognised (*)	(349,421)	-	(91,876)	(441,297)
Write off			(343,455)	(343,455)
Balance at the end of the year	513,691	-	977,234	1,490,925

	2022			
Loans to customers at AC	**Stage 1 12 Months ECL**	**Stage 2 Lifetime ECL not credit impaired**	**Stage 3 Lifetime ECL credit impaired**	**Total**
Balance at the beginning of the year	694,447	14,342	1,452,842	2,161,631
Stage 1 to Stage 3	(133,818)	-	133,818	-
Stage 3 to Stage 1	-	-	-	-
Stage 2 to Stage 1	3,035	(3,035)	-	-
New financial assets originated or purchased (*)	408,981	-	-	408,981
Net remeasurement of loss allowance (*)	(16,841)	-	195,783	178,942
Financial assets that have been derecognised (*)	(284,202)	(11,307)	-	(295,509)
Write off	-	-	(369,878)	(369,878)
Balance at the end of the year	671,602	-	1,412,565	2,084,167

(*) The reversal in the ECL allowance for losses on loans is US$ 249,787 (2022: increase of US$292,414)

As of December 31, 2023, there has not been a significant change in the ECL allowance attributed by significant changes in the gross carrying amounts of the loan portfolio. The gross balance of loans has not had significant variance between stages and the variance in gross carrying amounts were mainly to loans that were cancelled by the clients, new loans and a write off of a loan in stage 3 with a gross carrying amount of US$343,455.

The contractual amount outstanding on financial assets that were written of that are still subject to enforcement activity is US$400,000 (2022: US$769,878).

(In US dollars)

5. Financial risk management, continued

5.1. Credit risk, continued

The main macroeconomic variables and scenarios used as of December 31, 2023, are as follows:

Macroeconomic variables used in ECL calculation

	2024			2023		
	Unfavourable	**Base**	**Favourable**	**Unfavourable**	**Base**	**Favourable**
Inflation (*)	9.33%	9.57%	9.89%	4.44%	6.05%	8.26%
GDP Growth (*)	0.65%	1.13%	1.30%	1.07%	0.99%	2.70%
Unemployment rate (*)	10.32%	9.82%	9.14%	11.96%	10.43%	8.77%
Fixed term deposit (*)	12.56%	12.90%	13.13%	7.10%	9.04%	10.62%
Interest rate (*)	12.75%	13.00%	13.50%	6.25%	8.50%	10.15%

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

Below is the ECL reserve details for loans at AC:

Portfolio	**2023**	**2022**
Commercial	1,490,925	2,084,167

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

5.1.1 Credit exposure policy

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

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

5.1.2. Policy to grant loans

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

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 US dollars)

5. Financial risk management, continued

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

5.1.3 *Risk limit control and mitigation policies*

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

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

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

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

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

5.1.4 *Management policy and collateral management*

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

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

	2023	2022
Loans to customers	141,889,587	114,479,122
Less collateral	(17,338,487)	(22,367,869)
Net exposure	124,551,100	92,111,253

5.1.5 *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	
	2023	2022
Cash	41,029,687	76,898,822
Investment securities	90,207,678	81,077,612
Loans to customers	141,889,587	114,479,122
Other accounts receivables	159,834	15,577
Stand-by letters of credit	909,877	1,024,877
Total	274,196,663	273,496,010

(In US dollars)

5. Financial risk management, continued

The preceding table represents the most critical scenario of exposure to credit risk of the Bank at December 31, 2023 without considering credit guarantees or other increases thereof.

As previously indicated, 66% of the total maximum exposure stems from loans to customers and cash (2022: 70%); and 33% represents its investment securities (2022: 30%).

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

- As of December 31, 2023, 99.58% financial assets at amortized cost (2022: 99.42%) were classified in the first two categories of the internal classification system, that is, AA and A.
- As of December 31, 2023, 99.58% (2022: 99.42%) financial assets at amortized cost are not past due nor impaired.

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

	Cash		**Investments Securities**		**Loans to customer at AC**		**Commitments**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Industry concentration								
Corporate	-	-	4,615,441	430,456	122,583,292	88,976,061	-	-
Financial institutions	41,029,687	76,898,822	25,869,906	8,980,965	-	-	909,877	1,024,877
Government	-	-	60,960,647	72,504,248	-	-	-	-
Customers	-	-	-	-	17,815,370	23,418,894	-	-
	41,029,687	76,898,822	91,445,994	81,915,669	140,398,662	112,394,955	909,877	1,024,877
Geographical sectors								
Colombia	-	944	52,388,093	74,503,745	24,323,125	31,751,655	909,877	1,024,877
Latin America, the Caribbean and other	-	13,778,298	17,107,113	2,216,676	88,896,037	59,554,732	-	-
United States	38,635,730	60,351,753	16,917,570	-	5,782,636	3,157,211	-	-
United Kingdom	2,393,957	2,767,827	-	-	2,922,703	-	-	-
Luxembourg	-	-	-	-	-	2,483,512	-	-
Brazil	-	-	4,422,924	2,694,850	4,535,256	12,715,304	-	-
Panama	-	-	610,294	2,500,398	13,938,905	2,732,541	-	-
	41,029,687	76,898,822	91,445,994	81,915,669	140,398,662	112,394,955	909,877	1,024,877

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

5.1.7 Loans

(a) Re-negotiated loans

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.

5. Financial risk management, continued

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. At December 31,2023, the loans that have not been:

	2023	2022
Renegotiated loans to customers		
- Stage 1 – 12 months ECL	-	86,800

5.2.1 Liquidity risk management process

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.

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

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

As part of the liquidity risk analysis, the bank carries out internal measurements which are the basis in order to evaluate, under normal and stressed conditions, the liquidity behavior of the entity in the short and medium term; furthermore, the deposits' stability is measured (based on statistical analysis which enable to quantify, with a predetermined confidence level, the stability of the deposits both with and without contractual expiration), the indebtedness levels, the structure of assets and liabilities, the liquidity level of the assets, the availability of financing facilities and the overall effectiveness of the management of assets and liabilities; the aforementioned, intended to maintain the sufficient liquidity (including liquid assets, guarantees and collateral) 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, 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 diversification of the funding sources in order to avoid concentrations of deposits in few investors or savers, the results of the bank, and the changes in the balance structure.

5. Financial risk management, continued

5.2.1 Liquidity risk management process, continued

Hereinafter, in the charts below, you may find the regulatory liquidity GAP using undiscounted contractual cashflows as of December 31, 2023 and 2022 (in thousands of US$).

	Demand up to 7 days (a)	Over 8 days to 1 month (b)	Over 1 month to 3 months (c)	Over 3 months to 6 months (d)	Over 6 months to 12 months (e)	Over 1 year to 2 years (f)	Over 2 years to 5 years (g)	Over 5 years (h)	Total
2023									
Assets									
Deposits in banks	41,030	-	-	-	-	-	-	-	41,030
Investments	-	11,667	549	5,314	4,357	22,072	31,369	38,486	113,814
Loans	359	9,506	17,988	26,402	14,937	21,962	59,388	2,992	153,534
Total assets	41,389	21,173	18,537	31,716	19,294	44,034	90,757	41,478	308,378
Liabilities									
Demand deposits	9,053	-	-	-	-	-	-	60,589	69,642
Time deposits	3,196	32,879	59,529	39,442	25,283	6,956	1,576	-	168,861
Total liabilities	12,249	32,879	59,529	39,442	25,283	6,956	1,576	60,589	238,503
GAP measures									
RSA - RSL (gap)	29,139	(11,706)	(40,992)	(7,725)	(5,989)	37,077	89,181	(19,111)	
Cumulative Gap	29,139	17,433	(23,559)	(31,285)	(37,273)	(196)	88,985	69,875	

	Demand up to 7 days (a)	Over 8 days to 1 month (b)	Over 1 month to 3 months (c)	Over 3 months to 6 months (d)	Over 6 months to 12 months (e)	Over 1 year to 2 years (f)	Over 2 years to 5 years (g)	Over 5 years (h)	Total
2022									
Assets									
Deposits in banks	76,899	-	-	-	-	-	-	-	76,899
Investments	-	352	17,048	996	4,391	29,067	16,743	39,070	107,667
Loans	493	6,045	15,632	23,810	21,365	24,537	31,439	-	123,321
Total assets	77,392	6,397	32,680	24,806	25,756	53,604	48,182	39,070	307,887
Liabilities									
Demand deposits	84,241	-	-	-	-	-	-	-	84,241
Time deposits	1,247	16,477	58,163	57,135	20,201	3,337	4,370	-	160,930
Total liabilities	85,488	16,477	58,163	57,135	20,201	3,337	4,370	-	245,171
GAP measures									
RSA - RSL (gap)	(8,096)	(10,080)	(25,483)	(32,329)	5,555	50,267	43,812	39,070	
Cumulative Gap	(8,096)	(18,176)	(43,659)	(75,988)	(70,433)	(20,166)	23,646	62,716	

Since the information showed in the above table is based on a regulatory requirement, it does not tie out with the statement of financial position.

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 years ended on December 31, 2023 and 2022, the entity did not need to make use of such credit lines of last resort.

5. Financial risk management, continued

5.2.1 Liquidity risk management process, continued

As a supplement, the Bank carried out a maturity analysis for financial assets and liabilities containing the following undiscounted remaining contractual maturities (in thousands of US$):

	Less than 1 Month	1-3 Months	3-6 months	6-12 months	1-5 years	More than 5 years	Gross nominal inflow/(outflow)	Carrying amount
2023								
Assets								
Deposits in banks	41,030	-	-	-	-	-	41,030	41,030
Investments	11,668	549	5,314	4,357	53,440	38,486	113,814	91,446
Loans	9,865	17,988	26,402	14,937	81,350	2,992	153,534	140,399
Total assets	62,563	18,537	31,716	19,294	134,790	41,478	308,378	272,875
Liabilities								
Demand deposits	(69,642)	-	-	-	-	-	(69,642)	69,642
Time deposits	(36,075)	(59,529)	(39,442)	(25,283)	(8,532)	-	(168,861)	164,657
Total liabilities	(105,717)	(59,529)	(39,442)	(25,283)	(8,532)	-	(238,503)	234,299

	Less than 1 Month	1-3 Months	3-6 months	6-12 months	1-5 years	More than 5 years	Gross nominal inflow/(outflow)	Carrying amount
2022								
Assets								
Deposits in banks	76,899	-	-	-	-	-	76,899	76,899
Investments	352	17,048	996	4,391	45,810	39,070	107,667	81,916
Loans	6,538	15,632	23,810	21,365	55,976	-	123,321	112,395
Total assets	83,789	32,680	24,806	25,756	101,786	39,070	307,887	271,210
Liabilities								
Demand deposits	(84,241)	-	-	-	-	-	(84,241)	84,241
Time deposits	(17,724)	(58,163)	(57,135)	(20,201)	(7,707)	-	(160,930)	157,184
Total liabilities	(101,965)	(58,163)	(57,135)	(20,201)	(7,707)	-	(245,171)	241,425

As of December 31, 2023, the Bank does not have financial assets pledged as collateral and, therefore, keeps them available to support future financing.

5.3 Off balance

5.3.1 Financial guarantees and other financial facilities

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

	2023	2022
Stand-by letters of credit	909,877	1,024,877

5. Financial risk management, continued

5.4 Market risk

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

5.4.1. Market Risk Management

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

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

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

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

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

5.4.1.1 Market Risk Measurement Techniques

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

- Standardized model of Value at Risk (VaR) in blocks as suggested by the Basel Committee.
- Calculation of sensitivities to changes in interest rates and their 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 at FVOCI.
    b. Present value of fixed-term deposits.
    c. Assessment of current portfolio (purchased IRR, IRR and maturing market).

2. OBB Portfolio VaR:
    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.

(In US dollars)

5. Financial risk management, continued

5.4.1.2 Software

The VaR software for OBB portfolio runs on a model developed by 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 from sources in order to carry out a reliable VaR calculation by estimating volatilities with respect to the risk factors of any and all securities as defined by the Bank. The above-mentioned volatilities are estimated at 99% confidence level and multiplied by the present value of each security in order to obtain its corresponding VaR. Total VaR corresponds to the aggregate of the latter.

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

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

5.4.1.3 VaR summary

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

	2023	2022
High	960,247	1,763,625
Average	665,153	1,031,119
Low	364,254	557,447

5.4.1.4 Sensitivity Analysis

The following table summarizes the December 31, 2023 securities portfolio's exposure over its net present value taking into consideration an increase in the fluctuation of the market reference interest rate from 25 to 200 basis points:

Type	Present value	25 BP	50 BP	75 BP	100 BP	150 BP	200 BP
Investment securities	90,207,678	-699,855	-1,387,526	-2,063,302	-2,727,467	-4,022,053	-5,273,288
	90,207,678	-699,855	-1,387,526	-2,063,302	-2,727,467	-4,022,053	-5,273,388

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 BP	50 BP	75 BP	100 BP	150 BP	200 BP
Investment securities	90,207,678	712,399	1,437,471	2,175,711	2,927,387	4,472,401	6,075,323
	90,207,678	712,399	1,437,471	2,175,711	2,927,387	4,472,401	6,075,323

(In US dollars)

5. Financial risk management, continued

The following table summarizes the December 31, 2022 securities portfolio exposure over its net present value taking into consideration an increase in the fluctuation of the market reference interest rate from 25 to 200 basis points:

Type	Present value	25 BP	50 BP	75 BP	100 BP	150 BP	200 BP
Investments securities	81,077,612	(616,839)	(1,221,952)	(1,815,641)	(2,398,200)	(3,531,050)	(4,622,676)
	81,077,612	(616,839)	(1,221,952)	(1,815,641)	(2,398,200)	(3,531,050)	(4,622,676)

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 BP	50 BP	75 BP	100 BP	150 BP	200 BP
Investments securities	81,077,612	628,875	1,270,108	1,924,030	2,590,980	3,965,388	5,396,283
	81,077,612	628,875	1,270,108	1,924,030	2,590,980	3,965,388	5,396,283

Interest rate benchmark reform

In March 2021, the Financial Conduct Authority (FCA), as the regulatory body of ICE (LIBOR's administering authority), announced that after 31 December 2021 the LIBOR benchmarks for sterling, the euro and the US dollar benchmarks of one week and two months will no longer be provided or will no longer be representative. The remaining US dollar references is no longer be provided after June 30, 2023.

Below are the contract amounts that Occidental Bank Barbados has indexed to IBOR rates that lost their validity in June 2023 and the contract amounts that have included fallback clauses as of December 31, 2023, and 2022:

2023

	Gross exposure	No. of operations	Libor exposure	No. of operations	Exposure with expiration after June 30th, 2023	No. of operations	Fallback contracts	No. of operations
Loans - gross	139,468,776	150	1,500,000	2	-	-	-	-

2022

	Gross exposure	No. of operations	Libor exposure	No. of operations	Exposure with expiration after June 30th, 2023	No. of operations	Fallback contracts	No. of operations
Loans - gross	112,705,666	171	38,683,619	33	27,862.,797	21	-	-

(In US dollars)

5. Financial risk management, continued

5.4.2 Foreign exchange risk

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

	Euro	Total
2023		
Assets		
Cash	2,393,957	2,393,957
Total	2,393,957	2,393,957
Liabilities		
Customers´ deposits	2,371,369	2,371,369
Total	2,371,369	2,371,369
Net financial position on statement of financial position	22,588	22,588

	Euro	Colombian peso	Total
2022			
Assets			
Cash	2,767,827	944	2,768,771
Total	2,767,827	944	2,768,771
Liabilities			
Customers´ deposits	2,765,555	-	2,765,555
Total	2,765,555	-	2,765,555
Net financial position on statement of financial position	2,272	944	3,216

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

5.5 Operational risk

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

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

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

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

5. Financial risk management, continued

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

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

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

5.5.2 Risk-Based Focus (Unaudited)

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

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

5.5.3 Know your Customer (KYC) and Commercial Relationships (Unaudited)

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

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

5.5.4 Monitoring of operations and customer analysis (Unaudited)

The Bank analyses all the operations performed by customers. It has specific conditions by type of economic activity, historical data on transactions and type of operations in validating whether such operations are related to their economic activity and financial information. In its detailed analysis customer knowledge is considered, as well as the market analysis on its economic activity.

5.6.5 Validation from the OFAC and UN lists (Unaudited)

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

Due to the foregoing, whoever is reported in those lists cannot be considered as potential clients or cannot be mentioned in any sort of contractual relationship. These instructions apply to customers, vendors, employees, users, legal representatives, and persons authorized in accounts, partners and contributors.

(In US dollars)

5. Financial risk management, continued

5.6.6 Politically Exposed Persons (PEPS) (Unaudited)

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

5.7 Capital risk management

The Bank manages its capital to ensure:

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

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

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

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

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

	2023	2022
Primary capital (Tier 1)		
Shares capital	10,075,000	10,075,000
Premium per share and reserve fund	18,239,034	18,239,034
Retained earnings	11,167,753	7,426,364
Total	39,481,787	35,740,398
Primary capital (Tier 2)		
Collective allowance for impairment	595,249	689,973
Total	595,249	689,973
Total Tier 1 + Tier 2	40,077,036	36,430,371
Risk-weighted assets and contingencies	232,591,988	206,275,334
Paid-in capital		
Total regulatory capital Tier 1 expressed in percentage over risk-weighted assets	16.97%	17.33%
Total regulatory capital Tier 1 and Tier 2 expressed in percentage over risk-weighted assets	17.23%	17.66%
Regulatory paid-in required	8.00%	8.00%
Internal paid-in required	9.00%	9.00%

(In US dollars)

5. Financial risk management, continued

5.7 Capital management risk, continued

At December 31, 2023, the fair value reserves, and investment in a financial subsidiary not consolidated in national systems are no longer part of adequate capital report required for the Central Bank of Barbados.

Reserve fund

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

6. Cash

Cash is detailed below:

	2023	**2022**
Due from banks		
Demand deposits	41,029,687	76,898,822
Total	41,029,687	76,898,822

7. Investment securities

Details of investment securities are as follow:

	At fair value	
	2023	**2022**
Securities at FVOCI		
Debt securities – Listed	90,207,678	81,077,612
Equity investment – Unlisted	1,238,316	838,057
	91,445,994	81,915,669

Debt securities are composed of government bonds by US$60,960,647; corporate bonds by US$4,615,441 and financial institution by US$24,631,590 (2022: US$72,504,248, US$430,456 and US$8,142,908, respectively).

The Bank maintains equity investment securities at FVOCI in a related company Fiduciaria de Occidente, S. A. for strategic purpose, represented by 111,678 (2022: 111,678) common shares representing 0.581% ownership in this company, with a carrying value at December 31, 2023 of $1,238,316 (2022: $838,057). The Bank during the year updated its fair value. During 2023, the Bank did not sell any portion of these securities. The net change in fair value on this investment was an unrealised gain of $400,257 (2022: unrealized loss $280,150).

Annual interest yield rates in investment securities as of December 31, 2023 fluctuated 1.40 % and 10.26 % (2022: 1.14% and 10.36%).

During 2023, the Bank sold and redeemed investments securities at FVOCI of $94,120,592 (2022: $44,161,671), which generated a net realized loss of $107,507 (2022: net realized loss $122,703). Additionally, the unrealised loss on investments securities at FVOCI as of December 31, 2023 amounts to $5,475,360 (2022: unrealised loss $10,192,306) which is presented in the statement of changes in equity, which includes the allowance for credit losses.

As of December 31, 2023 and 2022 investments in securities are not guaranteeing other operations.

(In US dollars)

8. Loans to customers at AC

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

	2023	2022
Loans	139,468,776	112,705,667
Accrued interests receivables	2,420,811	1,773,455
Allowance for expected credit losses	(1,490,925)	(2,084,167)
Total	140,398,662	112,394,955

9. Other accounts receivable

The following is a summary of other accounts receivable:

	2023	2022
Other interest receivable syndicate	147,344	2,392
Other account receivable debt securities	822	822
Dividends	11,404	12,082
Commissions	264	281
Total	159,834	15,577

10. Other assets

The following is a summary of other assets:

	2023	2022
Prepaid expenses	73,319	73,319
Prepaid tax	54,625	82,537
Software advance	45,827	4,603
Guarantee deposits	2,913	2,913
Suppliers expense	1,917	4,182
Total	178,601	167,554

11. Deposits

A summary of customers' deposits is as follows:

	Average interest rate 2023	Average interest rate 2022	Payable on notice	Payable on fixed date	2023	2022
Interest bearing checking account:	0.05%	0.05%				
Individuals			7,093,022	-	7,093,022	8,021,628
Corporate			62,549,243	-	62,549,243	76,219,452
Subtotal			69,642,265	-	69,642,265	84,241,080
Time deposits:	4.97%	3.53%				
Individuals			-	25,709,413	25,709,413	22,320,736
Corporate			-	138,947,190	138,947,190	134,863,584
Subtotal			-	164,656,603	164,656,603	157,184,320
Total					234,298,868	241,425,400

(In US dollars)

12. Other liabilities

The following is a summary of other liabilities:

	2023	2022
Checks used unpaid	368,944	365,606
Income tax	250,856	194,924
Other liabilities	146,122	52,588
Supplier´s provision	56,122	83,429
Auditor fees	36,462	27,209
Risk rating provision	20,280	32,206
Advertising and market	14,220	14,220
Director fees	1,333	-
Total	894,339	770,182

13. Share capital and share premium

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

	2023	2022
Shares issued	2,015	2,015
Par value per share	5,000	5,000
Share capital	10,075,000	10,075,000
Premium per share	8,164,034	8,164,034
Total	18,239,034	18,239,034

14. Provision for taxes

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

Taxable Income Bracket 2023
- 5.5 % Taxable income not exceeding BBD $1,000,000
- 3.00 % Taxable income exceeding BBD $1,000,000 but not exceeding BBD $20,000,000
- 2.5% Taxable income exceeding BBD $20,000,000 but not exceeding BBD $30,000,000

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

(In US dollars)

14. Provision for taxes, continued

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

During 2023, a current income tax was generated for $190,724, corresponding to a provision on the profit before tax (2022: $166,067). At December 31, 2023 the Bank recognised deferred tax assets by $11,677 (2022: $2,532) which generated a credit to the income tax expense.

Reconciliation of effective tax rate

	2023	
	USD	**BBD**
Profit before tax	4,487,632	-
Plus: Non-deductible expenses	2,860,588	-
	7,348,220	-
Less: Non-taxable income	3,557,009	-
Taxable income	3,791,211	-
Conversion to BBD		7,544,510
Tax on income not exceeding USD$500,000 5.50%	27,638	55,000
Tax on income exceeding USD$500,000 but not exceeding USD$10,000,000 , 3%	98,661	196,335
Over rate tax	55,280	110,007
Income tax expense	181,579	361,342

(In US dollars)

14. Provision for taxes, continued

	2022	
	USD	**BBD**
Profit before tax	3,904,924	-
Plus: Non-deductible expenses	2,898,924	-
	6,803,848	-
Less: Non-taxable income	2,923,951	-
Taxable income	3,879,897	-
Conversion to BBD		7,720,994
Tax on income not exceeding USD 500,000 (BBD$1,000,000), 5.50%	27,638	55,000
Tax on income exceeding USD500,000 (BDD$1,000,000) but not exceeding USD$10,000,000 (BBD$20,000,000), 3%	101,322	201,630
Over rate tax	34,575	68,804
Income tax expense	163,535	325,434

The effective tax rate for December 31, 2023 is 4.05% (2022: 4.19%).

At end of the year, the Bank does not maintain accumulated tax losses.

The table below details the deferred taxes by type deductible temporary difference.

	Net Balance December 31, 2022	Recognised in profit or loss	Recognised in OCI	Balance at December 31, 2023
Property and equipment	2,532	9,145	-	11,677
Total Deferred tax asset	2,532	9,145	-	11,677

	Balance at December 31, 2023	Balance at December 31, 2022
Deferred Tax Asset		
Deferred tax Assets recoverable after 12 months	9,145	2,532
Total Deferred tax asset	9,145	2,532

(In US dollars)

15. Related party transactions

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

	Key personnel and management		Companies members of the Parent Bank		Other affiliated companies and the ultimate parent	
	2023	2022	2023	2022	2023	2022
Assets						
Current account	-	-	-	944	-	-
Investment securities	-	-	1,238,316	838,057	-	-
Loans to customers (secured)	292,500	78,129	-	-	169,724	169,724
Dividends receivable	-	-	11,404	12,082	-	-
Account receivable	3,234	1,536	-	-	1,584	1,485
Other assets	-	-	2,913	2,913	-	-
Liabilities						
Deposits	1,203	10,623	38,586	-	-	-
Time deposits	700,898	882,723	64,891	-	41,391	30,371

	Key personnel and management		Companies members of the Parent Bank		Other affiliated companies and the ultimate parent	
	2023	2022	2023	2022	2023	2022
Profit or loss						
Interest income:						
Loans to customers (secured)	14,910	2,811	-	-	9,009	3,221
Dividends	-	-	37,200	61,407	-	-
Interest expense:						
Customer deposits	26,973	19,510	73,603	444,356	1,259	588
General and administrative expenses:						
Employee benefits, short-term	46,857	42,252	-	-	-	-
Expenses outsourcing services	-	-	1,318,346	951,831	-	-
Director´s fee	-	-	-	-	-	-

Loans to costumers -related parties had been granted under market conditions. No loans have been written off.

During 2023, the Bank maintained with its parent Bank the following balances and transactions: cash US$0, (2022: US$944), dividends receivable $11,404 (2022: $12,082) and dividends income $37,200 (2022: US$61,407), outsourcing expenses by US$952,180 (2022: US$723,594).

16. Commitments and contingencies

The most significant commitments of the Bank are as follows:

	2023	2022
Stand-by letters of credit	909,877	1,024,877

Stand-by letters of credit recognise the opening of letters of credit issued by the Bank or by its own account, as well as the responsibility acquired from the confirmation of letters of credit issued by another bank. At December 31, 2023 and 2022, stand-by letters of credit are fully guaranteed with deposits in the same bank.

As of December 31, 2023, there are no legal claims filed against the Bank; therefore, contingencies for possible losses have not been recognised.

(In US dollars)

17. Securities received in custody

At December 31, 2023, the Bank held securities received in custody for $25,841,086 (2022: $32,746,369).

18. 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:

	2023		2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Investment securities	91,445,994	91,445,994	81,915,669	81,915,669
Loans to customers	140,398,662	139,177,583	112,394,955	111,830,564
Liabilities				
Time deposits	164,656,603	163,413,552	157,184,320	158,734,778

(In US dollars)

18. Fair values of financial instruments, continued

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

	Level 1	Level 2	Level 3	Total
December 31, 2023				
Investment securities at FVOCI:				
Listed securities	12,464,546	77,743,132	-	90,207,678
Unlisted securities	-	-	1,238,316	1,238,316
Total				91,445,994
December 31, 2022				
Investment securities at FVOCI:				
Listed securities	-	81,077,612	-	81,077,612
Unlisted securities	-	-	838,057	838,057
Total				81,915,669

For investments in securities included in level 2, fair value is determined by the reference price of similar instruments published in the stock market that are considered less than active, published in electronic systems of market information or prices provided by price vendors. Unlisted securities are classified in level 3.

During 2023 and 2022, there have been no transfers of investment securities.

Reconciliation

The following table shows a reconciliation from the beginning balance to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

	Investment securities at FVOCI unlisted securities	Investment securities at FVOCI unlisted securities
	2023 USD	2022 USD
Balance at January 1	838,057	1,118,207
Total gains or losses:		
in profit or loss	-	-
in OCI	400,259	(280,150)
Purchases	-	-
Issues	-	-
Settlements	-	-
Balance at December 31	1,238,316	838,057

(In US dollars)

18. Fair values of financial instruments, continued

The following table sets out information about significant unobservable inputs used at 31 December 2023 and 2022 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Level 3 Fair value measurements

Type of financial instrument	Fair Value at 31 December 2023	Valuation technique	Significant unobservable inputs
Investment securities at FVOCI unlisted securities	1,238,316	Discounted cash flow	Expected net cash flows derived from the entity and discount rate.

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			
	2023		2022	
	Level 3	Total	Level 3	Total
Financial assets				
Loans to customers at AC	139,177,583	139,177,583	111,830,564	111,830,564
	139,177,583	139,177,583	111,830,564	111,830,564
Financial liabilities				
Time deposits	163,413,552	163,413,552	158,734,778	158,734,778
	163,413,552	163,413,552	158,734,778	158,734,778

The table below describes the valuation techniques and inputs used in determining the fair value of financial liabilities and assets not measured at fair value categorized as Level 2 and Level 3:

Type of financial instrument	Valuation technique and significant inputs
Loans to customers at AC	Fair value of loans is estimated using discounted cash flow techniques, applying current market interest rates for new loans with similar remaining maturities and terms.
Time deposits	Fair value of time deposits is estimated using discounted cash flow techniques, applying current market interest rates that are offered for deposits of similar maturities and terms.
Investment securities at FVOCI - unlisted securities	Investments securities at FVOCI classified as level 3 have significant unobservable inputs. Level 3 instruments mainly include investment in equity instruments, which are not listed on the stock exchange

19. Subsequent Events

There are no events occurring after the reporting date and before the date of approval of these financial statements by the Board of Directors of the Bank that require adjustment to or disclosure in these financial statements.