Consolidated Financial Statement of

**FIRST OVERSEAS BANK LIMITED**

December 31, 2019

bakertilly

**FIRST OVERSEAS BANK LIMITED**
Consolidated Financial Statements

December 31, 2019

**C O N T E N T S**

bakertilly

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of:
**First Overseas Bank Limited**

*Opinion*

We have audited the consolidated financial statements of First Overseas Bank Limited and its subsidiaries collectively known as (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

*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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in The Bahamas, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Responsibilities of Management and Directors for the Financial Statements*

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

## **INDEPENDENT AUDITORS' REPORT** *(Continued)*

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Baker Tilly

**Baker Tilly**
Chartered Accountants
Nassau, The Bahamas

February 14, 2020

**FIRST OVERSEAS BANK LIMITED**
Consolidated Statement of Financial Position

As at December 31, 2019
*(Expressed in United States dollars)*

| | Notes | | 2019 | | 2018 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and due from banks | 5, 21 | $ | 24,473,289 | $ | 7,173,415 |
| Settlement balances | 6, 21 | | 4,732,558 | | 9,093,865 |
| Financial instruments at fair value through profit or loss | 7(a) | | 4,553,617 | | 41,176,938 |
| Financial instruments at amortized cost | 8 | | 476,850 | | 5,445,795 |
| Derivative financial instruments | 9 | | 2,521,740 | | 2,145,910 |
| Repurchase agreements | 10 | | 15,925,179 | | 8,908,418 |
| Other assets | 11 | | 2,620,310 | | 1,732,209 |
| Loans and advances | 12 | | 7,535,976 | | 6,748,909 |
| Long-term investments | 13, 21 | | 2,969,259 | | 3,649,686 |
| Intangible assets | 14 | | 35,558 | | 40,752 |
| Investment properties | 15 | | 750,000 | | 1,320,000 |
| Property and equipment | 16 | | 2,094,360 | | 2,293,497 |
| **TOTAL ASSETS** | | $ | 68,688,696 | $ | 89,729,394 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Liabilities** | | | | | |
| Customers' deposits | 17, 21 | $ | 15,233,781 | $ | 14,093,806 |
| Settlement balances | 6, 21 | | 3,054,489 | | 17,693,387 |
| Financial instruments at fair value through profit or loss | 7(b) | | 20,875,737 | | 20,241,624 |
| Repurchase agreements | 10 | | - | | 3,216,731 |
| Guarantees | | | - | | 5,043,000 |
| Other liabilities | 16.2, 18 | | 1,564,817 | | 630,332 |
| Total liabilities | | | 40,728,824 | | 60,918,880 |
| **Equity** | | | | | |
| *Equity attributable to owners of the parent:* | | | | | |
| Share capital | 19 | | 10,000,000 | | 10,000,000 |
| Currency translation reserve | | | (1,697,347) | | (1,496,340) |
| Retained earnings | | | 19,615,525 | | 20,246,884 |
| | | | 27,918,178 | | 28,750,544 |
| *Non-controlling interest* | | | 41,694 | | 59,970 |
| Total equity | | | 27,959,872 | | 28,810,514 |
| **TOTAL LIABILITIES AND EQUITY** | | $ | 68,688,696 | $ | 89,729,394 |
| Memoranda items | 20, 21 | $ | 81,554,686 | $ | 100,246,782 |

The accompanying notes form an integral these consolidated financial statements.

Approved by the Board of Directors on February 14, 2020 and signed on its behalf by:

**Director** **Director**

**FIRST OVERSEAS BANK LIMITED**
Consolidated Statement of Profit or Loss

For the year ended December 31, 2019
*(Expressed in United States dollars)*

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **NET INTEREST AND COMMISSION INCOME/(EXPENSES)** | | | |
| *Interest income* | | | |
| Loans | | $ 634,320 | $ 291,827 |
| Banking | | 11,186 | 13,766 |
| Securities | | 50,144 | 10,728 |
| | | 695,650 | 316,321 |
| *Interest expense* | | | |
| Deposits | | (201,445) | (278,116) |
| Banking | | - | (277,838) |
| | | (201,445) | (555,954) |
| Net interest income/(expenses) | | 494,205 | (239,633) |
| *Commission income/(expense)* | | | |
| Commissions received | | 47,954 | 88,166 |
| Commissions paid | | (39,333) | (38,976) |
| Net commission income | | 8,621 | 49,190 |
| **NET INTEREST AND COMMISSION INCOME/(EXPENSES)** | | 502,826 | (190,443) |
| **NON-INTEREST INCOME/(EXPENSES)** | | | |
| Net result from securities trading | | 1,352,054 | (8,843,909) |
| Change in fair value of long-term investments | ***13*** | (680,427) | (369,254) |
| Net exchange difference | | 337,811 | 525,191 |
| Gain on change in fair value of investment properties | ***15*** | 18,579 | 237,387 |
| Other losses | ***15(a)*** | (392,215) | - |
| Decrease/(increase) in provision for credit losses | ***22*** | 50,981 | (15,865) |
| Total non-interest income/(expenses) | | 686,783 | (8,466,450) |
| **OPERATING INCOME/(LOSS)** | | 1,189,609 | (8,656,893) |
| **OPERATING EXPENSES** | | | |
| Administration expenses | | (1,185,351) | (1,408,584) |
| Other operating expenses | | (5,425) | (65,663) |
| Directors' fees | | (474,250) | (881,350) |
| Depreciation and amortization | ***15, 16*** | (155,284) | (86,298) |
| Interest expense on lease liabilities | ***16.2*** | (8,177) | - |
| Total operating expenses | | (1,828,487) | (2,441,895) |
| **LOSS FOR THE YEAR** | | $ (638,878) | $ (11,098,788) |
| ***Profit attributable to:*** | | | |
| Owners of the Parent | | $ (631,359) | $ (11,109,857) |
| Non-controlling interests | | (7,519) | 11,069 |
| **Loss for the year** | | $ (638,878) | $ (11,098,788) |

The accompanying notes form an integral these consolidated financial statements.

**FIRST OVERSEAS BANK LIMITED**
Consolidated Statement of Other Comprehensive Income

For the year ended December 31, 2019
*(Expressed in United States dollars)*

| | 2019 | 2018 |
|---|---|---|
| **LOSS FOR THE YEAR** | $ (638,878) | $ (11,098,788) |
| *Items that may be subsequently reclassified to profit or loss:* | | |
| Movement in translation reserve: | | |
| Exchange differences on translation of foreign operations | (211,764) | (669,673) |
| Total other compresensive loss for the year | (211,764) | (669,673) |
| **TOTAL COMPREHENSIVE (LOSS) FOR THE YEAR** | $ (850,642) | $ (11,768,461) |
| ***Attributable to:*** | | |
| Owners of the Parent | $ (832,366) | $ (11,109,857) |
| Non-controlling interests | (18,276) | (200,695) |
| **Total comprehensive (loss) for the year** | $ (850,642) | $ (11,310,552) |

The accompanying notes form an integral these consolidated financial statements.

**FIRST OVERSEAS BANK LIMITED**
Consolidated Statement of Changes in Equity

For the year ended December 31, 2019
*(Expressed in United States dollars)*

| | Attributable to owners of the Parent | | | | | |
|---|---|---|---|---|---|---|
| | Share Capital | Currency Translation Reserve | Retained Earnings | Total | Non-controlling Interest | Total Equity |
| **Balance as at December 31, 2017** | **$10,000,000** | **$ (860,686)** | **$31,558,893** | **$40,698,207** | **$ 82,921** | **$40,781,128** |
| Impact of adopting IFRS 9 | - | - | (202,152) | (202,152) | - | (202,152) |
| **Restated total equity at January 1, 2018** | 10,000,000 | (860,686) | 31,356,741 | 40,496,055 | 82,921 | 40,578,976 |
| *Comprehensive loss for the year* | | | | | | |
| Loss for the year | - | - | (11,109,857) | (11,109,857) | 11,069 | (11,098,788) |
| Foreign currency translation | - | (635,654) | - | (635,654) | (34,020) | (669,674) |
| *Total comprehensive loss for the year* | - | (635,654) | (11,109,857) | (11,745,511) | (22,951) | (11,768,462) |
| **Balance as at December 31, 2018** | **10,000,000** | **(1,496,340)** | **20,246,884** | **28,750,544** | **59,970** | **28,810,514** |
| *Comprehensive loss for the year* | | | | | | |
| Loss for the year | - | - | (631,359) | (631,359) | (7,519) | (638,878) |
| Foreign currency translation | - | (201,007) | - | (201,007) | (10,757) | (211,764) |
| *Total comprehensive loss for the year* | - | (201,007) | (631,359) | (832,366) | (18,276) | (850,642) |
| **Balance as at December 31, 2019** | **$10,000,000** | **$ (1,697,347)** | **$19,615,525** | **$27,918,178** | **$ 41,694** | **$27,959,872** |

The accompanying notes form an integral these consolidated financial statements.

**FIRST OVERSEAS BANK LIMITED**
Consolidated Statement of Cash Flows

For the year ended December 31, 2019
*(Expressed in United States dollars)*

| | 2019 | 2018 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Loss for the year | $ (638,878) | $ (11,098,788) |
| *Add items not affecting cash:* | | |
| Change in fair value of long-term investments | 680,427 | 369,254 |
| Depreciation and amortization | 155,284 | 86,298 |
| Realized loss on disposal of investment properties (Note 15(a)) | 388,579 | - |
| Decrease/increase in provision for credit losses | (50,981) | 15,865 |
| Gain in change in fair value of investment properties | (18,579) | (237,387) |
| | 515,852 | (10,864,758) |
| **Changes in operating assets and liabilities:** | | |
| Net decrease in settlement balances | (10,277,591) | (15,407,488) |
| Net decrease in financial instruments at fair value through profit or loss | 37,257,434 | 38,968,843 |
| Net decrease/(increase) in financial instruments at amortized cost | 4,970,436 | (4,964,689) |
| Net increase in derivatives financial instruments | (375,830) | (2,102,053) |
| Net increase in repurchase agreements | (10,233,492) | (5,691,687) |
| Net increase in loans and advances | (753,760) | (4,575,038) |
| Net (increase)/decrease in other accounts | (1,083,682) | 323,371 |
| Net increase/(decrease) in customers' deposits | 1,139,975 | (4,406,182) |
| (Decrease)/increase in guarantees | (5,043,000) | 5,043,000 |
| Net increase/(decrease) in other liabilities | 934,485 | (24,873) |
| **Net cash provided by/(used in) operating activities** | 17,050,827 | (3,701,554) |
| **Cash flows from investing activities:** | | |
| Purchase of intangible assets | (22,835) | (15,632) |
| Purchase of property and equipment | (195,528) | (25,406) |
| Proceeds from disposal of property and equipment | 267,410 | 22,864 |
| Proceeds from disposal of investment property | 200,000 | - |
| **Net cash used in investing activities** | 249,047 | (18,174) |
| **Net decrease in cash and cash equivalents** | 17,299,874 | (3,719,728) |
| **Cash and cash equivalents, beginning of year** | 7,173,415 | 10,893,143 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 24,473,289 | $ 7,173,415 |

The accompanying notes form an integral these consolidated financial statements.

## 1. GENERAL

First Overseas Bank Limited (the "Bank") was incorporated under the laws of the Commonwealth of The Bahamas on November 23, 1981. The Bank is licensed under the Banks and Trust Companies Regulation Act 1965 (as amended) to conduct banking business. The Bank is also licensed with the Securities Commission of the Bahamas for Dealing in Securities as Principal and Agent.

The Bank's principal activity is the provision of offshore banking services, which includes buying and selling securities issued by the Argentine government and private Argentine companies.

The Group's principal place of business is located at Office #2, in Building #8, Caves Village, West Bay Street, Nassau, The Bahamas.

The Bank is a wholly owned subsidiary of Mariva International Co. Ltd., a company incorporated and domiciled in the Commonwealth of the Bahamas.

The Bank has two (2) subsidiaries (together the "Group") which are incorporated under the laws of the Republic of Argentina as follows:

| Subsidiaries | Principal Activities | Holding | Acquisition Date |
|---|---|---|---|
| Islas Platanos S. A. | Land Holding | 95% | September 27, 1999 |
| Islas Casuarinas S. A. | Land Holding | 95% | September 27, 1999 |

The operations of subsidiaries are limited to land holding for capital appreciation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

a) ***Statement of compliance*** – The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board ("IASB").

b) ***Basis of measurement*** – These consolidated financial statements have been prepared under the historical cost convention except for investment properties, and certain financial assets and financial liabilities that have been measured at fair value.

c) ***Basis of consolidation***

*Subsidiaries* – Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) ***Basis of consolidation*** *(Continued)*

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

d) ***Going concern*** – The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to sustain its operation for the foreseeable future. Furthermore, management is not aware of any material uncertainties relating to events or conditions that may cast doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

e) ***Functional and presentation currency*** – The consolidated financial statements are presented in the United States dollars ("US") which is the Group's functional and presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

f) ***Changes in accounting policies and disclosures*** **–** Certain new standards and amendments to existing standards have been published by the International Accounting Standards Board ("IASB"); the effect on the Group's consolidated financial statements are set out below:

*f.1)* Adoption of published standards effective January 1, 2019
The Group adopted the following published standards during the period:

- *IAS 19, 'Employee Benefits' (Amendment): Plan Amendment, Curtailment or Settlement -* The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:
  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to re-measure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to re-measure that net defined benefit liability (asset).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### f) *Changes in accounting policies and disclosures* (Continued)

*f.1)* Adoption of published standards effective January 1, 2019

- *IAS 19, 'Employee Benefits' (Amendment) (Continued)*

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income. The adoption of this amendment had no impact on the Group's current year financial statements.

- *IFRS 9, 'Financial Instruments' (Amendment): Prepayment Features with Negative Compensation* - Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The adoption of this amendment had no impact on the Group's current year financial statements.

- *IFRS 16, 'Leases'* – Details of the adoption of this new standard is disclosed in Note 3.

*f.2)* New standards and amendments to published standards issued but not yet effective
The following new and amended standards have been issued but are not yet effective, and have not been early adopted. The Group intends to adopt these standards when they become effective:

- *IAS 1 and IAS 8 (Amendment): Definition of Material* (Effective January 1, 2020) –The IASB made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

  In particular, the amendments clarify:
  - that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
  - the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the information they need.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### f) *Changes in accounting policies and disclosures* (Continued)

*f.2)* New standards and amendments to published standards issued but not yet effective *(Continued)*

- *FRS 3, 'Business Combinations' (Amendment) (Effective January 1, 2020)* – The amendment clarifies the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

  The amendments:
  - clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
  - remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs;
  - add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
  - narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; and
  - add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

### g) *Foreign currency translation*

Transactions and balances
Transactions in foreign currencies are translated at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign currency differences resulting from the translation of foreign currency transactions are recognized in the consolidated statement of other comprehensive income.

Foreign operations
The assets and liabilities of foreign operations are translated into the reporting currency of the Group at the reporting date. The income and expenses of foreign operations are translated into the reporting currency using the average rates, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions.

Foreign currency differences are recognized in Other Comprehensive Income (OCI), and accumulated in the currency translation reserve, except to the extent that the translation difference is allocated to Non-Controlling Interest (NCI).

h) ***Cash and due from banks*** – Cash due from banks are carried at cost in the consolidated statement of financial position. For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise balances with less than three month's maturity from the date of acquisition, including cash in hand, amounts due from banks and securities with original maturities of 90 days or less.

i) ***Financial assets at fair value through profit or loss*** – Financial assets at fair value through profit or loss include the Republic of Argentina Government bonds, shares in Argentine companies, corporate bonds and foreign debt instruments. Debt and equity securities are stated at fair value.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

j) ***Intangible assets*** – Acquired computer software licenses are capitalized on the basis of the costs incurred to use the specific software. These costs are amortized over their expected useful lives of five (5) years.

k) ***Property and equipment*** – Property and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Costs include expenditures that are directly related to the acquisition of the asset. The cost of self-constructed assets includes the cost of material and direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Subsequent cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item, if it is probable that the future economic benefits embodied within the part flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognized in the statement of profit or loss.

Depreciation is recognized in profit or loss on the straight-line basis at rates estimated to write-off the relevant assets over their expected useful lives as follows:

| | | |
|---|---|---|
| Buildings | - | 2% |
| Leasehold Improvements | - | 20% |
| Furniture and Equipment | - | 20% |
| Vehicles | - | 20% |

Property and equipment are reviewed periodically for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the consolidated statement of profit or loss.

l) ***Customers' deposits*** – Customers' deposits are initially stated at the nominal amount when funds are received and subsequently stated at amortized cost using the effective interest method.

m) ***Offsetting financial instruments*** – Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

n) ***Related parties*** – Parties are considered related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) ***Financial instruments*** – A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity of another enterprise.

o.1) Recognition, classification and measurement

Recognition
The Group recognizes a financial asset or financial liability in its consolidated financial statements, as applicable, when it becomes a party to the contractual clauses of the financial instrument. Purchases and sales are recognized on the trading date in which the Group buys or sells the instruments.

On initial recognition, the Group measures its financial assets or liabilities at their fair value plus or minus, in the case of financial instruments not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or liabilities, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried a fair value through profit or loss are expensed in profit or loss. Immediately after recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortized cost, which results in an accounting loss being recognized in profit or loss when an asset is newly originated.

When the fair value of a financial instrument differs from the transaction price on initial recognition, the Group recognizes the difference as follows:

- When the fair value is commensurate with the market value of the financial asset or liability or is based on a valuation technique that uses only market values, the difference is recognized as a gain or loss as appropriate.
- In other cases, the difference is deferred and the recognition in time of the gain or loss is determined individually. It is amortized over the life of the instrument until the fair value can be measured based on market values.

*o.1.i) Financial assets*

The Group classifies its financial assets in the following measurement categories:

- Amortized cost; and
- Fair value through profit or loss (FVTPL).

The classification requirements for debt and equity instruments are described below:

Debt instruments
Debt instruments are those financial instruments that are considered financial liabilities for the issuer, such as loans, public and private bonds, and accounts receivable from client arrangements without recourses.

Classification and subsequent measurement of debt instruments depend on:

- The Group's business model for managing the asset; and
- The cash flow characteristics of the asset.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### o) ***Financial instruments*** *(Continued)*

#### o.1) Recognition, classification and measurement *(Continued)*

##### *o.1.i) Financial assets (Continued)*

*Business model:*
The business model refers to the way in which the Group manages a set of financial assets to achieve a specific business objective. It represents the way in which the Group maintains the instruments for the generation of funds.

The business models followed by the Group are:
- Keep the instruments until expiration;
- Keep the instruments in the portfolio for the collection of the flow of funds and, in turn, sell them in case it is convenient; or
- Keep the instruments for negotiation.

The Group's business model does not depend on management's intentions for an individual instrument. Therefore, this condition is not a classification approach instrument by instrument, but is determined from a higher level of aggregation.

The Group only realizes the reclassification of an instrument when, and only when, the business model for the management of the assets is modified.

*Characteristics of the flow of funds:*
The Group evaluates whether the performance of the cash flow of the pooled instruments is not significantly different from the contribution that would be received solely by interest, otherwise, they should be measured at fair value with changes in profit or loss.

Based on these factors, the Group classified its debt instruments into one of the following measurement categories:

- *Amortized cost* – Financial assets are measured at amortized cost when: (1) the asset is conserved within a business model whose objective is to maintain the financial asset to obtain the contractual cash flows; and (2) the contractual terms of the financial asset give rise, on specific dates, to cash flows that are solely payments of principal and interest (SPPI) on the amount of outstanding capital.

  These financial instruments are initially recognized at fair value plus incremental and directly attributable transactions, and are subsequently measured at amortized cost.

  The amortized cost of a financial asset is equal to its acquisition cost less accumulated amortization plus accrued interest (calculated according to the effective interest rate method), net of any impairment loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) ***Financial instruments*** *(Continued)*

o.1) Recognition, classification and measurement *(Continued)*

*o.1.i) Financial assets (Continued)*

*Characteristics of the flow of funds (Continued)*

- *Fair value through profit and loss* – Financial assets at fair value includes:

  - Instruments maintained to negotiate;
  - Instruments specifically designated at fair value with changes in results; and
  - Instruments with contractual terms that do not represent cash flows that are only payments of the principal and interest on the outstanding principal amount.

  These financial instruments are initially recognized at fair value and any gain or loss is recognized in the income statement as they are realized.

  The Group classifies a financial instrument as held for trading if it is acquired or incurred mainly for the purpose of selling or repurchasing in the short term, or if it is part of a portfolio of financial instruments that are jointly managed and for which there is evidence of short-term earnings, or is a derivative that is not in a qualified coverage relationship. Derivatives and trading securities are classified as held for trading and recognized at fair value.

  Only financial assets are valued at fair value through profit or loss when, in doing so, the Group eliminates or significantly reduces the inconsistencies in measurement or recognition that would otherwise be exposed in the valuation.

  The fair value of financial instruments that are not quoted in active markets are determined using valuation techniques. These techniques are validated and reviewed periodically by qualified personnel independent of the area that created them. All models are evaluated and adjusted before being used, to ensure that the results reflect the current information and comparative market prices. Where possible, the models use only observable information; however, factors such as credit risk (own and counterparty), volatilities and correlations require the use of estimates. Changes in assumptions about these factors may affect the reported fair value of financial instruments.

Equity instruments

Equity instruments are instruments that meet the definition from the issuer's perspective, this means, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

Such instruments are valued at fair value through profit or loss. Dividends receivable arising from said instrument are recognized as income only when the right to receive payment is received.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### o) ***Financial instruments*** *(Continued)*

#### o.1) Recognition, classification and measurement *(Continued)*

##### *o.1.ii) Financial liabilities*

Financial liabilities are classified into one of the following measurement categories:

- Amortized cost; and
- Fair value through profit or loss (FVTPL).

Financial liabilities at fair value normally fall within the following categories:

- *Financial liabilities that are valued at fair value through profit and loss* – These financial instruments, which includes derivatives and liabilities held for trading, are designated as such at initial recognition.
- *Liabilities arising from the transfer of financial assets* – These occur when the transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. When the transfer of the financial asset did not qualify for derecognition, a financial liability is recognized for the consideration received for the transfer. In the subsequent periods, the Group recognizes any expense incurred on the financial liability, when the continuing involvement approach applies.
- *Financial guarantee contracts* – These are contacts that require the issuer to make specific payments to reimburse the holder for the loss it incurs when a specific debtor breaches its payment obligation when due, in accordance with the conditions, original or modified, or a debt instrument. These are measured initially at fair value, and subsequently measured at the higher of: i) the amount of the ECL allowance; and ii) the amount initially recognized less, when appropriate the cumulative amount of income recognized in accordance with IFRS 15.
- *Lending commitments at a lower rate than the market rate* – These are measured initially at fair value, and subsequently measured at the higher of: i) the amount of the ECL allowance; and ii) the amount initially recognized less, when appropriate the cumulative amount of income recognized in accordance with IFRS 15.

Option to designate a financial liability at fair value through profit and loss
The Group may choose to use, at the outset, the irrevocable option of designating a liability at fair value through profit or loss if and only if, in doing so, it reflects more adequately the financial information because:

- the Group eliminates or significantly reduces the inconsistencies in measurement or recognition that would otherwise be exposed in the valuation;
- if the financial assets and liabilities are managed and their performance is evaluated on a fair value basis in accordance with a documented investment or risk management strategy; or
- a main contract contains one or more implicit derivatives.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### o) ***Financial instruments*** *(Continued)*

#### o.1) Recognition, classification and measurement *(Continued)*

##### *o.1.iii) Derivative financial instruments*

Derivative financial instruments, including currency contracts, interest rate futures, forward contracts, interest rate and currency swaps, and currency and interest rate options, are initially recognized at fair value on the date on which the derivative contact is entered into are subsequently re-measured at fair value.

All derivative instruments are accounted for as assets when the fair value is positive and as liabilities when the fair value is negative, in relation to the agreed price. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

##### *o.1.iv) Sale and repurchase agreements*

Sale and repurchase agreements (“repos”), which effectively provide the performance of the lender to the counterparty, are treated as guaranteed financing transactions. The securities sold under such sale and repurchase agreements must not be derecognized. The securities should not be reclassified in the consolidated statement of financial position unless the transferee has the right by contract or custom to sell or replace the securities, in which case they are reclassified as accounts receivable for repurchase. The corresponding liability must be presented within the item financing. The securities purchased under resale agreements, which effectively provide the lender's performance to the Group, are be recorded as credits under the Financing item.

#### o.2) Derecognition of financial instruments

##### *o.2.i) Derecognition of financial assets*

The Group derecognizes financial assets, or a portion thereof, when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred.

The Group derecognize financial assets that have been transferred only when it meets the following characteristics:

- It has transferred the contractual rights to receive future cash flows; and
- It retains the contractual rights to receive cash flows but assumes a repurchase obligation when the following three requirements are met:
  - the Group is not obliged to pay any amount without receiving the cash flows for the transfer of the asset;
  - the Group is prohibited from selling the financial asset; and
  - the Group has to remit the cash flows to which it has committed.

##### *o.2.ii) Derecognition of financial liabilities*

The Group derecognizes financial liabilities (or a part of a financial liability) when, and only when, they are extinguished, that is, when the contract has been discharged, cancelled or expired.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) ***Financial instruments*** *(Continued)*

o.3) Impairment of financial instruments

*o.3.i) Changes to the impairment calculation*

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairment by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Equity instruments and financial assets measured at FVTPL are not subjected to impairment under IFRS 9.

*o.3.ii) Impairment of financial assets*

The Group assess on a forward-looking basis the expected credit losses (ECL) associated with its debt instrument assets carried at amortized cost and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognizes a loss allowance for such losses at each reporting date.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Details of the Group's impairment method are disclosed in Notes 4 and 23.1.

p) ***Currency translation reserve*** – Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currency to the Group's presentational currency are recognized directly in other comprehensive income and accumulated in the currency translation reserve. Exchange differences previously accumulated in the currency translation reserve are reclassified to profit or loss on disposal of the foreign operations.

q) ***Income recognition***

Interest income
Interest income is recognized in the consolidated statement of profit or loss on the accrual basis, using the effective interest method, for all interest-bearing instruments. Investment interest income is recognized net of any irrecoverable withholding tax.

Fee and commission income
Fee and commission income is recognized in the consolidated statement of profit or loss on the accrual basis when the service has been provided.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) ***Expenses***

Interest expense
Interest expense is recognized in the consolidated statement of profit or loss on the accrual basis, using the effective interest method.

Other expenses
Other expenses are recognized in the consolidated statement of profit or loss.

q) ***Operating leases*** – Policy prior to January 1, 2019

Payments made under operating leases are recognized in profit or loss on the straight line basis over the term of the lease and included in administrative expense in the separate statement of comprehensive income.

s) ***Comparative information*** – Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current period.

## 3. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of adoption of *IFRS 16 Leases* on the Group's financial statements and disclose the new accounting policies that have been applied from January 1, 2019. A number of amendments to existing standards are effective at January 1, 2019, but they do not have a material impact on the Group's financial statements are disclosed in Note 2. f.1.

**3.1.** IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosures of leases and requires lessees to account for leases to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using principles similar as in IAS 17. However, the Group has no assets that it leases and is therefore not a Lessor.

Prior to the date of adoption of IFRS 16, the Group accounted for and classified its lease (as lessee) at the inception date as an operating lease in accordance with IAS 17.

The Group has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The adjustments arising from the new leasing rules will be recognized in the opening balance sheet on January 1, 2019 in the annual separate financial statements.

**3.2.** Impact of application of IFRS 16, Leases
Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for leases that it is the lessee, except for short-term leases and leases of low-value items. The Group recognized lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019 and accordingly, the comparative information is not restated. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

## 3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

### 3.3. Right-of-Use Assets and Lease Liabilities

The Group recorded a right-of-use asset representing the right to use the office premises from which it operates under other assets, and the corresponding lease liability to make lease payments under other liabilities in the statement of financial position. The right-of-use assets and lease liability as at January 1, 2019 amounted to $194,505, with no impact on retained earnings.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate of 5% at January 1, 2019.

### 3.4. Summary of new accounting policies

a) Right of use assets – The Group recognizes right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonable certain to obtain ownership of the leased asset at the end of the lease term, the recognized right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment. The carrying value of right of use assets are recognized under other assets in the statement of financial position.

b) Lease liabilities – At the commencement date of the lease, the Group recognizes lease liabilities at the present value lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset ad is recognized under other liabilities in the statement of financial position.

## 4. USE OF JUDGEMENTS AND ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect amounts reported. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Judgments made by management in the application of IFRS that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next financial period are discussed below:

Impairment losses on loans and advances
The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group’s ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group’s internal credit grading model, which assigns probability of default (PDs) to the individual grades; and
- The Group’s criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime expected credit loss (LTECL) basis and the qualitative assessment.

Fair value of financial instruments
The fair value of financial instruments that are not quoted in active markets are determined using valuation techniques. These techniques are validated and reviewed periodically by qualified personnel independent of the area that created them. All models are evaluated and adjusted before being used, to ensure that the results reflect the current information and comparative market prices. Where possible, the models use only observable information. However, factors such as credit risk (own and counterparty) volatilities and correlations require the use of estimates. Changes in assumptions about these factors may affect the reported fair value of financial instruments.

It is possible that outcomes within the next financial period that are different from these assumptions could require a material adjustment to the carrying amount reflected in the consolidated financial statements. The information referring to the instruments that have not been valued based on market information is detailed in Note 23.2. In this regard, Management determines whether the significant risks and benefits of ownership of financial assets and financial leases are transferred to the counterpart, particularly those of greater risk.

*(Expressed in United States dollars)*

## 5. CASH AND DUE FROM BANKS

Cash and due from banks are as follows:

| | 2019 | 2018 |
|---|---|---|
| Bank current accounts | $ 24,467,289 | $ 6,181,794 |
| Deposits with bank | - | 1,000,769 |
| | 24,467,289 | 7,182,563 |
| Allowance for impairment losses | - | (16,648) |
| *Total due from banks* | 24,467,289 | 7,165,915 |
| Cash on hand | 6,000 | 7,500 |
| | $ 24,473,289 | $ 7,173,415 |

Deposits at bank has original maturity of 90 days and earns interest at 1.25% per annum. The maximum exposure to credit risk is presented in Note 23.1(b).

***The movement in allowance for ECL is as follows:***

| | Expected Credit Loss Allowance | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | 2019 | 2018 |
| *Allowance for ECL, beginning of year* | $ 16,648 | $ - | $ - | $ 16,648 | $ 18,316 |
| Decrease in provision during the year | (16,648) | - | - | (16,648) | (1,668) |
| *Allowance for ECL, end of year* | $ - | $ - | $ - | $ - | $ 16,648 |

## 6. SETTLEMENT BALANCES

These balances represent amounts outstanding on trade transactions that are due to be settled within three (3) days of the trade date. Settlement balances are non-interest bearing.

*(Expressed in United States dollars)*

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss are as follows:

***a) Debt and equity financial assets:***

| | 2019 | 2018 |
|---|---|---|
| *Debt securities* | | |
| Government bonds (Note 7(c)) | $ 3,561,151 | $ 34,265,534 |
| Corporate bonds | 788,567 | 5,129,526 |
| Treasury bills | 191,550 | 10,113 |
| *Total debt securities* | 4,541,268 | 39,405,173 |
| *Equity securities* | | |
| Shares in public entities | 12,349 | 1,770,610 |
| Shares in investment funds | - | 1,155 |
| *Total equity securities* | 12,349 | 1,771,765 |
| | $ 4,553,617 | $ 41,176,938 |

At December 31, 2019, the maximum exposure to credit risk for debt securities carried at fair value above is their carrying values of $4.541.268 (2018: $39,405,173). This is the current credit risk exposure, but not the maximum exposure that could arise in the future as a result of changes in value. See Note 23.1 for more details on the Bank's credit risk exposures.

***b) Debt securities financial liabilities:***

| | 2019 | 2018 |
|---|---|---|
| Government bonds (Note 7(c)) | $ 20,875,737 | $ 20,241,624 |

***c) Financial instruments with foreign governments:***

| | 2019 | 2018 |
|---|---|---|
| *Foreign government bonds (Assets)* | | |
| Bonds | $ 3,561,151 | $ 34,265,534 |
| *Foreign government bonds (Liabilities)* | | |
| Bonds | $ 20,875,737 | $ 20,241,624 |

*(Expressed in United States dollars)*

## 8. FINANCIAL INSTRUMENTS AT AMORTIZED COST

Financial instruments at amortized costs are as follows:

| | 2019 | 2018 |
|---|---|---|
| *Assets* | | |
| Government bonds | $ 476,993 | $ 5,447,429 |
| Corporate bonds | 500 | 500 |
| | 477,493 | 5,447,929 |
| Allowance for impairment losses | (643) | (2,134) |
| | $ 476,850 | $ 5,445,795 |

The maximum exposure to credit risk is presented in Note 23.1(b).

**The movement in allowance for ECL is as follows:**

| | Expected Credit Loss Allowance | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | 2019 | 2018 |
| *Allowance for ECL, beginning of year* | $ 1,634 | $ - | $ 500 | $ 2,134 | $ 644 |
| (Decrease)/increase in provision during the year | (1,491) | - | - | (1,491) | 1,490 |
| *Allowance for ECL, end of year* | $ 143 | $ - | $ 500 | $ 643 | $ 2,134 |

## 9. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments include future and forward contracts and are recorded at fair value.

Generally, derivative financial instruments serve as components of the Group’s investment strategy and are utilized primarily to structure and hedge investments to enhance performance and reduce risk to the Group (the Group does not designate any derivatives as hedges for hedge accounting purposes as described by IFRS 9 - Financial Instruments).

Forward contracts entered into by the Group represent a firm commitment to buy or sell an underlying security at a specified value and point in time based upon an agreed or contracted quantity.

The realized/unrealized gain or loss is equal to the difference between the value of the contract at the onset and the value of the contract at settlement date, and is included in the consolidated statement of comprehensive income.

Details of the Group’s derivative financial instruments are set out below:

| | 2019 | 2018 |
|---|---|---|
| Assets | $ 2,570,275 | $ 19,696,218 |
| Liabilities | (48,535) | (17,550,308) |
| | $ 2,521,740 | $ 2,145,910 |

*(Expressed in United States dollars)*

## 10. REPURCHASE AGREEMENTS

Repurchase agreements are as follows:

| | 2019 | 2018 |
|---|---|---|
| *Assets* | | |
| Capital | $ 12,740,026 | $ 7,906,152 |
| Premium | 147 | 4,518 |
| Guarantee | 3,185,006 | 997,748 |
| | 15,925,179 | 8,908,418 |
| Securities | (13,828,275) | (7,798,120) |
| | $ 2,096,904 | $ 1,110,298 |
| *Liabilities* | | |
| Capital | $ - | $ 3,213,000 |
| Premium | - | 3,731 |
| | - | 3,216,731 |
| Securities | - | (4,612,500) |
| | $ - | $ (1,395,769) |

## 11. OTHER ASSETS

Other assets are comprised of the following:

| | 2019 | 2018 |
|---|---|---|
| Investment interest and other receivables | $ 2,616,196 | $ 1,612,821 |
| Refundable deposits | 20,806 | 20,806 |
| Prepaid expenses | 45,766 | 160,575 |
| | 2,682,768 | 1,794,202 |
| Allowance for impairment losses | (62,458) | (61,993) |
| | $ 2,620,310 | $ 1,732,209 |

**The movements in allowance for ECL are as follows:**

| | Expected Credit Loss Allowance | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | 2019 | 2018 |
| *Allowance for ECL, beginning of year* | $ 677 | $ - | $ 61,316 | $ 61,993 | $ 111,918 |
| Increase/(decrease) in provision during the year | 465 | - | - | 465 | (49,925) |
| *Allowance for ECL, end of year* | $ 1,142 | $ - | $ 61,316 | $ 62,458 | $ 61,993 |

*(Expressed in United States dollars)*

## 12. LOANS AND ADVANCES

Loans and advances consist of the following:

| | 2019 | 2018 |
|---|---|---|
| *Principal* | | |
| *Guaranteed loans* | $ 4,840,152 | $ 3,679,816 |
| Unguaranteed loans | 2,721,061 | 3,176,697 |
| *Total principal* | 7,561,213 | 6,856,513 |
| *Accrued interest receivable* | 103,377 | 54,317 |
| | 7,664,590 | 6,910,830 |
| Provision for impairment | (128,614) | (161,921) |
| | $ 7,535,976 | $ 6,748,909 |

Interest rates on loans and advances varies from 3% to 12% (2018: 6.44%) per annum. The maximum exposure to credit risk is presented in Note 23.1(b).

***The movements in the provision for impairment are as follows:***

| | Expected Credit Loss Allowance | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | 2019 | 2018 |
| *Balance, beginning of year* | $ 161,921 | $ - | $ - | $ 161,921 | $ 95,953 |
| (Decrease)/increase in provision during the year | (33,307) | - | - | (33,307) | 65,968 |
| *Balance, end of year* | $ 128,614 | $ - | $ - | $ 128,614 | $ 161,921 |

## 13. LONG-TERM INVESTMENTS

Details of long-term investments are as follows:

| | 2019 | 2018 |
|---|---|---|
| *Balance, beginning of year* | $ 3,649,686 | $ 4,018,940 |
| Fair value changes | (680,427) | (369,254) |
| *Balance, end of year* | $ 2,969,259 | $ 3,649,686 |

The Group has non-controlling interests in two (2) entities (share holdings of 6.8% and 12%). These investments are carried at fair value in the consolidated statement of financial position.

*(Expressed in United States dollars)*

## 14. INTANGIBLE ASSETS

Details of the Group's intangible assets are as follows:

| | 2019 | 2018 |
|---|---|---|
| **Cost** | | |
| *Balance, beginning of year* | $ 132,666 | $ 117,034 |
| Additions | 22,835 | 15,632 |
| Disposals | (37,164) | - |
| *Balance, end of year* | 118,337 | 132,666 |
| **Amortization** | | |
| *Balance, beginning of year* | 91,914 | 78,052 |
| Additions | 28,029 | 13,862 |
| Disposals | (37,164) | - |
| *Balance, end of year* | 82,779 | 91,914 |
| **Net book value** | $ 35,558 | $ 40,752 |

## 15. INVESTMENT PROPERTIES

Details of investment properties are as follows:

| | 2019 | 2018 |
|---|---|---|
| *Balance, beginning of year* | $ 1,320,000 | $ 1,560,000 |
| Disposal during the year | (588,579) | - |
| Fair value gain recognized in profit or loss | 18,579 | 237,387 |
| Effect of foreign currency exchange differences | - | (477,387) |
| *Balance, end of year* | $ 750,000 | $ 1,320,000 |

Investment properties consist of unoccupied lands owned by the subsidiaries and located in Argentina.

a) *Disposal during the year:*

One of the Bank's subsidiaries disposed of one of its property, which resulted in a loss of $388,579, and is included in other losses in the statement of profit or loss.

b) *Measurement of fair value:*

The fair value of the Group's investment properties was determined by external independent property valuators, having the appropriate professional qualifications and recent experience in the location and category of the property being valued. The appraisers are located in Argentina, the country in which the properties are located.

The fair value was based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation techniques during the year.

*(Expressed in United States dollars)*

## 15. INVESTMENT PROPERTIES *(Continued)*

c) *Fair value hierarchy:*

The fair value measurement for investment properties has been categorized in Level 2 based on the inputs of the valuation used.

Details of the fair value and information about the fair value hierarchy are as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Level 2** | **Total** | **Level 2** | **Total** |
| Land held for capital appreciation | $ 750,000 | $ 750,000 | $1,320,000 | $1,320,000 |

There were no transfers between categories during the periods presented.

## 16. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

| | **Land & Buildings** | **Furniture & Equipment** | **Motor Vehicles** | **Right of Use** | **Total** |
|---|---|---|---|---|---|
| ***Cost*** | | | | | |
| Balance as at December 31, 2017 | $ 2,409,060 | $ 241,747 | $ 104,670 | $ - | $ 2,755,477 |
| Additions | - | 25,406 | - | - | 25,406 |
| Disposals | - | (37) | (35,170) | - | (35,207) |
| Balance as at December 31, 2018 | 2,409,060 | 267,116 | 69,500 | - | 2,745,676 |
| Additions | - | 1,046 | - | 194,482 | 195,528 |
| Disposals | (312,877) | - | (30,000) | - | (342,877) |
| Balance as at December 31, 2019 | $ 2,096,183 | $ 268,162 | $ 39,500 | $ 194,482 | $ 2,598,327 |
| ***Accumulated depreciation*** | | | | | |
| Balance as at December 31, 2017 | $ 152,257 | $ 163,881 | $ 75,948 | $ - | $ 392,086 |
| Additions | 38,546 | 28,029 | 5,861 | - | 72,436 |
| Disposals | - | (34) | (12,309) | - | (12,343) |
| Balance as at December 31, 2018 | 190,803 | 191,876 | 69,500 | - | 452,179 |
| Additions | 33,538 | 25,185 | - | 68,532 | 127,255 |
| Disposals | (45,467) | - | (30,000) | - | (75,467) |
| Balance as at December 31, 2019 | $ 178,874 | $ 217,061 | $ 39,500 | $ 68,532 | $ 503,967 |
| ***Carrying value*** | | | | | |
| As at December 31, 2019 | **$ 1,917,309** | **$ 51,101** | **$ -** | **$ 125,950** | **$ 2,094,360** |
| As at December 31, 2018 | **$ 2,218,257** | **$ 75,240** | **$ -** | **$ -** | **$ 2,293,497** |

*(Expressed in United States dollars)*

## 16. PROPERTY AND EQUIPMENT *(Continued)*

Property and equipment are reviewed for impairment at the end of the reporting period, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. At December 31, 2019, there were no adjustments made for this impairment (2018: no adjustments).

**Right of Use Asset and Lease Liabilities**

The Group operates from leased premises, with lease terms renewable every five (5) years. The current lease was renewed effective September 1, 2016 and matures on August 31, 2021. The lease is now carried on-balance sheet, on adoption of IFRS 16.

Details of the amounts recognized in the consolidated statement of financial position and the consolidated statement of comprehensive income for the Group's right of use assets and the corresponding lease liability are set out below:

### *16.1. Right of use asset*

| | 2019 | 2018 |
|---|---|---|
| *Balance, beginning of year* | $ - | $ - |
| Recognized on adoption of IFRS 16 | 194,482 | - |
| Amortization expense recognized in profit or loss | (68,532) | - |
| *Balance, end of year* | $ 125,950 | $ - |

### *16.2. Lease liabilities*

| | 2019 | 2018 |
|---|---|---|
| *Balance, beginning of year* | $ - | $ - |
| Operating lease commitments recognized on adoption of IFRS 16 | 194,482 | - |
| Interest expense recognized in profit or loss | 8,177 | - |
| Lease payments during the period | (76,709) | - |
| *Balance, end of year* | $ 125,950 | $ - |
| ***Maturity Analysis:*** | | |
| The future minimum lease payments under this lease at the reporting period are as follows: | | |
| No later than 1 year | $ 72,844 | $ - |
| Later than 1 year and not later than 5 years | 53,106 | - |
| | $ 125,950 | $ - |

Lease liabilities are included in other liabilities in the consolidated statement of financial position.

### *16.3. Amounts recognized in profit or loss*

| | 2019 | 2018 |
|---|---|---|
| Amortization of right of use asset | $ 68,532 | $ - |
| Interest on lease liabilities | 8,177 | - |
| | $ 76,709 | $ - |

*(Expressed in United States dollars)*

## 17. CUSTOMERS' DEPOSITS

Details of customers' deposits are as follows:

| | 2019 | 2018 |
|---|---|---|
| Demand and call deposits | $ 12,036,723 | $ 10,061,214 |
| Time deposits | 3,163,021 | 4,028,914 |
| | 15,199,744 | 14,090,128 |
| Accrued interest payable | 34,037 | 3,678 |
| | $ 15,233,781 | $ 14,093,806 |

Customers' deposits included current accounts and term deposits. These deposits have maturities ranging from one day to one year. The effective rate of interest on deposits during the reporting period ending December 31, 2019 was 3.01% (2018: 1.07%) per annum. Included in customers' deposits are deposits from related parties totaling $5,691,313 (2018: $5,210,551).

## 18. OTHER LIABILITIES

Other liabilities are comprised of:

| | 2019 | 2018 |
|---|---|---|
| Clearings and other liabilities | $ 1,216,520 | $ 301,317 |
| Accrued expenses | 222,347 | 329,015 |
| Lease liabillities (Note 16.2) | 125,950 | - |
| | $ 1,564,817 | $ 630,332 |

## 19. SHARE CAPITAL

The authorized, issued and outstanding share capital of the Group consists of 10,000 ordinary shares of US$1,000 each.

## 20. MEMORANDA ITEMS

Composition of memoranda items are as follows:

| | 2019 | 2018 |
|---|---|---|
| Securities received for custody | $ 53,992,284 | $ 54,409,183 |
| Bond deposits | 10,424,995 | 28,287,291 |
| Forward contracts | 15,309,022 | 17,550,308 |
| Guarantees | 1,828,385 | - |
| | $ 81,554,686 | $ 100,246,782 |

*(Expressed in United States dollars)*

## 21. RELATED PARTIES

Balances with Banco Mariva S.A. (Argentina) and other related parties are as follows:

| | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 310,458 | $ 115,878 |
| Settlement balances | 3,519,740 | 2,543,177 |
| Long-term investments | 2,969,259 | 3,649,686 |
| | $ 6,799,457 | $ 6,308,741 |
| **Liabilities** | | |
| Customer deposits | $ 5,691,313 | $ 5,210,551 |
| Settlement balances | 2,604,233 | 15,189,975 |
| | $ 8,295,546 | $ 20,400,526 |
| **Memoranda items** | | |
| Bonds received for custody | $ 17,728,422 | $ 15,843,839 |
| Bond deposits | 4,471,233 | 7,683,811 |
| | $ 22,199,655 | $ 23,527,650 |

## 22. ALLOWANCE FOR CREDIT LOSSES

The table below shows the impairment charges on financial instruments for the year recorded in the consolidated statement of profit or loss.

| | ***Notes*** | **2019** | **2018** |
|---|---|---|---|
| Due from banks | ***5*** | $ (16,648) | $ (1,668) |
| Financial instruments at amortized cost | ***8*** | (1,491) | 1,490 |
| Other assets | ***11*** | 465 | (49,925) |
| Loans and advances | ***12*** | (33,307) | 65,968 |
| Total (decrease)/increase in provision for credit losses | | $ (50,981) | $ 15,865 |

## 23. FINANCIAL RISK MANAGEMENT

Risk management strategy
Risk is inherent in the Group's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Board of Directors (the "Board") is ultimately responsible for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are designed to identify and analyze the risk faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits by means of regularly generated reports. Risk management procedures are closely integrated into all key business processes. The Group regularly reviews its risk management policies, procedures and systems to reflect recommendations and best practice, as well as changes in markets and products.

The objective of the Group's Board of Directors and senior management is to identify, evaluate and mitigate financial risks that may adversely impact the operations and the Group's consolidated financial statements.

By its nature the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets.

The Group also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-statement of financial position loans and advances but the Group also enters into other commitments such as bonds.

The Group has exposure to the following risks from financial instruments:

**23.1.** Credit risk
**23.2.** Market risk
**23.3.** Liquidity risk
**23.4.** Operational risk

### 23.1. Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Group, by failing to discharge their contractual obligations when they fall due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-statement of financial position exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts.

In line with IFRS 9, the Group financial assets measured at amortized cost and off-balance sheet loan commitments using the Expected Credit Loss (ECL) approach.

## 23. FINANCIAL RISK MANAGEMENT *(Continued)*

### 23.1. Credit risk *(Continued)*

#### a) Expected Credit Loss measurement

The Group's allowance for credit losses calculations are output models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The ECL impairment model reflects the present value of all cash shortfalls related to default events either over the following twelve months or over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

The Group adopts a three-stage approach for impairment assessment based on changes in credit quality since initial recognition. Assets move through the three stages depending on changes in credit risk and the stages dictate how an entity measures impairment losses and applies the effective interest method.

- *Stage 1* - This includes financial instruments that have not had a significant increase in credit risk since their initial recognition or that have a low credit risk at the reporting date. For these instruments, the expected credit losses (ECL) are recognized for 12 months and the interest income is calculated on the gross carrying amount of the asset (that is, without deduction of the impairment allowance). The 12-month ECLs are those that result from default events that are possible within 12 months after the filing date.

- *Stage 2* - includes financial instruments that have had a significant increase in credit risk since their initial recognition (unless they have a low credit risk at the reporting date) but that have no objective evidence of impairment. For these items, ECLs are recognized throughout the life of the instrument, but interest income is still calculated on the gross carrying amount of the asset. The ECL throughout the life of the instrument is the present value of the losses that would arise as a result of a default that occurred at any time throughout the life of the instrument. It is the weighted average of the loss that would be had in case of a default using the probability of default as a weighting.

- *Stage 3* - includes financial assets that have objective evidence of impairment at the reporting date. For these items, ECLs are recognized over the life of the instrument and interest income is calculated on net book value (that is, net of the impairment allowance).

*(Expressed in United States dollars)*

## 23. FINANCIAL RISK MANAGEMENT *(Continued)*

### 23.1. Credit risk *(Continued)*

#### b) Credit risk exposure

*Maximum exposure to credit risk – Financial instruments subject to impairment*

The following table contains and analysis of the credit risk exposure of the financial instruments which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk.

| | Expected Credit Loss Allowance | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | | |
| | 12-Month ECL | Lifetime ECL Not Credit Impaired | Lifetime ECL Credit Impaired | 2019 | 2018 |
| Deposits with banks | $ - | $ - | $ - | $ - | $ 1,000,769 |
| Financial instruments at amortized costs | 476,993 | - | 500 | 477,493 | 5,447,929 |
| Unguaranteed loans | 2,788,300 | - | - | 2,788,300 | 3,222,311 |
| Guaranteed loans | 4,876,290 | - | - | 4,876,290 | 3,688,519 |
| Other assets | 1,294,066 | - | 61,316 | 1,355,382 | 1,633,627 |
| Gross carrying amount | 9,435,649 | - | 61,816 | 9,497,465 | 14,993,155 |
| Loss allowance | (129,900) | - | (61,816) | (191,716) | (242,697) |
| Carrying amount | $ 9,305,749 | $ - | $ - | $ 9,305,749 | $ 14,750,458 |

***The movements in the provision for impairment is as follows:***

| | Expected Credit Loss Allowance | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | | |
| | 12-Month ECL | Lifetime ECL Not Credit Impaired | Lifetime ECL Credit Impaired | 2019 | 2018 |
| *Balance, beginning of year* | $ 180,881 | $ - | $ 61,816 | $ 242,697 | $ 226,831 |
| Increase in provision | 465 | - | - | 465 | 140,653 |
| Reversal of provision | (51,446) | - | - | (51,446) | (124,787) |
| *Balance, end of year* | $ 129,900 | $ - | $ 61,816 | $ 191,716 | $ 242,697 |

## 23. FINANCIAL RISK MANAGEMENT *(Continued)*

### 23.1. Credit risk *(Continued)*

#### c) Derivatives

The Group maintains strict control limits on net open derivative positions, that is, the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Group (i.e. asset), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. The credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

#### d) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of statement of financial position assets and liabilities as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period since it is affected by each transaction subject to the arrangement.

### 23.2. Market risk

Market risk arises from the Group's use of interest bearing, trading and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Currency risk

Currency risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's consolidated financial statements are denominated in the United States Dollar, which is the Group's functional and presentational currency.

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its consolidated statement of financial position and consolidated statement of cash flows. The consolidated statement of financial position net notional position represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements, and their fair values and are re-priced in a particular time interval then a negative impact on interest margins results. Interest rate gaps are carefully monitored and interest sensitive assets and liabilities are adjusted in accordance with changing market conditions.

*(Expressed in United States dollars)*

## 23. FINANCIAL RISK MANAGEMENT *(Continued)*

### 23.2. Market risk *(Continued)*

Geographical concentration of assets and liabilities

The following table reflects the geographical concentration of the Group's financial assets and liabilities.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| South America | $ 18,542,270 | $ 36,191,071 | $ 51,371,149 | $ 54,274,782 |
| North America | 21,325,706 | 556,868 | 26,453,338 | 529,511 |
| Caribbean | 2,150,723 | 3,969,826 | 2,355,056 | 2,897,855 |
| Europe | 23,784,079 | 11,059 | 5,888,102 | 3,216,732 |
| | $ 65,802,778 | $ 40,728,824 | $ 86,067,645 | $ 60,918,880 |

The tables below summarize the Group's exposure to foreign currency exchange rate risk at the consolidated statement of financial position dates. Included in the tables are the Group's financial instruments at carrying amounts, categorized by currency.

| As at December 31, 2019 | | | | |
|---|---|---|---|---|
| | **USD** | **PESOS** | **EURO** | **TOTAL** |
| **ASSETS** | | | | |
| Cash and due from banks | $ 23,251,519 | $ 308,442 | $ 907,328 | $ 24,467,289 |
| Settlement balances | 2,707,946 | 2,024,612 | - | 4,732,558 |
| Debt and equity securities, fair value | 2,738,346 | 1,688,507 | 126,764 | 4,553,617 |
| Financial instruments at amortized cost | 476,850 | - | - | 476,850 |
| Forward contracts | 2,521,740 | - | - | 2,521,740 |
| Repurchase agreements | 15,925,179 | - | - | 15,925,179 |
| Other assets | 2,403,210 | 217,100 | - | 2,620,310 |
| Loans and advances | 7,535,976 | - | - | 7,535,976 |
| Long-term investments | 2,969,259 | - | - | 2,969,259 |
| **Total assets** | 60,530,025 | 4,238,661 | 1,034,092 | 65,802,778 |
| **LIABILITIES** | | | | |
| Customers' deposits | 15,233,781 | - | - | 15,233,781 |
| Settlement balances | 1,959,604 | 1,094,885 | - | 3,054,489 |
| Debt and equity securities, fair value | 14,069,224 | - | 6,806,513 | 20,875,737 |
| Other liabilities | 1,434,878 | 129,939 | - | 1,564,817 |
| **Total liabilities** | 32,697,487 | 1,224,824 | 6,806,513 | 40,728,824 |
| **Net position** | **$ 27,832,538** | **$ 3,013,837** | **$ (5,772,421)** | **$ 25,073,954** |

*(Expressed in United States dollars)*

## 23. FINANCIAL RISK MANAGEMENT *(Continued)*

### 23.2. Market risk *(Continued)*

| As at December 31, 2018 | USD | PESOS | EURO | TOTAL |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and due from banks | $ 6,751,564 | $ 92,437 | $ 321,914 | $ 7,165,915 |
| Settlement balances | 9,093,865 | - | - | 9,093,865 |
| Debt and equity securities, fair value | 40,251,270 | 650,024 | 275,644 | 41,176,938 |
| Financial instruments at amortized cost | 5,445,795 | - | - | 5,445,795 |
| Forward contracts | 2,145,910 | - | - | 2,145,910 |
| Repurchase agreements | 8,908,418 | - | - | 8,908,418 |
| Other assets | 1,688,494 | 43,715 | - | 1,732,209 |
| Loans and advances | 6,748,909 | - | - | 6,748,909 |
| Long-term investments | 3,649,686 | - | - | 3,649,686 |
| **Total assets** | 84,683,911 | 786,176 | 597,558 | $ 86,067,645 |
| **LIABILITIES** | | | | |
| Customers' deposits | 14,093,806 | - | - | $ 14,093,806 |
| Guarantees | 5,043,000 | - | - | 5,043,000 |
| Settlement balances | 17,693,387 | - | - | 17,693,387 |
| Debt and equity securities, fair value | 20,241,624 | - | - | 20,241,624 |
| Repurchase agreements | 3,216,731 | - | - | 3,216,731 |
| Other liabilities | 447,111 | 183,221 | - | 630,332 |
| **Total liabilities** | $ 60,735,659 | $ 183,221 | $ - | $ 60,918,880 |
| **Net position** | **$ 23,948,252** | **$ 602,955** | **$ 597,558** | **$ 25,148,765** |

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group is exposed to other price risk on its equity instruments that trade on stock exchanges, forward contracts and equity holdings in investment funds which at December 31, 2019 totaled $2,534,089 (2018: $3,917,675).

*Sensitivity analysis:*

If prices had been 1% higher/lower at December 31, 2019, total comprehensive income would have increased/decreased by $25,341 (2018: $39,177).

*(Expressed in United States dollars)*

## 23. FINANCIAL RISK MANAGEMENT *(Continued)*

### 23.2. Market risk *(Continued)*

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has significant exposure to interest rate risk from its time and demand deposits. Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its fair value and cash flow risks.

Floating rate interest financial instruments expose the Group to cash flow interest risk, whereas fixed rate financial instruments expose the Group to fair value interest rate risk.

The Group is exposed to interest rate risk on its interest bearing financial instruments which are cash at banks, loans and advances, debt securities and customer deposits.

### 23.3. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in realizing assets or otherwise raising funds to meet commitments. The Group monitors expected cash outflow on a daily basis. Its policy throughout the period has been to ensure liquidity by maintaining at all times sufficient high quality liquid assets to cover expected net cash flow.

The contractual maturities of liabilities have been determined on the remaining period at the consolidated statement of financial position date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The tables below summarize the Group's undiscounted cash flows for derivative and non-derivative financial assets and liabilities, based on contractual maturity and repayment obligations:

| | As at December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Due on Demand | 1 to 6 Months | 6 Months to 1 Year | More than 1 Year | Total |
| **LIABILITIES** | | | | | |
| Customers' deposits | $12,036,723 | $ 2,925,768 | $ - | $ 271,290 | $15,233,781 |
| Settlement balances | 3,054,489 | - | - | - | 3,054,489 |
| Debt and equity securities | 20,875,737 | - | - | - | 20,875,737 |
| Other liabilities | - | 1,478,587 | 7,883 | 78,347 | 1,564,817 |
| **Total liabilities** | $35,966,949 | $ 4,404,355 | $ 7,883 | $ 349,637 | $40,728,824 |

*(Expressed in United States dollars)*

## 23. FINANCIAL RISK MANAGEMENT *(Continued)*

### 23.3. Liquidity risk *(Continued)*

| | As at December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Due on Demand | 1 to 6 Months | 6 Months to 1 Year | More than 1 Year | Total |
| **LIABILITIES** | | | | | |
| Customers' deposits | $10,061,214 | $ 4,032,592 | $ - | $ - | $14,093,806 |
| Settlement balances | 17,693,387 | - | - | - | 17,693,387 |
| Debt and equity securities | 20,241,624 | - | - | - | 20,241,624 |
| Repurchase agreements | - | 3,216,731 | - | - | 3,216,731 |
| Guarantees | - | 5,043,000 | - | - | 5,043,000 |
| Other liabilities | - | 630,332 | - | - | 630,332 |
| **Total liabilities** | $47,996,225 | $12,922,655 | $ - | $ - | $60,918,880 |

Source of funding available to meet all of the liabilities include cash at banks, investments securities, items in the course of collection and loans and advances to customers.

### 23.4. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group'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 behavior. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

## 24. CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than equity on the face of the statement of financial position, are:

- To comply with the capital requirements set by its Regulator, the Central Bank of the Bahamas ("Central Bank");
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- Maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored by the Group's management, employing techniques designed to ensure compliance with regulations and guidelines established by the Central Bank of the Bahamas, for the evaluation of capital adequacy of its licensee. The Central Bank has established minimum risk-based capital ratios. The required reporting information is filed with the Central Bank on a quarterly basis, in accordance with these guidelines. At the end of the reporting period, the Group's management is of the opinion that the Group has met the established minimum ratios established by the Central Bank.

## 25. FAIR VALUE MEASUREMENTS

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The fair values of financial instruments are determined as follows:

a) *Financial instruments not measured at fair value:*

   *i)* Cash and cash equivalents, other receivables, balances with related parties, customer deposits and other liabilities are measured at cost in the consolidated statement of financial position. The carrying values of these financial instruments are assumed to equal to their fair values due to their short-term nature.

   *ii)* Loans receivables are measured at amortized cost, which approximates their fair values. The estimated fair value of loans represents the expected amounts of estimated future cash flows that the Group expects to receive.

b) *Financial instruments measured at fair value:*

   *i)* Equity and debt securities, (government bonds, shares, corporate bonds and foreign debt instruments), are acquired principally for the purpose of selling in the short-term, and are carried at fair value in the consolidated statement of financial position.

*(Expressed in United States dollars)*

## 25. FAIR VALUE MEASUREMENTS *(Continued)*

c) *Fair value hierarchy:*

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

| | As at December 31, 2019 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| ***Financial assets*** | | | | |
| Argentina sovereign bonds | $ 3,561,151 | $ - | $ - | $ 3,561,151 |
| Corporate bonds | 788,567 | - | - | 788,567 |
| Treasury bills | 191,550 | - | - | 191,550 |
| Investment in equities | 12,349 | - | 2,969,259 | 2,981,608 |
| | 4,553,617 | - | 2,969,259 | 7,522,876 |
| ***Financial liabilities*** | | | | |
| Government bonds | (20,875,737) | - | - | (20,875,737) |
| | (20,875,737) | - | - | (20,875,737) |
| **NET** | $ (16,322,120) | $ - | $ 2,969,259 | $ (13,352,861) |

*(Expressed in United States dollars)*

## 25. FAIR VALUE MEASUREMENTS *(Continued)*

c) *Fair value hierarchy (Continued)*

| | As at December 31, 2018 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| ***Financial assets*** | | | | |
| Argentina sovereign bonds | $ 34,265,534 | $ - | $ - | $ 34,265,534 |
| Corporate bonds | 5,129,526 | - | - | 5,129,526 |
| Treasury bills | 10,113 | - | - | 10,113 |
| Equity securities | 1,770,610 | - | 3,649,686 | 5,420,296 |
| Investment funds | 1,155 | - | - | 1,155 |
| Derivative financial instruments | - | 2,145,910 | - | 2,145,910 |
| | 41,176,938 | 2,145,910 | 3,649,686 | 46,972,534 |
| ***Financial liabilities*** | | | | |
| Government bonds | (20,241,624) | - | - | (20,241,624) |
| | (20,241,624) | - | - | (20,241,624) |
| **NET** | $ 20,935,314 | $ 2,145,910 | $ 3,649,686 | $ 26,730,910 |

There were no transfers between categories during the periods presented.

**Level 3 fair value measurements**

i) *Unobservable inputs used in measuring fair value*

Level 3 equity securities are comprised of investments in private equities including subsidiaries. Management has determined that the fair value of these equity instruments can be measured reliably and has assessed them to be equal to the proportion of the Group's holdings in the net assets of these entities. The net assets values are obtained from the recent annual audited financial statements and the unaudited interim financial statements. These financial statements are not observable in the market as they are private entities. Therefore, the investments are categorized in Level 3 in the fair value hierarchy.

ii) *Reconciliation*

The following table shows the movements in Level 3 financial instruments:

| | **2019** | **2018** |
|---|---|---|
| *Balance, beginning of year* | $ 3,649,686 | $ 4,018,940 |
| Unrealized loss recognized for the year | (680,427) | (369,254) |
| *Balance, end of year* | $ 2,969,259 | $ 3,649,686 |

## 26. COMMITMENTS AND CONTINGENCIES

There are no material commitments and contingencies as at the consolidated statement of financial position dates.

## 27. KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. Considering this definition, the Bank's key management personnel is represented by the two Senior Officers.

## 28. EVENTS AFTER THE REPORTING PERIOD

There were no material events of significance impacting the Group since December 31, 2019 and up to February 14, 2020 which should be reported in this note on account of having materially affected the consolidated financial statements of the Group.