

# Consolidated Financial Highlights

December 31, 2016



Your Personal Banker

## Report of the Managing Board

### Introduction

Orco Bank N.V. in 2016 continued to cater to the high-end segment and differentiating itself by offering tailor-made products throughout Curaçao, Bonaire and St. Maarten. The regulatory laws and procedures, especially in the fields of compliance and corporate governance continue to increase. The mentality within the organization is geared to strike the balance between being fully compliant and at the same time continue to cater in a professional, efficient and personalized manner to our niche market.

Our forecast for 2016 predicted interest margins would remain under significant pressure, the many competitors on a limited playing field, and the local and global economic forecast remaining gloomy would also not better the interest margins. Those predictions proved to be correct. Fortunately, due to the continuous commercial efforts of our staff and the unconditional support of our stakeholders, Orco Bank N.V. was still able to record a profitable year once again.

### The economic situation of the islands

For Curaçao, real output growth is expected to have remained flat for 2016. While there was some growth in the construction, financial and utilities sectors, this was offset by declines in the manufacturing, wholesale & retail trade and restaurant & hotels sectors. Inflation is expected to remain negative at -0.4%. The government of Curaçao expects a budget surplus of ANG 5.5 million in 2016 which is an improvement over the deficit of ANG 1.6 million recorded in 2015. In June 2016 the government issued a bond of ANG 59.0 million to finance several investment projects which brought the Debt to GDP ratio to 46%, still above the desired threshold of 40% which is considered to be a prudent maximum. In terms of monetary policy, continuing efforts were made to reduce liquidity in the market via the auctioning of more Certificates of Deposit. The reserve requirement was however kept unchanged at 18%.

The tourism sector continues to be the most important pillar of the Curaçao economy. Full year figures from the Curaçao Tourist Board (CTB) for January – December 2015 show a 3% increase in stay over arrivals from 454,558 in 2014 to 468,442 in 2015. The figures for 2016 however, are a bit concerning. Total visitor arrivals for the first nine months of 2016 decreased by 1.2% to 333,024, down from 337,071 for the same period in 2015. However, Q3 2016 arrivals were 6.4% lower than Q3 2015, with arrivals falling from 115,689 in Q3 2015 to 108,301 in Q3 2016.

Stay over arrivals in St. Maarten increased by 5.9% from 277,469 in the first six months of 2015 to 293,978 for the same period of 2016. The trend for cruise passenger arrivals was however the opposite, decreasing by 17% from 1,151,849 in the first six months of 2015 to 955,689 for the same period in 2016. The number of visiting cruise vessels also declined over the half year period, from 430 in 2015 to 361 in 2016 (-16%). The decline in St. Maarten's cruise tourism can be ascribed to, among other things, increased competition from the region and underscores the need to develop and implement a strategy supported by both the public and private sectors to strengthen and further improve the country's tourism product. The establishment of a Tourism Authority is a step in the right direction, but this entity should become operational as soon as possible.

### Major developments within the Bank

The challenges we encountered in 2016 were in some cases similar in each jurisdiction, and coming from all regulatory institutions operating in each jurisdiction, and it concerned in the fields of Corporate Governance, Compliance, sound Risk Management and Client Awareness Assessments. As a result various Policies and Procedures were introduced, modified and updated to meet the regulatory and international standard requirements.

### Bank's performance - financial highlights

In 2016, the balance sheet total increased by 2% to ANG 916,295 (2015: ANG 896,782). The increase can be attributed to the increase of Cash and due from banks (6%), Loans and advances to customers (2%) and a decrease of Investment securities (-8%). Due to banks increased with (591%) and other borrowings (-16%) decreased mainly due to early repayment of certain loans and advances to customers.

Interest income decreased to ANG 39,759 (-4%) and interest expenses decreased by 6% compared to 2015. The Net Interest Income decreased to ANG 23,738 (-3%). The decrease of the Net Interest Income can be attributed to the unanticipated decrease in the Bank's portfolio in first 6 months of 2016 and the fierce competition on all markets, resulting in a lower interest margin.

The Net Other Operating Income increased, primarily because the foreign exchange results. Primarily as a result of the decrease in Net Interest Income, the total operating income over 2016 amounted to ANG 29,921 compared with ANG 29,943 over 2015.

The total operating expenses decreased in 2016 with 3% from ANG 20,965 to ANG 20,392, mainly due to other operating expenses with 17%. The increase in staff expenses with 4% is primarily because some vacancies were unfilled or filled with consultants for the greater part of 2015.

The profit after tax for 2016 is ANG 7,647 (2015: ANG 8,005), a decrease of 4%.

### Outlook for 2017

In August 2016 Orco Bank celebrated its 30th Anniversary. During 2016 we started several charitable events initiated by our employees. For 2017 we aim to continue with these initiatives as it proved of great value to the community and the team spirit.

Our aim, will be to continue to excel in the markets we operate, Bonaire, Curaçao and St. Maarten. We are even more committed and even pledge to go the extra mile for the clients. Service Excellence will be our motto during 2017. Challenges, which we will encounter, will not affect our strategic focus, but will only help us align once again our priorities and goals.

The Ride for the Roses event continues to be our flagship event and we are here again even more committed to promote awareness that cancer is curable. With this event we also support the 'Stichting Prinses Wilhelmina Kanker Fonds' in executing their charitable and supportive tasks to the cancer patients and their families. In April 2016 the foundation Ride for the Roses Bonaire organized their first Walk, Ride and Swim in Bonaire. We are proud to be also the main sponsor on Bonaire.

The Managing Board is thankful for the commitment and support of our dedicated and motivated staff, without them we could not have achieved our goals and successes of 2016. The Managing Board also thanks our Supervisory Board, our shareholders, and above all our esteemed clients for their continuous guidance, trust and business.

Curaçao, April 18, 2017

The Managing Board of Orco Bank N.V.

K.R. Canword  
Managing Director  
Commercial Affairs / CEO

M.N.S. Sprock  
Managing Director  
Finance & Operations

## CONSOLIDATED BALANCE SHEET OF ORCO BANK N.V. (All amounts are expressed in thousands of Antillean Guilders)

	2016	2015
<b>Assets</b>		
Cash and due from banks	228,434	215,854
Investment securities	61,174	66,302
Loans and advances to customers	598,116	585,568
Bank premises and equipment	19,906	19,622
Deferred tax assets	-	922
Other assets	8,665	8,514
<b>Total assets</b>	<b>916,295</b>	<b>896,782</b>
<b>Liabilities</b>		
Customers' deposits	755,194	746,567
Due to other banks	10,351	1,497
Deferred tax liabilities	6,522	6,601
Other liabilities	10,582	10,724
Funds borrowed	28,777	34,171
	<b>811,426</b>	<b>799,560</b>
<b>Stockholders' equity</b>		
Issued capital	7,774	7,774
Share premium	18	18
General reserves	23,990	23,243
Retained earnings	73,087	66,187
	<b>104,869</b>	<b>97,222</b>
<b>Total liabilities and stockholders' equity</b>	<b>916,295</b>	<b>896,782</b>

## CONSOLIDATED INCOME STATEMENT OF ORCO BANK N.V. (All amounts are expressed in thousands of Antillean Guilders)

	2016	2015
Interest income	39,759	41,520
Interest expense	16,021	17,054
<b>Net interest income</b>	<b>23,738</b>	<b>24,466</b>
Fee and commission income	3,697	3,344
Fee and commission expense	-	-
<b>Net fee and commission income</b>	<b>3,697</b>	<b>3,344</b>
Net trading income	2,241	1,652
Gains and losses from investment securities	1	233
Other operating income	244	248
<b>Operating income</b>	<b>29,921</b>	<b>29,943</b>
Salaries and other employee expenses	11,847	11,417
Occupancy expenses	2,423	578
Net impairment losses on loans and advances	1,058	1,009
Other operating expenses	5,064	7,961
<b>Operating expenses</b>	<b>20,392</b>	<b>20,965</b>
<b>Net result from operations</b>	<b>9,529</b>	<b>8,978</b>
Income from associates	-	-
<b>Net result before tax</b>	<b>9,529</b>	<b>8,978</b>
Profit tax expense	1,882	973
<b>Net result after tax</b>	<b>7,647</b>	<b>8,005</b>

## Independent Auditor's Report

### Opinion

The consolidated financial highlights, which comprise the consolidated balance sheet as at December 31, 2016, the consolidated income statement for the year then ended, and related notes, are derived from the audited consolidated financial statements of Orco Bank N.V. for the year ended December 31, 2016.

In our opinion, the accompanying consolidated financial highlights are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the Provisions for the Disclosure of Consolidated Financial Highlights of Domestic Banking Institutions, issued by the Central Bank of Curaçao and Sint Maarten ('CBCS').

### Consolidated financial highlights

The consolidated financial highlights do not contain all the disclosures required by International Financial Reporting Standards. Reading the consolidated financial highlights and our report thereon, therefore, is not a substitute for reading the audited consolidated financial statements of Orco Bank N.V. Those consolidated financial statements, and the consolidated financial highlights, do not reflect the effects of events that occurred subsequent to that date of our report on the audited consolidated financial statements.

### The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the consolidated financial statements in our report dated February 24, 2017.

### Management's responsibility for the consolidated financial highlights

Management is responsible for the preparation of the consolidated financial highlights derived from the audited consolidated financial statements in accordance with the Provisions for the Disclosure of Consolidated Financial Highlights of Domestic Banking Institutions, issued by the CBCS.

### Auditor's responsibility

Our responsibility is to express an opinion on whether the consolidated financial highlights are consistent, in all material respects, with the audited consolidated financial statements of Orco Bank N.V. based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), "Engagements to Report on Summary Financial Statements", issued by the CBCS.

Curaçao, April 18, 2017

KPMG Accountants B.V.  
R.J. Liedenaum RA

## SPECIFICATION OF ACCOUNTS (All amounts are expressed in thousands of Antillean Guilders)

	2016	2015
<b>Assets</b>		
<b>Investment securities</b>		
Held-to-maturity	61,168	66,296
Financial assets at fair value through profit or loss	6	6
<b>Total investments</b>	<b>61,174</b>	<b>66,302</b>
Less allowance for losses	-	-
<b>Net investments</b>	<b>61,174</b>	<b>66,302</b>
<b>Loans and advances to customers</b>		
Retail customers	336,399	331,830
Corporate customers	260,049	251,880
Other	10,630	10,310
<b>Total loans and advances</b>	<b>607,078</b>	<b>594,020</b>
Less: allowance for loan losses	(8,962)	(8,452)
<b>Net Loans and advances</b>	<b>598,116</b>	<b>585,568</b>
<b>Liabilities</b>		
<b>Customers' deposits</b>		
Retail customers	261,794	241,783
Corporate customers	477,055	489,840
Other	16,345	14,944
<b>Total customers' deposits</b>	<b>755,194</b>	<b>746,567</b>

## Accounting policies

### General

The principal accounting policies adopted in the preparation of the Consolidated Financial Highlights of Orco Bank N.V. and its subsidiaries (the 'Bank') are set out below. These explanatory notes are an extract of the detailed notes included in the consolidated financial statements and are consistent in all material respects with those from which they have been derived.

### Basis of preparation

The Bank's consolidated financial statements, from which the Consolidated Financial Highlights have been derived, are prepared in accordance with International Financial Reporting Standards ('IFRS').

The figures presented in these highlights are stated in thousands of Antillean Guilders and are rounded to the nearest thousand.

The accounting policies used have been consistently applied by the Bank and are consistent, in all material respects, with those used in the previous year.

The statements have been prepared on the historical cost basis except for available-for-sale financial assets, financial assets at fair value through profit or loss, and held-to-maturity investments that are measured at amortized cost or fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

### Basis of consolidation

Subsidiaries are all entities (including special purpose entities, if any) over which the Bank has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are de-consolidated from the date that control ceases.

The following subsidiaries have been consolidated as of December 31, 2016:

	Founded	Country of incorporation	Ownership
• Orco Finance N.V.	1984	Curaçao	100%
• Orco Bank Onroerend Goed N.V.	2004	Curaçao	100%
• Flamboyant Onroerend Goed N.V.	2004	Curaçao	100%
• Jan Noorduynd Onroerend Goed N.V.	2006	Curaçao	100%

• Westpunt Onroerend Goed N.V.	2006	Curaçao	100%
• Orco Bank Investments Holding N.V.	2001	Curaçao	100%
• Orco Bank Investments B.V.	2005	Curaçao	100%
• Cerrito Onroerend Goed N.V.	2007	Curaçao	100%
• Willemsplein Onroerend Goed N.V.	2008	Curaçao	100%

### Investment securities

The Bank classifies its investment securities in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments. Management determines the classification of its investments at initial recognition.

Financial assets at fair value through profit or loss have two subcategories: financial assets held-for-trading and those designated at fair value through profit or loss at inception. An investment security is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by Management. Financial assets carried at fair value through profit or loss are assets that are managed, and the performance of which is evaluated, on a fair value basis in line with the Bank's investment strategy.

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. When the Bank sells other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale. On the other hand, if, as a result of a change in intention or ability, it becomes appropriate to reclassify a financial asset other than loans and advances from the category available-for-sale to held-to-maturity, the fair value (carrying amount) of such financial asset on that date becomes its amortized cost. Any previous gain or loss on that asset that has been recognized directly in equity is amortized to profit or loss over the remaining life of the held-to-maturity investment using the effective interest method. Any difference between the new amortized cost and maturity amount is also amortized over the remaining life of the financial asset using the effective interest method.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Investment securities are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets at fair

value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated income statement.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently, in principle, carried at fair value. Held-to-maturity securities are carried at amortized cost, using the straight-line method of amortization. The aforementioned method does not differ materially from the effective interest method. The gains and losses arising from changes in the market value of financial assets at fair value through profit or loss are included in the income statement under net trading income in the period in which they arise. Unlisted equity securities for which no readily available market exists are valued at net equity value which is Management's best estimate of the fair value of these securities.

Gains and losses arising from changes in fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity is recognized in the consolidated income statement as gains or losses from investment securities.

Regular-way purchases and sales of financial assets of fair value through profit and loss, held-to-maturity and available-for-sale are recognized on trade date - the date on which the Bank commits to purchase or sell the assets.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

### Loans and advances to customers

Loans and advances are initially recognized at fair value - which is the cash consideration to originate or purchase the loan plus any transactions costs - and measured subsequently at amortized cost using the effective interest method, less any impairment. Loans and advances are reported in the consolidated balance sheet as loans and advances to customers. Interest on loans is included in the consolidated income statement and is reported as 'interest income'. In the case of impairment, the impairment loss is reported as a deduction from carrying value of the loan and recognized in the consolidated income statement as net impairment losses on loans and advances.

A loan is classified as doubtful when there is reasonable doubt as to the full collection of the loan and / or the unpaid interest.

## EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL HIGHLIGHTS OF ORCO BANK N.V.