

Consolidated Financial Highlights

December 31, 2017



Your Personal Banker

Report of the Managing Board

Introduction

Orco Bank in 2017 continued to cater to the high-end segment and differentiating itself by offering tailor-made products throughout Curaçao, Bonaire and Sint Maarten. The regulatory laws and procedures, especially in the fields of compliance and corporate governance continue to increase and has put an increased strain on the operations of the Bank. The mentality, however, 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 2017 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 and additionally we had to cope with the aftermath of the hurricanes Irma and Maria. 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 (the Bank) was still able to record a profitable year once again.

The economic situation of the islands

For Curaçao, an economic contraction of 1.4% was recorded in 2017 following a decline of 1.0% in 2016. While there was some growth in the construction and utilities sectors, this was offset by declines in the transport, storage, wholesale & retail trade, financial intermediation and restaurant & hotels sectors. Consumer price inflation is expected to have increased to 1.5% in 2017, reflecting mainly an increase in international oil and food prices. The fiscal position of the government of Curaçao deteriorated in the first nine months of 2017, reflected by a deficit of ANG 57.0 million on its current budget, up from the deficit of ANG 30.1 million recorded in the first nine months of 2016. The outstanding public debt of the Curaçao government increased by ANG 187.1 million to ANG 2.7 billion at the end of September 2017 compared to the end of 2016, solely due to a rise in the domestic debt component. Consequently, the debt-to-GDP ratio increased to 49.1% at the end of September 2017 up from 45.6% at the end of 2016. For 2018, Curaçao is expected to record a modest GDP growth of 0.3%.

Sint Maarten's real GDP is expected to have contracted by 4.0% in 2017, a deepening of the 0.1% contraction in 2016. This is mainly because of the severe damage that hurricane Irma inflicted on Sint Maarten's production capacity. Inflation also rose to 1.4% in 2017, largely due to an increase in electricity prices and healthcare premiums. The government of the Kingdom of the Netherlands approved, under conditions, a EUR 550 million reconstruction fund for Sint Maarten which will for a larger part be managed by the World Bank as a trustee.

In support of our Sint Maarten clients Management granted a four months maximum grace and interest waiver period in the aftermath of Hurricane Irma. For 2018, Sint Maarten's economic contraction is expected to deepen further to reach 9.1% due mainly to the projected sharp decline in net foreign demand attributable to a drop in exports (lower foreign exchange earnings from tourism activities), as it will take time for Sint Maarten's production capacity to reach pre-hurricane Irma levels.

Major developments within the Bank

The challenges we encountered in 2017 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.

Also in the commercial area we encountered challenges, especially in the aftermath of the hurricanes Irma and Maria, whereas we were granted temporary grace periods on interest and capital payments of the loan facilities, we also experienced unusual large sums of unexpected pay-offs and continued competition affecting the interest margin on the credit facilities.

Bank's performance - financial highlights

In 2017, the balance sheet total decreased by 6% to ANG 862,473 (2016: ANG 916,295). The decrease can be attributed to the decrease of Cash and cash equivalents from ANG 107,287 to ANG 62,377 and a decrease of Investment securities from ANG 61,174 to ANG 39,626. The liabilities which decreased are Due to banks from ANG 10,351 to ANG 842, Deposit from customers from ANG 755,194 to ANG 712,134 and Other borrowings from ANG 28,777 to ANG 24,221. On the other hand, although in a competitive market and a market showing no economic growth, the Loans and advances to customers showed an increase from ANG 598,116 to ANG 610,862.

Regardless of the increase in Net interest income to ANG 24,960 (5%) and increase of the Net commission income and fees to ANG 4,165 (13%), as a result of an increase in the Loans and advances to customers, the Bank recorded a profit after tax for 2017 of ANG 1,229 (2016: ANG 7,647), a decrease which can be attributed to primarily a decrease from ANG 2,241 to ANG 509 in the Foreign exchange results, an increase of the Total expenses from ANG 20,392 to ANG 24,510, of which the Impairment losses on loans and advances to customers played a big role in the aftermath of hurricane Irma and an incidental increase in the tax provisioning, due to a Tax audit completed in 2017.

Outlook for 2018

Our aim, will be to continue to excel in the heavily competitive markets we operate, Bonaire, Curaçao and Sint Maarten. We are even more committed and even pledge to go the extra mile for the clients. Service Excellence will continue to be our motto during 2018, by offering quick turnaround of requests and efficient handling of compliance and good corporate governance principles. In particular for Sint Maarten we will try to embark on the projects that will be initiated in connection with the recovery of the island.

In order to deal with the interest margin, that is constant under pressure we intend to maintain an even more stringent treasury management and be even more cost conscious of our operations.

Challenges, which we will encounter, will not affect our strategic focus, but will only help us align once again our priorities and goals.

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 2017. The Managing Board also thanks our Supervisory Board, our shareholders, and above all our esteemed clients for their continuous guidance, trust and business.

Willemstad, Curaçao, April 26, 2018

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)

	2017	2016
Assets		
Cash and due from banks	183,402	228,434
Investment securities	39,626	61,174
Loans and advances to customers	610,862	598,116
Bank premises and equipment	18,558	19,906
Other assets	10,025	8,665
Total assets	862,473	916,295
Liabilities		
Customers' deposits	712,134	755,194
Due to other banks	842	10,351
Deferred tax liabilities	6,514	6,522
Other liabilities	12,664	10,582
Funds borrowed	24,221	28,777
	756,375	811,426
Stockholders' equity		
Issued capital	7,774	7,774
Share premium	18	18
General reserves	24,817	23,990
Retained earnings	73,489	73,087
	106,098	104,869
Total liabilities and stockholders' equity	862,473	916,295

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

	2017	2016
Interest income	39,046	39,759
Interest expense	14,086	16,021
Net interest income	24,960	23,738
Fee and commission income	4,165	3,697
Fee and commission expense	-	-
Net fee and commission income	4,165	3,697
Net trading income	509	2,241
Other operating income	601	245
Operating income	30,235	29,921
Salaries and other employee expenses	12,140	11,847
Occupancy expenses	2,677	2,423
Net impairment losses on loans and advances	2,546	1,058
Other operating expenses	7,147	5,064
Operating expenses	24,510	20,392
Net result from operations	5,725	9,529
Income from associates	-	-
Net result before tax	5,725	9,529
Profit tax expense	4,496	1,882
Net result after tax	1,229	7,647

Independent Auditor's Report

Opinion

The consolidated financial highlights, which comprise the consolidated balance sheet as at December 31, 2017, 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, 2017.

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. and our report thereon. 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 April 24, 2018.

Management's responsibility for the consolidated financial highlights

Management is responsible for the preparation of the consolidated financial highlights 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".

April 26, 2018

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

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

	2017	2016
Assets		
Investment securities		
Held-to-maturity	39,619	61,168
Financial assets at fair value through profit or loss	7	6
Total investments	39,626	61,174
Less allowance for losses	-	-
Net investments	39,626	61,174
Loans and advances to customers		
Retail customers	359,816	336,399
Corporate customers	250,352	260,049
Other	11,045	10,630
Total loans and advances	621,213	607,078
Less: allowance for loan losses	(10,351)	(8,962)
Net Loans and advances	610,862	598,116
Liabilities		
Customers' deposits		
Retail customers	283,283	261,794
Corporate customers	414,795	477,055
Other	14,056	16,345
Total customers' deposits	712,134	755,194

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, 2017:

	Founded	Country of inc.	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 Noorduyn 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.