Consolidated Financial Highlights
December 31, 2018

Report of the Managing Board

Introduction
Orco Bank in 2018 continued to differentiate 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 2018 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, our personalized service 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
According to preliminary figures of the CBCS, the Curaçao economy contracted by 1.9% in 2018, following a decline of 1.7% in 2017.
A review of GDP by sector shows that the decline was mainly due to contractions in the sectors of transport, storage & communication, manufacturing, construction and financial intermediation. Real value added contracted in the transport, storage & communication sector due to a decline in both harbor and airport related activities. The former was due to a significant drop in the number of ships piloted through the port of Curaçao, notably freighters and tankers, related to the situation regarding the refinery and Venezuelan crude supplies. The latter was due to lower total passenger traffic. Real output in the manufacturing sector shrank primarily because of lower refinery activities at Isla.

During 2018 the CBCS kept the reserve requirement unchanged at 18%. The pledging rate was however increased by 0.5% to 2.0% in March 2018. Credit extension to the private sector declined overall by 0.9% due to declines in mortgages (-2.7%), business loans (-0.2%) and in the "other loans" category (-13.3%) moderated by an increase in consumer loans (2.6%).

For Curaçao, growth is expected to remain "subdued" in the medium term and the government will have to make structural changes to bring down the high debt –to- GDP ratio (50.1% as at June 2018), to reduce the public sector wage bill (currently considered high at 12.25% of GDP) and to deal with the persistent deficits of the health and social insurance schemes (SVB and AOV).

St. Maarten's real GDP will contract by 8½ percent in 2018, following a real GDP contraction of 4.75% in 2017. The tourism rebound and strong investment in reconstruction will lead to positive real GDP growth in 2019, converging to the historical trend of 1.9 percent by 2023. Weak growth and underlying structural vulnerabilities persist magnified further by large negative external shocks.
The fiscal and external position of St. Maarten deteriorated and significant uncertainty is impacting the economic activity adversely. The challenging outlook makes the need for structural measures aimed at ensuring fiscal sustainability, enhancing competitiveness, strengthening investor confidence, and developing capacity more time-critical.

Major developments within the Bank
The challenges we encountered in 2018 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, as we experienced unusual large sums of unexpected pay-offs and continued competition affecting, in particular the interest margin on the credit facilities.

Bank's performance - financial highlights
In 2018, the balance sheet total decreased by 2% to ANG 843,956 (2017: ANG 862,473). The decrease can be attributed to the decrease of Cash and cash equivalents from ANG 183,402 to ANG 127,393 and a decrease of Investment securities from ANG 39,626 to ANG 12,717. The liabilities which decreased are Due to banks from ANG 842 to ANG 175 and Other borrowings from ANG 24,221 to ANG 0.00. 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 614,571 to ANG 681,301. The first time adoption of the IFRS 9 expected credit loss model led to a decrease in total assets of ANG 2,526 and a decrease of the retained earnings of ANG 1,970 (net of deferred tax) as per 1 January 2018.

The increase in Net interest income to ANG 27,375 (10%), decrease of Interest expenses to ANG 11,568 (-18%) and increase of the Net result on financial transactions to ANG 937 (84%), all contributed to the Bank recording a profit after tax for 2018 of ANG 5,023 (2017: ANG 1,229), although we recorded an increase of the Total expenses from ANG 24,510 to ANG 26,104, of which the Personnel expenses and Other operating expenses played a big role.

Corporate Governance
Orco Bank is a company established under the laws of Curaçao. The Articles of Association form the foundation from which the Corporate Governance Structure is derived. It is based on a two-tier governance structure consisting of a Management Board and a Supervisory Board.

The Supervisory Board is charged with the supervision of the Management Board and the functioning of the Bank as a whole in all relevant aspects. The corporate strategy, risk and the internal control framework, amongst many other subjects, are discussed and assessed by the Supervisory Board in their meetings, which take place at least five times a year.
The Supervisory Board has established an Audit and Compliance Committee, a Nomination and Remuneration Committee, a Related Party Transactions Committee, a Board Credit Committee, and a Board Asset and Liability Management Committee. Nevertheless, the entire Supervisory Board remains responsible as a whole for the various tasks and responsibilities of the committees.

The Management Board is responsible for the setting and achieving of the Bank's strategy, objectives and policies, and to ensure that the Bank is compliant with all relevant laws and regulations. The Management Board is accountable for the performance of its duties to the Supervisory Board and the General Meeting of Shareholders.

The Management Team of Orco Bank performs the execution of the strategy and policies, in consultation with the Management Board. It operates as a team with the Management Board members to ensure alignment in achieving effective execution as a team, as well as overseeing individual areas of responsibility.

Outlook for 2019
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 2019, by offering quick turnaround of requests and efficient handling of compliance and good corporate governance principles

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 Ride for the Roses event continues to be our flagship event and in January 2019 we proudly celebrated the 15th anniversary. We are committed to continue 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.

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 2018. 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, February 12, 2019
The Managing Board of Orco Bank N.V.

K.R. Canword	M.N.S. Sprock
Managing Director	Managing Director
Commercial Affairs / CEO	Finance & Operations

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

	31-Dec-2018	31-Dec-2017
Assets		
Cash and cash equivalents	127,393	183,402
Investment securities	12,717	39,626
Loans and advances to customers	681,301	614,571
Bank premises and equipment	16,978	18,558
Other assets	5,567	6,316
Total assets	**843,956**	**862,473**
Liabilities		
Deposits from customers	719,346	717,309
Amounts due to banks	175	842
Deferred tax liabilities	6,263	6,514
Other liabilities	9,021	7,489
Funds borrowed	-	24,221
	734,805	***756,375***
Shareholder's equity		
Issued capital	7,774	7,774
Share premium	18	18
General provision on loans and leases	27,558	24,817
Retained earnings	73,801	73,489
	109,151	***106,098***
Total shareholder's equity and liabilities	**843,956**	**862,473**

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

	31-Dec-2018	31-Dec-2017
Interest income	38,943	39,046
Interest expense	11,568	14,086
Total net interest income	***27,375***	***24,960***
Fee and commission income	3,827	4,165
Fee and commission expense	-	-
Total net fee and commission income	***3,827***	***4,165***
Net trading income	937	509
Other operating income	212	601
Total net operating income	***1,149***	***1,110***
Total income	**32,351**	**30,235**
Salaries and other employee expenses	13,339	12,140
Occupancy expenses	2,682	2,677
Net impairment losses on loans and advances	1,395	2,546
Other operating expenses	8,688	7,147
Operating expenses	***26,104***	***24,510***
Net result from operations	***6,247***	***5,725***
Income from associates	-	-
Net result before tax	***6,247***	***5,725***
Profit tax expense	1,224	4,496
Net result after tax	**5,023**	**1,229**

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

	31-Dec-2018	31-Dec-2017
Assets		
Investment securities		
Debt securities at amortized cost	12,711	39,619
Financial assets at fair value through profit or loss	6	7
Total investments	***12,717***	***39,626***
Less allowance for expected credit losses	-	-
Net investments	***12,717***	***39,626***
Loans and advances to customers		
Retail customers	408,360	359,816
Corporate customers	263,277	250,352
Other	17,045	11,045
Total loans and advances	***688,682***	***621,213***
Accrued interest receivables on loans and advances	3,179	3,709
Loss allowance for expected credit losses	(10,560)	(10,351)
Net Loans and advances	***681,301***	***614,571***
Liabilities		
Customers' deposits		
Retail customers	310,612	283,283
Corporate customers	382,403	414,795
Other	21,579	14,056
	714,594	***712,134***
Accrued interest payable on customers' deposits	4,752	5,175
Total customers' deposits	***719,346***	***717,309***

Accounting policies

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

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 except for the impact of the first time adoption of IFRS 9 as set out below.

Changes in accounting policies
IFRS 9 replaces IAS 39 for annual periods on or after January 1, 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of January 1, 2018. The first time adoption of IFRS 9 as per January 1, 2018 led to a remeasurement of the credit loss provision (increase) on loans and advances to customers of ANG 2,526 and a decrease of retained earnings of ANG 1,970 (net of deferred tax). The measurement basis of financial assets and financial liabilities within the scope of IFRS 9 has not been significantly impacted and remains at amortized cost.

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, 2018:
Orco Finance N.V., Orco Bank Onroerend Goed N.V., Flamboyant Onroerend Goed N.V., Jan Noordduynweg Onroerend Goed N.V., Westpunt Onroerend Goed N.V., Orco Bank Investments Holding N.V., Orco Bank Investments B.V., Cerrito Onroerend Goed N.V. and Willemsplein Onroerend Goed N.V.

Classification and subsequent measurement of financial assets
From 1 January 2018, the Bank has applied IFRS 9 to classify its financial assets (including investment securities and loans and advances to customers). Classification and subsequent measurement of the financial assets depend on:
(i) the Bank's business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

Business model assessment
The business model reflects how the bank manages the assets in order to generate cash flows. That is, whether the bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL.

SPPI
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

Based on these factors, the Bank classified its debt instruments into the following measurement categories:

- Amortized cost:
Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance as further described below. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

- Fair value through profit or loss ("FVPL"):
Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss is recognized in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Derecognition of financial assets
The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. If the terms are substantially different, the Bank derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset.

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.

Expected credit loss principles
The adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking Expected Credit Loss ("ECL") approach.

Based on the above process, the loans are grouped into Stage 1, Stage 2 and Stage 3, as described below:
- Stage 1: When loans are first recognized, the Bank recognizes an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2;
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3;
- Stage 3: Loans considered credit-impaired. The bank records an allowance for the LTECLs;

Calculation of Expected credit losses
The key elements of the ECL calculations are as follows:
- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.
- EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

In its ECL models, the bank relies on a broad range of forward looking information as economic inputs such as GDP growth, Unemployment rates and the Consumer Price Index. The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Independent Auditor's Report

Opinion
The accompanying consolidated financial highlights, which comprise the consolidated balance sheet as at 31 December 2018 and consolidated income statement for the year then ended and related notes, are derived from the audited consolidated financial statements of Orco Bank N.V. ("the Bank") for the year ended 31 December 2018.

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

Consolidated financial highlights
The accompanying consolidated financial highlights do not contain all the disclosures required by International Financial Reporting Standards. Reading the accompanying consolidated financial highlights and our report thereon, therefore, is not a substitute for reading the audited consolidated financial statements of the Bank and our auditor's report thereon.

The audited consolidated financial statements and our report thereon
We expressed an unmodified audit opinion on the consolidated financial statements 2018 of the Bank in our auditor's report dated 12 February 2019.

Responsibilities of management for the consolidated financial highlights
Management is responsible for the preparation of the accompanying consolidated financial highlights in accordance with the Provisions for the Disclosure of Consolidated Financial Highlights of Domestic Banking Institutions, as set by the CBCS.

Auditor's responsibilities
Our responsibility is to express an opinion on whether the accompanying consolidated financial highlights are consistent, in all material respects, with the audited consolidated financial statements of the Bank based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

Curaçao, 28 February, 2019

Ernst & Young Accountants
drs. R.J.W. van Nimwegen RA

ORCO BANK

Your Personal Banker