Consolidated Financial Highlights

MCB
MADURO & CURIEL'S BANK

Consolidated balance sheet of Maduro & Curiel's Bank N.V. and its subsidiaries as at December 31, 2018

(All amounts are expressed in thousands of Antillean Guilders)	2018	2017
ASSETS		
Cash and due from banks	2,608,413	2,770,277
Investment securities	914,777	625,230
Loans and advances to customers	4,160,380	4,136,191
Bank premises and equipment	189,586	177,531
Customers' liability under acceptances	1,490	6,769
Deferred tax assets	6,675	2,416
Other assets	40,638	49,389
TOTAL ASSETS	**7,921,959**	**7,767,803**
LIABILITIES AND EQUITY		
Liabilities		
Customers' deposits	6,751,441	6,684,538
Due to banks	21,717	22,355
Acceptances outstanding	1,490	6,769
Current profit tax liabilities	6,910	(1,534)
Deferred tax liability	20,899	28,546
Provisions	124,270	97,489
Other liabilities	104,418	97,445
	7,031,145	**6,935,608**
Equity		
Share capital	51,000	51,000
General reserve	12,500	12,500
Other reserves	191,470	196,782
Retained earnings	618,365	557,428
	873,335	**817,710**
Minority interest	17,479	14,485
TOTAL LIABILITIES AND EQUITY	**7,921,959**	**7,767,803**

Consolidated income statement of Maduro & Curiel's Bank N.V. and its subsidiaries for the year ending December 31, 2018

(All amounts are expressed in thousands of Antillean Guilders)	2018	2017
Interest income	313,956	310,815
Interest expense	16,157	21,403
Net interest income	**297,799**	**289,412**
Fee and commission income	228,655	214,563
Fee and commission expenses	89,225	80,899
Net fee and commission income	**139,430**	**133,664**
Income from foreign exchange transactions	53,357	50,410
Operating income	**490,586**	**473,486**
Salaries and other employee expenses	197,829	202,054
Occupancy expenses	23,977	24,827
Credit loss expenses on financial assets	(6,673)	40,020
Other operating expenses	81,442	79,536
Operating expenses	**296,575**	**346,437**
Net result from operations	194,011	127,049
Net income/ (loss) from associated companies	-	(143)
Net result before tax	**194,011**	**126,906**
Profit tax	32,512	22,417
NET RESULT AFTER TAX	**161,499**	**104,489**

Explanatory notes to the consolidated financial highlights as at December 31 2018

A. ACCOUNTING POLICIES

1. GENERAL

The principal accounting policies adopted in the preparation of the Consolidated Financial Highlights of Maduro & Curiel's Bank N.V. and its subsidiaries (the 'Group') 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.

2. BASIS OF PREPARATION

The 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.

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

3. CHANGES IN ACCOUNTING POLICIES

IFRS 9 replaces IAS 39 for annual periods on or after January 1, 2018. The Group 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 NAF 33,120, on investment securities of NAF 1,256, on deposits with banks of NAF 1,122, of contingent liabilities of NAF 16,169 and a decrease of retained earnings of NAF 40,577 (net of deferred tax). The measurement basis of financial assets and financial liabilities (amortized cost or fair value) within the scope of IFRS 9 has not been significantly impacted compared to the measurement basis applied under IAS 39.

4. BASIS OF CONSOLIDATION

Subsidiaries are all entities over which the Group 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 Group until the date that control ceases.

The following subsidiaries have been consolidated as of December 31, 2018:
- Caribbean Mercantile Bank N.V. and subsidiaries
- The Windward Islands Bank Ltd.
- Maduro & Curiel's Bank (Bonaire) N.V. and subsidiary
- Maduro & Curiel's Insurance Services N.V.
- MCB Risk Insurance N.V.
- MCB Group Insurance N.V.
- MCB Securities Holding B.V.
- MCB Securities Administration N.V.
- Progress N.V.

5. CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS

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

Based on these factors, the Group classifies its debt instruments into one of the following two 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 Fair Value Through Profit or loss (FVTPL), 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 income' using the effective interest rate method.

- Fair value through profit or loss ("FVTPL"):
Assets that do not meet the criteria for amortized cost are measured at fair value through profit or loss. These assets are unquoted equity securities that are not held for trading purposes. A gain or loss on such an equity investment is subsequently measured at fair value through profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Business model assessment
The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets. If this condition is not applicable (unlisted equity securities), then the financial assets are classified as part of 'other' business model and measured at FVTPL.

SPPI
Where the business model is to hold assets to collect contractual cash flows, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group 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. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Derecognition of financial assets
The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset 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.

Expected credit loss principles
The adoption of IFRS 9 has fundamentally changed the Group's 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 financials assets and loan commitments ('financial assets') are grouped into Stage 1, Stage 2 and Stage 3 as described below:
- Stage 1: When financial assets are first recognized, the Group recognizes an allowance based on twelve months' ECLs. Stage 1 financial assets also include facilities where the credit risk has improved and the financial asset has been reclassified from Stage 2.
- Stage 2: When a financial asset has shown a significant increase in credit risk since origination, the Group records an allowance for these Lifetime ECLs. Stage 2 financial assets also include facilities, where the credit risk has improved and the financial asset has been reclassified from Stage 3.
- Stage 3: Financial assets considered credit-impaired and the Group records an allowance for these Lifetime ECLs.

Calculation of Expected credit losses
The key elements of the ECL calculations are as follows:
- The Probability of Default (PD) 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.
- The Exposure at Default (EAD) 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.
- The Loss Given Default (LGD) 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 expressed as a percentage of the EAD.

In its ECL models, the Group 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.

Our Financial Statements and Other Highlights

IFRS 9
- As per January 1, 2018 the Group has adopted IFRS 9. This new Standard has fundamentally changed our Group's impairment method by replacing IAS 39's incurred loss approach with a forward-looking Expected Credit Loss ("ECL") approach. In the ECL models, the Group relies on a broad range of forward-looking information, such as projected GDP growth, unemployment rates and the Consumer Price Index.
- Adoption of IFRS 9 led to a re-measurement as per January 1, 2018 of the credit loss provision on loans and advances to customers, investment securities, deposits with banks, contingent liabilities and retained earnings. This is further described in the "Explanatory Notes to the consolidated financial highlights as at December 31, 2018".
- The Group 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.

Balance Sheet and Equity
- Our Group considers a strong capitalization a key strength and one that we as management stand for and that our community, our customers and our staff can continue to rely and count on.
- In 2018, MCB Group's total assets grew with about NAF 154 million, or 2% to NAF 7,922 million, just short of the NAF 8 billion mark.
- Our shareholders' equity excluding minority interest grew a healthy 7% or NAF 56 million to a very solid NAF 873 million. This growth was realized after subtracting NAF 40 million for IFRS 9 purposes in the January 1, 2018 equity.
- Our Group continues to enjoy the trust and confidence from our customers and the growth in Customers' deposits was NAF 67 million or 1% to NAF 6,751 million. We are very grateful for this trust and as always we remain committed to a very responsible use of these funds.
- Due to our Group's modest increase (1%) in "Loans and advances to customers" of NAF 24 million we invested the largest portion of the growth of our "Customer deposits" in "Investment securities".
- In 2018, the growth in "Investment securities" was a substantial 46% or about NAF 290 million to a total of NAF 915 million. On the other hand, the "Cash and due from banks" decreased with 6% or NAF 162 million to a still very large NAF 2,608 million, partly also by re-investing some of these deposit with banks to "Investment securities" that yield higher returns within our risk and liquidity policies.

Profit & Loss Statement
- The income presented in our financial statements is derived from both local and international activities of the Group. These income streams continue to be well-diversified.
- Although we are very proud of the result, at the same time we emphasize that the growth in net income is mainly caused by the increase in interest rates in the United States where liquidity is invested in 2018 on the one hand and the large impairment losses on loans made in 2017 on the other hand.
- During 2018, the US Federal Reserve Bank increased its FED funds rate 4 times with 0.25%, resulting in higher rates on our Group's deposits with banks and investment securities denominated in United States Dollars. This caused an increase in our foreign interest income, compensating for the loss in interest income in our local markets.
- Our gross interest income grew therefor a modest 1% or NAF 3 million. Because of the low interest environment our Group rationalized its interest expenses, resulting in a growth in "net interest income" of 3% to NAF 298 million.
- Our Group's income from net fee and commissions grew NAF 6 million or 4%, mainly because of volume growth in several businesses lines, in particular our cards and merchants business due to increase in tourism in our markets. The growth in tourism, together with some large international transfers, also caused the increase in our income from foreign exchange transactions with NAF 3 million or 6%.
- Due to the measures taken during 2017 and 2018 to counter and adapt to the challenging environments, the Group's "operating income" grew with NAF 17 million or 4% in 2018.
- On the expenses side, the year 2017 was exceptional because of large impairment losses on loans for hurricane Irma in the Windward islands and some corporate clients in Curaçao. In 2018, due to the adoption of IFRS 9 the "expected credit loss expenses on financial assets" resulted in a net release of NAF 7 million compared to an impairment charge of NAF 40 million in 2017. This is the primary cause for the very large decrease in total operational expenses of 14% or NAF 50 million.
- The combination of the (regular) 4% increase in income and the exceptional 14% decrease in expenses in 2018, resulted in a "net result from operations" of NAF 194 million. Our consolidated "net result after tax" increased by 55% or NAF 57 million to NAF 161 million.
- Our management will continue to monitor our business environments closely, make projections for the future and take appropriate decisions and measures when necessary to adapt our Group to these ever-changing surroundings.

Loans
- Our management, together with our Supervisory Board and especially its Credit Committee, continuously monitors our Group's credit and other risks and we ensure that the loans in our loan portfolio remain well-diversified by types of customers, size, maturity and sectors.
- The challenging local environments resulted in a 0% growth in our gross "Total loans and advances to customers", whereby a decrease of our portfolio for "Retail customers" with NAF 87 million (5%) was compensated with the growth of NAF 97 million or 4% in the portfolios for "Corporate customers" and "public sector". The latter was especially caused by a large loan to the utility company in Curaçao.
- The line "Loss allowance for expected credit losses" shows a variance of NAF 28 million. This variance is a combination of the impact of adoption of IFRS9 in the opening balance, write offs and the change in the expected credit loss in 2018.
- The end-result for the loan portfolio was a small growth of less than 1% or NAF 24 million in "Net loans and advances to customers".

Taxes
- MCB Group's profit tax obligation resulting from our operations in 2018 was NAF 33 million, while our Group also paid NAF 7 million in turnover taxes.
- Our employees paid wage taxes amounting to NAF 29 million, and the social premiums paid were NAF 27 million.
- The foreign exchange license fee collected on behalf of the Central banks amounted to NAF 61 million.
- Together, all the taxes, fees and premiums mentioned above contributed NAF 157 million to the public coffers of our countries.

Employment
- As at December 31, 2018, MCB Group employed 1,450 persons across all islands.
- During the year, MCB Group paid its employees NAF 103 million in salaries, not including social benefits, pensions, medical and other insurances.

Community
- At the beginning of 2018 our President Chicu Capriles proudly signed an agreement on behalf of MCB Group with the University of Curaçao Dr. Moises Da Costa Gomez to establish the Lio "Paps" Capriles Chair of Financial Management Science for 4 years. This university program will address several topics in financial management whereby emphasis is also placed on small businesses in small (island) economies.
- In 2018 we emphasized volunteer work even more than other times, by granting the 2018 MCB-Prize to Curaçao Cares Foundation. This foundation was established in 2012 and inspires and empowers the Curaçao community by promoting and coordinating voluntary work and every year mobilizes thousands of citizens to maintain and repair many places on our island (CuraDoet) and also to clean up certain parts of the island (Curaçao Clean Up) and for several other smaller projects. The foundation also gives support, offers workshops and training and offers a platform to volunteers to further develop their skills in areas such as project management. MCB is proud to give the MCB Prize to Curaçao Cares Foundation, because we have always strived to create structural voluntary work in our communities and offer our colleagues time to do this even during working hours. Annually, hundreds of our colleagues participate in projects managed by this foundation.
- During 2018 we gave even more special attention to volunteer work in the month of December with our "Live, love, smile ku MCB" initiative whereby 59 community projects were chosen with more than 430 colleagues participating and touching the lives of nearly 2000 citizens directly. These projects were related to care in education and sports, health and social well-being, care for the elderly, neighborhoods and much more.
- A big and very successful event our Bank supported was the Velas Latinoamerica 2018 Curaçao, whereby for three days the port of Curaçao was packed with eleven so-called "tall ships". It was the first time that Curaçao was a port of call on the Velas Latinoamerica route and the event drew thousands of visitors, local and from abroad. It was an unprecedented success and very much liked by the public. The organizers promised to have the ships call on Curaçao again at the next Velas tour.

The Future
- We believe that the year 2018 again was a year where our MCB Group and especially our employees on all islands and departments showed resilience and the ability to adapt to an ever changing environment.
- In a world that is becoming more digitally connected and changing at a faster pace than ever before, this ability to adapt to changes around us will remain the greatest strength of our organization.
- We are very grateful for the trust given to us by our colleagues, our customers, our supervisory directors, our shareholders, and our regulators and we trust that we can continue to count on them as, together, we face the great future ahead of us.

B. SPECIFICATION OF ACCOUNTS

(All amounts are expressed in thousands of Antillean Guilders)	2018	2017
I ASSETS	NAF	NAF
Investment securities		
Debt securities at amortized cost	905,060	615,892
Financial assets at fair value through profit or loss	5,764	4,929
Total investment securities	**910,824**	**620,821**
Accrued interest receivables on debt securities	5,184	4,409
Less: allowance for expected credit losses	(1,231)	-
NET INVESTMENT SECURITIES	**914,777**	**625,230**
Loans and advances to customers		
Retail customers	1,596,919	1,683,639
Corporate customers	2,418,217	2,378,384
Public sector	182,052	124,957
Other	61,769	75,107
Total loans and advances to customers	**4,258,957**	**4,262,087**
Accrued interest receivable on loans and advances	11,727	12,428
Less: allowance for expected credit losses	(110,304)	(138,324)
NET LOANS AND ADVANCES TO CUSTOMERS	**4,160,380**	**4,136,191**
II LIABILITIES		
Customers' deposits		
Retail customers	2,565,819	2,516,992
Corporate customers	2,867,865	2,915,137
Other	1,311,575	1,244,720
	6,745,259	6,676,849
Accrued interest payable on customers' deposits	6,182	7,689
TOTAL CUSTOMERS' DEPOSITS	**6,751,441**	**6,684,538**

Independent auditor's report on the audit of the consolidated financial highlights

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 Maduro & Curiel's 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 auditor's report thereon
We expressed an unmodified audit opinion on the consolidated financial statements 2018 of the Bank in our auditor's report dated April 16, 2019.

Other Information
Other information consists of the Management's Report. Management is responsible for the other information. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated, as is required by article 121 sub 3 Book 2 of the Curaçao Civil Code. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

Curacao, April 16, 2019
for Ernst & Young Accountants

drs. R.J.W. van Nimwegen RA

Please write to Annual Report 2018, P.O.Box 305, Curaçao, for a free copy of our 2018 Annual Report or visit our website www.mcb-bank.com.