Annual Report 2019

Aruba Bank N.V.

Contents

1 NOTES TO THE READER

1.1 Introduction

The Annual Report for the year 2019 of Aruba Bank N.V. consists of the Report of the Supervisory Board, the Report of the Management Board, the consolidated financial statements for the year ended December 31, 2019 as prepared by the Management Board of Aruba Bank N.V. and adopted by the Supervisory Board of Aruba Bank N.V. as well as the unqualified independent auditor's report dated January 31, 2020 of Ernst & Young Accountants on these consolidated financial statements.

1.2 Presentation of information

The financial information contained in this Annual Report has been prepared in accordance with International Financial Reporting Standards. The financial information is presented in Aruban Florin * 1,000, which is the functional and presentation currency of Aruba Bank N.V. Certain percentages in this document have been calculated using rounded figures.

1.3 Abbreviations

The following abbreviations have been used in the Annual Report (in alphabetical order):

Abbreviation	**Definition**
"AIB"	AIB Bank N.V.
"Annual Report"	Annual Report 2019
"Aruba Bank" or "Bank"	Aruba Bank N.V.
"AWG"	Aruban Florins
"CBA"	Central Bank of Aruba
"Consolidated financial statements"	Consolidated financial statements for the year ended December 31, 2019
"Directives"	State Ordinance on the Supervision of the Credit System for Credit Institutions
"EAD"	Exposure at default
"ECL"	Expected credit loss
"ERM"	Enterprise Risk Management
"EUR"	Euro
"FVOCI"	Fair value through other comprehensive income
"FVTPL"	Fair value through profit or loss
"Group"	Aruba Bank N.V. and its subsidiaries
"IAS"	International Accounting Standards
"IFRS"	International Financial Reporting Standards
"EY	Ernst & Young Accountants
"LGD"	Loss given default
"LGL"	Loss given loss
"LTECL"	Lifetime expected credit loss
"Management Board"	Board of Managing Directors of Aruba Bank
"Managing Directors"	Members of the Board of Managing Directors of Aruba Bank
"OCI"	Other comprehensive income
"OHRA"	OHRA Hypotheekbank N.V.
"Orco Aruba Holding"	Orco Aruba Holding N.V.
"PD"	Probability of default
"POCI"	Purchased or originated credit impaired
"SPPI"	Solely payments of principal and interest
"Supervisory Board"	Board of Supervisory Directors of Aruba Bank
"Supervisory Directors"	Members of the Board of Supervisory Directors of Aruba Bank N.V.
"USD"	US dollars

2 Report of the Supervisory Board

The Supervisory Board has reviewed and adopted the Annual Report including the consolidated financial statements. The Supervisory Board evaluated and discussed the Annual Report with the Management Board and the independent auditor Ernst & Young Accountants ("EY"). Due notice was taken of the independent auditor's report dated January 31, 2020 issued by EY on the consolidated financial statements. The consolidated financial statements were prepared by the Management Board and have been authorized for issue on January 31, 2020.

2.1 Supervisory Board

During 2019, the Supervisory Board formally convened five times. Additionally, informal discussions between the Supervisory Board itself and (members of) the Management Board take place throughout the year. After 20-years of involvement, local Aruba Bank Supervisory board member Robert Croes Sr. decided to step down. The quest for a suitable replacement is ongoing.
Major focus areas of the Supervisory Board include, but are not limited to Market and Portfolio developments, Risk, Financial affairs, IT developments, Supervision, HR matters, Marketing, Governance, Integrity, Tax, Audit and Compliance.
While the organization's focus is to keep investing in its culture of continuous improvement, Customer Service enhancement was supported by further automation, and responsible growth was realized through expansion of Transactional services. The progress of the realization of the bank's Strategic Plan and adherence to the pre-approved budget was closely monitored by the Supervisory Board. Specific Supervisory Board topics were guarded in the corresponding committees.

2.2 Audit and Compliance Committee (ACC)

Next to digital meetings, the ACC formally convened six times in 2019. Standard items on the agenda of the Committee include topics such as Financial Reporting, Corporate Control, Internal and External Auditing (management letter, hard-close findings and audit report), Tax, Risk Management, Regulatory matters, Compliance and Corporate Governance. The Committee also discusses the performance of the independent audit firm. The bank's independent officers all have direct access to the ACC.The Group Chief Internal Auditor, Money Laundry Compliance Officer and the Integrity Officer have a direct reporting line to the ACC.

2.3 Board Credit Committee (BCC)

While the BCC convened twice during 2019, regular consultations by telephone and email have taken place to assess and discuss credit extensions as well as relevant market developments. Loans in excess of the threshold amount of 1,500 of both Retail and Corporate clients are discussed, in addition to credit in general and specific risks related therewith.

2.4 Nomination and Remuneration Committee (N&RC)

The N&RC is responsible for the review of the performance of the Managing Directors and compliance with the performance targets. The committee also prepares recommendations regarding the Supervisory Board member profiles and Management Board member profiles when applicable.

2.5 Board Asset and Liability Management Committee (BALM)

The BALM monitors overall financial performance of the bank, including performance ratios, asset/liability management strategies and tactics, liquidity positions and funding needs, current and prospective capital levels, interest rates, asset mix, investment portfolio, as well as significant changes and trends in the Bank's results.

2.6 Related Party Transactions Committee (RPTC)

The purpose of this Committee is to evaluate and to approve transactions between the Bank and its related parties, be it other group companies, direct or indirect shareholders, and/or first- and second-degree family members of the Supervisory Board and Management Board members. Such transactions must be at arm's length and compliant with the supervisory framework.

2.7 Independent audit firm

Aruba Bank appointed EY as its independent auditor for the financial year 2018 onwards.

2.8 Approval of the consolidated financial statements

The General Meeting of Shareholders is invited to approve the 2019 consolidated financial statements, the proposed appropriation of the net profit and to discharge the members of the Supervisory Board and Management Board, in accordance with article 16, sub 5, of the Articles of Association of Aruba Bank.

The Supervisory Board would like to express their appreciation and gratitude towards the Management Board and staff of Aruba Bank for their continuous commitment and effort.

Oranjestad, Aruba, January 31, 2020

B.W.H. Guis Chairman	F.A. Tuininga Vice-chairman	P.C. Dams Member
H.S. George Member	J.A. Stam Member	

3 Report of the Management Board

3.1 Introduction

Aruba Bank has further strengthened its position in the Aruban market in 2019. As the largest commercial bank in Aruba, we remain firmly committed to ensuring a high level of client-service, reliability, innovation, and a solid financial and operational performance, supported by a robust governance, risk and compliance framework.

In 2019, Aruba Bank has continued its ambitious investment and innovation program, launching new services for our customers, online and mobile functionalities, new branch- and self-service concepts and new tools for our staff to better service our clients. Our ambition is to continue making banking easier, faster and better for our clients, optimally combining the latest developments in technology and financial services with our in-depth understanding of our client's needs in the Aruban market. To that end, Aruba Bank also actively approaches possible partners for cooperation in the market to work together at improving client services in Aruba.
Our ambition to offer our clients a superior experience has been our leading theme in 2019.

We have also continued to invest substantially in the field of integrity, compliance and corporate governance.

Our portfolios of client business showed further growth, client-satisfaction as well as employee engagement increased, and Aruba Bank recorded an increased market share and a strong financial performance in 2019.

3.2 Our Mission and Strategy

As a leading commercial bank in Aruba, our business is building great long-term relationships with our clients, thus benefiting all our stakeholders.

Our strategy is based on the following three pillars:
We Deliver: the best in banking and transactional services;
We Care: for our clients and for the society that we serve, with integrity;
We Build: an organization with a culture of trust and continuous improvement.

3.3 Economic and market conditions

Tourism is the basis of the Aruban economy, and has shown further growth in 2019, with increased visitors from mainly the USA, while the decline in tourism from Venezuela continued, as a result of the economic distress of the country.

Over the last years, Aruba's finances have continued showing a budget deficit, leading to higher public debt. The Aruban Government is committed to reduce the budget deficit substantially and has announced and implemented several measures to this end. Resulting economic uncertainties and consumer price increases are reflected in a relatively weak development of investments and consumption in the private sector. GDP has declined marginally over 2019 and the outlook for 2020 is only slightly more positive. Nevertheless, the overall risk profile of our portfolio has remained healthy.

3.4 Consolidated statement of financial position

The net loan portfolio (gross loan portfolio minus allocated loan loss provision) as at December 31, 2019 increased with 7.7% to 1,535,687. The retail and corporate loan portfolio showed above market growth. Our overall marketshare increased significantly and reached 44.4%.

As a result of additional investments in government bonds of Aruba, the investment securities increased with 37.5% to 313,532 as per year end 2019.

Our financial position shows a stable development in liquid assets (cash and cash equivalents and amounts due from banks), thus leading to a prudential liquidity ratio as at December 31, 2019 of 23.3% (2018: 22.7%), well above the minimum regulatory ratio of 18%. The minimum regulatory prudential liquidity ratio will increase to 20% as per January 1, 2021.
The capital ratio at year-end 2019 stood at 22.3% (2018: 24.0%), which is also well above the minimum regulatory requirement (16%). The loan-to-deposit ratio is 70.4% at year-end 2019 (2018: 71.1%), below the regulatory maximum of 80%.

3.5 Consolidated statement of profit or loss

All market segments in which the Bank operates made a positive contribution to the Bank's 2019 performance. The profit before tax for the year 2019 amounts to 59,351 (2018: 51,417), which is a record year. Lower market interest rates accounted for pressure on interest income, which was compensated by above-mentioned portfolio growth compared to 2018. Besides a significant increase in the total net interest income of 6.7%, the consolidated statement of profit or loss shows the following developments:

- Increase in total net commission and fees income of 9.6% from 18,925 to 20,733 due to an increase in closing fees and other fees and commissions.
- Our net result on financial transaction increased with 7.2% due to our increased market share and related increase in our transactional business;
- Other operating expenses were stable compared to previous year;
- The personnel expenses increased with 7.6% to 36,480, due to our compensation and benefits projects;
- As in previous years, we see a significant increase in automation expenses of 2,349 (33.7%), mainly as a result of our substantial investments in new technology and services and several ongoing projects;
- Our depreciation expenses decreased with 2,221 as a result of fully depreciated items in 2019;
- The loan loss impairments present a positive result of 43 due to a release in the allocated loan loss provision.

3.6 Organization and market

Network
Aruba Bank offers commercial and retail banking services to a wide variety of private, commercial and institutional clients. In 2019, the Bank added a string of new client services, combining new self-service options with face-to-face personal service. We invested in both digital as well as personalized services, and will continue to do so in 2020. New client applications were introduced to our kiosks and smart deposit machines, and our online and mobile banking platforms. The Bank also introduced innovations in payments in the market, in partnership with large payment parties in Aruba, to simplify payments for retail and corporate customers and to help achieve faster and more efficient digital payment streams. We shall continue to innovate in this field, and fully support initiatives by the Central Bank of Aruba to modernize Aruba's payment systems.

Staff
As a service providing institution the Bank strongly believes in the ongoing training and development of management and staff. As at December 31, 2019, our full time staff numbered 266 (December 31, 2018: 265).

3.7 Corporate governance

Aruba Bank is a company established under the laws of Aruba. 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 Aruba 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, which are as follows per December 31, 2019:

Retail: Mrs. R.M.T. (Rocila) Tromp - Acosta
Corporate: Mrs. G.N. (Gina) Habibe - Arendsz
Risk and Compliance: Mrs. N.M. (Nataly) Simmons - Thompson
Finance and Operations: Mrs. M.C.C. (Marleen) van der Borgt
Human Resources: Ms. B.I. (Barbara) Bronswinkel

3.8 Corporate responsibility

Aruba Bank has a major role to play in the society it serves. We do this, not only by taking our responsibility as a sound financial institution, with high principles of integrity, but also by supporting numerous projects and initiatives through charity, donations, sponsorships, and other community initiatives. Yearly events that positively impact our community such as our "Good 4 the Neighborhood" that helps youth build self-esteem and new mindsets that propel them to success, the largest "Walk and Run" activity in Aruba, and our Charity Foundation encourages volunteerism and helps children and families in need. Our 'Green Initiatives', also contribute to a sustainable Aruba.

3.9 Outlook

Available indicators of the economy in Aruba show a mixed outlook for 2020, some optimism, but no clear upturn in the general pace of economic activities.

The Bank will continue to focus on maintaining its strong market share and will continue with substantial investments in technological innovation as well as in people and organization, partnering with our clients, service providers, correspondent banking partners and regulators to create sustainable value.

Above all, we aim to continuously improve the quality of our services to our customers. Offering a superior experience to customers is the cornerstone of our continued long-term strong performance.

We realize that the accomplishment of our objectives is only possible with the continued support of all stakeholders, for which we are truly grateful. Above all, we would like to thank our dedicated staff for their hard work, client focus and great commitment.

The Management Board
Oranjestad, Aruba, January 31, 2020

C.M.C. (Michiel) Helfrich *Managing Director*	S.M.S. (Sharon) Fränkel – de Cuba *Managing Director*

4 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31, 2019.

	Note	December 31, 2019	December 31, 2018
Assets			
Cash and cash equivalents		244,617	293,963
Amounts due from banks		292,355	225,279
Investment securities	10.1	313,532	227,982
Loans and advances to customers	10.2	1,535,687	1,426,396
Property and equipment	10.3	61,409	58,435
Other assets	10.4	11,354	16,142
Goodwill	10.5	18,534	18,534
Total assets		**2,477,488**	**2,266,731**
Shareholder's equity			
Share capital	10.6	35,000	35,000
Revaluation reserve	10.6	3,362	2,812
General (unallocated) loan loss provision	10.6	55,027	67,145
Retained earnings	10.6	233,860	216,019
Total shareholder's equity		**327,249**	**320,976**
Liabilities			
Amounts due to banks		26,027	5,549
Deposits from customers	10.7	2,081,335	1,895,304
Current tax liabilities	11.3	1,894	1,685
Other liabilities	10.8	22,744	25,830
Deferred tax liabilities	11.3	12,187	11,523
Provisions	10.9	6,052	5,864
Total liabilities		**2,150,239**	**1,945,755**
Total shareholder's equity and liabilities		**2,477,488**	**2,266,731**

The accompanying notes are an integral part of these consolidated financial statements.

5 CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

For the year ended December 31, 2019.

	Note	2019	2018
Interest income		120,715	111,121
Interest expenses		(27,692)	(23,963)
Net interest income		**93,023**	**87,158**
Operating income		34,446	34,293
Total income	11.1	**127,469**	**121,451**
Operating expenses	11.2	(68,161)	(66,838)
Credit loss expense on financial assets	10.2	43	(3,196)
Total expenses		(68,118)	(70,034)
Income before tax		**59,351**	**51,417**
Tax expense	11.3	(11,128)	(9,882)
Net income for the year		**48,223**	**41,535**
Other comprehensive income:			
Net gain on investments at FVOCI	10.1	550	825
Total comprehensive income for the year		**48,773**	**42,360**
Net income and other comprehensive income for the year attributable to:			
Shareholder		48,773	42,360
Total		**48,773**	**42,360**

The accompanying notes are an integral part of these consolidated financial statements.

6 Consolidated Statement of Changes in Equity

For the year ended December 31, 2019.

	Share capital	Revaluation reserve	General (unallocated) loan loss provision	Retained earnings	Total
Balance as at January 1, 2018	**35,000**	**1,987**	**60,668**	**180,961**	**278,616**
Net income 2018	-	-	-	41,535	41,535
Other comprehensive income for the year 2018	-	825	-	-	825
Transfer to general (unallocated) loan loss provision	-	-	6,477	(6,477)	-
Balance as at December 31, 2018	**35,000**	**2,812**	**67,145**	**216,019**	**320,976**
Net income 2019	-	-	-	48,223	48,223
Dividend payment				(42,500)	(42,500)
Other comprehensive income for the year 2018	-	550	-	-	550
Transfer to general (unallocated) loan loss provision	-	-	(12,118)	12,118	-
Balance as at December 31, 2019	**35,000**	**3,362**	**55,027**	**233,860**	**327,249**

The accompanying notes are an integral part of these consolidated financial statements.

7 CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2019.

	Note	2019	2018
Operating activities			
Income before tax	5	59,351	51,417
Adjustments for:			
Interest expenses	11.1	27,692	23,963
Interest income	11.1	(120,715)	(111,121)
Depreciation expenses	11.2	6,939	9,160
Credit loss expense on financial assets		(43)	3,196
Increase in amounts due from and due to banks		(46,598)	(13,293)
Increase in loans and advances to customers	10.2	(107,659)	(128,691)
Increase in other assets and investment interest receivable	10.4	7,523	(2,134)
Increase in deposits from customers	10.7	184,107	163,208
(Decrease) / increase in other liabilities	10.8	(3,086)	3,177
Increase in provisions	10.9	188	468
Interest paid		(25,768)	(24,809)
Interest received		116,391	113,869
Income taxes paid		(10,255)	(8,948)
Cash generated by operating activities		**88,067**	**79,462**
Investing activities			
Purchase of investment securities	10.1	(85,000)	(9,855)
Additions to property and equipment	10.3	(10,215)	(6,935)
Redemptions of investment securities	10.1	-	4,519
Disposals of property and equipment	10.3	302	1,450
Cash used in investing activities		**(94,913)**	**(10,821)**
Financing activities			
Dividends paid to the shareholder	6	(42,500)	-
Cash used in financing activities		**(42,500)**	**-**
Net (decrease) / increase in cash and cash equivalents		(49,346)	68,641
Cash and cash equivalents as at January 1	4	293,963	225,322
Cash and cash equivalents as at December 31	4	244,617	293,963
Changes in cash and cash equivalents for the year		**(49,346)**	**68,641**

The accompanying notes are an integral part of these consolidated financial statements.

8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.1 Corporate information

Aruba Bank provides corporate and retail banking operations in Aruba and has served the banking needs of their clients since 1925. The Bank is a limited liability company and is incorporated in Aruba and its registered office is Camacuri 12, Oranjestad, Aruba.

As at December 31, 2019, Aruba Bank has 4 branches, 33 ATMs, 8 smart deposit machines and 266 employees. Aruba Bank has managed to maintain its market-leading position and is a full-fledged, customer-oriented commercial bank.

The Group's parent company is Orco Aruba Holding N.V., a limited liability company, which is incorporated in Aruba and its registered office is Camacuri 12, Oranjestad, Aruba. The Group's intermediate parent company is Orco Bank International N.V., a limited liability company, which is incorporated in Curacao and its registered office is at Landhuis Cerrito, Schottegatweg Oost z/n, Curacao. The Group's ultimate parent company is Orco Group N.V., a limited liability company incorporated in Curacao with its registered office at Plantage Groot Sint Joris z/n, Curacao.

The consolidated financial statements were prepared and authorized for issue by the Management Board and subsequently approved by the Supervisory Board on January 31, 2020.

8.2 Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and are stated in thousands of Aruban Florins (AWG 1,000), except where otherwise stated. Reference is made to note 10.6.3 for the General (unallocated) loan loss provision.

These consolidated financial statements have been prepared on a historical cost basis, except for the for the measurement of investment securities measured at amortized cost or fair value. The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions. Actual results could differ from those estimates. Significant accounting judgements and estimates in applying the accounting policies have been described in note 9.

8.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of Aruba Bank and controlled entities, thus incorporating the assets, liabilities, revenues and expenses of Aruba Bank and its subsidiaries. Non-controlling interests in both equity and results of group companies are presented separately in the Consolidated Financial Statements. The financial statements of subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies.

All intercompany balances and transactions, and any related unrealized gains and losses, are eliminated in preparing the Consolidated Financial Statements.

8.4 Changes in accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended December 31, 2018, except for the adoption of IFRS 16. The Group did not early adopt any other standard, interpretation or amendment that has been issued but is not yet effective.

8.4.1 IFRS 16 Leases (effective January 1, 2019)

IFRS 16 requires lessees to account for all leases under a single on-balance-sheet model in a similar way to finance lease under IAS 17. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset respresenting the right to use the underlying asset during the lease term (i.e., the right-to-use asset).

Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-to-use asset.

Lessor accounting is substantially unchanged from today’s accounting under IAS 17. Lessor will continue to classifiy all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The adoption of IFRS 16 had no material impact on the Group.

8.4.2 New and amended standards not affecting amounts reported and/or disclosures in the consolidated financial statements.

In the current year, a number of new and amended standards issued by the IASB are mandatorily effective as follows:

- IFRS 16 “Leases”
- IFRIC Interpretation 23 “Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 “Prepayment features with Negative Compensation”
- Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”
- Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”

Note that the new and amended standards are either not applicable or do not require any significant change to current practice and have not resulted in additional disclosures for the Group.

8.4.3 Standards and amendments in issue not yet effective

The following is a list of standards and amendments that are not yet effective up to the date of issuance of the Group’s consolidated financial statements. These standards will be applicable to the Group at a future date and will be adopted when they become effective. The Group will assess the impact of these standards and amendments in the coming period.

IAS 1	Presentation of Financial Statements (1)
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors (1)
IFRS 3	Business Combinations (1)
IFRS 17	Insurance Contracts (2)

(1) Effective for annual periods ending on December 31, 2020;
(2) Effective for annual periods ending on December 31, 2021;

8.5 Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

8.5.1 Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments, cash at hand and at bank, Treasury Bills and bankers’ acceptances with original maturities of three months or less.

8.5.2 Amounts due from banks

Amounts due from banks consists of the statutory deposit with the Centrale Bank van Aruba ("CBA") and current accounts and deposits with other banks.

In accordance with statutory provisions, Aruba Bank N.V. is required to maintain with the CBA, statutory reserve requirements in relation to the short-term liabilities of less than 2 years and the statutory reserve requirement is excluded from the calculation of the prudential liquidity ratio.

8.5.3 Financial instruments – initial recognition

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value, except in the case of financial assets or financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance ("ECL") is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognized in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognizes the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial liabilities, other than loan commitments and financial guarantees are measured at amortized cost.

8.5.4 Financial assets

8.5.4.1 Classification and subsequent measurement

The Group only measures financial assets at amortized costs if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

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

8.5.4.2 Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:
(ii) the Group's business model for managing the asset; and
(iii) the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three 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 FVTPL, are measured at Amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in note 8.5.7. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

- **Fair value through other comprehensive income ("FVOCI")**: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's Amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Net Investment income'. 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 or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship 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.

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 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 FVTPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, 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 fair value through profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

8.5.4.3 Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, 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.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in the 'Net trading income' line in the statement of profit or loss.

8.5.5 Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Group did not reclassify any of its financial assets or liabilities in 2019.

8.5.6 Derecognition of financial assets and liabilities

Derecognition due to modification of terms and conditions
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. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Derecognition other than for a substantial modification
Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

Financial liabilities
The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

8.5.7 Impairment of financial assets

ECL principles
The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss ("LTECL")), unless there has been no significant increase in credit risk since origination, in which case the allowance is based on the 12 months' expected credit loss ("12mECL"). The Groups policies for determining if there has been a significant increase in credit risk are set out in note 12.2.2.5.

The 12mECL is the portion of the LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio. The Groups policy for grouping financial assets measured on a collective basis is explained in note 12.2.2.6.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the loans are grouped into Stage 1, Stage 2, Stage 3 and POCI, 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;
- POCI: Purchased or originated credit impaired ("POCI") assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

Calculation of ECLs
The Group calculates ECLs based on the historical measure of cash shortfalls. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements 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 realisation of any collateral. It is usually expressed as a percentage of the EAD.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

The mechanics of the ECL method are summarised below:

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Group recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Group only recognizes the cumulative changes in lifetime ECLs since initial recognition, discounted by the creditadjusted EIR.

8.5.8 Credit cards and other revolving facilities

The Group’s product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day’s notice. The Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group’s expectations of the customer behaviour, its likelihood of default and the Group’s future risk mitigation procedures, which could include reducing or cancelling the facilities. The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products.

8.5.9 Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters of credit and loan commitments. Financial guarantees, letters of credit and loan commitments are off-balance sheet instruments and have no history of default.

8.5.10 Forward looking information

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs (macro-economic variables), such as:

- GDP growth
- Unemployment rates
- 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.

8.5.11 Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Group's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at inception and re-assessed on a regular basis.

8.5.12 Write-offs

Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

8.5.13 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. The Group has a policy to not enter into finance leases.

All other leases classify as an exemption, leases of 'low-value' assets and/or short-term leases, for the accounting of the leases under the single on-balance sheet model. All other leases are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred

8.5.14 Property and equipment

Premises and equipment are stated at historical cost, less any accumulated depreciation and accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate on a prospective basis. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of income.

The depreciation rates used are as follows:

Freehold land	0%
Premises	2.5% - 10%
Other equipment	20% - 33.3%

Assets in the course of construction for operations are carried at cost, less any impairment loss. Cost includes professional fees and borrowing costs (specifically related to qualifying assets) capitalized in accordance with the Group's accounting policy and IFRS. Such assets are classified to the appropriate category of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

8.5.15 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.
For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.
A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

8.5.16 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

8.5.17 Employee benefits

Pension obligations
The Group has a defined contribution plan. Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions. Pension contributions are partially paid for by the Group and partially by the employees. The Group is under no obligation to cover back service liabilities, if any. For those employees that do not reach the minimum threshold, severance benefits have to be paid.

Severance benefits
The Group is committed, by legislation in Aruba, to make payments to employees upon severance. Such payments are considered severance benefits. As severance benefits do not provide the Group with future economic benefits, these severance benefits are recognized as an expense in profit or loss at the earlier of when the Group can no longer withdraw the offer of the severance benefit and when the Group recognizes any related restructuring costs. These severance benefits are calculated based on the number of years employed. Severance benefits are also payable at retirement, but only if the retiree does not receive a pension from a pension plan of at least equal to the state pension.

Severance benefits are discounted when they fall due more than 12 months after the reporting period. The rate used to discount is determined by reference to long-term market yields (five year government bonds) at the end of the reporting period.

8.5.18 Taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the consolidated statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognized as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Aruba Bank and its subsidiaries (with the exception of OHRA, IB Aruba Finance N.V. and AB Beleggingen VBA) are part of the fiscal unity of which Orco Aruba Holding is the parent. Orco Aruba Holding files a consolidated tax return on behalf of the fiscal unity. The income tax calculation for Aruba Bank is prepared as if the entity is a stand-alone entity with all deferred and current tax charges or benefits, receivables, and payables included in these consolidated financial statements. Payables to or receivables from Orco Aruba Holding are included in the intercompany accounts with Orco Aruba Holding.

8.5.19 Foreign currencies

In preparing the consolidated financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing on the transaction date. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

8.5.20 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Interest from interest-bearing assets and liabilities not measured at fair value through profit or loss is recognized as net interest income using the effective interest rate ("EIR"). EIR is the rate that discounts expected future cash flows for the expected life of the financial instrument to its carrying value. The calculation takes into account the contractual interest rate along with any fees or incremental costs that are directly attributable to the instrument and all other premiums or discounts.

Commission and fee income
Fees and commissions are recognized on an accrual basis when the service has been rendered. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-apportionate basis. Performance-linked fees or fee components are recognized when the performance criteria are fulfilled.

Dividend income
Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

9 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures and the disclosure of contingent liabilities. Actual results may differ from those estimates and assumptions. There have been no changes in accounting estimates in 2019.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

9.1 Critical judgments in applying accounting policies

The following is the critical judgment, apart from those involving estimations (see note 9.2 below), that the Management Board has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

9.1.1 Equity securities at FVOCI

Note 8.5.4 describes how Aruba Bank has accounted for the shareholding in AIB. The Management Board has assessed the carrying value of the shareholding in AIB and are satisfied that the value in the consolidated statement of financial position, based on the discounted cash flow model with a discount rate of 9.8%, inflation of 1% and tax rate of 25%, is reliable under the circumstances considering the yield and limited liquidity.

9.1.2 Income tax

Besides some smaller other temporary differences, the loan loss provisioning under fiscal valuation rules and IFRS differs materially. Reference is made to note 11.3 for a breakdown of fiscal versus commercial differences. The Management Board believes that the calculation and assumptions used in the determination of the fiscal and commercial loan losses are appropriate in determining the tax position and tax benefits/ expense.

9.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

9.2.1 Impairment of financial assets

The measurement of impairment losses both under IFRS 9 and IAS 29 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 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:

- Internal credit rating model, which assigns individual provisions;
- Determining criteria for significant increase in credit risk;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs in the ECL models.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. The allocated loan loss provision as described in more detail in note 10.2.2 is estimated based on the combination of specific reviews and estimates with regards to credit rating, collateral type, and past due status. Certain aspects of this process require (significant) judgment, such as the determination of the probability of default, the expected loss, the (time) value of the collateral, discount rates, cash flows and other economic factors. The Management Board believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

The Management Board considers the expected credit loss on the credit card portfolio to be very low and immaterial, given that credit cards can be revoked when a client deteriorates or limits can be reduced, and that the lifetime of a credit card is short. Therefore, the Management Board has chosen to simplify the calculation of the provision of the credit card portfolio and not to be based on ECL.

9.2.2 Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Management Board to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Reference is also made to note 10.5.

The Management Board believes that the impairment analysis and assumptions used are appropriate in determining that the goodwill is not impaired as at December 31, 2019 (December 31, 2018: no impairment).

9.2.3 Measurement of other liabilities and provisions

As described in note 10.9, the Group uses valuation techniques to measure the severance liabilities. Note 10.9 provides detailed information about the key assumptions used in the determination of the severance liabilities.

In addition, Aruba Bank is, from time to time, involved in litigation which requires material judgment from the Management Board with regards to the potential cash outflow including related interest charges and penalties, if any. The Management Board believes that the valuation techniques and assumptions used in the determination of the provisions are appropriate in determining the provisions. Reference is made to note 12.6.

10 NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

10.1 INVESTMENT SECURITIES

Equity securities at FVOCI

Equity securities at FVOCI amounting to 7,919 (December 31, 2018: 7,369) relate for 7,859 to the shareholding by Aruba Bank in AIB and for 60 to an investment in Renobacion Aruba N.V.

Aruba Bank has 19.97% of the ownership interest and voting power as per December 31, 2019 (December 31, 2018: 19.97%) of AIB Bank N.V. AIB Bank N.V. is incorporated in Oranjestad, Aruba and their principal activity is banking. Although Aruba Bank has almost 20% shareholding in AIB, the Management Board does not consider that Aruba Bank is able to exercise significant influence over the financial and operating policy decision-making process due to the legal structure which allows only for limited voting rights for Aruba Bank which is not comparable to the actual shareholding. Dividends received are recognized in the consolidated statement of profit or loss and other comprehensive income.

AIB has been valued using a discounted cash flow model over the profit before tax of ten years and applying a terminal value.

Debt securities at amortized cost

Debt securities at amortized cost as at December 31 of 305,613 (December 31, 2018: 220,613) are all government bonds related to the government of Aruba.

The fair values of the government bonds amount to 315,920 as at December 31, 2019 (December 31, 2018: 232,898) compared to a carrying value of 305,613 as at December 31, 2019 (December 31, 2018: 220,613).

The government bonds are not quoted in an active market. As a result, the fair values of these bonds have been derived from the discounted cash flow method. Aruba Bank has the firm intention to hold the Debt securities at amortized cost until maturity.

10.2 LOANS AND ADVANCES TO CUSTOMERS

10.2.1 Loans and advances to customers

Loans and advances to customers as at December 31 can be specified as follows:

December 31, 2019	**Corporate lending**	**Retail lending**	**Overdrafts**	**Credit Cards**	**Total**
Performing loans and advances	573,993	834,847	78,369	34,856	1,522,065
Non-performing loans and advances	7,982	28,878	-	4,873	41,733
	581,975	863,725	78,369	39,729	1,563,798
Accrued interest receivable	3,762	5,275	-	-	9,037
Total gross loans and advances	585,737	869,000	78,369	39,729	1,572,835
Allowance for ECL's	(12,340)	(14,427)	(5,379)	(5,002)	(37,148)
Net loans and advances	**573,397**	**854,573**	**72,990**	**34,727**	**1,535,687**

December 31, 2018	Corporate lending	Retail lending	Overdrafts	Credit Cards	Total
Performing loans and advances	505,337	793,519	76,136	35,167	1,410,159
Non-performing loans and advances	10,922	30,912	-	4,473	46,307
	516,259	824,431	76,136	39,640	1,456,466
Accrued interest receivable	2,832	4,614	-	-	7,446
Total gross loans and advances	519,091	829,045	76,136	39,640	1,463,912
Allowance for ECL's	(12,742)	(14,782)	(4,833)	(5,159)	(37,516)
Net loans and advances	**506,349**	**814,263**	**71,303**	**34,481**	**1,426,396**

10.2.2 Impairment allowance for loans and advances to customers

The table below shows the staging of the loans and advances to customers and the related ECLs based on the Bank's criteria as explained in note 8.5.7.

December 31, 2019	Corporate lending	Retail lending	Overdrafts	Credit Cards	Total
Gross loans and advances	585,737	869,000	78,369	39,729	1,572,835
Stage 1	(2,046)	(1,256)	(5,379)	(356)	(9,037)
Stage 2	(6,251)	(3,112)	-	(625)	(9,988)
Stage 3	(4,043)	(10,059)	-	(4,021)	(18,123)
Net loans and advances	573,397	854,573	72,990	34,727	1,535,687

December 31, 2018	Corporate lending	Retail lending	Overdrafts	Credit Cards	Total
Gross loans and advances	519,091	829,045	76,136	39,640	1,463,912
Stage 1	(1,897)	(3,224)	(4,833)	(931)	(10,885)
Stage 2	(7,228)	(2,287)	-	(718)	(10,233)
Stage 3	(3,617)	(9,271)	-	(3,510)	(16,398)
Net loans and advances	506,349	814,263	71,303	34,481	1,426,396

Stage 1	Corporate lending	Retail lending	Overdrafts	Credit Cards	Total
ECL as at January 1, 2019	(1,897)	(3,224)	(4,833)	(931)	(10,885)
ECL on new instruments issued in 2019	(234)	(247)	-	-	(481)
Other credit loss movements	85	2,215	(546)	575	2,329
ECL as at December 31, 2019	(2,046)	(1,256)	(5,379)	(356)	(9,037)

Stage 2	Corporate lending	Retail lending	Overdrafts	Credit Cards	Total
ECL as at January 1, 2019	(7,228)	(2,287)	-	(718)	(10,233)
ECL on new instruments issued in 2019	(874)	(277)	-	-	(1,151)
Other credit loss movements	1,851	(548)	-	93	1,396
ECL as at December 31, 2019	(6,251)	(3,112)	-	(625)	(9,988)

Stage 3	Corporate lending	Retail lending	Overdrafts	Credit Cards	Total
ECL as at January 1, 2019	(3,617)	(9,271)	-	(3,510)	(16,398)
ECL on new instruments issued in 2019	-	(71)	-	-	(71)
Other credit loss movements	(426)	(717)	-	(511)	(1,654)
ECL as at December 31, 2019	(4,043)	(10,059)	-	(4,021)	(18,123)

The total ECL of 37,148 (37,516 as per December 31, 2018) is for 15% (14% as per December 31, 2018) based on a collective basis and for 85% (86% as per December 31, 2018) on an individual basis.

10.3 PROPERTY AND EQUIPMENT

The movements of property and equipment per category can be specified as follows:

	Land and premises	Other equipment	Assets under construction	Total
January 1, 2019				
Acquisition costs	57,909	51,638	4,433	113,980
Accumulated depreciation	(14,754)	(40,791)	-	(55,545)
Carrying value	**43,155**	**10,847**	**4,433**	**58,435**
Movements				
Additions		1,461	9,046	10,507
Reclassification		4,905	(4,905)	-
Cost of disposals	(7)	(3,304)	(182)	(3,493)
Depreciation of disposals	7	3,184		3,191
Depreciation	(1,424)	(5,807)		(7,231)
	(1,424)	**439**	**3,959**	**2,974**
December 31, 2019				
Acquisition costs	57,902	54,700	8,392	120,994
Accumulated depreciation	(16,171)	(43,414)	-	(59,585)
Carrying value	**41,731**	**11,286**	**8,392**	**61,409**

	Land and premises	Other equipment	under construction	Total
January 1, 2018				
Acquisition costs	58,248	49,759	1,692	109,699
Accumulated depreciation	(13,340)	(34,249)	-	(47,589)
Carrying value	**44,908**	**15,510**	**1,692**	**62,110**
Movements				
Additions		1,013	6,326	7,339
Reclassification		2,640	(2,640)	-
Cost of disposals	(319)	(1,774)	(945)	(3,038)
Depreciation of disposals	35	1,573	-	1,608
Impairment	(20)	-	-	(20)
Depreciation	(1,449)	(8,115)	-	(9,564)
	(1,753)	**(4,663)**	**2,741**	**(3,675)**
December 31, 2018				
Acquisition costs	57,909	51,638	4,433	113,980
Accumulated depreciation	(14,754)	(40,791)	-	(55,545)
Carrying value	**43,155**	**10,847**	**4,433**	**58,435**

The difference of 292 (depreciation 2018: 404) between the depreciation in the movement per category and the depreciation expenses in the Consolidated Statement of profit or loss and other comprehensive income and the difference between the additions in the movement per category and the additions to property and equipment in the Consolidated Statement of cash flows relates to the surcharge to Orco Bank based on the Service Level Agreement.

The amount of assets under construction is primarily related to several automation projects which are expected to be finalized in 2020.

10.4 Other Assets

The balance of other assets as at December 31, 2019 and 2018, respectively, consists primarily of prepaid expenses, accrued interest receivables on investment securities and other receivables not related to loans and advances. These other assets have a short-term nature.

10.5 Goodwill

The goodwill is primarily generated from the acquisitions of Interbank Aruba N.V. and OHRA. The recoverable amounts of the cash-generating unit is determined based on a value in use calculation which uses a discounted cash flow model covering a ten-year period. The Management Board believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit. Based on the latest impairment test held in 2019, no impairment has been recognized as at December 31, 2019.

The key assumptions used in the value in use calculation (discounted cash flow method) for Interbank Aruba N.V. and OHRA (both together) cash-generating unit is based on a ten year projected declining cash flow period.

10.6 Shareholder's Equity

10.6.1 Share capital

The Group has issued share capital amounting to 35,000 as at December 31, 2019 (December 31, 2018: 35,000). The total authorized and issued share capital as at December 31, 2019 and 2018, respectively, amounted to 7,000 shares at par value of 5 per share. All shares have been issued and paid-in. The Group has not granted share options as at December 31, 2019 and 2018, respectively.

10.6.2 Revaluation reserve

The revaluation reserve arises from the revaluation of Equity securities at FVOCI. When revalued Equity securities at FVOCI are sold, the portion of the revaluation reserve that relates to that asset is transferred directly to retained earnings. Items of other comprehensive income included in the revaluation reserve will not be reclassified subsequently to profit or loss.

Distributions from the revaluation reserve can be made where they are in accordance with the requirements of Aruba Bank's Articles of Incorporation, and relevant case law or any amounts transferred directly to retained profits in accordance with IFRS. The Management Board has currently no intention to make any distributions from the revaluation reserve.

10.6.3 General (unallocated) loan loss provision

The Directives of the CBA require the Group to maintain a general (unallocated) loan loss provision. This is a special form of a dynamically determined provision related to the general risk that the Group runs, directly or indirectly, originating from granting loans and conducting other banking activities. This provision serves as a buffer for losses, which cannot be foreseen and therefore cannot be quantified. The Directives require a minimum provision of 2% of the net loan portfolio plus other risk items on the asset side of the consolidated statement of financial position. The net portfolio is calculated as gross loans less the allocated loan loss provision. The general (unallocated) loan loss provision of Aruba

Bank (3%) is higher than the minimum requirement. The primary driver thereof is related to the current economic picture of Aruba in combination with the large dependency on tourism as Aruba's primary mean of revenues. As a result, Aruba Bank believes that it should be slightly more conservative than the requirements set forth by the CBA.

10.6.4 Retained earnings

Retained earnings is related to past net results appropriated to shareholder's equity based on the decisions taken at the Annual General Meeting of Shareholders and net income for the year. Dividends paid will be offset against retained earnings. Dividend payments are subject to approval by the CBA. On October 8, 2018 the shareholders' meeting decided upon a dividend of 42,500, which was approved by the Central Bank of Aruba dated October 23, 2018 and paid in 2019.

10.7 Deposits from customers

Deposits from customers as at December 31 can be specified as follows:

	2019	**2018**
Corporate	1,269,620	1,153,885
Retail	797,992	729,620
Accrued interest payable	13,723	11,799
	2,081,335	**1,895,304**

10.8 Other liabilities

Other liabilities as at December 31 can be specified as follows:

	2019	**2018**
Due to insurance companies	9,295	10,841
Accounts payable	1,819	2,243
Personnel related liabilities	4,552	4,211
Insurance prepayments by customers	859	575
Other liabilities and accrued expenses	6,219	7,960
	22,744	**25,830**

The other liabilities and accrued expenses consist of accruals for pending invoices and a liability related to the Aruba Bank Rewards program of cards.

10.9 Provisions

The movements can be specified as follows:

	2019	**2018**
Balance at the beginning of the year	5,864	5,396
Additions/(releases)	188	468
Balance at the end of the year	**6,052**	**5,864**

The balance consists of severance and legal provisions. For an explanation of the legal provisions, reference is made to note 12.6.1.

The Group has calculated the severance liabilities in accordance with IAS 19 "*Employee benefits*". The key assumptions as at December 31, 2019 are a discount rate of 4.5% (December 31, 2018:

4.25%), employee turnover 6.0% (December 31, 2018: 5.0%), and salary increase of 2.0% (December 31, 2018: 2.0%).

Anniversary bonus provisions are calculated based on bonuses expected to be payable to the current employees.

The Group operates a defined contribution pension plan for all qualifying employees. The assets of the defined contribution plan are held separately from those of the Group in funds under the control and management of the Guardian Group Fatum, Aruba. The total expense recognized in the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2019 amounted to 1,272 (2018: 1,238). The total expense represents contributions paid/payable to this defined contribution plan by the Group at rates specified in the rules of the Plan as well as to other personal pension schemes. As at December 31, 2018, contributions of 35 (December 31, 2018: 167) due in respect of the 2019 (2018) reporting period had not been paid over to the defined contribution plan. The amounts were paid subsequent to the end of the reporting period.

The legal provisions amounting to 4,618 is mainly related to a case dating back to 2004 where a former client had started court procedures for damages incurred as a result of closing of account by Aruba Bank without sufficient prior notice. The Court of First Instance of Aruba issued a judgement with a total claim amount which was paid in full. However the former client filed an appeal in August 2017. The bank believes that it has sufficiently provided for the expected outflow in appeal in the consolidated statement of financial position.

11 NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

11.1 TOTAL INCOME

Total income can be specified as follows:

	2019	2018
Interest income on loans and advances to customers	107,517	100,092
Interest income on investment securities	13,198	11,029
Interest expense	(27,692)	(23,963)
Net interest income	**93,023**	**87,158**
Card commissions	30,281	27,103
Other commission and fee income	19,985	18,004
Commission expense	(29,533)	(26,182)
Net result on financial transactions	12,819	11,954
Other income	894	3,414
Operating income	**34,446**	**34,293**
	127,469	**121,451**

11.2 OPERATING EXPENSES

Operating expenses can be specified as follows:

	2019	2018
Personnel	36,480	33,907
Depreciation	6,939	9,160
Automation	9,324	6,975
Premises	4,381	4,144
Marketing	2,634	2,637
Consulting	1,336	2,205
Communication	1,853	1,689
Legal	411	1,079
Insurance	554	459
Others	4,249	4,583
	68,161	**66,838**

11.3 PROFIT TAX

11.3.1 Tax expense recognized in profit or loss

	2019	2018
Tax expense current year	11,136	9,556
Current tax expense due to amendment prior years	(8)	326
	11,128	**9,882**

11.3.2 Reconciliation of the effective tax rate

	2019	2018
Income before tax	59,351	51,417
Income tax at applicable statutory tax rates	14,838	12,854
Effect profit tax subsidiaries	(3,880)	(3,452)
Prior year differences	(8)	263
Other differences	178	217
	11,128	**9,882**

The tax rate for the 2018 reconciliations below is the corporate tax rate of 25% (2018: 25%), payable by corporate entities in Aruba on taxable profits under tax law in Aruba. The effective tax rate for 2019 is 18.7% (2018: 19.2%).

11.3.3 Current tax liabilities

The current tax liabilities are settled with Orco Aruba Holding as head of the fiscal unity. The outstanding balance is primarily related to tax liabilities for IB Aruba Finance N.V. and AB Beleggingen VBA which are not part of the fiscal unity.

11.3.4 Deferred tax liabilities

The following is the analysis of deferred tax liabilities presented in the consolidated statement of financial position:

	Balance as at January 1, 2018	Net move-ments 2018	Balance as at December 31, 2018	Net move-ments 2019	Balance as at December 31, 2019
Loan loss provisions	6,482	660	7,142	940	8,082
Goodwill	3,738	-	3,738	-	3,738
Other	532	111	643	(276)	367
	10,752	**771**	**11,523**	**664**	**12,187**

12 OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12.1 SUBSIDIARY COMPANIES

Name of Company	Principal activity	Country of incorporation	Equity interest	
			12/31/19	12/31/18
Aruba Bank Onroerend Goed N.V.	Holding branches	Aruba	100%	100%
Aruba Bank Onroerend Goed II N.V.	Holding Camacuri office	Aruba	100%	100%
Aruba Bank Onroerend Goed III N.V.	Holding Hato office	Aruba	100%	100%
OHRA Hypotheekbank N.V.	Dormant	Aruba	100%	100%
IBA Corporation N.V.	Holding of loans	Aruba	100%	100%
IB Aruba Finance N.V.	Holding of loans	Aruba	100%	100%
AB Beleggingen VBA	Investments	Aruba	100%	100%

12.2 RISK MANAGEMENT

12.2.1 Introduction

The Group's prudent banking practices are founded on solid risk management. In an effort to keep apace with its dynamic environment, the Group has established a comprehensive framework for managing risks, which is continually evolving as the Group's business activities change in response to market, credit, product and other developments.

The Group monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk, credit risk, liquidity risk and operational risk.

Aruba Bank has an ERM policy in place as well as an ERM Framework to capture significant risks to which Aruba Bank is (potentially) exposed. This ERM Framework covers the most important risks that Aruba Bank is exposed to and covers risk areas such as Acts of God, compliance, credit, foreign exchange, interest rate, liquidity, legal, operational, outsourcing, price, reputation, and strategy. The Asset, Liability and Risk Management department is responsible for the risk identification, documentation, assessment, testing, and follow-up plans for mitigating the likelihood and impact of identified risks. No significant changes in exposures to risks and how they arise were identified compared to 2018.

The use of financial instruments is governed by the Group's policies approved by the Management Board, which provide written principles on asset and liability management. Compliance with policies and exposure limits is reviewed by the Internal Audit department. The Group does not enter into or trade financial instruments for speculative purposes.

The main risks arising from the Group's financial instruments are credit risk, interest rate and market risk, liquidity risk, foreign currency risk and operational risk.

12.2.2 Credit risk

Credit risk is the potential that a borrower or counterparty will fail to meet its stated obligations in accordance with agreed terms. The objective of the Group's credit risk management function is to maximise the Group's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

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 industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The Management

Board and Supervisory Board periodically discuss the level of credit exposure by product and by industry sector at its periodic meetings. Certain limits are also imposed by the CBA and any limits set by the Group take into account the regulatory requirements. Concentrated Group accounts are monitored closely. The total large exposures as defined in the regulatory requirements are allowed up to 600% of test capital. The total large exposures account for 56.7% (December 31, 2018: 52.7%) of test capital.

12.2.2.1 Impairment assessment

Individual provisions are reviewed at least two times a year and recommended provisions arising out of this review are submitted to the Management Board and Supervisory Board for approval. Non-performing debts recommended for write-off are also reviewed annually and action taken in accordance with the internal procedures. Subsequent recoveries of accounts previously written off are recognized in the consolidated statement of profit or loss and other comprehensive income.

12.2.2.2 Default

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in cases when the borrower becomes 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

The credit risk from loans and advances to customers is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate.

12.2.2.3 Modification of Financial assets and recovery

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery. Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. These modifications rarely result in an impairment loss and if it does, it is not material.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more.

12.2.2.4 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (“ECL”) is measured on either a 12-month (“12M”) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (“PD”), Exposure at Default (“EAD”), and Loss Given Default (“LGD”), whereby the the LGD is considered to be equal to the Loss Given Loss (“LGL”) multiplied with one minus the Cure Rate (“CR”), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per “Definition of default and credit-impaired” above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. The Group calculates the average PD based on the transition of assets in each half year data. From this data an annual average is derived.

- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). The Group estimates the EAD as the expected discounted exposure at half of the remaining contractual lifetime, or as the current exposure.

- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

- LGL represents the part of the exposure that results in a loss given there is a loss. The Group assumes the loss to be associated with the historical discounted write-offs. LGL is calculated as the percentage of a loss (write-off) at the time of default (account has entered the nonaccrual status).

- CR is calculated as the probability that an impaired asset becomes performing in the future. In the ECL model the CR is applied conditionally to default (greater than 90 days). The CR depends on the days past due and does not differ per product type.

The ECL is determined by projecting the PD, LGD and EAD for future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

12.2.2.5 Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition. The two backtops the Group applies on which the latest an asset should move to the next stage is as follows:

- Facility should be the latest in stage 2 if the asset is 30 days past due;
- Facility should be the latest in stage 3 if the asset is 90 days past due.

In addition to the backstops the Group applies the criteria that if a facility is within the special assets portfolio the facility is in stage 2.

Currently Aruba Bank has special assets procedure in place to monitor the quality of the facilities. Based on qualitative and quantitative factors a facility can be in special assets. This could be when a facility starts to show behavior which could indicate significant increase in credit risk, or when a facility is recovering, but is still in special assets to monitor the behavior more closely. This way the IFRS 9 staging is consistent with how Aruba Bank manages their credit risk.

12.2.2.6 Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

Retail Groupings for collective measurement:
- Product types: personal loans, car loans and mortgage loans/ term loans

Corporate Groupings for collective measurement:
- Product types: personal loans, car loans and mortgage loans/ term loans

The Mortgage and Term loans are considered to be very similar with similar credit risk characteristics, therefore are treated as one product (type) and not individually.

The following exposures are assessed individualy:
- Accounts within the Special Assets portfolio. If an asset is in Stage 2 and in special assets, the ECL is assessed on an individual basis and calculated according the procedures for individual assessments. If an asset is in Stage 3, the ECL is always based on an individual assessment.
- Current Accounts, not classified as special assets.
- Credit Cards. The expected credit loss on the credit card portfolio is considered very low and immaterial, therefore the provision calculation of the Credit Card portfolio will be simplified and not based on the ECL parameters.

Credit-related commitments
Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extent credit are contingent upon customers maintaining specific credit standards.

12.2.2.7 Credit risk exposure

Analysis of gross carrying amount and corresponding ECLs are as follows:

	Dec 31, 2019	Dec 31, 2018
Stage 1	93.2%	94.6%
Stage 2	4.9%	3.1%
Stage 3	1.9%	2.3%
	100.0%	100.0%

December 31, 2019

Stage 1	**Corporate lending**	**Retail lending**	**Overdrafts**	**Credit Cards**	**Total**
Gross loans and advances	516,554	835,298	78,369	34,856	1,465,077
ECL	(2,046)	(1,256)	(5,379)	(356)	(9,037)
Net loans and advances	514,508	834,042	72,990	34,500	1,456,040
ECL as a % of gross loans and advances	0.4%	0.2%	6.9%	1.0%	0.6%

December 31, 2018

Stage 1	**Corporate lending**	**Retail lending**	**Overdrafts**	**Credit Cards**	**Total**
Gross loans and advances	479,138	794,380	76,136	35,167	1,384,821
ECL	(1,897)	(3,224)	(4,833)	(931)	(10,885)
Net loans and advances	477,241	791,156	71,303	34,236	1,373,936
ECL as a % of gross loans and advances	0.4%	0.4%	6.3%	2.6%	0.8%

The ECLs of Stage 1 decreased from December 31, 2018 (0.8%) to December 31, 2019 (0.6%).

December 31, 2019

Stage 2	**Corporate lending**	**Retail lending**	**Overdrafts**	**Credit Cards**	**Total**
Gross loans and advances	61,936	14,635	-	770	77,341
ECL	(6,251)	(3,112)	-	(625)	(9,988)
Net loans and advances	55,685	11,523	-	145	67,353
ECL as a % of gross loans and advances	10.1%	21.3%	-	81.2%	12.9%

December 31, 2018

Stage 2	**Corporate lending**	**Retail lending**	**Overdrafts**	**Credit Cards**	**Total**
Gross loans and advances	32,204	12,031	-	954	45,189
ECL	(7,228)	(2,287)	-	(718)	(10,233)
Net loans and advances	24,976	9,744	-	236	34,956
ECL as a % of gross loans and advances	22.4%	19.0%	-	75.3%	22.6%

The ECLs of Stage 2 decreased from December 31, 2018 (22.6%) to December 31, 2019 (12.9%).

December 31, 2019

Stage 3	**Corporate lending**	**Retail lending**	**Overdrafts**	**Credit Cards**	**Total**
Gross loans and advances	7,246	19,068	-	4,103	30,417
ECL	(4,043)	(10,059)	-	(4,021)	(18,123)
Net loans and advances	3,203	9,009	-	82	12,294
ECL as a % of gross loans and advances	55.8%	52.8%	-	98.0%	59.6%

December 31, 2018

Stage 3	**Corporate lending**	**Retail lending**	**Overdrafts**	**Credit Cards**	**Total**
Gross loans and advances	7,749	22,635	-	3,519	33,903
ECL	(3,617)	(9,271)	-	(3,510)	(16,398)
Net loans and advances	4,132	13,364	-	9	17,505
ECL as a % of gross loans and advances	46.7%	41.0%	-	99.7%	48.4%

The ECLs of Stage 3 increased from December 31, 2018 (48.4%) to December 31, 2019 (59.6%).

12.2.3 Liquidity risk

This is the risk to earnings or capital arising from a possible scenario that the Group might not be able to meet its obligations when they come due, without incurring unacceptable losses. This is the ability of the Group to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from a failure to recognize or address changes in the market conditions that affect the ability to liquidate assets quickly and with minimal loss in value. The Group is exposed to daily calls on its available cash resources from current accounts, maturing deposits, loan draw-downs and guarantees. The Group does not maintain cash resources to meet all of these calls as experience indicates that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The liquidity analysis presents the same grouping as would be applicable for the interest sensitivity analysis, except for the non-interest bearing amount, considering that in most cases the contractual reprising date equals the maturity date. Ultimate responsibility for liquidity risk management rests with the Management Board, which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The following analysis is based upon the amounts as stated in the consolidated statement of financial position:

December 31, 2019	**Less than 1 month**	**1 - 12 months**	**1 - 5 years**	**more than 5 years**	**Total**
Assets					
Cash and cash equivalents	199,617	45,000	-	-	244,617
Amounts due from banks	278,035	14,320	-	-	292,355
Investment securities	-	56,400	23,950	233,182	313,532
Loans and advances to customers	124,679	16,079	331,333	1,063,596	1,535,687
Other assets	11,354	-	-	-	11,354
Total assets	**613,685**	**131,799**	**355,283**	**1,296,778**	**2,397,545**
Liabilities					
Amounts due to banks	26,027	-	-	-	26,027
Deposits from customers	1,046,630	215,966	345,773	472,966	2,081,335
Current tax liabilities	1,894	-	-	-	1,894
Other liabilities	22,744	-	-	-	22,744
Provisions	-	-	6,052	-	6,052
Total liabilities	**1,097,295**	**215,966**	**351,825**	**472,966**	**2,138,052**
Net balance sheet position	**(483,610)**	**(84,167)**	**3,458**	**823,812**	**259,493**

December 31, 2018	**Less than 1 month**	**1 - 12 months**	**1 - 5 years**	**more than 5 years**	**Total**
Assets					
Cash and cash equivalents	243,963	50,000	-	-	293,963
Amounts due from banks	214,539	10,740	-	-	225,279
Investment securities	-	-	56,400	171,582	227,982
Loans and advances to customers	122,646	63,450	238,029	1,002,271	1,426,396
Other assets	16,142	-	-	-	16,142
Total assets	**597,290**	**124,190**	**294,429**	**1,173,853**	**2,189,762**
Liabilities					
Amounts due to banks	5,549	-	-	-	5,549
Deposits from customers	970,452	225,761	264,569	434,522	1,895,304
Current tax liabilities	1,685	-	-	-	1,685
Other liabilities	25,830	-	-	-	25,830
Provisions	-	-	5,864	-	5,864
Total liabilities	**1,003,516**	**225,761**	**270,433**	**434,522**	**1,934,232**
Net balance sheet position	**(406,226)**	**(101,571)**	**23,996**	**739,331**	**255,530**

12.2.4 Market risk

This is the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments. The term market risk is also known as "price risk". Price risk may result in volatile earnings. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group’s approved risk tolerance for fixed interest securities and other equity products is prudent. Furthermore, the portfolio and related market risks are monitored periodically.

12.2.4.1 Foreign exchange risk

Foreign exchange risk is the risk to earnings or capital arising from movement of foreign exchange rates. This risk is found in cross border investing and operating activities. Market making and position taking in foreign currencies is price risk. Substantially all loans and off balance sheet commitments granted by the Group are to customers located in Aruba and to a lesser extent to customers in Latin America and Europe (with collateral held in Aruba). Deposits received are primarily from customers located in Aruba and Latin America.

Foreign currency sensitivity analysis

The Group only enters into transactions in ANG, USD, AWG, and/or the EUR. The Group’s exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its consolidated financial position and consolidated cash flows is minimal as the major part of the position is in US Dollars to which the AWG is pegged. Note that the ANG is also pegged to the USD.

The following details the Group’s sensitivity to a 10% increase and decrease in the AWG against the EUR. 10% is the sensitivity used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding EUR denominated monetary items and adjusts its translation at the period end for a 10% change in foreign currency rates. The total outstanding balance in EUR as per December 31, 2019 was AWG 3,215 (December 31, 2018: AWG 4,843). An increase or decrease of 10% will not have a material impact on the profit or equity.

12.2.4.2 Interest rate risk

This is the current and prospective risk to earnings or capital arising from movement in interest rates. Changes in interest rates affect income earned from assets and the cost of funding those assets. A change in interest rates also affects the economic value of the Group's consolidated statement of financial position. The economic perspective focuses on the value of the Group in today’s interest rate environment and the sensitivity of that value to changes in interest rates.

A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management’s assessment of the reasonably possible change in interest rates. If interest rates had been 100 basis points higher/lower and all other variables used were held constant, the Group’s profit for the year ended December 31, 2019 would decrease/increase by 14,964 (December 31, 2018: 13,492). This is mainly attributable to the Group’s exposure to interest rates on floating instruments.

12.2.4.3 Operational risk

This is the current and prospective risk to earnings and capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position and manage information. Systems that directly affect liquidity include wire transfers for check and securities clearing, electronic banking, and operations governing credit, debit, and smart card usage. Significant problems can develop very quickly if the systems that process transactions fail or delay execution. If customers have difficulty accessing their accounts, they may close them, which will diminish liquidity. As such, transaction risk is considered in the Group's contingency planning process.

The Group has implemented policies and procedures with sufficient internal controls and loss mitigation actions to mitigate the inherent risks in the business processes. Substantial resources are devoted to developing efficient procedures, to identify and rectify weaknesses in existing procedures and to train staff.

12.2.4.4 Compliance risk

This is the current and prospective risk to earnings or capital arising from violations of or non-conformance with, laws, rules, regulations, prescribed practices or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain Bank products or activities of the Group's customers may be ambiguous or untested. The Group has implemented policies and procedures with internal controls and actions to mitigate the inherent risks in the area of compliance. Substantial resources are devoted to developing efficient procedures, to identify and rectify weaknesses in existing procedures and to train staff.

12.3 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balances. The Group's overall strategy remains unchanged from 2018.

The Group is subject to externally imposed capital requirements. The Group monitors the adequacy of its capital using ratios established by the CBA and according to the CBA directives. These ratios measure the capital adequacy by comparing the Group's capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at a weighted amount to reflect their relative risk. All assets are weighted according to broad categories of risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) have been applied. The minimum requirement for the capital ratio as set by the Basel Committee for Banking Supervision is 8% of risk-weighted assets whereas the CBA applies 16%, due to the fact that the Aruban economy is highly dependent on one source of income being tourism. During 2018, the Group complied with the capital requirements by the CBA.

	2019	**2018**
Capital Ratio	22.3%	24.0%

12.4 Fair value of financial instruments

The Management Board consider that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values. There are no financial instruments designated as Level 1. Aruba Bank has the following financial instruments of which the respective carrying values approximate the fair value (Level 2):

- Cash and cash equivalents;
- Amounts due from banks;
- Investment securities;
- Loans and advances to customers;
- Deposits from customers;
- Current and deferred tax liabilities;
- Other liabilities;

The fair value of the financial instruments Level 3 amounts to 7,919 (December 31, 2018: 7,369). The movements in fair value of the Level 3 assets are specified in note 10.1.

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

- the fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

12.5 Related Party Transactions

12.5.1 Trading transactions

The balance on the current accounts from related parties was 70,500 (2018: 36,750) at the end of the reporting period.

The related party transactions during the year were as follows:

	2019	2018
Interest income	56	59
Other income	15	17
Interest expenses	157	67
	228	**143**

The transactions with related parties are primarily with Orco Group N.V., Orco Aruba Holding N.V., Orco Bank International N.V. and Orco Bank N.V. Reference is also made to note 11.3 for the income tax payable of nil (December 31, 2018: nil) to Orco Aruba Holding and the current tax liability of 1,894 (2018: 1,685) in the consolidated statement of financial position which is related to IB Aruba Finance N.V. and AB Beleggingen VBA. In the course of normal business, the Bank, Orco Group N.V., Orco Bank N.V., and Orco Bank International N.V. have entered into transactions at arm's length.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior years for bad or doubtful debts in respect of the amounts owed by/owed to related parties.

As a result of the service level agreements in place with related parties Orco Bank N.V. and Orco Bank International N.V., Aruba Bank has recharged 2,775, net (2018: 1,659) of the other operating expenses and personnel expenses to these related parties.

12.5.2 Loans to and from related parties

The Group has provided several of its Managing and Supervisory Directors with term loans at rates that are in accordance with the benefit protocol of the Group which applies to all employees for the Managing Directors and in accordance with commercial rates for the Supervisory Directors. The majority of the loans to the Managing Directors are secured.

The Group did not enter into loans from related parties except for the subordinated loan granted by Orco Bank International N.V. and bank accounts held by related parties in the ordinary course of business.

Aruba Bank is in full compliance with the requirements and ratios set forth by the CBA related to credit extensions to insiders. Note that all related party transactions are subject to pre-approval by the Related Party Transactions Committee.

	2019	2018
Loans and advances to Managing Directors	1,290	1,445
Loans and advances to Supervisory Directors	90	211
Total loans and advances	**1,380**	**1,656**
Liabilities due to Managing Directors	1,220	939
Liabilities due to Supervisory Directors	164	637
Total liabilities	**1,384**	**1,576**

12.6 Contingent liabilities and off balance sheet commitments

In the normal course of business the Bank is party in activities whose risks are not reflected in whole or part in the consolidated financial statements. Based on the needs of its customers, the Bank offers financial products related to loans. These products relate to traditional off-balance sheet credit related financial instruments.

Contingent liabilities and commitments as at December 31 can be specified as follows:

	2019	2018
Guarantees	57,261	18,741
Letters of credit	11,223	8,950
Balance at the end of year	**68,484**	**27,691**

The irrevocable commitments as at December 31, 2019 amount to 212,692 (December 31, 2018: 234,981). This item relates to credit facilities not (yet) drawn that could lead to a credit risk. The Bank has insignificant leasing arrangements with external parties of 445 per annum (2018: 481).

12.6.1 Legal proceedings

As per reporting period the Group is involved with certain legal proceedings. Adequate provisions have been made as necessary based on management's assessment of the possible outcome of such proceedings.

In addition, Aruba Bank has a pending case with the Aruban tax authorities related to a 2003 tax assessment (11,299, excluding interest). Aruba Bank has concluded, based on legal opinions and the conclusion of the Dutch Supreme Court, that the position of Aruba Bank is strong and has a good chance of success. As a result, Aruba Bank has not provided for this matter in its consolidated financial statements.

12.7 Events after the reporting period

There are no events after the reporting period that would have a (significant) effect on the 2019 consolidated financial statements, except as noted elsewhere in these financial statements.

12.8 STATUTORY PROVISIONS FOR PROFIT APPROPRIATION

Article 17 of the Articles of Association stipulates the following:

17.1 The profit, being the net profit after deduction of taxes as laid down in the determined profit and loss account, is in full at the disposal of the general meeting of shareholders.

17.2 If according to the profit and loss account in any year a loss is reported, that cannot be settled out of the reserves or discharged in any other way, no profit distributions will take place the following years for as long as such loss is not compensated.

17.3 Management is allowed, after receiving prior approval of the CBA, to declare interim dividend as prepayment on anticipated dividends.

12.9 PROPOSED PROFIT APPROPRIATION

In the General Annual Meeting of Shareholders, it will be proposed to appropriate the net profit of 48,223 to retained earnings which has been reflected in the consolidated financial statements.

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Independent Auditor's Report

To the Management Board and the Supervisory Board of Aruba Bank N.V.

Report on the audit of the consolidated financial statements

Opinion
We have audited the consolidated financial statements of Aruba Bank N.V. and its subsidiaries ("the Bank"), which comprise of:

- Consolidated statement of financial position as at 31 December 2019
- Consolidated statement of profit and loss and other comprehensive income for the year 2019
- Consolidated statement of changes in equity for the year ended 31 December 2019
- Consolidated statement of cash flows for the year 2019
- Notes to the consolidated financial statements, including a summary of significant accounting policies

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 consolidated financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Bank's 2019 annual report
Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. 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. 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 and those charges with governance for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of the 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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the consolidated 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 auditor's 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 International Standards on Auditing 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Bank 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 the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Aruba, 31 January 2020
for Ernst & Young Accountants

Signed by
drs. R.J.W. van Nimwegen RA