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BOI BANK NOTICE

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NOTICES

BOI BANK CORPORATION

Financial Statements

December 31, 2017

(With Independent Auditors' Report)

BOI BANK CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Boi Bank Corporation

Opinion

We have audited the financial statements of Boi Bank Corporation ("the Bank"), which comprise the statement of financial position as at December 31, 2017, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2017, and of its financial performance and its 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISAs 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 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 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 auditors' report to the related disclosures in the 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 auditors' 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

Panama, Republic of Panama
April 13, 2017

BOI BANK CORPORATION

Statement of Financial Position

December 31, 2017

(Stated in United States dollars)

Assets	**Note**	**2017**	**2016**
Cash and deposits with banks	5, 22	15,872,605	29,961,590
Time deposits	5	2,000,000	2,000,000
Loans, net	6, 22	21,000,938	21,289,174
Investment securities	7	990,831,898	932,472,972
Secutiries lending, net	8, 22	8,914,166	9,245,000
Accrued interest receivable		13,021,755	17,877,001
Restricted deposits with banks	9	500,000	500,000
Other assets	10	1,526,052	1,164,517
Total assets		1,053,667,414	1,014,510,254
Liabilities			
Due to depositors	11	728,842,345	704,786,891
Securities sold under repurchase agreement	12	2,612,676	2,612,676
Borrowings	13	567,000	567,000
Accrued interest payable	11	1,989,160	2,499,448
Other liabilities	14	7,211,183	7,811,189
Total liabilities		741,222,364	718,277,204
Equity			
Share capital of US$1,000 par value.			
Authorized, issued and fully paid 5,000 shares		5,000,000	5,000,000
Fair value reserve		46,658,925	(6,523,122)
Retained earnings		260,786,125	297,756,172
Total equity		312,445,050	296,233,050
Total liabilities and equity		1,053,667,414	1,014,510,254

The statement of financial position should be read in conjunction with the accompanying notes that are an integral part of the financial statements.

Approved by the Board of Directors on 13/04/2018 and signed on its behalf by:

Director Director

BOI BANK CORPORATION

Statement of Income

For the year ended December 31, 2017

(Stated in United States dollars)

	Note	2017	2016
Interest income:			
Securities	7	67,165,478	61,572,806
Loans	6	2,130,683	2,475,630
Due from banks		194,126	80,329
Securities lending	8	184,020	222,567
Total interest income		69,674,307	64,351,332
Interest expenses:			
Deposits	11	27,696,929	27,150,226
Borrowings	13	45,360	45,612
Securities sold under repurchase agreements		1,350	78,048
Total interest expenses		27,743,639	27,273,886
Net interest income		41,930,668	37,077,446
Impairment loss on financial assets:			
Impairment on available for sale securities	7	(57,776,427)	0
Allowance for loan losses	6	(985,839)	(108,709)
Allowance for securities lending losses	8	(427,695)	0
Net interest (loss) income, after impairment loss on financial assets		(17,259,293)	36,968,737
Other income (expenses):			
Net realized gain on sale of available for sale securities	7	15,935,395	17,329,952
Loss on foreign currency exchange		(232,199)	(10,207)
Commissions from banking services		3,241,760	1,127,679
Commission expense		(1,141,298)	(761,834)
Other income (expenses), net		17,803,658	17,685,590
General and administrative expenses	16	7,033,544	12,397,332
Net (loss) income before tax on profits		(6,489,179)	42,256,995
Tax on profits	17	480,868	0
Net (loss) income for the year		(6,970,047)	42,256,995

The statement of income should be read in conjunction with the accompanying notes that are an integral part of the financial statements.

BOI BANK CORPORATION

Statement of Comprehensive Income

For the year ended December 31, 2017

(Stated in United States dollars)

	2017	**2016**
Net (loss) income for the year	(6,970,047)	42,256,995
Other comprehensive income		
Items that are or may be reclassified to the statement of income:		
Fair value reserve (available-for-sale financial assets):		
Net change in fair value	11,341,015	66,329,816
Realized loss recognized in profit or loss due to impairment	57,776,427	0
Net amount transferred to profit or loss	(15,935,395)	(17,329,952)
Other comprehensive income for the year	53,182,047	48,999,864
Total comprehensive income for the year	46,212,000	91,256,859

The statement of comprehensive income should be read in conjunction with the accompanying notes that are an integral part of the financial statements.

BOI BANK CORPORATION

Statement of Changes in Equity

For the year ended December 31, 2017

(Stated in United States dollars)

	Share capital	Fair value reserve	Retained earnings	Total equity
Balance at December 31, 2015	5,000,000	(55,522,986)	285,499,177	234,976,191
Total comprehensive loss				
Net income for the year	0	0	42,256,995	42,256,995
Other comprehensive loss				
Fair value reserve (available-for-sale financial assets):				
Net change in fair value	0	66,329,816	0	66,329,816
Net amount transferred to profit or loss	0	(17,329,952)	0	(17,329,952)
Total other comprehensive loss	0	48,999,864	0	48,999,864
Total comprehensive loss for the year	0	48,999,864	42,256,995	91,256,859
Contributions by and distributions to owner				
Dividends paid	0	0	(30,000,000)	(30,000,000)
Total contributions by and distributions to owner	0	0	(30,000,000)	(30,000,000)
Balance at December 31, 2016	5,000,000	(6,523,122)	297,756,172	296,233,050
Total comprehensive income				
Net income for the year	0	0	(6,970,047)	(6,970,047)
Other comprehensive income				
Fair value reserve (available-for-sale financial assets):				
Net change in fair value	0	11,341,015	0	11,341,015
Realized loss recognized in profit or loss due to impairment	0	57,776,427	0	57,776,427
Net amount transferred to profit or loss	0	(15,935,395)	0	(15,935,395)
Total other comprehensive income	0	53,182,047	0	53,182,047
Total comprehensive income for the year	0	53,182,047	(6,970,047)	46,212,000
Contributions by and distributions to owner				
Dividends paid	0	0	(30,000,000)	(30,000,000)
Total contributions by and distributions to owner	0	0	(30,000,000)	(30,000,000)
Balance at December 31, 2017	5,000,000	46,658,925	260,786,125	312,445,050

The statement of changes in equity should be read in conjunction with the accompanying notes that are an integral part of the financial statements.

BOI BANK CORPORATION

Statement of Cash Flows

For the year ended December 31, 2017

(Stated in United States dollars)

	Note	2017	2016
Cash flows from operating activities:			
Net (loss) income		(6,970,047)	42,256,995
Adjustments to reconcile net (loss) income to net cash from operating activities:			
Impairment on available for sale securities	7	57,776,427	0
Allowance for loan losses	6	985,839	108,709
Allowance for securities lending losses	8	427,695	0
Net realized gain on sale of securities	7	(15,935,395)	(17,329,952)
Depreciation and amortization	16	31,071	21,673
Net interest income		(41,930,669)	(37,077,446)
Tax on profits	17	480,868	0
Changes in operating assets and liabilities:			
Loans		(697,603)	2,714,274
Securities lending		(96,861)	2,177,550
Due to depositors		24,055,454	9,779,034
Other assets		(386,070)	(466,862)
Other liabilities		(760,296)	3,692,732
Cash generated from operations:			
Interest received		68,627,225	61,571,477
Interest paid		(28,253,926)	(27,179,967)
Tax on profit paid		(320,578)	0
Cash flows provided by operating activities		57,033,134	40,268,217
Cash flows from investing activities:			
Securities purchased		(157,078,419)	(166,710,107)
Proceeds from sale and redemption of securities		115,962,836	190,919,736
Purchase of property, plant and equipment	10	(6,536)	(42,458)
Cash flows (used in) provided by investing activities		(41,122,119)	24,167,171
Cash flows from financing activities:			
Securities sold under repurchase agreements		0	(8,797,396)
Dividends paid		(30,000,000)	(30,000,000)
Cash flows used in financing activities		(30,000,000)	(38,797,396)
Net (decrease) increase in cash and cash equivalents		(14,088,985)	25,637,992
Cash and cash equivalents at beginning of year		29,961,590	4,323,598
Cash and cash equivalents at end of year	5	15,872,605	29,961,590

The statement of cash flows should be read in conjunction with the accompanying notes that are an integral part of the financial statements.

BOI BANK CORPORATION

Notes to the Financial Statements

December 31, 2017

(Stated in United States dollars)

(1) Incorporation and Description of Business

BOI Bank Corporation (the "Bank") was incorporated on March 14, 1994, pursuant to Section 332 of the International Business Corporations Act, Cap. 222, of the revised laws of Antigua and Barbuda. The Bank holds an unrestricted license to conduct international banking under Section 230 and 235 of the International Business Corporations Act, Cap. 222.

The Bank's objectives are to perform, within the limitations established by the banking laws of Antigua and Barbuda, financial intermediary operations, including financial services and operations generally associated with international banking business.

The Bank is subject to regulation of the Financial Services Regulatory Commission of Antigua and Barbuda (FSRC).

Valores Occidentales Inversiones, C. A., incorporated under the laws of Venezuela, fully owns the share capital of the Bank.

The registered office of the Bank is located at Village Walk Commercial Center, Friar's Hill Road, Suite #206, 1st Floor, P. O. Box W-1121, St. John's, Antigua.

(2) Basis of Preparation

(a) Declaration of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Financial Reporting Standards Board (IASB).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for available for sale investment securities which are measured at fair value.

These financial statements were authorized for issuance by the Bank's management on April 13, 2018.

(c) Functional and Presentation Currency

These financial statements are presented in dollars of the United States of America ($), which is the Bank's functional currency.

(d) Use of Judgement and Estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Material estimates and assumptions made by management in the application of IFRS that are particularly susceptible to significant change in the future relate to the determination of impairment of securities and impairment losses on loans.

BOI BANK CORPORATION

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies

The significant accounting policies are summarized as follows:

(a) *Fair Value Measurement*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses quoted prices of financial instruments with similar conditions or valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(b) *Cash and cash equivalents*

The Bank considers due from banks with original maturities of three months or less to be cash equivalents. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(c) *Transactions with related parties*

The Bank defines related parties as associated companies and enterprises which are, directly or indirectly, controlled by, jointly controlled by or significantly influenced by other group entities, as well as key management personnel (all directors and supervisory directors).Transactions with related parties are generally conducted on a commercial basis under comparable conditions that apply to transactions with third parties.

BOI BANK CORPORATION

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

(d) Investment Securities

The investment securities are classified at their trade date, and are initially measured at their fair value, plus the transaction incremental related costs. Investment securities are not held for trading or held to maturity and, consequently, are classified as available for sale.

Available-for-Sale Securities

This category includes securities acquired with the intention of holding them for an indefinite period of time, which may be sold in response to needs for liquidity, changes in interest rates, exchange rates or investments prices. These securities are measured at fair value and changes in value are recognized directly in other comprehensive income using a valuation account until the securities are sold or redeemed or it has been determined that a security has been impaired; in these cases, the cumulative gains or losses previously recognized in other comprehensive income (loss) are reclassified to profit or loss as a reclassification adjustment. Foreign exchange gain or losses on available for sale investment securities are recognized in the statement of income.

Unquoted equity securities whose fair value cannot be reliably measured are carried at cost.

The Bank assesses at each date of the statement of financial position whether there is objective evidence that investment securities are impaired. In the case of securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognized in the statement of income.

If, in a subsequent period, the fair value of an impaired investment security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Premiums and discounts are included in the carrying amount of the related instrument and amortized to interest income/expense using the effective interest method.

(e) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those created with the intention of short-term profit taking. This classification includes credit cards debts.

Loans originated by the Bank are classified as loans, which are reflected at estimated recoverable amounts.

The recoverable amount of loans is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

BOI BANK CORPORATION

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

Loans are presented net of allowances for loan losses. Increases in the allowance account are recognized in the statement of income. The Bank writes down a loan, either partially or in full, and any related allowance for loan losses, when the Bank determines that there is no realistic prospect of recovery. If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the statement of income.

Impairment losses are determined through two methods which indicate if there is any objective evidence of impairment, i.e. individually for loans individually material and collectively for loans not individually material.

(e.1) Individually Assessed Loans

Impairment losses on individually assessed loans are determined based on an assessment of each particular exposure. If there is not objective evidence of impairment for a significant individual loan, this is included in a group of loans with similar characteristics and impairment is collectively assessed. Impairment loss is calculated comparing the present value of expected future cash flows, discounted at the effective interest rate of the loan net of guarantees, versus its current carrying value and the amount of any loss is recognized as an allowance for loan losses in the statement of income. The carrying value of impaired loans is decreased through the use of the allowance for loan losses account.

(e.2) Collectively Assessed Loans

For purposes of a collective assessment for impairment, loans are grouped based on similar credit risk characteristics. These characteristics are relevant to the estimation of future cash flows for the groups of such assets, being an indicator of the payment capacity of debtors for all the amounts owed as per the contractual terms of assessed assets. Future cash flows for a loan group collectively assessed for impairment are estimated based on the historical loss experience for assets with similar credit risk characteristics and adjusted by an economic factor such as credit quality, portfolio size and concentrations. The collective reserve for impairment is applied only to the grouped exposed portion of the loans net of their guarantees.

(f) Securities lending

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date, the arrangement is accounted for as a loan or advance and recognised in the statement of financial position as a receivable from securities lending.

The underlying asset is not recognised in the Bank's financial statements. Receivables from securities lending are measured at amortised cost and the interest income is recognized under the method of effective interest rate.

(g) Liabilities

Liabilities evidenced by paper including amounts due to depositors are classified as non-trading liabilities.

BOI BANK CORPORATION

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

(h) Securities sold under repurchase agreements

The securities sold under repurchase agreements are transactions of short-term financing with collateralized securities in which the Bank has an obligation to repurchase the securities sold at a future date and at a specified price. The difference between the sale price and the value of the future purchase is recognized as interest expense under the method of effective interest rate.

The underlying asset continues to be recognised in the financial statements as the counterparty has no right of ownership unless there is a breach of contract by the Bank.

(i) Derecognition

A financial asset is derecognised when the Bank losses control over the contractual rights that comprise that asset. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

(j) Interest income and expense

Interest income and expense are recognized in the statement of income for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

Once a financial asset has been written down as a result of an impairment loss, interest income is recognized using the original effective interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

(k) Commission income and expense

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees and investment management fees, are recognised as the related services are performed.

Other fees and commission expense mainly related to transaction and service fees, are expensed as the services are received.

BOI BANK CORPORATION

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

(l) Properties, Furniture, Equipment and Improvements

The properties, furniture, equipment and improvements are presented at cost, less the depreciation and amortization. Improvements are capitalized when increase the useful life of the property, while the repairs and maintenance do not extend the useful life or improve the asset, are charged directly to expenses when incurred.

Depreciation and amortization are charged to current operations, using the straight-line method based on the estimated useful life of the assets up to their value residual (which is immaterial in all cases), except for land which is not depreciated, as follows:

- Licensing and internal development projects 3 - 5 years

The estimated useful life and the redemption value of the assets is reviewed periodically to determine if it is appropriate according to the reality.

(m) Intangible Assets

Intangible assets are recognized at cost less accumulated depreciation and amortized under the straight-line method over the estimated useful lives of the assets until its residual value. Intangible assets are subject to periodic evaluation to determine whether there is any indication of impairment or when events or changes in circumstances indicate that the carrying amount may not be recoverable.

(n) Foreign Currency Translation

Assets and liabilities in currencies other than the United States dollar are translated at the exchange rates prevailing at the reporting date. Income and expense amounts in currencies other than the United States dollar are translated at the exchange rates prevailing at the time the income or expense is recognized. The resulting foreign exchange gains and losses are reflected in the statement of income.

(o) Uniformity in Presentation of Financial Statements

The above-mentioned accounting policies have been applied consistently for the periods presented in the financial statements.

(p) Comparative information

Some figures of the 2016 were reclassified to uniform presentation of the financial statements al December 21, 2017.

(q) New IFRSs and Interpretations that have not been yet adopted

There are standards that have not been yet applied in the preparation of the financial statements:

- IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the last version of IFRS 9 Financial Instruments.

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018.

(3) Summary of Significant Accounting Policies, continued

The actual impact of adopting IFRS 9 on the Bank's financial statement in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Bank holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Bank to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet completed. However, the Bank has performed a preliminary assessment of the potential impact of adoption of IFRS 9 based on its positions at December 31, 2017.

IFRS 9 Implementation Strategy

The Bank´s IFRS 9 implementation process was governed by an interdepartmental team, led by the Risk Committee, whose members included representatives of the areas of risk, treasury, accounting, high management and information technology. This team, met throughout the year 2017 to challenge and validate the key assumptions, make decisions and monitor the progress of the implementation.

The Bank has completed a preliminary impact assessment and most of the financial analysis and has commenced work on the design and build of models, systems and processes.

Classification – Financial Assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets. Measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans, and receivables and available and sales.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

1. the asset is held within a business model whose objective is to hold assets to collect contractual cash flow; and
2. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if its meets both of the following conditions and is not designated as at FVTPL:

1. the asset is held within a business model whose objective is achieved by both collecting contractual cash flow and selling financial assets; and
2. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

BOI BANK CORPORATION

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

A financial asset is classified into one of these categories on initial recognition. However, for financial assets held at initial application, the business model assessment is based on facts, history and circumstances of the Bank at the date of implementation.

Business model assessment

The Bank conducted an historic evaluation of its portfolios behavior (loans, mutual operations and investments) for the past three years (2015-2017) at instrument and portfolio level, including typical characteristics of issuers, instrument rotation and number of sales per month, because this best reflects the way the business is managed and how information is provided to management. The information that was considered included:

- business Department analyses and perspectives for the future in terms of loans, credit cards and deposits;
- the objectives and policies maintained by the Treasury Department and the actual operations and compliance with those policies. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular rate profile and matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flow through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's high management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectation of futures sales activity. However, information about sales activity will not be considered in isolation, but as part of an overall assessment of how the Bank stated objective for managing the financial assets in achieved and how cash flow is realized.

Assessment whether contractual cash flow are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risks associated with the principal amount outstanding during particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flow are solely payments of principal and interest, the Bank considered the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term of the instrument. In making the assessment, the Bank considered:

- contingent events that would change the amount and timing of cash-flows;
- leverage features;
- prepayments and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets; and
- features that modify consideration for the time value of money.

BOI BANK CORPORATION

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss'(ECL) model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The Bank consulted experts in the matter to evaluate its financial assets and develop models based on expected credit losses.

The new impairment model will apply to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- loans commitments issued and securities lending.

Under IFRS 9, the Bank will recognize loss allowance at an amount equal to lifetime ECL, except in the following cases, where the amount recognized will be 12- month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

For all other cases, the reserves are recognized at an amount equal to the assets lifetime ECL.

The assessment of whether credit risk on a financial asset has increased significantly, will be one of the critical judgements in implementing the impairment model of IFRS 9.

12-month ECL are the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date;
- financial assets that are credit-impaired at the reporting date;
- undrawn loan commitments

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

Definition of default

The Bank considered a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); and
- the borrower is past due more than 90 days on any material credit obligation to de Bank.

BOI BANK CORPORATION

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

In assessing whether a borrower is in default, the Bank will consider indicators that are:

- qualitative -e.g. breaches of covenants
- quantitative -e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considered reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis, based on the Bank historical experience and expert credit assessment and including forward-looking information.

The Bank has taken as main indicators of the significant increase in the risk the variations and the days of delinquency, collection score and credit risk rate.

Credit risk grades

The Bank allocated each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default. The models were developed and applied during several periods to evaluate its reasonableness. The Bank uses credit risk ratings to identify significant increases in credit risk.

Credit risk ratings are defined using qualitative and quantitative factors that are indicative of risk of default. These factors may vary depending on the nature of the exposure and the type of borrower. Regarding foreign investments and deposits in banks, the Bank used the international risk rating of Fitch, Standard and Poor's or Moody's and its changes to establish if there was an increase of significant risk and for the calculation of the Probability of Default ('PD'). With respect to the loans and mutual, the Bank employment internal model for the establishment of credit rating of the debtors evaluated.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Each exposure will be allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Generating the term structure of PD

Delinquency days are the main input to determine the term structure of PD, for different exposures in the consumer credit portfolio. For the corporate credit portfolio, the Bank uses the following inputs: country of domicile, industry, financial information from the origination date and credit rating. And for the investment portfolio, international credit risk grades are a primary input. The intent is to collect performance and default information about credit risk exposures and analyzed it by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

(3) Summary of Significant Accounting Policies, continued

The Bank designed and tested statistical models to analyze the date collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

The Bank deems that the credit risk of an exposure to have increased significantly since initial recognition if, based on the models of classification of credit risk and / or days of delinquency, the remaining lifetime PD is determined to have increased by more than a predetermined percentage or range.

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Bank, can determine that an exposure has undergone a significant increase in the credit risk based on particular qualitative indicators that it considers are indicative of this and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As backstop, and as required by IFRS 9, the Bank will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 or 60 days past due, depending on the asset. The Bank determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Bank intends to monitor the effectiveness of the criteria used to identify significant increases in credit risk by periodical reviews.

Inputs into measurement of ECL

The key inputs into the measurement of ECL are likely to be the term structures of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD)

PD estimates are estimates at a certain date, which the Bank calculates based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models were acquired from internationally recognized firms based in historical data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PD's will be estimated considering contractual maturities of exposures and estimated prepayment rates. In the case of sovereign debt, the ECL is obtained from the probability of default implicit in the Credit Default Swaps (CDS) used as proxies for each bond or deposit based on their international credit rating and industry.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates the LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The models consider the structure, collateral, industry and recovery costs of any collateral that is integral to the financial asset. The Bank expects to calibrate LGD estimates for different economic scenarios. In the case of sovereign debt, the Bank used the ECL implicit on the CDS.

BOI BANK CORPORATION

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

EAD represents the expected exposure in the event of default. The Bank expects to derive the EAC from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract.

Forward looking information

Under IFRS 9, the Bank will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. External information may include economic data and forecast published by governmental authorities in the country where the Bank operates, supranational organizations such as the OECD and the International Monetary Fund, and selected private sector and academic forecasters.

The view of the future for the Bank represents a most likely outcome and be aligned with the information used by the Group for other purposes, such as strategic planning and budgeting. The other scenarios would represent more optimistic and more pessimistic outcomes. The Bank plans to carry out stress testing of more extreme shocks to calibrate its determination of these other scenarios.

Impact on Capital Planning

The principal impact on the Banks regulatory capital of the implementation of IFRS 9 will arise from the new impairment requirements, which will decrease primary capital.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will be applied retrospectively, except as described below:

- The Bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from de adoption of IFRS 9 will generally be recognized in retained earnings and reserves as at January 1, 2018.

Disclosures

The IFRS 9 will require new disclosures, in particular in relation to credit risk and expected credit losses.

Preliminary impact assessment

Classification

Based on the preliminary assessment of possible changes to the classification of financial assets held as at December 31, 2017, the Bank expects that:

- loans and advances to banks and customers that are classified as loans and receivables and measured at amortized cost under IAS 39 would in general also be measured at amortized cost under IFRS 9; and

(3) Summary of Significant Accounting Policies, continued

- debt securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortized cost or FVOCI, depending on the portfolios held on the date of the implementation.

Measurement

The most significant impact on the Bank's financial statements due to the implementation of the IFRS 9 is due to the new requirements for the calculations of the impairment loss allowance account. Based on preliminary assessment as of December 31, 2017 the Bank expects:

- the new loss allowance account for deposits in Banks will represent between 1% and 4% of total deposits;
- the impairment loss allowance account will decrease between 1% and 3% for loans and advances, compared to allowances under IAS 39;
- The new loss allowance account for the investment portfolio classified as amortized cost and FVOCI will represent between 1% and 3% of total portfolio.

- IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue Standards and Interpretations upon its effective date including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for reporting periods beginning on or after January 1, 2018 with early adoption permitted.

  The Bank is evaluating the potential effect of the application of IFRS 15 on its financial statements.

- IFRS 16, issued in January 2017, replaces the existing guidance in IAS 17 Leases. IFRS 16 eliminates classification of leases, either as operating leases or finance leases for the lease. Instead, all leases are recognized similarly to finance leases under IAS 17. Leases are measured at the present value of future lease payments and are presented as either leased assets (rights of use assets) or together with property, plant and equipment. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier adoption is permitted for entities that apply IFRS 15 – Revenue from Contracts with Customers.

  At the date of the financial statements, it has not assessed the impact that the adoption of this standard will have on the financial statements.

(4) Risk Management of Financial Instruments

A financial instrument is any contract that gives rise to a financial asset at one entity and a financial liability at another entity. Activities at the Bank are related principally to the use of financial instruments, and thus the financial statements are mainly composed of financial instruments.

BOI BANK CORPORATION

Notes to the Financial Statements

(4) Risk Management of Financial Instruments, continued

The Bank's board of directors has overall responsibility for the establishment and oversight of the risk management framework. The board of directors has established that the Asset and Liability Committee (ALCO) and the Treasury Department are responsible for developing and the Risk Committee for monitoring the Bank's risk management policies, respectively.

The risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities.

The Audit Committee oversees how management monitors compliance with the Bank's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures in the framework of its annual audit plan, the results of which are reported to the Audit Committee and consequently to the board of directors.

Additionally, the Bank is subject to the regulations of the Financial Services Regulatory Commission of Antigua and Barbuda, with respect to levels of risk, liquidity, capitalization, and other.

Bank's management has been following on the impact that the current worldwide financial situation could have on the economy in countries where the Bank conducts business operations, including the possible effect on the Bank's financial position, profitability, and liquidity.

The Bank has exposure to credit, liquidity, market risks and operational risks, which are explained as follows:

(a) Credit Risk

Is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, time deposits, securities lending and investment debt securities.

(i) Management of Credit Risk

To mitigate credit risk the board of directors has delegated oversight responsibility to its ALCO and Risk Committees. Each Committee is responsible of managing credit risk, including the following:

Assets and Liabilities Committee

- Establishing the authorization structure for the approval and renewal of credit facilities.

- Reviewing, assessing and approving credit risk: this Committee assesses all credit exposures before facilities are committed to customers. Renewals and reviews of facilities are subject to the same review process.

BOI BANK CORPORATION

Notes to the Financial Statements

(4) Risk Management of Financial Instruments, continued

- Limiting concentrations of exposure to counterparties, geographies and industries, and by issuer, credit rating band, market liquidity and country (for investment securities).

Risk Committee

- Reviewing and monitoring policies developed by general management and the business units, revising collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- Monitoring the Bank's risk grading's that categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default considering the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving of the ALCO or the board of directors, as appropriate.

Regular audits for loan and advances to customers, investment portfolio, securities lending, bank deposits and other assets are undertaken by Internal Audit.

(ii) Credit quality analysis

The table bellows set out information about the credit quality of loans, advances and credit cards to customers:

	Loan and advances to customers	
	2017	**2016**
Maximum exposure to credit risk		
Carrying amount	21,000,938	21,289,174
At amortized cost		
Pass	8,823,572	10,369,285
Special Mention	12,623,966	11,160,114
Substandard	290,400	220,716
Doubtful	347,912	51,264
Loss	565,259	152,127
Total gross amount	22,651,109	21,953,506
Allowance for impairment	(1,650,171)	(664,332)
Net carrying amount	21,000,938	21,289,174

BOI BANK CORPORATION

Notes to the Financial Statements

(4) Risk Management of Financial Instruments, continued

	Loan and advances to customers	
	2017	**2016**
Neither past due nor impaired		
Pass	5,942,635	10,126,242
Total	5,942,635	10,126,242
Past due but not impaired		
1 -30 days	975,143	108,130
31-60 days	89,121	71,051
61-90 days	225,798	19,002
91-120 days	125,519	8,455
121-150 days	0	835
151+	10,468	50,338
Total	1,426,049	257,811
Individually impaired		
Special Mention	10,731,801	11,160,114
Total	10,731,801	11,160,114
Allowance for impairment		
Individual	204,343	328,773
Collective	1,445,828	335,559
Total allowance for impairment	1,650,171	664,332

Additionally as of December 31 2017, the Bank maintained Securities Lending with a related party that amounted to US$9,341,861 (2016: US$9,245,000) classified as pass and an allowance for securities lending losses for US$427,695.

The table below sets out the credit quality of available for sale debt securities. The analysis has been bases on Moody's Analytics rating where applicable:

	Available for sale Investment	
	2017	**2016**
Maximum exposure		
Gross amount	990,831,898	932,472,972
Available for sale		
Aaa to Aa3	78,046,268	73,448,160
A1 to A3	127,488,560	105,007,228
Baa1 to Baa3	121,265,459	109,267,020
Ba1 to B3	491,469,478	507,064,008
Caa1 to Caa3	172,562,133	137,686,556
Total Gross Amount	990,831,898	932,472,972

The Bank held deposits with banks of US$17,872,605 at December 31, 2017 (2016: US$31,961,589) with financial institutions counterparties that are rated at least A3 to Caa1 or located in countries rated A- to D based on Moody's ratings or other agencies approved by local regulators.

BOI BANK CORPORATION

Notes to the Financial Statements

(4) Risk Management of Financial Instruments, continued

Additionally, the Bank maintained securities sold under repurchase agreements for US$2,612,676 (2016: US$2,612,676), with a counterparty rated Aa3 based on Moody's rating.

(iii) Impairment on Loans, time deposits, securities lending and investment debt securities

The Bank regards a loan and advances to customers or a debt security as impaired in the following circumstances:

- There is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset.
- A loan is overdue for 90 days or more. A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

(iv) Allowance for Impaired Loans

The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received.

In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently reviewed by the Risk Officer and approved by the Risk Committee.

A collective component of the total allowance is established for:

- Groups of assets that are individually significant but that were not found to be individually impaired (loss 'incurred but not reported' or IBNR) and;
- Groups of homogeneous loans that are not considered individually significant.

The IBNR allowance covers credit losses inherent in portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired items but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowance, management considers factors such as credit quality, portfolio size, concentrations and economic factors.

To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance.

BOI BANK CORPORATION

Notes to the Financial Statements

(4) Risk Management of Financial Instruments, continued

The collective allowance for groups of homogeneous loans is established using a formula approach based on historical loss rate experience. The roll rate methodology uses statistical analysis of historical data on delinquency and recoveries of write-off loans to estimate the amount of loss. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date.

(v) Impairment on other financial assets

The Bank's assesses periodically whether there is objective evidence that the sale and repurchase transactions, securities lending and time deposits are impaired due to the occurrence of a loss event. An example of this will be a default on the agreements terms and conditions. In case there is objective evidence of impairment the amount will be equal to the difference between the book value and the present value of future cash flows discounted with the original effective rate or a synthetic rate that includes all the risks involved in the transaction.

(vi) Write-off Policy

The Bank writes off a loan, when the Risk Committee determines that the loan is uncollectible and the analysis is approved by ALCO. This determination is made after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

(vii) Concentration of Credit Risk

The Bank monitors the concentration of credit risk by sector and geographical location. The analysis of the concentration of credit risk at the date of the financial statements is as follows:

	Loans, net		Investments securities		Cash and deposits with banks		Securities lending, net	
	2017	2016	2017	2016	2017	2016	2017	2016
Sector concentrations:								
Corporate	10,534,900	10,979,149	0	0	0	0	0	0
Credit card	8,281,790	6,873,871	0	0	0	0	0	0
Government	0	0	990,831,898	932,472,972	0	0	0	0
Other	2,184,248	3,436,154	0	0	17,872,605	31,961,590	8,914,160	9,245,000
Total	21,000,938	21,289,174	990,831,898	932,472,972	17,872,605	31,961,590	8,914,160	9,245,000
Geographical concentrations:								
Panama	714,385	1,407,612	0	0	467,749	461,946	8,914,160	9,245,000
Venezuela	15,086,748	15,437,830	40,861,996	86,778,945	0	0	0	0
United States of America	72,045	3,467	30,213,878	25,113,167	1,324,876	466,619	0	0
Other	5,127,760	4,440,265	919,756,024	820,580,860	16,079,980	31,033,025	0	0
Total	21,000,938	21,289,174	990,831,898	932,472,972	17,872,605	31,961,590	8,914,160	9,245,000

Geographical concentrations of loans, investments, deposits due from banks and securities lending are based upon physical location of the customer or counterparty. As of December 31, 2017, the line of "other" includes: Brazil, El Salvador, Chile, Peru, Uruguay and Costa Rica, among others.

BOI BANK CORPORATION

Notes to the Financial Statements

(4) Risk Management of Financial Instruments, continued

(viii) Exposures to higher-risk countries

The Bank regards a country as 'higher-risk' when the country exhibits higher vulnerability to economic and political uncertainties than other countries. The specific factors that are taken into account in making this assessment include the ratio of sovereign debt to Gross Domestic Product (GDP), seeking international financial assistance, credit ratings, and levels of market yields and concentrations of maturities.

As of December 31, 2017, the administration only considers Venezuela as a high-risk country. During 2017, significant increases in the price of oil were not observed or expected, the country's currency weakened, its inflation increased, GDP fell and its trade surplus remained negative. In addition, credit rebates have taken place since the beginning of 2017 and debt has been restructured. Specifically, the PDVSA 5.25% of 2017 by the PDVSA 8.5% of 2020.

The following chart summarizes the exposure the Bank maintains in this country:

		2017		
				Percent of
			Portfolio	Total Assets
Investment in Securities	**Moody´s Rating**	**990,831,898**		94%
Venezuela and PDVSA	Caa3 to CCC	40,861,996	4%	3.88%
Loans, net		**21,000,938**		2%
Venezuela		15,086,748	72%	1%
Back to Back		2,191,690	14%	
Lines of Credit		4,966,552	33%	
Credit Cards		7,928,506	53%	
Total Assets		**1,053,667,414**		

		2016		
				Percent of
			Portfolio	Total Assets
Investment in Securities	**Moody´s Rating**	**932,472,972**		92%
Venezuela and PDVSA	Caa3 to CCC	86,778,945	9%	8.6%
Loans, net		**21,289,174**		2%
Venezuela		14,296,353	67%	1%
Back to Back		2,512,190	18%	
Lines of Credit		4,910,292	34%	
Credit Cards		6,873,871	48%	
Total Assets		**1,014,510,254**		

BOI BANK CORPORATION

Notes to the Financial Statements

(4) Risk Management of Financial Instruments, continued

The investment portfolio, recorded at their market value, is made of 4% (2016: 9%) of Venezuelans titles. The Bank's loan portfolio, which represents about 2% (2016: 2%) of total assets, is constituted in a 89.72% (2016: 92%) by Venezuelan clients of which 33% (2016: 34%) hold an uncovered position, representing 1% (2016: 1%) of total assets.

Exposure to Investment in Securities
The Bank believes that the economic data available continues to indicate that its exposure to sovereign bonds issued by Venezuela and its oil company, PDVSA (Petroleos de Venezuela, S.A.), were not additional impaired at December 31, 2017.

Exposure to loans
With regard to credit risk, Management performs continuous monitoring to alert in a timely manner to the areas responsible, in order to implement the necessary controls to minimize exposure. Additionally, the ALCO and the Board of Directors are responsible for approving credit operations and evaluating the ability of customers to generate foreign currency to contain potential impairment in the quality of loan portfolio.

During 2017, the Bank recognized US$1,054,008 (2016: US$108,709) as loan provision of its Venezuelan portfolio of Credit Cards. These assets are closely monitored by the ALCO and Risk Committee.

(b) Liquidity and Financing Risk
This is the risk that the Bank cannot comply with all of its obligations because of, among other reasons, an unexpected withdrawal of funds by depositors, the deterioration of the quality of the loan and securities portfolios, the devaluation of securities, the excessive concentration of liabilities from one particular source, a gap between assets and liabilities, a shortage of asset liquidity, or the mismatch of long-term asset financing with short-term liabilities. The Bank manages its liquidity resources to meet its liabilities when due, under both normal and stressed conditions.

Liquidity Risk Management
Risk management policies establish a liquidity limit in order to determine the amount of the Bank's assets that should be maintained in highly liquid instruments; as well as financing limits, leverage limits and duration limits.

The Board of Directors has established liquidity levels as to the minimum amount of available funds required to comply with such requirements and the minimum level of inter-banking facilities and other loan facilities that should exist to cover unexpected withdrawals. The Bank holds a short-term asset portfolio, comprised of loans and liquid investments to ensure sufficient liquidity.

Exposure to liquidity risk
A primary measure of liquidity is the Bank's net liquidity margin.

BOI BANK CORPORATION

Notes to the Financial Statements

(4) Risk Management of Financial Instruments, continued

The Bank's liquidity index is calculated by the Treasury Department dividing liquid assets by total deposits as shown below:

	2017	2016
At year end	141%	140%
Average for the year	142%	141%
High for the year	145%	150%
Low for the year	139%	125%

The following schedule shows the undiscounted cash flows on the Bank's financial liabilities and assets, on the basis of their earliest possible contractual maturity. The expected cash flows from these financial instruments may vary significantly from this analysis.

2017

	Carrying Value	Nominal Amount inflows/ (outflows)	Up to 1 Year	Up to 3 Year	Up to 5 Year
Financial Liability					
Due to depositors	728,842,345	(747,580,158)	(727,880,312)	(19,699,846)	0
Borrowings	567,000	(572,922)	(572,922)	0	0
Securities sold under repurchase agreement	2,612,676	(2,775,000)	(2,775,000)	0	0
Total	732,022,021	(750,928,080)	(731,228,234)	(19,699,846)	0
Financial Asset					
Cash and deposits with banks	17,872,605	17,872,605	17,872,605	0	0
Loans, net	21,000,938	23,252,202	8,628,957	10,950,302	3,672,943
Investment securities	990,831,898	1,038,592,550	129,963,550	160,657,000	747,972,000
Securities lending, net	8,914,166	9,548,203	9,548,203	0	0
Total	1,038,619,607	1,089,265,560	166,013,315	171,607,302	751,644,943

2016

	Carrying Value	Nominal Amount inflows/ (outflows)	Up to 1 Year	Up to 3 Year	Up to 5 Year
Financial Liability					
Due to depositors	704,786,891	(721,124,247)	(681,816,602)	(39,307,645)	0
Borrowings	567,000	(574,560)	(574,560)	0	0
Securities sold under repurchase agreement	2,612,676	(2,630,303)	(2,630,303)	0	0
Total	707,966,567	(724,329,110)	(685,021,465)	(39,307,645)	0
Financial Asset					
Cash and deposits with banks	31,961,590	31,962,631	31,962,631	0	0
Loans, net	21,289,174	22,867,193	16,956,105	5,911,088	0
Investment securities	932,472,972	1,960,978,349	79,939,383	211,392,768	1,669,646,198
Securities lending	9,245,000	9,449,268	9,449,268	0	0
Total	994,968,736	2,025,257,441	138,307,387	217,303,856	1,669,646,198

BOI BANK CORPORATION

Notes to the Financial Statements

(4) Risk Management of Financial Instruments, continued

(c) Market Risk

Market risk is the risk that changes in market prices, foreign exchange rates, interest rates and equity prices may affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing returns.

Risk management policies provide for compliance limits by financial instrument, limits with respect to maximum loss amounts that trigger the settlement of positions that caused such loss; and the requirement that, except upon the approval of the Board of Directors, substantially all assets and liabilities are denominated in United States dollars.

Management of Market Risk

The Bank's Treasury administered the assigned resources in the most efficient way possible according to defined limits, perception and understanding of the markets, and the expectations about the evolution of the risk factors that are involved.

The Bank's Board of Directors has determined that market risk management should be directly administered and supervised by the Assets and Liabilities Committee. This Committee is responsible for the development and proper execution of market risk policies, after they have been approved by the Board of Directors.

Through its experience, knowledge and projection of the financial markets and with the objective of formulating policies to better manage market risk exposure, the Assets and Liabilities Committee has established the following:

- Daily measurements of the financial instruments held by the Bank, and those expected to be acquired.
- Monthly measurements of the maximum established limits for investing in the various markets.
- Exercise control and supervision of the profitability of the financial instruments in order to optimize the periodic assignment of maximum limits.

In order to measure and monitor market risk, the following indicators are used:

Valuation Models: Positions are considered at market value, according to various electronic market systems (Bloomberg and Reuters). In case these values differ from book value, loss provisions may be established to cover these differences if an impairment is determined.

Sensibility: Through the use of stock-market analysis, market behavior, interest rates of different countries, market volatility, etc., the Assets and Liabilities Committee establishes the ranges of buying and selling transactions that the Bank's Treasury will pursue in its investment portfolio.

Stress Tests: These tests are done by applying situations of maximum volatility in risk factors observed for a determined time. This is done based upon information gathered from the stock-exchange electronic systems, and it is done on a quarterly basis. They are then reviewed by the Board of Directors.

BOI BANK CORPORATION

Notes to the Financial Statements

(4) Risk Management of Financial Instruments, continued

Exchange Rate Risk

It is the risk that the value of a financial instrument will fluctuate as a result of the variations in the exchange rate of foreign currencies, the reaction of market participants to political and economic factors, and other financial variables. This risk is not applicable to non-monetary financial instruments and to financial instruments expressed in the functional currency.

The Bank's policy to administer this type of risk is to guarantee 100% of the transactions to be carried out in foreign currency during the 12 months of the year.

The Bank maintains foreign currency financial instruments in the statement of financial position, and they are presented in their US$ equivalent, as follows:

2017	Euros	East Caribbean Dollars	Dominican Pesos	British Pound	Total
Demand deposits with banks	62,817	31,045	55	0	93,917
Total	62,817	31,045	55	0	93,917
Due to depositors	2,014,708	0	0	0	2,014,708
Accrued interest payable	4,511	0	0	0	4,511
Other liabilities	9,017	0	0	20	9,037
Total	2,028,236	0	0	20	2,028,256
Net position in the statement of financial position	(1,965,419)	31,045	55	(20)	(1,934,339)

2016	Euros	East Caribbean Dollars	Dominican Pesos	British Pound	Total
Demand deposits with banks	213,900	12,804	57	0	226,761
Total	213,900	12,804	57	0	226,761
Due to depositors	1,237,042	0	0	0	1,237,042
Accrued interest payable	3,219	0	0	0	3,219
Other liabilities	63,853	0	0	22	63,875
Total	1,304,114	0	0	22	1,304,136
Net position in the statement of financial position	(1,090,214)	12,804	57	(22)	(1,077,375)

The Banks does not maintain transactions to hedge the currency exchange rate risk.

In case liabilities exceed the assets, the Bank can quickly switch to USD to cover its position in foreign currency.

BOI BANK CORPORATION

Notes to the Financial Statements

(4) Risk Management of Financial Instruments, continued

Cash Flow and Fair Value Interest Rate Risk

These risks imply that future cash flows and that the value of a financial instrument will fluctuate due to changes in market interest rates. The Board of Directors sets limits to the variations in interest rates, and this is monitored monthly by the Assets and Liabilities Committee.

The following table summarizes the Bank's exposure to interest rate risk. The Bank's assets and liabilities are shown at book value, and they are classified by categories of whichever occurs first the repricing or the due date.

2017	Up to 1 Year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Total
Assets:					
Cash and deposits with banks	17,872,605	0	0	0	17,872,605
Loans, net	12,220,182	5,589,755	3,191,001	0	21,000,938
Investment securities	0	18,480,150	256,430,079	715,921,669	990,831,898
Securities lending, net	8,914,166	0	0	0	8,914,166
Restricted deposits with banks	500,000	0	0	0	500,000
Total	39,506,953	24,069,905	259,621,080	715,921,669	1,039,119,607
Liabilities:					
Demand deposits	19,804,604	0	0	0	19,804,604
Savings deposits	249,308,994	0	0	0	249,308,994
Time deposits	442,477,779	17,250,968	0	0	459,728,747
Securities sold under repurchase agreement	2,612,676	0	0	0	2,612,676
Borrowings	567,000	0	0	0	567,000
Total	714,771,053	17,250,968	0	0	732,022,021
Total interest sensitivity gap	(675,264,100)	6,818,937	259,621,080	715,921,669	307,097,586

2016	Up to 1 Year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Total
Assets:					
Cash and deposits with banks	31,961,590	0	0	0	31,961,590
Loans, net	8,816,603	8,886,228	3,586,343	0	21,289,174
Investment securities	15,522,789	84,135,160	169,978,988	662,836,035	932,472,972
Securities lending	9,245,000	0	0	0	9,245,000
Restricted deposits with banks	500,000	0	0	0	500,000
Total	66,045,982	93,021,388	173,565,331	662,836,035	995,468,736
Liabilities:					
Demand deposits	15,878,523	0	0	0	15,878,523
Savings deposits	184,090,066	0	0	0	184,090,066
Time deposits	468,320,164	36,498,138	0	0	504,818,302
Securities sold under repurchase agreement	2,612,676	0	0	0	2,612,676
Borrowings	567,000	0	0	0	567,000
Total	671,468,429	36,498,138	0	0	707,966,567
Total interest sensitivity gap	(605,422,447)	56,523,250	173,565,331	662,836,035	287,502,169

As of December 31, 2017, the majority of the financial instruments have fixed interest rates. Therefore, these instruments are not affected by interest rate fluctuations that may significantly impact results of operations.

The Bank does not maintain transactions to hedge the interest rate risk.

BOI BANK CORPORATION

Notes to the Financial Statements

(4) Risk Management of Financial Instruments, continued

Price Risk

It is the risk that the value of a financial instrument will fluctuate as a consequence of changes in market prices, regardless of whether these are caused by specific factors related to that particular instrument or its issuer, or by global factors that affect the whole market.

The Bank is exposed to price risk on those financial instruments that are classified as available for sale. To properly administer price risk, the Bank diversifies its portfolio based upon specified limits.

The Bank does not maintain transactions to hedge the price risk.

(d) *Operational Risk*

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, liquidity and market risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for operational risk management.

(e) *Capital management*

The Financial Services Regulatory Commission of Antigua and Barbuda (FSRC), requires the Bank to maintain a minimum capital adequacy index that cannot be less than 8% of risk weighted assets according to international standards.

For purposes of calculating the regulatory ratio the Bank capital is separated into three parts. The primary capital (Tier I) is made up of the paid-in capital of the Bank in common shares, intangible assets and retained earnings. Secondary capital (Tier II) is composed of fixed assets revaluation reserves, reserves for fair value on equity securities, minority interest and general provision eligible for inclusion. As of December 31, 2017, the Bank did not have balances on these components. Tertiary Capital (Tier III) is composed of short-term subordinated debt. As of December 31, 2017, the Bank did not have subordinated debt.

For calculating total risk-weighted assets the Bank uses the following approaches:

BOI BANK CORPORATION

Notes to the Financial Statements

(4) Risk Management of Financial Instruments, continued

- Credit Risk
  In determining credit risk charges the Bank applies the standardized approach using the FSRC prescribed risks weights to both on and off-balance sheet exposures. Risk weights will be based on the risk rating assigned by external credit assessment institutions deemed eligible by the FSRC. As of December 31, 2017, the capital charge for credit risks amounted to US$1,006,604,740 (2016: US$1,071,770,148).

- Market Risk
  To calculate the market risk, charge the Bank opted for the standardized measurement framework following the prescribed rules issued by the regulator. This method comprises five sections; foreign exchange, interest rate, equity, commodity and options risks. The Bank completes general and specifics risks calculating for each class of financial assets and liabilities. General risk is the risks of price change in the instrument due for example to a change in the level of interest rates. Specific risks relate to the risk of a price change in the instrument concerned due to factors related to the issuer or the underlying instruments. As of December 31, 2017, the capital charge for market risk amounted to US$876,444,538 (2016: US$761,116,886).

- Operational Risk
  The Bank opted for the Basic Indicator approach to calculate the capital charge for Capital Adequacy purposes. Under this approach the Bank must hold capital for operational risk that is at least equal to the average over the previous three (3) years of 15% of positive annual gross income, according to guidelines issued by the FSRC. For the year ending on December 31, 2017, the capital charge in relation to operational risk amounted to US$201,220,151 (2016: US$187,765,063).

As of December 31, 2017, the Bank´s positions of capital adequacy under the new regulation is as follows:

	2017	2016
Tier 1 capital		
Ordinary share capital	5,000,000	5,000,000
Intangible assets	(56,130)	(77,802)
Retained earnings, less dividend paid	267,756,172	255,499,177
Total Tier 1 capital	272,700,042	260,421,375
Total regulatory capital	272,700,042	260,421,375
Total risk-weighted assets	2,084,269,429	2,020,529,589
Capital ratios		
Tier 1 capital to total adjusted risk-weighted assets	13.08%	12.89%
Total regulatory capital to total adjusted risk-weighted assets	13.08%	12.89%

BOI BANK CORPORATION

Notes to the Financial Statements

(5) Cash and Deposits with Banks

The cash and deposits with banks are detailed as follows:

	2017	2016
Cash	329	329
Demand deposits	15,872,276	29,961,261
Time deposits	2,000,000	2,000,000
Total of cash and deposits with banks	17,872,605	31,961,590

Cash and cash equivalents are detailed as follows for purposes of reconciliation to the statement of cash flows:

	2017	2016
Total cash and deposits with banks	17,872,605	31,961,590
Less: Time deposits with banks with original maturities of more than 3 months	2,000,000	2,000,000
Cash and cash equivalents in the statement of cash flows	15,872,605	29,961,590

At December 31, 2017, the annual interest rate earned on the deposits ranged between 0.01% and 2.0% (2016: 0.01% and 2.0%), and the deposits with banks of US$2,000,000 (2016: US$2,000,000) guaranteed borrowed funds received from a foreign financial institution of US$567,000 (2016: US$567,000). (See note 13).

(6) Loans, net

The composition of loans is as follows:

	2017	2016
Corporate customers:		
Corporate loans - Fully secured	1,000,000	1,300,000
Corporate loans – Unsecured	9,731,801	10,001,886
Retail customers:		
Personal loans - fully secured	1,191,690	2,442,190
Personal loans – unsecured	1,000,000	1,000,000
Credit cards – fully secured	5,373,114	3,948,608
Credit cards – unsecured	4,354,504	3,260,822
	22,651,109	21,953,506
Less allowance for loan losses	(1,650,171)	(664,332)
	21,000,938	21,289,174

The Bank has granted loans for US$22,651,109 (2016: US$21,953,506), with various maturities until January 2019 (2016: October 2018). Secured loans are collateralized with time deposits from customers, government and corporate bonds totaling US$7,564,804 (2016: US$8,030,836).

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Notes to the Financial Statements

(6) Loans, net, continued

The annual interest rate earned on the loans ranged between 2.00% and 9.00% (2016: 5.00% and 9.00%). The annual interest rate earned for credit card loans was 20% (2016: 20%). The weighted interest rate on the loan portfolio, excluding credit cards, is 7.74% (2016: 6.65%).

The Bank maintain interest receivables accounts in relation of the loan portfolio for US$469,604 (2016: US$283,428), and accrued interest US$2,130,683 (2016: US$2,475,630).

As of December 31, 2017, the Bank maintained unsecured loans for US$15,086,305 (2016: US$13,922,670) comprising both corporate and personal loans, and classified as lines of credit and credit cards, are located in the following countries:

	2017	2016
Panama	731,802	1,481,885
Venezuela	9,404,503	7,970,785
Virgin Islands	3,900,000	3,900,000
Dominican Republic	1,050,000	570,000
	15,086,305	13,922,670
Less allowance for loan losses	(1,650,171)	(664,332)
	13,436,134	13,258,338

Of these loans US$5,560,906 (2016: US$5,381,886) are held by related parties, with rates between 2% and 6.5% (2016: 6.5%) with payments to interest and capital and a maturity date of December 2018 and January 2019.

As of December 31, 2017, the Bank maintained Stand by letter US$150,471,696 (2016: US$169,502,698), which are 100% guaranteed by the certificates of deposit of the clients.

The reconciliation of the allowance for loan losses is as follows:

	2017	2016
Balance at the beginning of the year	664,332	770,252
Provision	985,839	108,709
Bad debt written off	0	(214,629)
Balance at the end of the year	1,650,171	664,332

BOI BANK CORPORATION

Notes to the Financial Statements

(7) Investment Securities

Investment securities are classified by management as follows:

	2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale securities				
United States Treasury Bonds	30,853,800	30,213,878	25,456,992	25,113,166
Republic of Venezuela – Bonds	95,528,436	39,632,875	88,041,052	84,600,019
Republic of Colombia – Bonds	32,590,340	40,545,000	59,494,667	65,235,200
Republic of Brazil – Bonds	69,372,357	71,884,826	71,458,725	70,240,666
Republic of Chile – Bonds	47,089,039	47,832,390	47,532,759	48,334,995
Republic of Peru – Bonds	54,192,082	58,992,338	54,305,657	51,992,588
Dominican Republic – Bonds	55,736,917	57,376,176	56,512,594	57,248,400
Republic of Mexico – Bonds	64,591,298	60,978,890	64,594,739	53,014,640
Republic of Uruguay – Bonds	39,855,956	43,337,114	39,806,511	35,687,110
Republic of El Salvador– Bonds	56,527,784	54,519,372	56,781,766	49,487,934
Republic of Jamaica – Bonds	31,928,551	33,472,235	47,714,792	50,907,611
Republic of Costa Rica – Bonds	42,982,511	41,540,824	43,014,178	39,184,684
Republic of Honduras– Bonds	31,876,307	38,451,288	45,138,417	52,700,414
Republic of Guatemala – Bonds	31,555,435	34,297,260	31,437,357	31,966,952
Republic of Paraguay – Bonds	38,348,529	40,547,370	38,306,178	38,988,702
Republic of Turkey – Bonds	25,278,162	26,272,065	24,884,924	24,506,190
Republic of Bolivia – Bonds	41,474,160	43,047,064	47,316,625	50,487,814
Republic of Ecuador – Bonds	67,689,373	77,180,766	44,840,632	47,543,561
Republic of Poland - Bonds	7,573,852	7,517,332	0	0
Republic of Italy - Bonds	26,661,456	27,464,287	0	0
Petroleo de Venezuela-Bonds	3,109,987	1,229,120	3,071,294	2,178,926
Petrobras Global Finance– Bonds	57,137,819	60,765,109	41,075,361	44,708,690
ECOPETROL-Bonds	8,211,358	9,919,058	8,210,874	8,344,710
Republic of Mongolia – Bonds	41,783,893	43,815,261	0	0
	1,001,949,402	990,831,898	938,996,094	932,472,972

During 2017, the Bank made purchases in the portfolio of securities available for sale for a total of US$157,078,419 (2016: US$166,710,105) and sales and redemptions totalling US$115,962,836 (2016: US$190,919,736). Sales operations in 2017 generated a profit of US$15,935,395 (2016: US$17,329,952).

At December 31, 2017, the annual interest rate on the available for sale securities, ranged between 1.38% and 13.63% (2016: 0.50% and 12.75%). The weighted interest rate on the securities portfolio is 6.94% (2016: 6.91%). The Bank held US$12,444,409 as interest receivable in relations to its investment portfolio.

At December 31, 2017, securities with market value for US$2,736,846 (2016: US$2,753,754) are secured securities sold under repurchase agreement.

The current volatile nature of market prices may cause significant changes in the value of these securities, and upon sale these unrealized losses may not be fully realizable.

As of December 31, 2017, the Bank determined based on the different analyzes and studies of the available economic data that its exposure in some sovereign bonds are impaired, therefore, a loss due to deterioration was recognized in the income statement for US$57,776,427. Likewise, during the months of January and February of 2018 the position in these bonds has presented an increase in their prices, reflecting an increase of said position with respect to the close of the year 2017.

BOI BANK CORPORATION

Notes to the Financial Statements

(7) Investment Securities, continued

The Bank maintains positive expectations, since for this 2018, it has seen a recovery in the prices of this deteriorated portfolio.

(8) Securities Lending, net

As of December 31, 2017, assets classified as securities lending (net of allowance for losses) with a related party for US$8,914,166 (2016: US$9,245,000), with a 2% rate and maturities ranging from January 2018 to January 2019. During the year 2017, the Bank established an allowance for losses for US$427,695 (2016: US$0).

For December 31, 2017, the Bank held US$106,864 (2016: US$19,845) as interest receivable in relation to this financial assets and accrued interest for US$184,020 (2016: US$222,567).

(9) Restricted Deposits with Banks

Due to capitalization requirements for international financial institutions in Antigua and Barbuda, the Bank maintains, at December 31, 2017 a restricted non-interest bearing deposit for US$500,000 (2016: US$500,000) with a government institution of Antigua and Barbuda, pursuant to a regulatory requirement.

(10) Other Assets

The other assets are detailed as follows:

	2017	2016
Advances to suppliers	526,557	691,255
Accounts receivables - Visa	675,715	0
Receivables	129,454	168,747
Insurance paid in advance	71,147	33,416
Intangible assets	56,130	77,801
Properties, furniture and equipment	39,594	42,458
Other	27,455	150,840
Total	1,526,052	1,164,517

Following a summary of properties, furniture and equipment:

	Computer Equipment	
	2017	2016
Cost:		
At beginning of year	42,458	13,352
Purchases	6,536	42,458
At end of year	48,994	55,810
Accumulated depreciation		
At beginning of year	0	13,352
Expense for the year	9,400	0
At end of year	9,400	13,352
Net balance	39,594	42,458

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Notes to the Financial Statements

(10) Other Assets, continued

Following a summary of intangible assets:

	Software 2017	Software 2016
Cost:		
At beginning and end of year	265,811	265,811
Accumulated amortization		
At beginning of year	188,010	166,337
Expense for the year	21,671	21,673
At end of year	209,681	188,010
Net balance	56,130	77,801

As of December 31, 2017, the Bank has not recognized impairment loss related to its intangible assets. The amortization expense is presented in the Statement of Income under the line of general and administrative expenses. (See Note 16).

(11) Due to Depositors

Following is a detail of due to depositors:

	2017	2016
Demand deposits	19,804,604	15,878,523
Savings accounts	249,308,994	184,090,066
Time deposits	459,728,747	504,818,302
	728,842,345	704,786,891

The annual interest rates range between 0.00% and 7.00% (2016: 0.00% and 6.50%) for time deposits with maturity date 1 month from to 3 years (2016: 1 month to 1 year); the weighted interest rate is 5.14% (2016: 4.93%). Additionally, the amount of the deposit certificates that guarantee the credit cards are US$18,696,795 (2016: US$14,204,937) and the Stand by Letters are US$150,471,696 (2016: US$178,644,216).

The Bank maintains interest payables in relation to clients deposit for US$1,985,380 (2016: US$2,495,668), and interest expense US$27,696,929 (2016: US$27,150,226).

The savings and money market accounts bear an annual interest rate that ranges between 0.01% to 1.50% (2016: 0.01% to 2.00%). The weighted interest rate for savings and money markets accounts is 1.20% and 0.93% respectively.

At December 31, 2017 and 2016, the Bank does not carry deposits in Venezuelan Bolivar.

BOI BANK CORPORATION

Notes to the Financial Statements

(12) Securities Sold Under Repurchase Agreement

The Bank maintains securities loans sold under repurchase for US$2,612,676 (2016: US$2,612,676) with an effective interest rate of 1.25%, (2016: 1.25%), which will generate monthly interest of US$2,722 (2016: US$2,722). These obligations with EFG Bank are guaranteed by Treasury Notes that amount to US$2,736,846, (2016: US$2,753,754).

The bank has not had any breach of principal or interest or other breaches with respect to its guaranteed obligations during the year ended December 31, 2017.

(13) Borrowings

The borrowings are detailed as follows:

	2017	2016
Borrowing from Bancamerica, with maturity on February 17, 2018 (2016: February 17, 2017) and interest rate of 8.00% (2016: 8.00%).	567,000	567,000

The Bank had US$3,780 (2016: US$3,780) as interest payable about this borrowings and interest expense US$45,360 (2016: US$45,612).

(14) Other Liabilities

The detail of other liabilities is presented below:

	2017	2016
Customer deposits pending of document	6,122,003	3,941,516
Accounts payable	318,583	3,538,614
Accounts payable - Visa	417,172	307,630
Tax on profit-payable	160,288	0
Others	193,137	23,429
Total	7,211,183	7,811,189

The Bank presents as of December 31, 2017 the increase in Customer deposits pending of documents, for US$2,180,487, these items were applied the first days of the month of January 2018.

(15) Outsourcing Service Agreements

The Bank has entered into outsourcing service agreements with three companies to provide the Bank all administrative support required for its activities for an annual fee agreed among the parties. The outsourcing services fees for the year 2017 are presented in the line of professional and administrative services fee and amounted to US$4,750,910 (2016: US$6,227,949).

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Notes to the Financial Statements

(16) General and Administrative Expenses

The general and administrative expenses are detailed as follows:

	2017	2016
Professional and administrative services (see note 15)	6,236,104	11,777,694
Salaries and other staff expenses	619,860	452,915
License and other	73,335	77,498
Insurance	39,466	33,844
Rent	33,708	33,708
Depreciation and amortization	31,071	21,673
	7,033,544	12,397,332

(17) Income Taxes

As of September 5, 2016, the Financial Services Regulatory Commission ("FSRC") approved a tax on profits for all institutions that are regulated in accordance with the International Banking Act of 2016. After clarifying several consults made to the FSRC, which arose as the first year of this tax on profits for the year ended on December 31, 2016, during 2017 the FSRC approved the Bank record the annual tax on profits for US$ 480,868, corresponding to the net income of the last quarterly of the year ended on December 31, 2016. For the year ended as of December 31, 2017, the Bank do not record any tax on profits because the Bank has a net loss for US$6,489,179.

(18) Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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Notes to the Financial Statements

(18) Fair Value of Financial Instruments, continued

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other prime used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The following table summarizes the carrying value and fair value of the Bank's significant financial assets and liabilities:

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Deposits with banks	17,872,605	17,872,605	31,961,590	31,961,590
Loan portfolio	21,000,938	20,657,606	21,289,174	21,219,293
Investment securities	990,831,898	990,831,898	932,472,972	932,472,972
Securities lending, net	8,914,166	8,914,166	9,245,000	9,245,000
	1,038,619,607	1,038,276,275	994,968,736	994,898,855
Liabilities:				
Due to depositors	728,842,345	735,560,121	704,786,891	712,469,433
Borrowings	567,000	567,000	567,000	567,000
Securities sold under repurchase agreement	2,612,676	2,612,676	2,612,676	2,612,676
	732,022,021	738,739,797	707,966,567	715,649,109

The table below analyses instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

	Fair Value Measurement 2017 Level 2	Total
Assets:		
Investment securities	990,831,898	990,831,898

	Fair Value Measurement 2016 Level 2	Total
Assets:		
Investment securities	932,472,972	932,472,972

BOI BANK CORPORATION

Notes to the Financial Statements

(18) Fair Value of Financial Instruments, continued

The following table shows the valuation techniques and inputs used for financial assets and financial liabilities measured at fair value, classified in Level 2 of the fair value hierarchy:

Financial Instruments	Valuation Techniques and Inputs Used
Investment securities	For available for sale securities, fair value is generally determined by reference to published market price quotations, including available prices on electronic market systems. Where independent prices are not available, fair values are determined using valuation techniques with reference to observable market data. These include discounted cash flow analysis and other valuation techniques commonly used by market participants.

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurements is categorized.

	Fair Value Measurement 2017		
	Level 2	**Level 3**	**Total**
Assets:			
Deposits with banks	17,872,605	0	17,872,605
Loan, net	0	21,000,938	21,000,938
Securities lending, net	0	8,914,166	8,914,166
	17,872,605	29,915,104	47,787,709
Liabilities:			
Due to depositors	0	735,560,121	735,560,121
Borrowings	567,000	0	567,000
Securities sold under repurchase agreements	0	2,612,676	2,612,676
	567,000	738,172,797	738,739,797

	Fair Value Measurement 2016		
	Level 2	**Level 3**	**Total**
Assets:			
Deposits with banks	31,961,590	0	31,961,590
Loan, net	0	21,219,293	21,219,293
Securities lending	0	9,245,000	9,245,000
	31,961,590	30,464,293	62,425,883
Liabilities:			
Due to depositors	199,968,589	512,500,844	712,469,433
Borrowings	567,000	0	567,000
Securities sold under repurchase agreements	0	2,612,676	2,612,676
	200,535,589	515,113,520	715,649,109

BOI BANK CORPORATION

Notes to the Financial Statements

(18) Fair Value of Financial Instruments, continued

The following table shows the valuation techniques and inputs used for financial assets and financial liabilities not measured at fair value, classified in Level 2 and 3 of the fair value hierarchy:

Financial Instrument	Valuation Techniques and Inputs Used
Deposits with banks, demand deposits and savings deposits due to customers; borrowings; securities sold under repurchase agreements; securities lending	Its fair value represents the amount given or received at the reporting date due to its short-term maturity, as the use of the price of liquid instruments of securities with similar characteristics.
Loans and securities lending	Discounted future cash flows using current market interest rates for new loans with similar remaining maturities and nominal value less collective provision based on a roll rate model. In the case of individually assessed loans the discount rates include the credit risk of the counterparty.
Time deposits due to customers	Discounted future cash flows using current market interest rates for new depositors with similar remaining maturities.

(19) Legal Contingencies

To the best knowledge of management, the Bank is not engaged in any litigation that is likely to have a material adverse effect on its business, financial position or results of operations.

(20) Securities Custody Service

At December 31, 2017, the Bank is custodian of customers' securities totaling US$181,580,096 (2016: US$167,115,463). Management does not expect that the Bank will incur in any loss as a result of providing this service.

(21) Critical Accounting Estimates and Judgments in Applying Accounting Policies

The preparation of the financial statements in accordance with International Reporting Standards requires the Bank's management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Estimates and decisions are reviewed on an ongoing basis and they are based on past experience and other factors, including the expectative of future events deemed reasonable under the circumstances.

The Bank's management evaluates the selection, disclosure and application of critical accounting policies for the most uncertain estimates. The information related to the assumptions and estimates affecting the reported amounts of assets and liabilities during the following tax year and critical judgments in the selection and application of the accounting policies are detailed as follows:

(a) *Allowance for loan losses:*

The Bank reviews its loan portfolio on a periodical basis for purposes of assessing impairment based on criteria established by the Risk Committee and establishes specific provisions for loans for which a risk higher than normal has been identified. These provisions are classified into individual provisions for loans, that by its nature and amount have an effect on creditworthiness and other financial indicators of the Bank and provision per group of loans, which are those related to group of loans of the same nature, geographic area or common purpose or that were granted under the same loan program.

BOI BANK CORPORATION

Notes to the Financial Statements

(21) Critical Accounting Estimates and Judgments in Applying Accounting Policies, continued

(b) *Impairment of Available-for-sale Investments:*

The Bank determines that available-for-sale investments are impaired when there is a significant or prolonged decline in the fair value of the security below its cost. This determination of significant or prolonged requires professional judgment. Additionally, impairment might be determined when there is evidence of impairment in the issuer's financial position, industry and sector performance.

(22) Balance and Transactions with Related Parties

The statement of financial position and the statement of income include balances and transactions with related parties, which are summarized as follows:

	Directors and Key Management Personnel		Related Companies	
	2017	2016	2017	2016
Assets:				
Due from banks	0	0	10,996,405	27,136,124
Loans	842,227	0	5,560,906	5,381,886
Securities lending	0	0	8,914,166	9,245,000
Other assets	0	0	526,557	691,255
Accrued interest receivable:				
Loans	0	0	17,982	19,069
Securities lending	0	0	106,864	19,845
Liabilities:				
Due to depositors	3,446,792	1,536,316	80,608,218	54,908,560
Borrowings	0	0	567,000	567,000
Other liabilities	31,493	30,000	123,997	3,329,798

BOI BANK CORPORATION

Notes to the Financial Statements

(22) Balance and Transactions with Related Parties, continued

	Directors and Key Management Personnel		Related Companies	
	2017	2016	2017	2016
Interest income:				
Due from banks	0	0	175,376	69,238
Loans	0	0	31,428	381,130
Securities lending	0	0	184,020	222,567
Interest expense:				
Deposits	30,137	21,518	1,656,732	1,171,306
Borrowings	0	0	45,360	45,612
Income from financial services and other items:				
Commission income	20	0	345	2,325
General and administrative expenses				
Professional fees	127,511	138,000	0	0
Outsourcing service fees	0	0	4,750,910	6,227,949

The conditions granted in transactions with related parties are substantially similar to those given to third parties no related with the Bank.