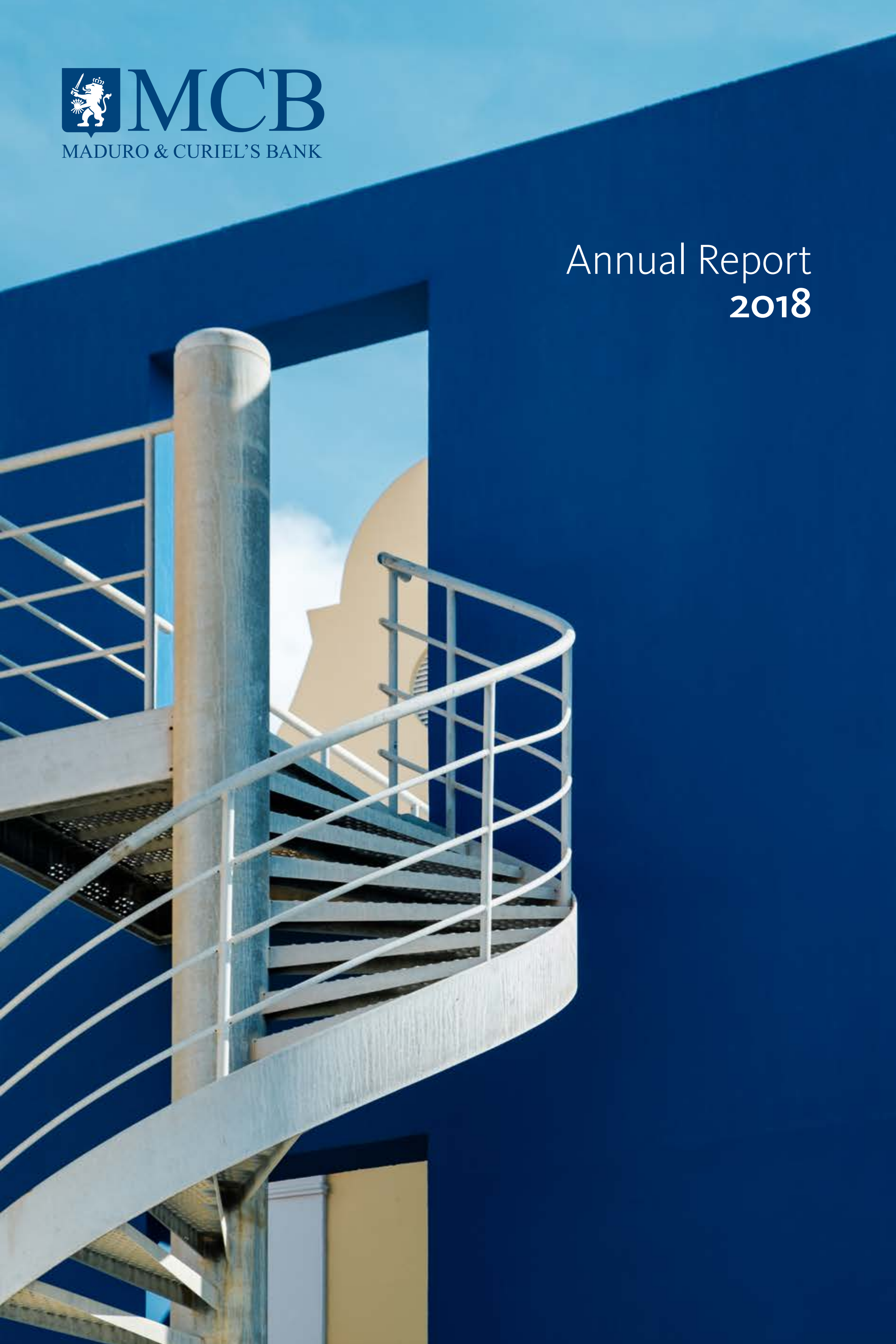
MCB
MADURO & CURIEL'S BANK

Annual Report
2018



Highlights of consolidated position

(All amounts are expressed in thousands of Antillean Guilders)

NAF*	2018	2017	2016	2015	2014	2008
Total Assets	7,921,959	7,767,803	7,332,216	6,963,310	6,671,799	5,425,111
Customers' Deposits	6,751,441	6,684,538	6,272,876	5,945,850	5,670,196	4,705,540
Loans and Advances to customers	4,160,380	4,136,191	4,054,673	4,074,292	4,075,961	3,026,141
Equity	873,335	817,710	771,040	741,946	716,908	444,324
NET RESULT AFTER TAX	161,499	104,489	128,772	140,517	140,313	144,853

* Netherlands Antilles Guilders NAF 1.79 = US$ 1.00

	2018	2017	2016	2015	2014	2008
Staff	1,450	1,460	1,513	1,506	1,502	1,418
Number of branches	23	25	30	31	32	33

Scotiabank™

Affiliated with The Bank of Nova Scotia
Toronto, Canada

A message from the **Supervisory Board**

Your Supervisory Board is pleased to acknowledge the tremendous efforts of MCB Management in 2018, which was another year of challenges on many fronts, from responding to a difficult and unpredictable economic environment to meeting the need to comply with the ever increasing regulatory standards that are so critical in today's world.

Through these challenges, the leadership team and employees of our great Bank have, once again, remained committed and loyal to our organization. They have put our customers first while embracing the many changes needed to ensure the Bank's continued success.

Our vision for MCB remains unchanged - to continue to be the leading institution in our markets. Together, we always champion our strong corporate values and traditions and remain committed to a culture developed over more than one hundred years.

The Role of Corporate Governance

Your Supervisory Board plays an important role in supporting the Management team and providing the active oversight necessary to balance and protect the interests of all stakeholders, including shareholders, customers, employees and our communities. Our Supervisory Directors are very knowledgeable, particularly in the areas of finance, business and the law, with Supervisory Directors from a number of international, regional and local markets. They are also highly skilled and committed to our adherence to the highest standards of corporate governance, and keeping pace with the evolving regulatory and compliance challenges affecting our industry at both the local and global level.

During 2018, our Supervisory Board met 11 times including special meetings for Strategy and Corporate Governance as well as "deep dive" sessions on key business lines.

The Supervisory Board meets without Management present before each meeting and regularly reaches out to internal and external subject matter experts. The Audit Committee met 7 times, and conducts separate meetings with our external auditors, without Management present. The Credit Committee met 3 times, while the Risk and Compliance Committee met 4 times and the Human Resource Committee met 5 times during the year. Additionally, through the support of our long-standing partner, Scotiabank, all of the Supervisory Directors completed Anti Money Laundering training this year and participated in a full Corporate Governance Audit, which generated some ideas for improvement with good results overall.

Each of our subsidiaries in Aruba, Bonaire and St Maarten have their own Supervisory Boards who meet several times throughout the year with each meeting preceded by an Audit, Risk and Compliance Committee meeting. Each subsidiary Supervisory Board includes a member of the group MCB Supervisory Board which ensures strong two-way communication and governance consistency.

In 2018, we said goodbye to two wonderful Supervisory Directors- Steve Cozier and Peter Bessey. Each brought so much to our Supervisory Board and the Bank through thoughtful and insightful participation. We will miss them. We also welcomed two new Supervisory Directors to the Supervisory Board:

- Islay McGlynn is a Senior Vice President with Scotiabank, currently playing a key role in Executive Management in Toronto. Her years of experience across many financial areas including Commercial Banking, Retail Network Management and Human Resources is highly valued on the Supervisory Board.

- James McPhedran, a recently retired Executive Vice President of Scotiabank, brings extensive experience in developing key marketplace strategies in the Canadian environment, recently leading the Canadian branch and direct banking network as well as playing a key role in emerging Digital strategies.

Adapting to the Future

As we move into our 103rd year, your Bank continues to thrive. While we have a strong performance track record, we continue to challenge ourselves to achieve the standards of global leaders in the financial industry. We believe our commitment to constant improvement is necessary and will help us ensure a continued bright future.

On behalf of the Supervisory Board, I would like to express our appreciation and admiration of our President and CEO, Chicu Capriles. His energy and resolve to move the Bank forward continues to underpin our success and that of all of our stakeholders. I would also like to thank all of our wonderful employees for their adaptability and ongoing loyalty to the Bank, and most importantly, their devotion to our customers.

Claude Norfolk
Chairman

Management's Report

The markets our MCB Group serves are mainly 6 small islands surrounded by the Caribbean Sea. Some people may think that living and working on islands make us somewhat isolated from the outside world, but the contrary is very much the case. History has shown that our economies grow the most when these islands function as a sort of hub for international trade and businesses. These small island markets have very open economies and are very much influenced by changes in the external environment.

International Environment

In 2018 our islands' environment and specifically of our Bank was very much influenced by three external factors. The first main factor of influence was the further collapse of the economy in Venezuela. This economic crisis is the main cause for various effects on our islands. It created a humanitarian crisis in Venezuela due to lack of food, water, electricity and nearly every other necessity causing millions of citizens to leave the country as (economic) refugees, including to the nearby (Dutch) Caribbean islands. This puts a severe burden on these small islands on what to do and how to take care for these refugees. Our local Governments requested the assistance of the Dutch Kingdom and in particular of the Government of the Netherlands.

The Venezuelan crisis is also the cause for its citizens not visiting our islands as tourists and especially to shop and buy products in our cities. In Curaçao and more specifically in Willemstad this caused many stores and businesses to lose at least 50% of revenue and several have closed their doors. This lack of travel and business was further magnified when Venezuelan President, Maduro at the beginning of the year decided to close air and sea movement between Venezuela and the Dutch Caribbean islands. In a very visible way we saw the effect in Punda when slowly but surely all the "barkitos" or small Venezuelan boats carrying fruit and vegetables disappeared in front of our Bank's head office.

The crisis also extended to the supply of oil to the refinery which came to a halt, forcing the local distributor Curoil to seek more expensive alternatives to ensure the supply and distribution of gasoline, kerosene and other oil products. The lack of movement to and from the refinery caused a sharp decline of activities in the harbor of Curaçao leading to problems and lay offs at the towing and piloting companies. Furthermore due to the sanctions imposed by the US Government on Venezuela and especially on funds transfers To or From certain Venezuelan state companies, the local banks had to be very careful and sometimes even ceased doing business with Venezuelan companies and citizens to avoid getting into problems with US based correspondent banks. All in all, we could say that our islands' largest neighbor is very sick and causing a severe cold on our islands and there is still no cure other than to find alternative sources of income.

The second international change that had a large effect on financial institutions worldwide, and obliged banks to huge internal adaptations and changes in thinking, accounting, systems and organization, were the changes in the International Financial Reporting Standards (IFRS). More specifically, the reporting of our Group's financial performance had to comply with the new IFRS 9 standard. This standard addresses the classification and measurement of financial instruments, impairment of financial assets and hedge accounting. The impact of the first two items on our Bank, necessitated us to form a special project team in the third quarter of 2017, in order to address and prepare for this big change. With the assistance of external consultants and our Scotiabank partners we completed the task for the 2018 reporting, but with further work on improving the data and systems for at least the next 2 years. Amongst several changes, the main one is the change in thinking and accounting for reserves and impairments. In the past reserves were made when it was observed that the repayment of a loan or advance was getting into financial difficulties, however under IFRS 9 standards, reserves are made immediately from the start of a new loan and adjusted annually. These reserves are made through a complicated statistical formula with the input of a broad array of forward-looking data. Many banks, including our Group did not have the required data readily available and it meant rethinking and redesigning our Group's structuring of customer data, loan data, historical data and much more. It also meant hiring third parties to make projections on several aspects of our economies for the next five years in order to assist in the forward-looking statistical calculations. In the "Explanatory Notes to the consolidated financial highlights at December 31, 2018", we give more details on this new accounting standard.

The third and certainly not the least of international factors affecting our banking Group was the attention and focus given internationally on "Compliance". In 2018, more than ever before the international financial sector and several international banks were faced with large fines, loss of licenses and damage to their reputation for reasons of not complying with Anti-Money Laundering (AML) and the Countering Financing of Terrorism (CFT) obligations, in short they were not AML/CFT compliant. The publication in September of the report by the Dutch Public Prosecutor relating to fines and settlement reached with ING Bank stressed the importance of the "gatekeeper" function that Banks have to fulfill to guard against the illegitimate use of the (international) money systems and transfers. In the report several issues were raised and recommendations given, but at the core it starts with the opening of accounts or onboarding of customers.

A thorough Customer Due Diligence (CDD) is required to understand the business of the customer as well as the purpose of opening the account. The CDD files have to be completed as well as a risk classification of the (new) customer. Certain customer files have to be reviewed at least annually and customers would be required to close the accounts and leave when irregularities have been observed or its business does not fit the Bank's risk profile. A very important focus should also be given on investing heavily in systems and resources to monitor the transactions of Banks' customers, because it is through transaction activity that dirty money finds its way into the regular banking world. The main advice is that throughout a financial institution, and especially at the top of a Bank, the tone should be that there is No Business if there is No Compliance. Within MCB Group we have taken all these recommendations at heart and together with our Scotiabank partners have increased and hastened our efforts to update all our customer files and clean up our customer

"The third and certainly not the least of international factors affecting our banking Group was the attention and focus given internationally on "Compliance"."

portfolio as well as investing more in our monitoring systems and training of all our colleagues. We have also increased the number of resources in the Compliance departments on all our islands. Management has taken all these measures and actions in order to keep our Group's reputation locally and internationally at the highest level. We are conscious that it is only with the highest reputation that we will keep the trust of our Customers, Partners, Regulators and equally important our Correspondent Banks.

Political system

After the devastation left behind by hurricane Irma in Sint Maarten in September 2017, there was much discussion on the Government of Sint Maarten's handling of the relief and reconstruction efforts and the discussions for the release of funds made available by the Dutch Government through the World Bank. At the end of 2017 the Government of Sint Maarten lost its majority and elections for Parliament were held in February 2018. A new coalition was formed later in the year and the hope is that it will bring stability and that it will speed up the reconstruction efforts and have a more constructive dialogue with its external partners.

Supervisory Board

Some changes took place in our Supervisory Board where we said goodbye to Steve Cozier who sat on our Board for nearly 5 years and was very much respected for his general banking and regional credit knowledge. Peter Bessey also left our Board and we thank both members for their valuable contribution to our Bank. During the year we welcomed two new faces, Stephen Bagnarol and James Mc Phedran. Both are seasoned bankers who hold and held senior positions at Scotiabank. We are sure that they will give us additional insights and new ideas for banking of the future. At the end of the year we also welcomed Islay McGlynn, who was appointed in February 2019 and we are sure we will enjoy her banking knowledge and wisdom for years to come.

> "We are proud to present in this year's Annual Report some valuable information on the many museums on our islands."

National treasures

Museums are institutions that conserve and exhibit a country's history, artifacts, art, innovations and much more. One could say that in some ways, a museum exhibits a country's reputation! On all our islands there are several museums with permanent or temporary exhibitions and researching several aspects of our islands history, current ways and possible future. We are proud to present in this year's Annual Report some valuable information on the many museums on our islands.

Our Countries and Economies

The year 2018 was a challenging year in all our markets. All the economies suffered one way or the other from either the crisis in Venezuela or was still struggling with the aftermath of hurricane Irma.

In its publication "Note economic development Curaçao" of March 2019, the Centrale Bank van Curaçao en Sint Maarten (CBCS) mentions that the Curaçao economy contracted further with 1.9% in 2018 after previous contractions of 1.7% (2017) and 1.0% (2016). The contraction was the result of a decrease both in net foreign and domestic demand. These were caused by a decline in both harbor and airport related activities, especially due to the much lower refining activities at Isla refinery (much less tanker movements) and a decline in total passenger traffic and commercial landings at the airport. The wholesale and retail sectors contracted due to less activities in the freezone as well as less domestic demand. The tourism related sectors recorded growth thanks to the increase in number of stay-over visitors, number of visitor nights, the occupancy rates and the number of cruise tourists. The latter was also related to the opening of the second mega pier at the end of 2017 and the change in itineraries by cruise lines because of the devastation caused by hurricanes Irma and Maria in popular cruise destinations in the north of the Caribbean. The inflation rate rose to a still acceptable 2.6% (2017: 1.6%), reflecting an increase in international oil and food prices.

The Government budget continues to show a deficit due to amongst others a decline in tax revenues. The Government will have to negotiate with the Government of the Netherlands on the terms and conditions to get to a balanced budget as well as to try to assist the economy back to real growth. The debt-to-GDP ratio increased again to more than 50% of GDP. Because of the minimum growth of our economy (actually a contraction) and increased spending it will be very difficult to turn around this concerning trend. For 2019 CBCS projects the Curaçao economy to grow a very modest 0.4%, mainly due to expected growth in stay-over tourism, cruise tourism and the ship repair activities. There are several downside risks to the possible growth, mostly related to the situation in Venezuela and the developments at the Isla refinery.

According to the CBCS's "Note economic developments Sint Maarten" (March 2019), in Sint Maarten the real GDP contracted with a substantial 8.1% after a contraction of 4.8% in 2017. This was caused by the effects and damage of hurricane Irma, whereby much of Sint Maarten's production capacity was destroyed. With some delay the clean up and reconstruction works continued in 2018 causing an increase in domestic demand. The devastation of the airport and several hotels caused the tourism industry to contract severely causing a sharp decline in net foreign demand. Cruise tourism experienced a small increase thanks to the return of some loyal cruise lines, the quick and effective recovery at the harbor facilities and partial return of tourism related attractions and activities.

The rise in prices for consumer goods and insurance premiums, caused the inflation to reach 2.7% after an inflation of 2.2% in 2017. The fiscal position of the Government deteriorated in the aftermath of hurricane Irma as revenues dropped significantly and the expenditures rose. This caused Sint Maarten's debt to GDP to increase substantially from 32.6% in 2017 to 42% in 2018. The outlook for 2019 is better with expected GDP growth of 2.3%, attributed to the increase in tourism income at an inflation rate of 2.5%.

In its publication "Economic Outlook" of April 2018, the Centrale Bank van Aruba (CBA) revised GDP growth for 2017 downward to 1.2% for Aruba. For 2018 the forecasted growth has been adjusted downwards to 0.3%. The measures of the Aruban Government to reduce its budget deficit had a further dampening effect on the growth of the economy. The main driver for economic growth remains the tourism sector, both stay-over tourism and cruise tourism, despite a drop in visitors from neighboring Venezuela.

In 2017 there was a deflation of 0.5% due to reduced electricity tariffs, and in 2018 the inflation is expected to have risen with 0.8%.

Inflation was modest on the three islands of Caribbean Netherlands during 2018 with 1.3% on Sint Eustatius, 2.6 % on Saba and 3.4% on Bonaire. Main cause of the price increase in Bonaire was the increase in price furniture and fruit. The main reason for the lesser increase in inflation in Saba and St. Eustatius was the decrease in prices for food after the sharp increase last year due to hurricane Irma. The Dutch Government continues to invest in the improvement of the local

infrastructures on all three islands.
Just as last year we can summarize that all our economies are suffering more or less, but that there are bright spots on the horizon everywhere. It is up to the Governments and the business communities of our islands to capitalize on these opportunities and create the future that we desire for our citizens. Our Bank is always ready to assist with thought, capital, financing and contacts.

Our Bank

Because of the many changes around us, the management of the Bank decided to embark on a communication and "road show" in all our islands to stage "TEAM 2018" events whereby we analyze the performance of the Bank as well as discuss several aspects including strategic priorities of the Bank. During the year we held these events twice on each island, one in the first half and another in the second half of the year. In 2018 the topic was Next Level banking and we introduced our three focus areas: Customers first, A great place to work and Community Leadership. These events were very interactive with lots of information, inspiration, games and at the end an open Q&A session whereby all our employees could ask questions which were addressed by the Group management as well as the management of the subsidiaries. These events were very satisfactory to all and will continue for many more years. The theme for the events in 2019 will be "Better Together" to further deepen the Group philosophy.

> "The topic of TEAM 2018 was Next Level banking and we introduced our three focus areas: Customers first, A great place to work and Community leadership."

One outcome from these TEAM events was to establish new working groups in the Bank on a Group level. We created a Group Communication Team as well as 3 Employee Innovation Teams. All employees were free to apply for these teams and the interest and enthusiasm surpassed our expectations. The results from the working groups are promising and we look forward to more innovative solutions to our challenges.

To improve on our area to remain "a great place to work", we embarked on a group wide elaborate and thorough employee survey conducted anonymously by a professional firm from the Netherlands to give us insight in the interests, concerns, desires and developmental wishes of our colleagues. We are currently in the process to analyze the results and implement certain programs.
The pace of change around us increased and we changed our ways of doing business by enhancing our personal mobile App and making it much more customer friendly and accessible. Several new features were introduced and we will continue to bring new features to this easiest of ways to do banking.
The branch is the traditional channel to service our customers, and in 2018 we introduced the "smart branch" concept in Aruba, Curaçao and Sint Maarten. In 2019 it will be the turn of Bonaire to get its own smart branch. These branches have all the newest technology in place such as smart ATMs, iPads and other digital solutions. Nevertheless, a very important part of these branches are the branch ambassadors and our colleagues in the branches that assist our customers in this new banking world.
Throughout our Group we started replacing all our 147 Bankomatiko/ATMs with new and modern design hardware to be complemented in 2019 with new software which provides new features and more possibilities. This will also enhance our digital footprint and ease our customers banking needs.

In 2018 we also introduced the digital "Fuel Up" product whereby we installed automatic payment systems at gas stations on several islands in our Group. With the Fuel Up system a customer can use a debit card or Kompa Leon credit card to pay for gas and it automatically triggers the gas filling function. Because of the ease of use, we see an explosive monthly volume increase and we expect this to continue for the next year.
Our completely digital market leading BSure insurance product celebrated its 5th anniversary and has shown that new products of high quality, easy and fast in application and usage can overtake a market in a very short while.
As always our Bank will continue to innovate and deliver high quality services, products and channels to make the lives of our customers easier, more secure and better!

Corporate Governance

Our Boards of Supervisory Directors and Management continue to be very committed to the principles of sound corporate governance. In "A Message from the Supervisory Board" you can read about the meetings and committees of the Board.
Within our Group, we have institutionalized several meetings and committees to manage the different risks that the Bank encounters. Besides the twice weekly traditional Credit (Risk) Committee meetings and monthly Asset & Liability Committee (ALCO) meetings, we also have Operational Risk Committee meetings, Compliance Committee meetings and Exit Committee meetings. These meetings are held to gain better and more insight into the different risks the current banking landscape encounters and how to mitigate and tackle these risks.
Each of our 3 banking subsidiaries in Aruba, Sint Maarten and Bonaire have their own Committee meetings in the frequency and ways that fits their needs.

Our Financial Statements and Other Highlights

We continue to provide more than the required disclosures and transparency of our financial statements and we are ready and more than willing to discuss and clarify any aspect of these reports or statements.
The MCB Group consists of 14 companies operating onshore and international businesses based in Curaçao, Aruba, Sint Maarten, Bonaire and Sint Eustatius. The information contained in these consolidated highlights represents the total of the financial statements of all 14 members of the MCB Group.

IFRS 9

As per January 1, 2018 the Group has adopted IFRS 9. This new Standard has fundamentally changed our Group's impairment method by replacing IAS 39's incurred loss approach with a forward-looking Expected Credit Loss ("ECL") approach. In the ECL models, the Group relies on a broad range of forward-looking information, such as projected GDP growth, unemployment rates and the Consumer Price Index.
Adoption of IFRS 9 led to a re-measurement as per January 1, 2018 of the credit loss provision on loans and advances to customers, investment securities, deposits with banks, contingent liabilities and retained earnings. This is further described in the "Explanatory Notes to the consolidated financial highlights as at December 31, 2018".
The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018.

Balance Sheet and Equity

In 2018, MCB Group's Total Assets grew with about NAF 154 million, or 2% to NAF 7,922 million, just short of the NAF 8 billion mark. As in previous years, due to our Group's

modest increase (1%) in "Loans and advances to customers" of NAF 24 million we invested the largest portion of the growth of our "Customer deposits" in "Investment securities". In 2018, the growth in "Investment securities" was a substantial 46% or about NAF 290 million to a total of NAF 915 million. On the other hand, the "Cash and due from banks" decreased with 6% or NAF 162 million to a still very large NAF 2,608 million, partly also by re-investing some of these deposit with banks to "Investment securities" that yield higher returns within our risk and liquidity policies. Thanks to the gradual increase in the interest rates in the United States during the year 2018, the returns on all these invested funds were a welcome addition to our income statement.
After 2 years with 0% growth, 2018 was the second year in a row with a modest growth in the portfolio of "Loans and advances to customers". Just as in previous years we observe some growth in the corporate and commercial segment and some decline in our retail portfolio as a result of the uncertainties in our markets whereby the public postponed larger investments and consumptions.

> "Our shareholders' equity excluding minority interest grew a healthy 7% or NAF 56 million to a very solid NAF 873 million."

Our Group continues to enjoy the trust and confidence from our customers and the growth in Customers' deposits was NAF 67 million or 1% to NAF 6,751 million. We are very grateful for this trust and as always we remain committed to a very responsible use of these funds.
Provisions increased significantly mainly due to the IFRS9 related provision for expected credit losses on contingent liabilities and due to increasing medical expenses of pensioners.
Our shareholders' equity excluding minority interest grew a healthy 7% or NAF 56 million to a very solid NAF 873 million. And this growth was realized even after subtracting NAF 40 million for IFRS 9 purposes in the January 1, 2018 equity.
Our Group considers a strong capitalization a key strength and one that we as management stand for and that our community, our customers and our staff can continue to rely and count on.

Profit & Loss Statement

The income presented in our financial statements is derived from both local and international activities of the Group. These income streams continue to be well-diversified.
For the last couple of years, our Group encountered challenging (business) environments with several external factors having a potential effect on us. All the markets we serve, have encountered economic, political or environmental headwinds during the last 3 years. As mentioned previously in the Report, in 2018 the changes to the accounting principles, especially IFRS 9 and the adjustments and efforts made in connection with Compliance rules and regulations made the year even more challenging than usual.
During 2018, the US Federal Reserve Bank increased its FED funds rate 4 times with 0.25%, resulting in higher rates on our Group's deposits with banks denominated in United States Dollars. This caused an increase in our foreign interest income, compensating for the loss in interest income in our local markets. Our gross interest income grew a modest 1% or NAF 3 million. Because of the low interest environment our Group rationalized its interest expenses, resulting in a growth in "net interest income" of 3% to NAF 298 million.
Our Group's income from net fee and commissions grew NAF 6 million or 4%, mainly because of volume growth in several businesses lines, in particular our cards and merchants business due to increase in tourism in our markets. The growth in tourism, together with some large international transfers caused the increase in our income from foreign exchange transactions with NAF 3 million or 6%.
Due to the measures taken during 2017 and 2018 to counter and adapt to the challenging environments, the Group's "operating income" grew with NAF 17 million or 4% in 2018.
On the expenses side, the year 2017 was exceptional because of large impairment losses on loans for hurricane Irma in the Windward islands and some corporate clients in Curaçao. In 2018, due to the adoption of IFRS 9 the "expected credit loss expenses on financial assets" resulted in a net release of NAF 7 million compared to an impairment charge of NAF 40 million in 2017. This is the primary cause for the very large decrease in total operational expenses of 14% or NAF 50 million.

> "Our consolidated "net result after tax" increased by 55% or NAF 57 million to NAF 161 million."

The combination of the (regular) 4% increase in income and the exceptional 14% decrease in expenses in 2018, resulted in a "net result from operations" of NAF 194 million. Our consolidated "net result after tax" increased by 55% or NAF 57 million to NAF 161 million. Although we are very proud of the result, at the same time we emphasize that the growth in net income is mainly caused by the increase in interest rates in the United States where liquidity is invested in 2018 on the one hand and the large impairment losses on loans made in 2017 on the other hand.
Our management will continue to monitor our business environments closely, make expectations for the future and take appropriate measures and decisions when necessary to adapt our Group to these ever-changing surroundings.

Loans

Our management together with our Supervisory Board and especially its Credit Committee continuously monitors our Group's credit risks and we ensure that the loans in our loan portfolio remain well-diversified by types of customers, size, maturity and sectors.
According to data by the Centrale Bank van Curaçao en Sint Maarten in their March 2019 update, in 2018 the private credit extension by local banks increased in Curaçao (2.5%%) whereas it contracted in Sint Maarten (-1.4%%). In Sint Maarten the year 2017 also showed a contraction (-1.6%), due to the effects of hurricane Irma. The main contraction took place in the business loans (-3.1% in 2017 and -2.4% in 2018) and mortgages (-1.7% in both 2017 and 2018). Consumer loans increased by 4.3% in 2018 (stable in 2017). In Curaçao the increase of the loan volume is mainly in business loans (+8.4%), whereas consumer loans increased slightly (0.4%) and mortgages reported a decline (-3.0%).
The challenging local environments resulted in a 0% growth in our "Total loans and advances to customers", whereby a decrease of our portfolio for "Retail customers" with NAF 87 million (5%) was compensated with the growth of NAF 97 million or 4% in the portfolios for "Corporate customers" and "public sector". The latter was especially caused by a large loan to the utility company in Curaçao.
The line "Loss allowance for expected credit losses" shows a variance of NAF 28 million. This variance is a combination of the impact of adoption of IFRS 9 in the opening balance, write offs and the change in the expected credit loss in 2018.
The end-result for the loan portfolio was a small growth of less than 1% or NAF 24 million in "Net loans and advances to customers".

“During 2018 we gave even more special attention to volunteer work in the month of December with our “Live, love, smile ku MCB” initiative whereby 59 community projects were chosen with more than 430 colleagues participating and touching the lives of nearly 2000 citizens directly.”

Taxes

MCB Group's profit tax obligation resulting from our operations in 2018 was NAF 33 million, while our Group also paid NAF 7 million in turnover taxes. Our employees paid wage taxes amounting to NAF 29 million, and the social premiums paid were NAF 27 million.

MCB Group collects foreign exchange license fee on behalf of the Centrale Bank van Curaçao en Sint Maarten, and in turn remits it to the respective governments of Curaçao and Sint Maarten. In 2018 MCB collected and remitted NAF 46 million in license fees for Curaçao and Sint Maarten. In Aruba, Caribbean Mercantile Bank collected AFL 15 million in exchange tax which it in turn remitted to the Central Bank of Aruba for the government of Aruba. As a result, the total collected and remitted license fees were NAF 61 million in 2018.

Together, all the taxes, fees and premiums mentioned above contributed NAF 157 million to the public coffers of our countries.

Employment

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

Community

As always we contributed to important organizations, projects and events of a cultural, social, religious, sport, educational, and environmental nature benefiting our youth, neighborhoods and different charitable institutions. Since our Group's early beginnings, we shared with our communities on all islands through numerous donations, sponsorships, gifts and also volunteer (“hands-on”) work by many of our colleagues.

In 2018 we emphasized volunteer work even more than other times, by granting the 2018 MCB-Prize to Curaçao Cares Foundation. This foundation was established in 2012 and inspires and empowers the Curaçao community by promoting and coordinating voluntary work. Every year they mobilize thousands of citizens to maintain and repair many places on our island (CuraDoet) and also to clean up certain parts of the island (Curaçao Clean Up) and for several other smaller projects. The foundation also gives support, offers workshops and training and offers a platform to volunteers to further develop their skills in areas such as project management. MCB is proud to give the MCB Prize to Curaçao Cares Foundation, because we have always strived to create structural voluntary work in our communities and offer our colleagues time to do this even during working hours. Annually, hundreds of our colleagues participate in projects managed by this foundation.

During 2018 we gave even more special attention to volunteer work in the month of December with our “Live, love, smile ku MCB” initiative whereby 59 community projects were chosen with more than 430 colleagues participating and touching the lives of nearly 2000 citizens directly. These projects were related to care in education and sports, health and social well-being, care for the elderly, neighborhoods and much more.

At the beginning of 2018 our President Chicu Capriles proudly signed an agreement on behalf of MCB Group with the University of Curaçao Dr. Moises Da Costa Gomez to establish the Lio “Paps” Capriles Chair of Financial Management Science for 4 years. This university program will address several topics in financial management whereby emphasis is also placed on small businesses in small (island) economies.

A big and very successful event our Bank supported was the Velas Latinoamerica 2018 Curaçao, whereby for three days the port of Curaçao was packed with eleven so-called “tall ships”. It was the first time that Curaçao was a port of call on the Velas Latinoamerica route and the event drew thousands of visitors, local and from abroad. It was an unprecedented success and very much liked by the public. The organizers promised to have the ships call on Curaçao again at the next Velas tour.

The Future

We believe that the year 2018 again was a year where our MCB Group and especially our employees on all islands and departments showed resilience and the ability to adapt to an ever changing environment. In a world that is becoming more digitally connected and changing at a faster pace than ever before, this ability to adapt to changes around us will remain the greatest strength of our organization.

Our goal is still the same: to remain the number 1 financial services group of the Dutch Caribbean by giving the best service and caring about our customers and communities with a commitment to providing innovative and sustainable solutions through our dedicated employees.

We are very grateful for the trust given to us by our colleagues, our customers, our supervisory directors, our shareholders, and our regulators and we trust that we can continue to count on them as, together, we face the great future ahead of us.

Chicu Capriles
President and CEO

Mahadeo Sebarath
Managing Director

Michael de Sola
Managing Director

Board of Supervisory Directors

C.S. (Claude) Norfolk, *Chairman*
J.M. (José) Alvares Correa, *Vice Chairman*
M.L. (Miguel) Alexander
S.J. (Stephen) Bagnarol *(as of June 19, 2018)*
P.C. (Peter) Bessey *(until October 24, 2018)*
S.F. (Stephen) Cozier *(until December 31, 2018)*
Ms. J.L. (Jacqueline) Curiel
F.B.M. (Frank) Kunneman
J.M. (Jossy) Lacle
J.I. (James) McPhedran *(as of September 6, 2018)*
R. (Rene) Moreno
R.N. (Reshard) Mohammed
Mrs. M. (Michèle) Russel-Capriles

In December 2018, I.E. (Islay) McGlynn was nominated as a Supervisory Director, and after the required approvals were obtained she was appointed to the Supervisory Board on February 19, 2019.

Supervisory Directors **& Management**

Board of Managing Directors

Chicu Capriles, President & CEO
Mahadeo Sebarath
Michael de Sola

Management Team

Peter Bongers
Chief Financial Officer
Lewis Chernin
Group Credit Risk
Mark Evertsz
Risk & Compliance
Jerry van Gijn
Corporate & Commercial Banking
Ruthsella Jansen
Personal Banking & Distribution Channels
Dave Ramsumair
Group Personal, Retail Banking & Distribution Channels
Garrel Rosario
Group Human Resources & Development
Daisy Tyrol-Carolus
Operations & Shared Services

Per February 1, 2019 C.H.M (Cris) van Kempen was appointed *Group Chief Risk Officer.*

Maduro & Curiel's Bank **Group**

Maduro & Curiel's Bank Group is a privately held Bank, which was established in 1916 as the first commercial Bank in the Dutch Caribbean and continues to be the leading financial institution there.

Maduro & Curiel's Bank Group is affiliated, since 1970, with The Bank of Nova Scotia (Scotiabank), Canada's most international financial institution, which serves over 25 million customers around the world and with total assets of CAD 1 trillion. MCB also maintains a network of correspondent banks throughout the world, which includes representation in all of the world's money centers.

Maduro & Curiel's Bank Group prides itself on extending personal and customized financial services to its personal and commercial clients through its network in Curaçao, its subsidiaries in Aruba (Caribbean Mercantile Bank N.V.), St. Maarten and St. Eustatius (The Windward Islands Bank Ltd.), and Bonaire (Maduro & Curiel's Bank Bonaire N.V.) and through its Representative Office in Amsterdam.

Maduro & Curiel's Bank Group believes that its clients and communities deserve to be provided continuously with the most innovative services and products in personal, private and commercial banking and in investment and insurance services.

Maduro & Curiel's Bank Group provides financial services at the highest level of integrity and maintains strict guidelines for ethical business conduct which the Bank, all of its executives and staff must comply with. These include strict adherence to principles of client confidentiality and to regulations to combat money laundering and terrorist financing.

Maduro & Curiel's Bank Group is the largest private sector employer in the Dutch Caribbean and offers its employees good working conditions, opportunities for growth, equitable income and ample social benefits, security of employment and the opportunity to own part of their Bank.

Maduro & Curiel's Bank Group serves its shareholders by providing them with a fair and equitable return on their investment and strengthening of their Bank by continuously adding to its reserves.

Maduro & Curiel's Bank Group believes that sounder communities provide a healthier environment in which to grow and work and is committed to using its human and financial resources towards the goal of enhancing the well being of the peoples of all of the islands on which it does business.

Maduro & Curiel's Bank Group welcomes your inquiries, directed to our President, on any of the above topics or on any subject in connection with our Bank.

Curaçao

Maduro & Curiel's Bank N.V.

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Fax: + 599-9-466 1122
Swift: MCBKCWCU
e-mail: info@mcb-bank.com
website: www.mcb-bank.com
Branches (11): Airport Hato, Barber, Brievengat, Colon, Emmastad, Montagne, Punda, Rio Canario, Rooi Catootje, Saliña, Sta. Maria

Aruba

Caribbean Mercantile Bank N.V.

General Managing Director:
Javier E. Wolter
Managing Director:
Raymond Green
Main Office:
Caya G.F. (Betico) Croes 53
Oranjestad, Aruba
Tel.: + 297-522-3000
Fax: + 297-583-4373
Swift: CMBAAWAX
e-mail: executive_office@cmbnv.com
website: www.cmbnv.com
Branches (5): Caya Betico Croes, Noord, San Nicolas, Santa Cruz, Wayaca Falls Mall

Bonaire

Maduro & Curiel's Bank (Bonaire) N.V.

General Managing Director:
Leonard U.G. Domacassé
Managing Director:
Cherethy A. Kirindongo
Main Office:
Kaya Gobernador N. Debrot 70
Kralendijk, Bonaire
Tel.: + 599-715-5520
Fax: + 599-717-8584
Swift: MCBKBQBN
e-mail: info@mcbbonaire.com
website: www.mcbbonaire.com
Branches (2): Hato, Playa

St. Maarten / St. Eustatius

The Windward Islands Bank Ltd.

General Managing Director:
Derek A. Downes
Managing Director:
Jennifer Mohamedjoenoes
Main Office:
Clem Labega Square
Philipsburg, Sint Maarten
Tel.: + 721-546-2313
Fax: + 721-542-6355
Swift: WISBSXSM
e-mail: info@wib-bank.net
website: www.wib-bank.net
Branches (5): Bush Road, Philipsburg, Simpson Bay, A.T. Illidge Road, Mazinga Center (Statia)

The Netherlands

Representative Office Amsterdam

Edward Logeman
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1079 LM Amsterdam
Tel.: + 31-20-661 8974
Fax: + 31-20-661 8975
e-mail: e.logeman@mcb-bank.com

Insurance

Curaçao
Maduro & Curiel's Insurance Services N.V.
MCB Group Insurance N.V.
Aruba
MCB Risk Insurance N.V.

Real Estate

Curaçao
Progress N.V.
Bonaire
Intora N.V.

Investments

Curaçao
MCB Securities Administration N.V.
MCB Securities Holding B.V.
Aruba
Progress CMB N.V.

Consolidated balance sheet

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

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

(All amounts are expressed in thousands of Antillean Guilders)

Consolidated income statement

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

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

(All amounts are expressed in thousands of Antillean Guilders)

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

A. ACCOUNTING POLICIES

1 GENERAL
The principal accounting policies adopted in the preparation of the Consolidated Financial Highlights of Maduro & Curiel's Bank N.V. and its subsidiaries (the 'Group') are set out below. These explanatory notes are an extract of the detailed notes included in the consolidated financial statements and are consistent in all material respects with those from which they have been derived.

2 BASIS OF PREPARATION
The consolidated financial statements, from which the Consolidated Financial Highlights have been derived, are prepared in accordance with International Financial Reporting Standards ('IFRS').

The figures presented in these highlights are stated in thousands of Antillean Guilders and are rounded to the nearest thousand.

The accounting policies used have been consistently applied by the Bank and are consistent, in all material respects, with those used in the previous year except for the impact of the first time adoption of IFRS 9 as set out below.

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

3. CHANGES IN ACCOUNTING POLICIES
IFRS 9 replaces IAS 39 for annual periods on or after January 1, 2018. The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of January 1, 2018. The first time adoption of IFRS 9 as per January 1, 2018 led to a remeasurement of the credit loss provision (increase) on loans and advances to customers of NAF 33,120, on investment securities of NAF 1,256, on deposits with banks of NAF 1,122, of contingent liabilities of NAF 16,169 and a decrease of retained earnings of NAF 40,577 (net of deferred tax). The measurement basis of financial assets and financial liabilities (amortized cost or fair value) within the scope of IFRS 9 has not been significantly impacted compared to the measurement basis applied under IAS 39.

4. BASIS OF CONSOLIDATION
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

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

5. CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS
From January 1, 2018, the Group has applied IFRS 9 to classify its financial assets (including its loans and advances to customers, investment securities and deposits with banks). Classification and subsequent measurement of the financial assets depend on:

(i) the Group's business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following two measurement categories:

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

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

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

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

terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

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

Financial assets are derecognized when the rights to receive cash flows from the investments have expired.

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

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

Calculation of Expected credit losses
The key elements of the ECL calculations are as follows:
- The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period.
- The Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- The Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is expressed as a percentage of the EAD.

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

B. SPECIFICATION OF ACCOUNTS

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

(All amounts are expressed in thousands of Antillean Guilders)

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

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

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

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

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

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

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

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

Curacao, April 16, 2019
for Ernst & Young Accountants

drs. R.J.W. van Nimwegen RA