Royal Bank

Consolidated Financial Highlights

October 31, 2018

Board of Managing Directors' Report

In 2018, RBC Royal Bank N.V. ("The Bank") continued its focus on building a strong company committed to helping our clients thrive and communities prosper, despite strong headwinds in the financial services sector and economic challenges across the Dutch Caribbean.

Over the last years, we have made significant strides transforming our Bank to be the premier digitally-enabled relationship bank. Our focus is to better serve our clients and offer greater convenience and flexibility through digital innovations, self-serve channels, our Client Advice Centre, and a proactive mobile sales force able to meet clients at their convenience. This is our long-term strategy and we are confident this is the way forward. The future of banking requires us to continue to evolve our bank to better reach and serve our clients today — and tomorrow. This, means we must be more agile, more innovative, less complex and work more collaboratively as One RBC across the Caribbean and globally.

In fiscal 2018, as part of our strategy to redesign our distribution network, we have renovated two, and merged three of our branches in Aruba, Curaçao and St. Maarten, making our physical footprint part of a larger, integrated advice and service delivery model across the Dutch Caribbean. We also made strides to improve operational efficiency, efforts that are underpinned by continued investment in our employees. These changes are central to enabling an enhanced competitive role in the Dutch Caribbean and position the Bank for sustainable long-term growth.

We continue to seek for ways to innovate and offer enhanced solutions for our clients. This focus on Clients First ensures RBC is resilient amidst economic challenges, disruptive changes in the financial industry, the impact of natural disasters and increasing competitive pressures. We remain committed to our communities, serving our clients effectively and supporting key stakeholders across the Dutch Caribbean. This commitment is reinforced by a clear purpose that guides us in everything we do: helping clients thrive and communities prosper.

Financial Performance

In 2018, the Bank reported a net income after tax of ANG 50.3 million which included an ANG 44.7 million release of the 2017 taken provision on loans and advances due to the impact of hurricane Irma in St. Maarten in the prior year. The release followed a review of the damages and subsequent servicing of loans post the moratorium on payments granted by the Bank in fiscal 2018.

Adjusting for the impact of the hurricane in 2017 which significantly contributed to an ANG 88.5 million provision on loans and advances as well as triggering an ANG 32.1 million impairment on goodwill due to changes in future outlook and also adjusting 2018 for the subsequent release, the core performance improved by ANG 2.8 million year over year. This core improvement was driven by an ANG 2.6 million reduction in interest expenses arising from a 9% reduction in customer deposits and a 3% reduction in core operating expenses. We also strengthened the balance sheet through a 2.3% growth in loans and advances to customers despite operating in highly competitive markets.

Economic Outlook

Aruba: The Central Bank of Aruba (CBA) reported that real GDP growth of 0.3% was estimated for 2018 while growth of <1% is expected in 2019, due to ongoing fiscal and debt challenges, alongside lower business confidence. Lackluster tourism performance is expected to persist in 2019 with the deepening of the Venezuelan crisis. Continued oversight by the Board of Financial Supervision for Aruba (CAft) and implementation of tax reforms will support fiscal sustainability. Refinery rehabilitation will continue to be delayed as PDVSA has not secured financing amid US sanctions.

Curaçao: The Central Bank of Curaçao and St. Maarten (CBCS) estimates real GDP growth contracted by 1.9% in 2018 with a rebound of <0.5% projected for 2019, to be led by private investments in the tourism sector. S&P lowered their sovereign credit ratings to BBB+ citing increased uncertainty about the future of the Isla refinery as PDVSA's lease expires end-2019 and a new operator is yet to be selected. The unemployment rate fell from 14.1% in 2017 to 13.4% in 2018 due to a drop in the labor force – a consequence of sluggish economic activity and negative migration.

St. Maarten: According to the CBCS, following a contraction of 8.1% in 2018, real growth is expected to recover to 2.3% in 2019 driven by increased tourist arrivals, private investments and continued activity in the construction sector. Significant progress has been made on reconstruction, aided by financial support from the Dutch Government. Hotels are up and running - Sonesta Maho, the largest hotel is partially operational. Visits by cruise liners have recommenced and there is increased activity in the hospitality and retail sectors with approximately 80% of restaurants and bars reopened. Commercial/International flights have recommenced in the midst of ongoing reconstruction of airport facilities.

RBC and our community

At RBC we believe that banks have a significant impact on the economy, but equally important, they have an impact on people and the planet. As a purpose-driven company, creating a positive social impact, not just an economic one, is integral to everything we do. In the recent fiscal period we continued to expand our investment in youth, education and community initiatives, as we believe these are key elements to build a successful economy. Throughout the year we supported a number of initiatives across the Dutch Caribbean, including acting as the main sponsor of Little League Foundation.

We recognize that our bottom-line success depends on the wellbeing and prosperity of our clients and employees, and of the communities and environment in which we live and work. This belief is fundamental to our business philosophy and is at the very heart of our corporate citizenship approach.

On behalf of the Board of Directors and executive of RBC, we would like to thank our clients for their continued confidence in RBC Royal Bank N.V. as we work towards becoming the premier digitally-enable relationship bank. We would also like to thank our employees who are the driving force behind all our achievements. Their continued commitment to our values, our clients and one another, ensures we are positioned for sustainable long-term growth and success.

Pierrot Hurtado
RBC Royal Bank N.V.
Managing Director

Jarl Jie-A-Looi
RBC Royal Bank N.V.
Managing Director

Independent Auditor's Report on the Summary Financial Statements

To the Board of Directors of RBC Royal Bank N.V.

Our opinion

In our opinion, the accompanying summary financial statements of RBC Royal Bank N.V. (the Company) and its subsidiaries (together 'the Group') are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the Provisions for the Disclosure of Consolidated Financial Highlights of Domestic Banking Institutions, as set out by the Central Bank of Curacao and Sint Maarten.

The summary financial statements

The Group's summary financial statements derived from the audited consolidated financial statements for the year ended October 31, 2018 comprise:

- the consolidated statement of financial position as at October 31, 2018;
- the consolidated statement of income and other comprehensive income for the year then ended; and
- the related notes to the summary financial statements.

The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon. The audited consolidated financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on the audited consolidated financial statements.

The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated March 27, 2019. That report also includes an "*Other Matter*" section that states that the opinion has been prepared for and only for the Company in accordance with the terms of our engagement letter and that we do not, in giving the opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Management's responsibility for the summary financial statements

Management is responsible for the preparation of the summary financial statements in accordance with the Provisions for the Disclosure of Consolidated Financial Highlights of Domestic Banking Institutions, as set out by the Central Bank of Curacao and Sint Maarten.

Auditor's responsibility

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

PricewaterhouseCoopers

PricewaterhouseCoopers, Cayman Islands

April 15, 2019

Engagement Leader: Marlon Bispath

Consolidated Statement of Financial Position of RBC Royal Bank N.V. and its Subsidiaries

(Expressed in thousands of Antillean Guilders)

	As at 31 October 2018 ANG	2017 ANG
Assets		
Cash and due from banks	1,149,684	1,295,690
Securities	248,389	307,015
Loans and advances to customers	1,446,147	1,414,163
Customers' liability under acceptances	28,179	26,746
Bank premises and equipment	34,421	34,188
Goodwill and other intangible assets	59,268	66,933
Deferred tax assets	13,067	10,440
Other assets	17,513	33,805
Total assets	2,996,668	3,188,980
Liabilities and shareholders' equity		
Liabilities		
Customers' deposits	2,525,759	2,766,285
Due to other banks	44,511	47,683
Acceptances outstanding	28,179	26,746
Profit tax payable	9,082	7,379
Deferred tax liabilities	13,287	15,708
Provisions	3,008	4,551
Other liabilities	49,075	46,919
Total liabilities	2,672,901	2,915,271
Shareholders' equity		
Issued capital	114,455	114,455
Share premium	87,053	87,053
General reserve	27,411	28,002
Other reserve	2,407	3,065
Retained earnings	92,441	41,134
Total shareholders' equity	323,767	273,709
Total liabilities and shareholders' equity	2,996,668	3,188,980

Royal Bank

Consolidated Financial Highlights

October 31, 2018 (continued)

Consolidated Statement of Income and Other Comprehensive Income of RBC Royal Bank N.V. and its Subsidiaries

(Expressed in thousands of Antillean Guilders)

	Year ended 31 October 2018 ANG	2017 ANG
Interest income	113,805	113,985
Interest expense	19,811	22,391
Net interest income	93,994	91,594
Fee and commission income	38,970	42,486
Net fee and commission income	38,970	42,486
Other operating income	13,718	17,005
Operating income	146,682	151,085
Salaries and other employee expenses	52,655	61,774
Occupancy expenses	8,096	8,951
Net impairment on loans and advances	(40,501)	88,475
Impairment losses on goodwill	-	32,124
Other operating expenses	79,286	77,528
Operating expenses	99,536	268,852
Net result from operations	47,146	(117,767)
Income from associates	(245)	229
Income before taxation	46,901	(117,538)
Taxation recovery / (expense)	3,349	(318)
Net income after taxation	50,250	(117,856)
Other comprehensive loss, net of taxes:		
Net change in losses on available-for-sale financial assets	202	583
Other comprehensive loss for the year, net of tax	202	583
Total comprehensive income for the year	50,452	(117,273)

A. Significant accounting policies

The principal accounting policies adopted in the preparation of RBC Royal Bank N.V.'s consolidated financial statements are set out below. The notes are an extract of the detailed notes prepared in our statutory consolidated financial statements. The notes detailed below coincide in all material aspects with those from which they have been derived. Throughout this report, the word Group refers to RBC Royal Bank N.V. and its consolidated subsidiaries.

Basis of preparation

The consolidated financial statements, from which these Consolidated Financial Highlights have been derived, are prepared in Antillean Guilders (ANG) and in accordance with International Financial Reporting Standards. The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of securities at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI).

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates that affect the reported amount of assets, liabilities, net income and related disclosures. Estimates made by management are based on historical experience and other assumptions that are believed to be reasonable. Key sources of estimation uncertainty include: securities impairment, determination of fair value of financial instruments, the allowance for credit losses, derecognition of financial assets, income taxes, carrying value of goodwill and other intangible assets and litigation provisions. Accordingly, actual results may differ from these and other estimates thereby impacting our future Consolidated Financial Statements. These consolidated financial highlights have been prepared on the criteria established by the Provisions for the Disclosure of Consolidated Financial Highlights of Domestic Banking Institutions, as set out by the Central Bank of Curaçao and Sint Maarten.

Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of RBC Royal Bank N.V. (the parent company) and its wholly owned subsidiaries RBC Royal Bank (Aruba) N.V., ABC International N.V., RBC Royal Bank International N.V., Trade Center St. Maarten N.V., Royal Services (Curaçao) N.V. and Royal Services International (Curaçao) N.V (the Group) after the elimination of intercompany transactions and balances. The subsidiaries Mc Laughlin International Trust & Management Company N.V., Boxscore Enterprises N.V., Omutin Real Estate Holdings N.V., Aruba Trustkantoor N.V. and Banco Nacional de Hipotecas N.V. have been liquidated during the financial year ended October 31, 2018.

Subsidiaries are those entities over which we have control. We control an entity when we are exposed, or have rights, to variable returns from our involvement with the entity and have the ability to affect those returns through our power over the investee. We have power over an entity when we have existing rights that give us the current ability to direct the activities that most significantly affect the entity's returns (relevant activities). Power may be determined on the basis of voting rights or, in the case of structured entities, other contractual arrangements. We are not deemed to control an entity when we exercise power over an entity in an agency capacity. In determining whether we are acting as an agent, we consider the overall relationship between us, the investee and other parties to the arrangement with respect to the following factors: (i) the scope of our decision making power; (ii) the rights held by other parties; (iii) the remuneration to which we are entitled; and (iv) our exposure to variability of returns.

The determination of control is based on the current facts and circumstances and is continuously assessed. In some circumstances, different factors and conditions may indicate that various parties control an entity depending on whether those factors and conditions are assessed in isolation or in totality. Significant judgment is applied in assessing the relevant factors and conditions in totality when determining whether we control an entity. Specifically, judgment is applied in assessing whether we have substantive decision making rights over the relevant activities and whether we are exercising our power as a principal or an agent.

We consolidate all subsidiaries from the date control is transferred to us, and cease consolidation when an entity is no longer controlled by us. Our consolidation conclusions affect the classification and amount of assets, liabilities, revenues and expenses reported in our Consolidated Statement of Financial Position.

Changes in accounting policies

During the current year the Group adopted IFRS 9 Financial Instruments (IFRS 9). As a result of the application of IFRS 9 the Group changed the accounting policies outlined below, and these new policies were applied from November 1, 2017. As permitted by the transition provisions of IFRS 9, the Group elected not to restate the comparative period results; accordingly, all comparative information is presented in accordance with the Group's previous accounting policies as indicated below. New or amended disclosures have been provided for the current year, where applicable and comparative period disclosures are consistent with those made in the prior year.

Classification of financial assets

Financial assets are measured at initial recognition at fair value, and are classified and subsequently measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost based on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the instrument.

Debt instruments are measured at amortized cost if both of the following conditions are met and the asset is not designated as FVTPL: (a) the asset is held within a business model that is Held-to-Collect (HTC) as described below, and (b) the contractual terms of the instruments give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Debt instruments are measured at FVOCI if both of the following conditions are met and the asset is not designated as FVTPL: (a) the asset is held within a business model that is Held-to-Collect-and-Sell (HTC&S) as described below, and (b) the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI.

All other debt instruments are measured at FVTPL.

Equity instruments are measured at FVTPL, unless the asset is not held for trading purposes and the Group makes and irrevocable election to designate the asset as FVOCI. This election is made on an instrument-by-instrument basis.

Business model assessment

The Group determines the business models at the level that best reflects how the Group manages portfolios of financial assets to achieve business objectives. Judgement is used in determining the business models, which is supported by relevant, objective evidence including:

- How the economic activities of the businesses generate benefits and how such economic activities are evaluated and reported to key management personnel;
- The significant risks affecting the performance of the businesses and the activities taken to manage those risks;
- Historical and future expectations of sales of the loans and securities managed as part of a business model; and
- The compensation structures for managers of the businesses within the Group, to the extent that these are directly linked to the economic performance of the business model.

The Group's business models fall into three categories, which are indicative of the key categories used to generate returns:

- HTC: the objective of this business model is to hold loans and securities to collect contractual principal and interest cash flows; sales are incidental to this objective and are expected to be insignificant or infrequent;
- HTC&S: both collecting contractual cash flows and sales are integral to achieving the objective of the business model;
- Other fair value business models: these business models are neither HTC nor HTC&S, and primarily represent business models where assets are held-for-trading or managed on a fair value basis.

SPPI assessment

Instruments held within a HTC or HTC&S business model are assessed to evaluate if their contractual cash flows are comprised of solely payments of principal and interest. SPPI payments are those which would typically be expected for basic lending arrangements.

Securities

As at November 1, 2017 the balance sheet item investment securities was renamed to securities. Securities represent investment securities and trading securities under IFRS 9.

Trading securities include all securities that are classified at FVTPL, by nature and securities designated at FVTPL. Obligations to deliver trading securities sold but not yet purchased are recorded as liabilities and carried at fair value. Realized and unrealized gains and losses on these securities are generally recorded as trading revenue in non-interest income. Dividends and interest income accruing on trading securities are recorded in interest income.

Investment securities include all securities classified as FVOCI and amortized cost. All investment securities are initially recorded at fair value and subsequently measured according to the respective classification. Prior to the adoption of IFRS 9, investment securities were comprised of available-for-sale and held-to-maturity securities.

Investment securities carried at amortized cost are measured using the effective interest rate method, and are presented net of any allowance for credit losses, calculated in accordance with the Group's policy for allowance for credit losses, as described below. Interest income, including the amortization of premiums and discounts on securities measured at amortized cost are recorded in net interest income. Impairment gains or losses recognized on amortized cost securities are recorded in provision for credit losses. When a debt instrument measured at amortized cost is sold, the difference between the sale proceeds and the amortized cost of the security at the time of sale is recorded as a net gain (loss) on investment securities in non-interest income.

Debt securities carried at FVOCI are measured at fair value with unrealized gains and losses arising from changes in fair values included in other components of equity. Impairment gains and losses are included in provision for credit losses and correspondingly reduce the accumulated change in fair value included in other components in equity. When a debt instrument measured at FVOCI is sold, the cumulative gain or loss is reclassified from other components of equity to net gain (loss) on investment securities in non-interest income.

Equity securities carried at FVOCI are measured at fair value. Unrealized gains and losses arising from changes in fair value are recorded in other components of equity and not subsequently reclassified to profit or loss when realized. Dividends from FVOCI securities are recognized in interest income.

The Group accounts for all securities using settlement date accounting and changes in fair value between trade date and settlement date are reflected in income for securities measured at FVTPL, and changes in fair value of securities measured at FVOCI between trade date and settlement dates are recorded in OCI, except for changes in foreign exchange rates on debt securities, which are recorded in non-interest income.

Loans

Loans are debt instruments recognized initially at fair value and are subsequently measured in accordance with the Classification of financial assets policy provided above. The majority of our loans are carried at amortized cost using the effective interest method, which represents the gross carrying amount less allowance for credit losses.

A. Significant accounting policies (continued)

Loans (continued)

Interest on loans is recognized in Interest income using the effective interest method. The estimated future cash flows used in this calculation include those determined by the contractual term of the asset and all fees that are considered to be integral to the effective interest rate. Also included in this amount are transaction costs and all other premiums or discounts. Fees that relate to activities such as originating, restructuring or renegotiating loans are deferred and recognized as Interest income over the expected term of such loans using the effective interest method.

For loans carried at amortized cost or FVOCI, impairment losses are recognized at each balance sheet date in accordance with the three-stage impairment model outlined below.

Allowance for credit losses

An allowance for credit losses (ACL) is established for all financial assets, except for financial assets classified or designated as FVTPL and equity securities designated as FVOCI, which are not subject to impairment assessment. Assets subject to impairment assessment include certain loans, debt securities, interest-bearing deposits with banks, accounts and accrued interest receivable.

Off-balance sheet items subject to impairment assessment include financial guarantees and undrawn loan commitments.

We measure the ACL on each balance sheet date according to a three-stage expected credit loss impairment model:

Performing financial assets

- Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring over the 12 months following the reporting date.
- Stage 2 – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognized equal to the credit losses expected over the remaining lifetime of the asset.

Impaired financial assets

- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance is recognized equal to credit losses expected over the remaining lifetime of the asset.

The ACL is a discounted probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant time horizon. For loan commitments, credit loss estimates consider the portion of the commitment that is expected to be drawn over the relevant time period.

Increases or decreases in the required ACL attributable to purchases and new originations, derecognitions or maturities, and remeasurements due to changes in loss expectations or stage migrations are recorded in provision for credit losses. Write-off and recoveries are recorded against allowance for credit losses.

The ACL represents an unbiased estimate of expected credit losses on our financial assets as at the balance sheet date.

Measurement of expected credit losses

Expected credit losses are based on a range of possible outcomes and consider available reasonable and supportable information including internal and external ratings, historical credit loss experience, and expectations about future cash flows. The measurement of expected credit losses is based primarily on the product of the instrument's probability of default (PD), loss given default (LGD), and exposure at default (EAD) discounted to the reporting date. The main difference between Stage 1 and Stage 2 expected credit losses for performing financial assets is the respective calculation horizon. Stage 1 estimates project PD, LGD and EAD over a maximum period of 12 months while Stage 2 estimates project PD, LGD and EAD over the remaining lifetime of the instrument.

Expected credit losses are discounted to the reporting period date using the effective interest rate.

Expected life

For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life.

Assessment of significant increase in credit risk

The assessment of significant increase in credit risk requires significant judgment. Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly relative to the date it was initially recognized. For the purposes of this assessment, credit risk is based on the delinquency status.

Use of forward-looking information

The measurement of expected credit losses for each stage and the assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable projections of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

The PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio.

Our estimation of expected credit losses in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios. Our base case scenario is based on macroeconomic forecasts published by our internal economics group. Upside and downside scenarios vary relative to our base case scenario based on reasonably possible alternative macroeconomic conditions.

Scenarios are designed to capture a wide range of possible outcomes and weighted according to our best estimate of the relative likelihood of the range of outcomes that each scenario represents. Scenario weights take into account historical frequency, current trends, and forward-looking conditions and are updated on a quarterly basis. All scenarios considered are applied to all portfolios subject to expected credit losses with the same probability weighting.

Definition of default

The definition of default used in the measurement of expected credit losses is consistent with the definition of default used for our internal credit risk management purposes. Our definition of default may differ across products and consider both quantitative and qualitative factors, such as the terms of financial covenants and days past due. For retail and wholesale borrowers default occurs when the borrower is 90 days or more past due on any material obligation to us, and/or we consider the borrower unlikely to make their payments in full without recourse action on our part, such as taking formal possession of any collateral held. For certain credit card balances, default occurs when payments are 180 days past due. For these balances, the use of a period in excess of 90 days past due is reasonable and supported by observable data on write-off and recovery rates.

The definition of default used is applied consistently from period to period and to all financial instruments unless it can be demonstrated that circumstances have changed such that another definition of default is more appropriate.

Credit-impaired financial assets (Stage 3)

Financial assets are assessed for credit-impairment at each balance sheet date and more frequently when circumstances warrant further assessment. Evidence of credit-impairment may include indications that the borrower is experiencing significant financial difficulty, probability of bankruptcy or other financial reorganization, as well as a measurable decrease in the estimated future cash flows evidenced by the adverse changes in the payments status of the borrower or economic conditions that correlate with defaults.

When a financial asset has been identified as credit-impaired, expected credit losses are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate. For impaired financial assets with drawn and undrawn components, expected credit losses also reflect any credit losses related to the portion of the loan commitment that is expected to be drawn down over the remaining life of the instrument.

Individually assessed loans (Stage 3)

When individually significant loans are identified as impaired, we reduce the carrying value of the loans to their estimated realizable value by recording an individually assessed ACL to cover identified credit losses. The individually assessed ACL reflects the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered, and the impact of time delays in collecting principal and/or interest (time value of money).

Collectively assessed loans (Stage 3)

Loans that are collectively assessed are grouped on the basis of similar risk characteristics, taking into account loan type, geographic location, collateral type, past due status and other relevant factors.

The collectively-assessed ACL reflects: (i) the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered, and (ii) the impact of time delays in collecting principal and /or interest (time value of money).

The expected principal and interest collection is estimated on a portfolio basis and references historical loss experience of comparable portfolios with similar credit risk characteristics, adjusted for the current environment and expected future conditions. A portfolio specific coverage ratio is applied against the impaired loan balance in determining the collectively-assessed ACL.

Write-off of loans

Loans are written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, they are generally written off after receipt of any proceeds from the realization of collateral.

Pre-IFRS 9 accounting policies

The following policies are applicable for comparative period results as at and the year ended October 31, 2017:

Investment securities

Investment securities are classified into the following categories: held-to-maturity (HTM) and available-for-sale (AFS). Management determines the appropriate classification of its investment at the time of purchase.

Securities held-to-maturity

Held-to-maturity investments are investment securities with fixed maturity where management has the positive intention and the ability to hold to maturity. Held-to-maturity investments are carried at amortized cost using the effective interest method, less any provision for impairment.

Securities available-for-sale

Available-for-sale investments are those securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale securities are initially recognized at cost (which includes transaction costs) and are subsequently remeasured at fair value based on quoted market prices where available or discounted cash flow models.

Fair values for unquoted equity instruments or unlisted securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity. When the security is sold, the cumulative gain or loss recorded in Other components of equity is included as Net gain (loss) on AFS securities in Non-interest income. When securities become impaired, the related accumulated fair value adjustments previously recognized in equity are included in the income statement as impairment expense on investment securities.

A financial asset reported as investment securities is impaired if its carrying amount is greater than its estimated recoverable amount and there is objective evidence of impairment. The recoverable amount of an investment security instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset. For an investment security instrument measured at amortized cost the recoverable amount is the present value of expected future cash flows discounted at the instrument's original effective interest rate.

All purchases and sales of investment securities are recognized at settlement date.

Loans and advances to customers

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as AFS. Loans are initially recognized at fair value. When loans are issued at a market rate, fair value is represented by the cash advanced to the borrowers. Loans are subsequently measured at amortized cost using the effective interest method less impairment, unless we intend to sell them in the near future upon origination or they have been designated as at Fair Value through Profit and Loss (FVTPL), in which case they are carried at fair value.

An allowance for credit losses is established if there is objective evidence that we will be unable to collect all amounts due on our loans portfolio according to the original contractual terms or the equivalent value. The allowance for credit losses is increased by the impairment losses recognized and decreased by the amount of write-offs, net of recoveries. The allowance for credit losses is included as a reduction to Loans and

A. Significant accounting policies (continued)

Loans and advances to customers (continued)

advances to customers, net. We assess whether objective evidence of impairment exists individually for loans that are individually significant and collectively for loans that are not individually significant. If we determine that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, the loan is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. Loans that are individually assessed for impairment and for which an impairment loss is recognized are not included in a collective assessment of impairment.

Allowance for credit losses represent management's best estimates of losses incurred in our loan portfolio at the Consolidated Statement of Financial Position date. Management's judgment is required in making assumptions and estimations when calculating allowances on both individually and collectively assessed loans. The underlying assumptions and estimates used for both individually and collectively assessed loans can change from period to period and may significantly affect our results of operations.

Impaired loans (specific allowance)

Loans which are individually significant are assessed individually for objective indicators of impairment. A loan is considered impaired when management determines that it will not be able to collect all amounts due according to the original contractual terms or the equivalent value.

Individually assessed impaired loans

Credit exposures of individually significant loans are evaluated based on factors including the borrower's overall financial condition, resources and payment record, and where applicable, the realizable value of any collateral. If there is evidence of impairment leading to an impairment loss, then the amount of the loss is determined as the difference between the carrying amount of the loan, including accrued interest, and the estimated recoverable amount. The estimated recoverable amount is measured as the present value of expected future cash flows discounted at the loan's original effective interest rate, including cash flows that may result from the realization of collateral less costs to sell. Individually assessed impairment losses reduce the carrying amount of the loan through the use of an allowance account and the amount of the loss is recognized in Impairment losses on loans and advances in our Consolidated statements of income and other comprehensive income. Following impairment, interest income is recognized on the unwinding of the discount from the initial recognition of impairment.

Significant judgment is required in assessing evidence of impairment and estimation of the amount and timing of future cash flows when determining the impairment loss. When assessing objective evidence of impairment we primarily consider specific factors such as the financial condition of the borrower, borrower's default or delinquency in interest or principal payments, local economic conditions and other observable data. In determining the estimated recoverable amount we consider discounted expected future cash flows at the effective interest rate using a number of assumptions and inputs. Management judgment is involved when choosing these inputs and assumptions used such as the expected amount of the loan that will not be recovered and the cost of time delays in collecting principal and/or interest, and when estimating the value of any collateral held for which there may not be a readily accessible market. Changes in the amount expected to be recovered would have a direct impact on the Impairment losses on loans and advances and may result in a change in the allowance for credit losses.

Collectively assessed impaired loans

Impaired loans which are individually insignificant are collectively assessed for impairment. For the purposes of a collective evaluation of impairment, loans are grouped by type and management judgment is applied to estimate losses based on historical loss experience, which takes into consideration historical probabilities of default, loss given default and exposure at default, in portfolios of similar credit risk characteristics. Future cash flows in each group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. As we have determined that the Bank has insufficient loss experience, we use peer group experience for comparable groups of financial assets held by an affiliated bank. The estimated recoverable amount is measured as the present value of expected future cash flows discounted at an estimated average yield, over an assumed workout period. Collectively-assessed impairment losses reduce the carrying amount of the aggregated loan position through an allowance account and the amount of the loss is recognized in Impairment losses on loans and advances. Following impairment, interest income is recognized on the unwinding of the discount from the initial recognition of impairment. The methodology and assumptions used to calculate collective impairment allowances are subject to significant uncertainty, in part because it is not practicable to identify losses on an individual loan basis due to the large number of individually insignificant loans in the portfolio, and significant management judgment is applied. Changes in these assumptions would have a direct impact on the Impairment losses on loans and advances and may result in material changes in the related Allowance for credit losses.

Unimpaired loans (general allowance)

Loans which are not impaired are collectively assessed for impairment. For the purposes of a collective evaluation of impairment the collective impairment allowance is determined by reviewing factors including: (i) historical loss experience of the Bank in recent years, and (ii) management's judgment on the level of impairment losses based on historical experience relative to the actual level as reported at the Consolidated Statement of Financial Position date, taking into consideration the current portfolio credit quality trends, business and economic and credit conditions, the impact of policy and process changes, and other supporting factors. Portfolio level historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed annually to reduce any differences between loss estimates and actual loss experience. General impairment losses on loans not yet identified as impaired reduce the carrying amount of the aggregated loan position through an allowance account and the amount of the loss is recognized in Impairment losses on loans and advances. Following impairment, interest income is recognized on the unwinding of the discount from the initial recognition of impairment. The methodology and assumptions used to calculate general impairment allowances are subject to uncertainty, in part because it is not practicable to identify losses on an individual loan basis due to the large number of individually insignificant loans in the portfolio.

Significant judgment is required in assessing historical loss experience, the loss identification period and its relationship to current portfolios including delinquency, and loan balances; and current business, economic and credit conditions including industry specific performance, unemployment and country risks. Changes in these assumptions would have a direct impact on the Impairment losses on loans and advances and may result in material changes in the related Allowance for credit losses.

Write-off of loans

Loans and the related impairment allowance for credit losses are written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, they are generally written off after receipt of any proceeds from the realization of the collateral. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write off may be earlier. For credit cards, the balances and related allowance for credit losses are written off when payment is 180 days in arrears.

Statutory and other regulatory loan loss reserve requirements that exceed these amounts are dealt with in the general banking risks' reserve as an appropriation of retained earnings.

The allowance which is made during the year, less amounts released and recoveries of bad debts previously written off, is charged against the income statement. When a loan is deemed uncollectible, it is written off against the related allowance for losses.

Other significant accounting policies

Cash and due from banks

Cash and due from banks includes balances due from associated and affiliated companies.

Customer liability under acceptances/acceptances outstanding

Customers' liability under acceptances/acceptances outstanding are not recorded on the statement of financial position in the statutory consolidated financial statements, but are required disclosures under the Provisions for the Disclosure of Consolidated Financial Highlights of Domestic Banking Institutions. Such amounts include Letters of Credit and Guarantees.

Occupancy expenses

Occupancy expenses include rent on premises, depreciation and maintenance of premises and taxes.

B. Specification of accounts

This specification is an extract of the most important accounts derived from the statutory financial statements.

I. Assets

	As at 31 October 2018 ANG	2017 ANG
Securities		
FVTPL	19,371	-
FVOCI	4,020	-
Available for sale	-	292,469
At amortised cost	224,998	14,546
Net securities	248,389	307,015
Loans and advances to customers		
Retail customers	925,636	906,178
Corporate customers	612,320	645,022
Public sector	518	595
Total loans and advances	1,538,474	1,551,795
Less allowance for loan losses	(92,327)	(137,632)
Net loans and advances	1,446,147	1,414,163

In the absence of specific information about any individual loan, a qualitative assessment of the St. Maarten portfolio was undertaken in September/October 2017 to estimate losses arising from the destruction caused by the hurricanes. As a result of this assessment, we have increased the general allowance for impairment losses as of October 31, 2017 to ANG 95 million. The included overlay, reflecting our current estimate of the incurred losses as a result of these hurricanes, was determined based on preliminary reports of estimated damage and historical experience of Hurricane Ivan's impact on an affiliated entity in Grenada in 2004. At that time, we observed a 7 times increase in non-accrual loans ("NPL"), which has been used as a reference point for calculating the overlay. To quantify our estimate, we relied upon two significant assumptions: Probability of Default and Loss Given Default. We adjusted both assumptions upward from that indicated by our historical experience, drawing on the hurricane Ivan experience in Grenada and the historical experience in both islands, to estimate the increased losses as a result of the hurricanes.

The allowance for loan losses presented reflects management's best estimate of incurred losses based on the information available at the time of this report. The eventual loan write-offs as a result of these hurricanes could be materially different from the amount reserved as of October 31, 2017, given the significant inherent uncertainty and lack of information available to determine more accurate estimates.

During fiscal 2018, a specialized team was established in St. Maarten, with the primary objective of directly contacting clients to confirm employment and debt servicing capacity in order to complete a file-by-file analysis. The firm Nationwide Appraisal Services (NAS) was engaged for updated appraisals to be completed during 2018. These efforts were undertaken to obtain empirical information to support damages to real property/collateral and insurance coverage. An assessment leveraging the detailed information collected via these channels, delinquency trends following the expiration of the payment relief plan which was fully wound down February 2018, the quality of the loan portfolio, and experiences from neighbouring Dutch Caribbean entities were all inputs into the allowance calculation for October 31, 2018.

Following the end of the payment relief plan a bad debt rate was constructed to proxy delinquency. A stringent test was developed to determine the proportion of customers that missed at least one payment over the six months following the payment relief plan (March – August 2018). Making six continuous monthly payments demonstrated a customer's financial resilience and ability to pay. The estimated credit losses were determined by the Loss Given Default, Utilization Given Default, and by applying forward looking factors to the bad rate proxy for Probability of Default.

Given reasonably possible changes to these assumptions, such as resumption of normal business activity, potential alternative loss scenarios resulting from actual insurance coverage, government support, and property damage, results may vary materially from our expectations.

II. Liabilities

	As at 31 October 2018 ANG	2017 ANG
Customers' deposits		
Retail customers	1,080,018	1,156,844
Corporate customers	1,348,672	1,518,807
Other	97,069	90,634
Total customers' deposits	2,525,759	2,766,285