Royal Bank

Consolidated Financial Highlights 2019

October 31, 2019

Board of Managing Directors' Report

To remain at the forefront of our field, RBC Royal Bank N.V. ("The Bank") continued its focus on reimagining what a bank can be, committed to innovating to deliver better and more value to clients through digital convenience, effective solutions and expert advice.

In 2019, we have made significant strides transforming our Bank to be the premier digitally-enabled relationship bank. Transformation requires vision, commitment, faith and confidence because reimagining is not about being better at what we have always been — one of the world's best banks. Instead, it is bringing to live opportunities — being present where we need to be, being innovative where opportunities exist and being bold in how we partner with and remain relevant in the lives of our clients.

While our work is ongoing, our achievements to date manifested in our redesigned distribution network. In 2019, as part of a larger integrated advice and service delivery model across the Dutch Caribbean, we have merged branches into a single flagship "branch of the future" in Aruba, Curaçao and St. Maarten. We have expanded our digital capabilities, upgraded our Point-of-Sale and ATM network, and focused our attention on improving business performance through continued investment in our employees, enhanced product offerings, and improved quality of assets on the books. These investments position us for sustainable long-term growth and will help us navigate persistent economic headwinds, the impact of natural disasters, changes in the financial industry, and increasing competitive pressures.

We remain committed to the communities we serve, our key stakeholders and to meet and exceed the expectations of our clients 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 2019 the Bank reported net income after taxation of Nafl 31.9 million, representing a year-over-year decline of Nafl 18.3 million. The overall decline was primarily due to impairment on goodwill of Nafl 23.7 million in Aruba — as a result of changes in future economic outlook — and lower loan provision releases in St. Maarten.

Despite these factors, the Bank realized strong performance mainly driven by an increase in interest income arising from growth in loans and advances to customers, and investment in securities. Interest expenses also declined from a reduction in customer deposits and further contributed to these results. This was accompanied by a decline in operating expenses as a result of managing costs.

Economic Outlook

Aruba: The Central Bank (CBA) has revised downward its real GDP growth estimate for 2019 from 0.9% to 0.7% resulting from weaker than anticipated investment, exports and consumption figures. Business sentiments remained pessimistic for the 5th consecutive quarter to Q2-2019, reflecting continued uncertainty around short-term future economic conditions. Caribbean Tourism Organisation (CTO) data show stopover arrivals rose 6.3% year-over-year to May 2019 while cruise passenger arrivals fell by 2.3% year on year to October 2019. For 2020, a number of large construction projects are ongoing led by the private sector, including the Embassy suites by Hilton which is expected to be completed by mid-2021 and the Radisson Blu Hotel which is expected to open by the middle of 2020. The Aruban government continues to seek other interests for the operation of the refinery, dock, and terminal.

Bonaire and Saba: According to Statistics Netherlands (CBS), in Q4 2019 prices of consumer goods and services in Bonaire were up 2.2% year-over-year led by the transportation sub-index, with petrol nearly 10% and diesel over 11% more expensive than in the same quarter in 2018. Fresh fruits drove up price levels as well; rising by nearly 39% year-over-year. Consumer prices in Saba rose marginally by 0.8% year-over-year in Q4 2019, driven by higher prices of telephone and internet subscriptions as well as insurance services and home textiles. According to 2018 labor force data, the unemployment rate for Bonaire and Saba is approximately 3% and 2%, respectively. As at Q3 2019, total stopover arrivals to Bonaire and Saba stood at 44,600 (an increase of 3.4% year-over-year) and 3,500 (up 13.6% year-over-year), respectively. Stronger tourist arrivals are expected in early 2020.

Curaçao: The Central Bank of Curaçao and St. Maarten (CBCS) projections show contractions in Curaçao's real GDP growth in 2019 and 2020 by 2.2% and 3.4%, respectively. This contraction is mainly attributed to declines in real value added in the manufacturing, transport, storage and communication sector, wholesale & retail trade and construction. Caribbean Tourism Organization data show increases of 9.8% year-over-year to October 2019 and 2.4% year-over-year, respectively for stopover and cruise arrivals to Curaçao. As at November 2019, inflation stood at 2.8% year-over-year, led by the food sub-index. The Central Bank has projected inflation to rise to 5% by the end of 2020 as a 15% general consumption tax will be introduced by April 2020. The Isla refinery lease with PDVSA ended December 31, 2019. The government has entered into an asset purchase and sale agreement with the industrial commodities conglomerate Klesch Group.

St. Maarten: According to the Central Bank of Curaçao and St. Maarten, the country continued on the path of recovery. Estimated real growth for St. Maarten in 2019 is 5.3%, up from a contraction of 6.6% in 2018, driven mainly by increased export, private investments and continued activity in the construction sector. Airport-related activity increased and air transportation services, provided by the local airline Winair, went up. While Caribbean Tourism Organization data show stay-over tourism increased significantly — led by visitor inflows from the US and Canada —, it was still below pre-hurricane level. The inflation in Sint Maarten eased to 0.6% as the increase in electricity prices was mitigated by a decline in food prices.

RBC and our community

Our Purpose is "Helping clients thrive and communities prosper." While banks have a significant impact on the economy, they also have an impact on people and the planet. We recognize that our bottom-line success depends on the well-being and prosperity of our clients and employees, and of the communities and environment in which we live and work. As a purpose-driven company, creating a positive social impact — not just an economic one — is absolutely integral to everything that we do. We believe in the power of communities and the individuals who live in them. In the recent fiscal period we continued to drive positive social impact through youth, education and community initiatives and programs across the Dutch Caribbean. We believe these are key elements to build a successful economy. Our contributions included support for employee volunteerism, contributions to a wide range of causes, and sponsorships. We also reinforced our long-standing relationship with the Little League Foundations across the Dutch Caribbean markets as main sponsorship partner.

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 engine and energy behind all our achievements. We remain steadfast in our commitment to delivering excellence as we help our clients thrive and communities prosper.

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 Consolidated Financial Highlights

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

Our opinion

In our opinion, the accompanying consolidated financial highlights 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 consolidated financial highlights

The Group's consolidated financial highlights derived from the audited consolidated financial statements for the year ended October 31, 2019 comprise:

- the consolidated statement of financial position as at October 31, 2019;
- the consolidated statement of income and other comprehensive income for the year then ended; and
- the related notes to the consolidated financial highlights.

The consolidated financial highlights do not contain all the disclosures required by International Financial Reporting Standards. Reading the consolidated financial highlights 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 consolidated financial highlights, 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 January 30, 2020. 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 consolidated financial highlights

Management is responsible for the preparation of the consolidated financial highlights 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 consolidated financial highlights 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
February 20, 2020
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	
	2019 ANG	2018 ANG
Assets		
Cash and due from banks	1,048,850	1,149,684
Securities	233,894	248,389
Loans and advances to customers	1,471,352	1,446,147
Customers' liability under acceptances	23,749	28,179
Bank premises and equipment	35,559	34,421
Goodwill and other intangible assets	28,241	59,268
Deferred tax assets	20,131	13,067
Other assets	19,620	17,513
Total assets	2,881,396	2,996,668
Liabilities and shareholders' equity		
Liabilities		
Customers' deposits	2,409,467	2,525,759
Due to other banks	35,597	44,511
Acceptances outstanding	23,749	28,179
Profit tax payable	10,778	9,082
Deferred tax liabilities	7,187	13,287
Provisions	882	3,008
Other liabilities	38,994	49,075
Total liabilities	2,526,654	2,672,901
Shareholders' equity		
Issued capital	114,455	114,455
Share premium	87,053	87,053
General reserve	27,446	27,411
Other reserve	2,267	2,407
Retained earnings	123,521	92,441
Total shareholders' equity	354,742	323,767
Total liabilities and shareholders' equity	2,881,396	2,996,668

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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 2019 ANG	2018 ANG
Interest income	122,268	113,805
Interest expense	15,835	1 9,811
Net interest income	106,433	93,994
Fee and commission income	37,210	38,970
Net fee and commission income	37,210	38,970
Other operating income	13,753	13,718
Total revenue	157,396	146,682
Salaries and other employee expenses	53,545	52,655
Occupancy expenses	7,422	8,096
Provision for credit losses	(18,601)	(40,501)
Impairment losses on goodwill	23,654	-
Other operating expenses	69,849	79,286
Operating expenses	135,869	99,536
Net result from operations	21,527	47,146
Income from associates	144	(245)
Income before taxation	21,671	46,901
Taxation recovery/(expense)	10,231	3,349
Net income after taxation	31,902	50,250
Other comprehensive loss, net of taxes:		
Net change in losses on securities	(140)	202
Other comprehensive loss for the year, net of tax	(140)	202
Total comprehensive income for the year	31,762	50,452

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 based 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. and Omutin Real Estate Holdings 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 15 Revenue from Contracts with Customers (IFRS 15). As a result of the application of IFRS 15, the Group changed the accounting policies outlined below whereby revenue is recognized when control of a service transfers to a customer, and these new policies were applied retrospectively from November 1, 2018. In completing its assessment of revenue recognition under IFRS 15, the following factors are taken into consideration sequentially, which individually will vary based on the facts and circumstances present in a contract with a customer and will require the exercise of management judgement:

- Identified all contracts with customers;
- Identified the separate performance obligations under a contract;
- Determined the transaction price of the contract;
- Allocated the transaction price to each of the separate performance obligations; and
- Recognized the revenue as each performance obligation is satisfied.

The Group has adopted the portfolio approach, as an operational expedient, where contracts are assessed as a portfolio as opposed to individually assessed when the characteristics of each contract is similar. Where this is done, the Group reviews the services provided as part of the contract, the contract duration, the terms and conditions of the contract, the amount, form and timing of consideration and the timing of the transfer of the service. Due to the high volume of the Group's contracts that may be identical or having similar contractual terms (for example standardized banking agreements with retail customers), it is expected that this expedient will be applied to many of the Group's current revenue streams.

In addition, the Group will not adjust for the effects of a significant financing component for contracts with a 12 months or less expected time difference between when we transfer the service to the customer and the receipt of the contract consideration.

To facilitate the operational aspects of applying IFRS 15 the Group has elected, as an accounting policy choice, to expense rather than capitalize incremental costs to obtain a contract if the expected amortization period of the asset the Group otherwise would have recognized is 12 months or less. Anticipated contract renewals and amendments with the same customer must be considered when determining whether the period of benefit, and therefore the period of amortization, is 12 months or less.

As permitted by the transition provisions of IFRS 15, the Group elected not to restate comparative period results; accordingly, all comparative information is presented in accordance with the Group's previous accounting policies as indicated below. As a result of the adoption of IFRS 15, we reduced our opening retained earnings by ANG 0.8 million, on an after tax basis as at November 1, 2018 (the date of initial application), to align the recognition of certain fees with the transfer of the performance obligations. Income which falls under the scope of IFRS 15 are not netted off against related expenses. The group does not incur material costs to obtain contracts with customers such as sales commissions.

Commissions and fees

Commission and fees primarily relate to transactions service fees and commissions, investment management and custodial fees, mutual fund revenue, securities brokerage commissions, , underwriting and other advisory fees, card service revenue and credit fees, and are recognized based on the applicable service contracts with customers.

Commissions related to securities brokerage services and transaction service fees/commissions related to the provision of specific transaction type services are both recognized when the service is fulfilled. Where services are provided over time, revenue is recognized as the services are provided.

Card service revenue primarily includes interchange revenue and annual card fees. Interchange revenue is calculated as a fixed percentage of the transaction amount and recognized when the card transaction is settled. Annual card fees are fixed fees and are recognized over a twelve month period.

Credit fees are primarily earned for arranging syndicated loans and making credit available on undrawn facilities. The timing of the recognition of credit fees varies based on the nature of the services provided.

When service fees and other costs are incurred in relation to commissions and fees earned, we record these costs on a gross basis in either 'other operating expenses or staff costs' based on our assessment of whether we have primary responsibility to fulfill the contract with the customer and have discretion in establishing the price for the commissions and fees earned, which may require judgment.

Other significant accounting policies

The following accounting policies are applicable to all periods presented:

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 aremet 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, for example through trading revenue, enhancing yields or other costs and how such economic activities are evaluated and reported to key management personnel;
- The significant risks affecting the performance of the businesses, for example, market risk, credit risk, or other risks 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.

A. Significant accounting policies (continued)

Classification of financial assets (continued)

Business model assessment (continued)

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. Principal amounts include the fair value of the financial asset at initial recognition from lending and financing arrangements, and interest primarily relates to basic lending return, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest can also include other basic lending risks and costs (for example, liquidity risk, servicing or administrative costs) associated with holding the financial asset for a period of time, and a profit margin.

Securities

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.

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.

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.

Where there is a reasonable expectation that a loan will be originated, commitment and standby fees are also recognized as interest income over the expected term of the resulting loans using the effective interest method. Otherwise, such fees are recorded as other liabilities and amortized into Non-interest income over the commitment or standby period. Prepayment fees on mortgage loans are not included as part of the effective interest rate at origination. If prepayment fees are received on a renewal of a mortgage loan, the fee is included as part of the effective interest rate; and if not renewed, the prepayment fee is recognized in interest income at the prepayment date.

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 loans, debt securities, interest-bearing deposits with banks, accounts and accrued interest receivable. ACL on financial assets is disclosed in the notes to the consolidated financial statements. ACL on debt securities measured at FVOCI is presented in other components of equity. Financial assets carried at amortized cost are presented net of ACL on our consolidated statement of financial position.

Off-balance sheet items subject to impairment assessment include financial guarantees and undrawn loan commitments. For these products, ACL is disclosed in the notes to the consolidated financial statements.

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. Judgment is required in making assumptions and estimations when calculating the ACL, including movements between the three stages and the application of forward looking information. The underlying assumptions and estimates may result in changes to the allowances from period to period that significantly affects the results of operations.

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.

An expected credit loss estimate is produced for each portfolio segment. Relevant parameters are modeled on a collective basis using portfolio segmentation that allows for appropriate incorporation of forward looking information. To reflect other characteristics that are not already considered through modelling, expert credit judgment is exercised in determining the final expected credit losses using a range of possible outcomes.

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.

An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a loan and undrawn commitment component; (b) we have the contractual ability to demand repayment and cancel the undrawn commitment; and (c) our exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may exceed the remaining contractual life and is the period over which our exposure to credit losses is not mitigated by our normal credit risk management actions. This period varies by product and risk category and is estimated based on our historical experience with similar exposures and consideration of credit risk management actions taken as part of our regular credit review cycle. Products in scope of this exemption include credit cards, overdraft balances and certain revolving lines of credit. Determining the instruments in scope for this exemption and estimating the appropriate remaining life based on our historical experience and credit risk mitigation practices requires significant judgment.

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. The assessment is performed at the instrument level.

Our assessment of significant increases in credit risk is based on factors such as delinquency status, watch-list reports and whether or not the account is being managed by the special loans group. If any of the following conditions is met, the instrument is moved from Stage 1 to Stage 2:

The instrument is 30 days past due.

The account is included in the watch-list reporting process. The watch-list process is considered fundamental in identifying early signs of deterioration on existing accounts.

The account is managed by the Regional Special Loan Unit (RSLU). The RSLU portfolio today remains a mix of accounts which are in default and accounts with minimal or no delinquency. The latter remains within the purview of the specialized management team due to circumstances other than delinquency which marks the account as having a higher risk component.

Use of forward-looking information

The PD and LGD 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. Each macroeconomic scenario used in our expected credit loss calculation includes a projection of all relevant macroeconomic variables used in our models for a five year period. Macroeconomic variables used in our expected credit loss models include, but are not limited to, unemployment rate, GDP and inflation rate.

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. Scenarios and scenario weights are set at the enterprise level; considering the RBC baseline forecast and reasonable downside and upside assumptions. Scenarios are global in nature and include predictions of macroeconomic conditions in North America, Europe and the Caribbean. Having scenarios and scenario weights set at the enterprise level allows RBC to have a consistent view of macroeconomic scenarios across business lines and legal entities.

Scenarios are designed to capture a wide range of possible outcomes and weighted on 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

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Consolidated Financial Highlights 2019

October 31, 2019

A. Significant accounting policies (continued)

Allowance for credit losses (continued)

Definition of default (continued)

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. An asset that is in Stage 3 will move back to Stage 2 when, as at the reporting date, it is no longer considered to be credit-impaired. The asset will migrate back to Stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly from initial recognition, which could occur during the same reporting period as the migration from Stage 3 to Stage 2.

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.

When a financial asset is credit-impaired, interest ceases to be recognized on the regular accrual basis, which accrues income based on the gross carrying amount of the asset. Rather, the accrual is calculated by applying the effective interest rate to the carrying amount, which is recorded on the Statement of Financial Position. The discount resulting from the impact of time delays in collecting principal (time value of money) is established and recorded through provision for credit losses.

ACL for credit-impaired financial assets in Stage 3 are established at the financial asset level, where losses related to impaired financial asset are identified on individually significant financial asset, or collectively assessed and determined through the use of portfolio-based rates, without reference to particular financial assets.

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). The estimated realizable value for each individually significant loan is the present value of expected future cash flows discounted using the original effective interest rate for each loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated realizable amount may be determined using observable market prices for comparable loans, the fair value of collateral underlying the loans, and other reasonable and supported methods based on management judgment.

Individually-assessed allowances are established in consideration of a range of possible outcomes, to the extent relevant to the circumstances of the specific borrower being assessed. Assumptions used in estimating expected future cash flows reflect current and expected future economic conditions and are generally consistent with those used in Stage 1 and Stage 2 measurement.

Significant judgment is required in assessing evidence of credit-impairment and estimation of the amount and timing of future cash flows when determining expected credit losses. Changes in the amount expected to be recovered would have a direct impact on the provision for credit losses and may result in a change in the ACL.

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. The time value of money component is calculated by using the discount factors applied to groups of loans sharing common characteristics. The discount factors represent the expected recovery pattern of the comparable group of loans, and reflect the historical experience of these groups adjusted for current and expected future economic conditions and/or industry factors. Significant judgment is required in assessing evidence of impairment and estimation of the amount and timing of future cash flows when determining expected credit losses. Changes in the amount expected to be recovered would have a direct impact on the Provision for credit losses and may result in a change in the 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. 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 are generally written off when payment is 180 days past due. Unsecured loans are generally written off at 365 days past due. Loans secured by real estate are generally written off at 2,000 days past due, with continued efforts to realize on the underlying collateral held following write off.

Modifications

The original terms of a financial asset may be renegotiated or otherwise modified, resulting in changes to the contractual terms of the financial asset that affect the contractual cash flows. The treatment of such modifications is primarily based on the process undertaken to execute the renegotiation and the nature and extent of changes expected to result. Modifications which are performed for credit reasons, primarily related to troubled debt restructurings, are generally treated as modifications of the original financial asset which can be tracked through the original asset or via establishment of a new financial asset. Modifications which are performed for other than credit reasons are generally considered to be an expiry of the original cash flows; accordingly, such renegotiations are treated as a derecognition of the original financial asset and recognition of a new financial asset.

A modified financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment, as described above. A modified financial asset will migrate out of Stage 3 if the conditions that led to it being identified as credit-impaired are no longer present and relate objectively to an event occurring after the original credit-impairment was recognized. A modified financial asset will migrate out of Stage 2 when it no longer satisfies the relative thresholds set to identify significant increases in credit risk, which are based on changes in days past due and other qualitative considerations.

If a modification of terms results in derecognition of the original financial asset and recognition of the new financial asset, the new financial asset will generally be recorded in Stage 1, unless it is determined to be credit-impaired at the time of the renegotiation. For the purposes of assessing for significant increases in credit risk, the date of initial recognition for the new financial asset is the date of the modification.

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	
	2019 ANG	2018 ANG
Securities		
FVTPL	19,405	19,371
FVOCI	3,886	4,020
Available for sale	-	-
At amortised cost	210,603	224,998
Net securities	233,894	248,389
Loans and advances to customers		
Retail customers	909,650	925,636
Corporate customers	634,324	612,320
Public sector	-	518
Total loans and advances	1,543,974	1,538,474
Less allowance for loan losses	(72,622)	(92,327)
Net loans and advances	1,471,352	1,446,147

In September 2017, Hurricane Irma ("the hurricane") caused significant damages in St Maarten where the Bank operates. The hurricane was considered to be a significant event for St Maarten for financial year 2017. Confirmed losses were difficult to ascertain at the end of fiscal 2017 given that information was limited at the time and priority was to safeguard immediate needs of security and shelter. There was heightened concern for the destruction to the islands' mainstay earning tourism sector and uncertainty for direct financial assistance / aid from the regional and global governments and communities. The Bank provided clients with the option to skip four monthly payments as relief to assist in their rebuilding process. This payment relief program was fully wound down February 2018.

In the absence of specific information about individual loans at the end of fiscal 2017, an assessment of the St Maarten portfolio was undertaken to estimate expected losses arising from the destruction caused by the hurricane. As a result of this assessment, the stage 1 and 2 allowance for credit losses as at November 1, 2017 was increased to reflect our estimate of the incurred losses as a result of the hurricane. This allowance 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.

During fiscal 2018, information on delinquency trends and the quality of the loan portfolio was gathered and used for the calculation of the allowance. 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 allowance as of October 31 2018 was calculated using as inputs the Loss Given Default, Utilization Given Default, and by applying forward looking factors to the bad rate – as a proxy for Probability of Default.

During fiscal 2019, the performance of the portfolio improved and is now back to pre-hurricane levels. Delinquency rates (30+ days) in the performing portfolio have been below 4% during the last four quarters; showing a stable and persistent trend. Given this recent stable trend in the portfolio, we no longer expect significant defaults and losses from the 2017 hurricane. The allowance is now estimated using IFRS9 model parameters – such as probability of default and loss given default – which are all based on actual historical performance.

II. Liabilities

	As at 31 October	
	2019 ANG	2018 ANG
Customers' deposits		
Retail customers	1,004,102	1,080,018
Corporate customers	1,350,530	1,348,672
Other	54,835	97,069
Total customers' deposits	2,409,467	2,525,759