Royal Bank

Consolidated Financial Highlights 2020

October 31, 2020

Board of Managing Directors' Report

2020 was one of the most challenging years our society and global economy has faced in generations. Like most governments, Aruba, Bonaire, Curaçao, Saba and St. Maarten, took drastic measures to prevent the spread of the ongoing novel coronavirus (COVID-19), including closing borders, curfew and lockdown periods.

Since the earliest days of the pandemic, client habits have changed and RBC Royal Bank N.V. ("the Bank") managed to continue our digital path. We demonstrated that we can work in an agile, innovative and flexible manner, while still supporting our clients and be there for them during what might be the most challenging time for their personal and financial lives. Throughout this time, the Bank made the COVID-19 Client Relief Program available to clients, a deferral program to protect their livelihood. Though the formal program came to an end on September 30, 2020, we continue to seek out opportunities to make a positive impact in enabling our clients to meet their changing goals during an ever-changing global outlook.

In alignment with our RBC global strategy, the Bank adopted modified business hours for clients and added precautions to keep our clients and employees safe. We also transitioned the majority of our employees to work from home arrangements, while providing support to our local communities to enable home-schooling given extended school closures across the region.

With the onset of the pandemic there have been adverse impacts to several revenue-generating flows along with increases in the level of provisions for credit losses to cater for potential losses on the loans and securities portfolios. The Bank was able to keep its cost low year-over-year thanks to sound cost management disciplines in a challenging business environment.

Amidst this unique environment, we continued to be guided by our Purpose to help clients thrive and communities prosper. Aligned with our overall global strategy, the Bank led with a heightened sense of focus on delivering long-term value for our employees, our clients, and our communities across the Dutch Caribbean.

Financial Performance

In 2020 the Bank reported a net loss after taxation of ANG 23.7 million. The loss was due to increased provisions for credit losses on loans of ANG 78.7 million year-over-year, as the global economic impact of COVID-19 influenced our determination of allowances, resulting in heightened provisioning. Total revenue was lower by ANG 27.3 million due to declines in loan interest income from yields, fees and commissions and securities income from a smaller portfolio. These were accompanied by higher deposit costs from a strategic increase in client deposit interest rates, which successfully increased client deposit balances and expanded the Bank's lending capacity. These were partially offset by lower non-interest expenses (excluding provisions for credit losses) as fiscal 2019 included goodwill impairment of ANG 23.7 million in Aruba and the current year saw declines in operating expenses from management fees and staff costs.

Economic Review and Outlook

Aruba: According to the Central Bank of Aruba (CBA), the economy experienced a severe economic downturn in 2020, with an estimated real GDP contraction of 26.4%. The economic slump in 2020 was brought on by a steep decline in tourism activity, private consumption, and investments triggered by the COVID-19 pandemic and the subsequent measures taken by the Government of Aruba (GoA) to contain its spread. In response to the crisis, the GoA put in place a financial assistance program which mitigated the drop in purchasing power. The unemployment rate is expected to have reached 15% by the end of 2020, while inflation is estimated at -1.3% for 2020. In December, the governments of Aruba and the Netherlands reached a political agreement on the third tranche of liquidity support. In exchange for reforms in Aruba, the Dutch cabinet will offer new liquidity support and will also invest in several areas of Aruba's national development. The Netherlands is also helping Aruba with the refinancing of Aruban debt, of more than Afl 0.5 billion. Latest statistics from the Aruba Tourism Authority (ATA) shows that stayover arrivals were down 57% year-over-year in December. There were almost 43,000 visitors, of which 80% originated from the USA. Real growth for 2021 is highly dependent on the depth and length of the pandemic and the strength of the tourism recovery. For 2021, the CBA anticipates real GDP to grow by 2.5% under the baseline scenario and 5.2% in the optimistic scenario. A 3.4% GDP contraction is forecasted under the pessimistic scenario.

Bonaire and Saba: According to Statistics Netherlands (CBS), the consumer price index for Bonaire and Saba deflated by 5.2% year-over-year and 0.8% year-over-year, respectively in 2020Q4. Latest tourism data shows stayover arrivals in Bonaire were down in June 2020 by 91% year-over-year to 1,100 visitors vs. 12,500 visitors in June 2019. Stayover arrivals were down 86% year-over-year in Saba at the end of June 2020 to approx. 100 visitors vs. 700 visitors in June 2019. The COVID-related support and recovery package by the Netherlands for residents and businesses in Bonaire and Saba has been extended until July 12, 2021. This includes an extension of the subsidy regulation for wage cost and loss of income. In addition, public entities will be financially compensated for the loss of tax income and additional cost incurred due to COVID-19. There is also an extension and expansion of the fixed cost compensation regulation.

Curaçao: The COVID-19 pandemic and related containment measures have taken a heavy economic toll on Curaçao in 2020. According to latest estimates by the Central Bank of Curaçao and St. Maarten (CBCS), real GDP contracted by 20.2%. The deficit on the current budget is projected to have widen significantly in 2020 compared with 2019. As a result of the sharp decline in economic activity, tax earnings in particular dropped, while spending on transfers and subsidies rose mainly due to the financial support that the government of Curaçao provided to the most affected groups in society. Due to the adverse effects of the pandemic on public finances, the Kingdom Council of Ministers approved that Curaçao may deviate from the balanced budget rule in 2020. At the same time, Curaçao received liquidity support from the Netherlands to compensate for the loss of government income amid the pandemic and for the provision of financial support to the most affected groups. Curaçao's debt to GDP ratio rose from 54.3% at the end of December 2019 to 72.1% at the end of September 2020 and is expected to have risen further to 76.5% at the end of December 2020, as the government's public debt further increased due to an additional ANG 286 million liquidity support received from the Dutch government in November 2020. In 2021, a positive economic turnaround of 4.8% is projected. Uncertainties remain regarding further development of the pandemic, tourism rebound and the future of the refinery. The CBCS anticipates that the refinery will not restart operations in 2021. Inflation is expected to rise to 3.7% in 2021, primarily due to the introduction of a general consumption tax (ABB) that will replace the turnover tax (OB).

St. Maarten: The COVID-19 pandemic and related containment measures have taken a heavy economic toll on St. Maarten in 2020. According to latest estimates by the Central Bank of Curaçao and St. Maarten (CBCS), real GDP contracted by 26.8%. The deficit on the current budget is projected to have widen significantly in 2020 compared with 2019. As a result of the sharp decline in economic activity, tax earnings in particular dropped, while spending on transfers and subsidies rose mainly due to the financial support that the government of St. Maarten provided to the most affected groups in society. Due to the adverse effects of the pandemic on public finances, the Kingdom Council of Ministers approved that St. Maarten may deviate from the balanced budget rule in 2020. This exception was in fact prolonged, as St. Maarten was already allowed to deviate from this rule following Hurricane Irma in 2017. At the same time, St. Maarten received liquidity support from the Netherlands to compensate for the loss of government income amid the pandemic and for the provision of financial support to the most affected groups. St. Maarten's debt to GDP ratio rose from 33.5% at the end of December 2019 to 50.4% at the end of September 2020 and is expected to have increased further to 54% by the end of 2020, caused by the third tranche of liquidity support of ANG 61.2 million that the government received from the Netherlands in December 2020. St. Maarten's real GDP is projected to grow by 3.6% in 2021, reflecting a conservative outlook for tourism. Inflation is expected to increase to 1.8% in 2021.

RBC and our community

In our communities, many vulnerable citizens were at risk and we quickly stepped in to help. Even as the pandemic continues to challenge our communities, we recognize that our success in building a strong organisation depends on the wellbeing and prosperity of our clients and employees, and of the communities and environment in which we live and work. As a purpose-driven organisation, creating a positive social impact, not just an economic one, it is integral to everything we do.

We have made significant donations to COVID-19 relief across the Dutch Caribbean. Despite the unique circumstances, we continued to bring our purpose to life through employee volunteerism, contributions to a wide range of causes and sponsorships. We also continued 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 management of RBC Royal Bank N.V., we would like to thank our clients for their continued confidence and their loyalty. We would also like to thank our employees, who continue to be the driving force behind all of 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

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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, 2020 comprise:

- the consolidated statement of financial position as at October 31, 2020;
- 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 29, 2021. 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, Cayman Islands
February 23, 2021
Engagement Leader: Marlon Bispath

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

(Expressed in thousands of Antillean Guilders)

	As at 31 October 2020 ANG	2019 ANG
Assets		
Cash and due from banks	1,272,983	1,048,850
Securities	88,810	233,894
Loans and advances to customers	1,497,821	1,471,352
Customers' liability under acceptances	24,476	23,749
Bank premises and equipment	35,182	35,559
Goodwill and other intangible assets	21,385	28,241
Deferred tax assets	34,632	20,131
Other assets	24,633	19,620
Total assets	2,999,922	2,881,396
Liabilities and shareholders' equity		
Liabilities		
Customers' deposits	2,550,135	2,409,467
Due to other banks	36,409	35,597
Acceptances outstanding	24,476	23,749
Profit tax payable	11,716	10,778
Deferred tax liabilities	4,336	7,187
Provisions	770	882
Other liabilities	41,141	38,994
Total liabilities	2,668,983	2,526,654
Shareholders' equity		
Issued capital	114,455	114,455
Share premium	87,053	87,053
General reserve	28,224	27,446
Other reserve	2,181	2,267
Retained earnings	99,026	123,521
Total shareholders' equity	330,939	354,742
Total liabilities and shareholders' equity	2,999,922	2,881,396

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 2020 ANG	2019 ANG
Interest income	106,681	122,268
Interest expense	20,535	15,835
Net interest income	86,146	106,433
Fee and commission income	32,179	37,210
Net fee and commission income	32,179	37,210
Other operating income	11,802	13,753
Total revenue	130,127	157,396
Salaries and other employee expenses	45,728	53,545
Occupancy expenses	6,718	7,422
Provision for credit losses	60,096	(18,601)
Impairment losses on goodwill	-	23,654
Other operating expenses	56,608	69,849
Operating expenses	169,150	135,869
Net result from operations	(39,023)	21,527
Income from associates	126	144
(Loss) / income before taxation	(38,897)	21,671
Taxation recovery / (expense)	15,180	10,231
Net (loss) / income after taxation	(23,717)	31,902
Other comprehensive loss, net of taxes:		
Net change in losses on securities	(86)	(140)
Other comprehensive loss for the year, net of tax	(86)	(140)
Total comprehensive (loss) / income for the year	(23,803)	31,762

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).

Use of estimates and assumptions

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.

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.

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, 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. 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

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A. Significant accounting policies (continued)

Classification of financial assets (continued)

SPPI assessment (contnued)

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 statement of financial position 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, securities, interest-bearing deposits with banks and accounts receivable. ACL on financial assets is disclosed in the notes to the consolidated financial statements. Provision for credit losses (PCL) on debt securities measured at FVOCI is booked to the Consolidated Statement of Other Comprehensive Income and the ACL on debt securities measured at FVOCI is presented in other components of equity on the Consolidated Statement of Financial Position. Financial assets carried at amortized cost are presented net of ACL on the Consolidated Statement of Financial Position. Provision for credit losses (PCL) on amortized cost instruments are recognized directly in the Consolidated Statement of Income.

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

We measure the ACL on each statement of financial position 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 or shorter if remaining term is less than 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 statement of financial position 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.

In order to appropriately reflect the impact of the COVID19 pandemic on future credit losses in the portfolio, we applied an overlay to the model predicted allowance. The overlay was based on expert judgement, historical experience and economic growth projections. In our analysis we also considered tourism projections, vulnerable sectors affected by COVID 19, levels of multilateral support and the effects of bank and government led payment support programs.

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 are credit cards. 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 and whether or not the account is watch-listed and 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.

To support our clients during the COVID 19 pandemic, we launched a hardship relief program. Utilization of a payment deferral program does not, all else being equal, automatically trigger a significant increase in credit risk. Our assessment of significant increases in credit risk is primarily based on the approach described above and our projections of an increase in probability of default (PD) in the portfolio.

Use of forward-looking information

The PD and LGD inputs used to estimate the Stage 1 and Stage 2 credit loss allowances under the IFRS 9 model 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.

The emergence of the COVID 19 global pandemic significantly impacted our economic outlook. We closely tracked economic growth projections and set an allowance that reflected the underlying economic conditions. In our analysis we also considered tourism projections, vulnerable sectors affected by COVID 19, levels of multilateral support and the effects of bank and government led payment support programs.

Scenario design

The environment, including government support measures introduced, is rapidly evolving and as a result, our macroeconomic outlook had a higher than usual degree of uncertainty and was inherently subject to change, which materially changed our credit loss allowance. We closely

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A. Significant accounting policies (continued)

Allowance for credit losses (continued)

Scenario design (continued)

monitored changes in conditions and their impact on our expected credit losses, and updated our macroeconomic variables as the impact of COVID 19 progressed.

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 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 statement of financial position 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 generally written off, either partially or in full, when there is no or minimal 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 unless liquidation of underlying real estate collateral is expected to be closed in the short term. In such cases write-off may be delayed beyond 2,000 days. In all other instances, the write-off will be completed at 2,000 days, although recovery efforts will continue.

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 can be tracked through the original financial asset or result in 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.

Assessment of significant increase in credit risk

To support our clients, we launched a hardship relief program to assist clients with challenges due to the COVID 19 pandemic. Utilization of a payment deferral program does not, all else being equal, automatically trigger a significant increase in credit risk. Our assessment of significant increases in credit risk is primarily based on projections of an increase in probability of default (PD) in the portfolio. Additional qualitative reviews and a 30 days past due backstop are also applied. The broader macroeconomic impacts of the pandemic are largely reflected in an instrument's lifetime PD. To the extent the impacts of COVID 19 are not already reflected within the lifetime PD model, they are reflected through the qualitative review performed to assess the staging results and adjustments are made as necessary.

RBC Client relief programs

We established a relief program to help personal and business banking clients in good standing manage the challenges of the COVID 19 pandemic through payment deferrals over a moratorium period, which resulted in the original maturity of the financial asset postponed by the moratorium period with no other substantial change to the contractual terms of the financial asset

Determination of fair value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We determine fair value by incorporating all factors that market participants would consider in setting a price, including commonly accepted valuation approaches.

We have established policies, procedures and controls for valuation methodologies and techniques to ensure fair value is reasonably estimated. Major valuation processes and controls include, but are not limited to, profit and loss decomposition, independent price verification (IPV) and model validation standards.

Commissions and fees

Commission and fees primarily relate to transactions service fees and commissions, credit related commissions and fees and are recognized based on the applicable service contracts with customers.

Transaction service fees and commissions represent card service revenue which 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 related commissions and fees include credit fees and commissions related to securities brokerage services. 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. Commissions related to securities brokerage services relate to the provision of specific transaction type services and are recognized when the service is fulfilled. Where services are provided over time, revenue is recognized as the services are 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.

Royal Bank

Consolidated Financial Highlights 2020

October 31, 2020

A. Significant accounting policies (continued)

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	
	2020 ANG	2019 ANG
Securities		
FVTPL	5,601	19,405
FVOCI	3,706	3,886
At amortised cost	79,503	210,603
Net securities	88,810	233,894
Loans and advances to customers		
Retail customers	907,759	909,650
Corporate customers	718,842	634,324
Public sector	1,000	-
Total loans and advances	1,627,601	1,543,974
Less allowance for loan losses	(129,780)	(72,622)
Net loans and advances	1,497,821	1,471,352

The COVID 19 global pandemic significantly impacted our determination of allowance for credit losses and required the application of heightened judgement. Following the announcement of COVID 19 as a global pandemic on March 11, 2020 by the World Health Organization (WHO), there was a significant downturn in the level of economic activity across the globe. The significant decline in economic activity has been accompanied by unprecedented levels of government support and central bank policies that resulted in low interest rates and the roll out or strengthening of programs that supported companies, payroll and the unemployed.

In the case of the Caribbean, the level of economic contraction has been severe as a result of the reduction of tourist inflows to the region. Energy dependent economies, such as Trinidad and Tobago have also experienced an economic downturn due to lower energy prices. The adverse impact on our retail and wholesale clients has been partially mitigated through government support programs, multilateral and other external support (including the IMF, WB, IDB, CDB and the Government of the Netherlands) and the rollout of payment deferral programs by the banking sector.

The recent resurgence of virus spread and re-imposition of containment measures to varying degrees, along with the announcement of effective vaccines, has raised further uncertainty with regards to the timing and extent of the economic recovery and resulting expected credit losses. As there is uncertainty on how tourism, economic activity and the portfolio will react to these conditions, our allowances have a higher than usual degree of uncertainty. The inputs used in the calculation of the allowance are inherently subject to change, which may materially impact our estimate of the allowance for expected credit losses.

The Group's allowance for credit losses on the loan portfolios as at October 31, 2020 reflect a significant increase year over year as a result of the COVID 19 pandemic. The pre-existing IFRS 9 model could not solely be used to determine expected credit losses on the portfolio as it was not originally designed with events of this magnitude in mind. As a consequence, a model overlay was used to account for incremental expected losses not solely captured by the IFRS 9 model.

To address the uncertainties inherent in the current environment and to reflect all relevant risk factors not captured in our model, we applied expert credit judgement in the design of the overlay and the determination of inputs used in the calculation of the allowance. In light of the significant uncertainty, the impact of expert credit judgement on our allowances increased as compared to the previous year. We applied qualitative adjustments to macroeconomic projections, the assumed credit response of the portfolio to the macroeconomic conditions, levels of loss severity and the determination of significant increase in credit risk.

II. Liabilities

	As at 31 October	
	2020 ANG	2019 ANG
Customers' deposits		
Retail customers	1,050,039	1,004,102
Corporate customers	1,446,684	1,350,530
Other	53,412	54,835
Total customers' deposits	2,550,135	2,409,467

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