RBC Royal Bank (Aruba) N.V.

Summary Financial Statements

October 31, 2022

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Independent auditor's report on the summary financial statements

To: the managing board and the supervisory board of RBC Royal Bank (Aruba) N.V.

Our opinion

In our opinion, the accompanying summary financial statements of RBC Royal Bank (Aruba) N.V. (the Company) are consistent, in all material respects, with the audited financial statements, in accordance with the basis described in Note 2 – Summary of significant accounting policies, estimates and judgements.

The summary financial statements

The Company's summary financial statements derived from the audited financial statements for the year ended 31 October 2022 comprise:

- the statement of financial position as at 31 October 2022;
- the statement of income and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the related notes to the summary financial statements.

The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards (IFRS). The financial information to be made public, based on the Directive on the Publication of the Audited Annual Financial Statements and the Supervisory Directives Section III.6 Directive on the Publication of the Audited Annual Financial Statements, issued by the Central Bank of Aruba (together the 'Regulations'), excludes certain disclosures related to the compensation of management and the supervisory board, which are set out in the audited statutory financial statements of RBC Royal Bank (Aruba) N.V. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon. The audited financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

The audited financial statements and our report thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated 18 January 2023.

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Management's responsibility for the summary financial statements

Management is responsible for the preparation of the summary financial statements in accordance with the basis described in Note 2 – Summary of significant accounting policies, estimates and judgements.

Auditor's responsibility

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited 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'.

Amsterdam, 23 February 2023
PricewaterhouseCoopers Accountants N.V.

Original has been signed by M.S. de Bruin RA

Statement of financial position
(in thousands of Aruban Florins)

	Note	As at October 31, 2022	2021
Assets			
Cash and cash equivalents	3	294,419	320,798
Balances with central bank	4	202,048	75,555
Loans	5	591,940	565,477
Securities	6	8,262	14,080
Due from associated and affiliated companies	24	20,393	9,096
Assets classified as held for sale	10	485	485
Other assets	11	2,249	2,543
Intangible assets	7	1,062	4,095
Premises and equipment	8	13,466	14,008
Deferred tax assets	9	3,820	7,142
Total assets		1,138,144	1,013,279
Liabilities			
Due to banks		2,113	1,018
Customers' deposits	12	942,167	846,037
Due to associated and affiliated companies	24	10,854	7,160
Current income tax liabilities		4,001	1,252
Other liabilities	13	13,380	14,617
Deferred tax liabilities	9	834	973
Total liabilities		973,349	871,057
Equity attributable to company			
Stated capital		43,865	43,865
Share premium		1,000	1,000
Regulatory loan loss reserve	14	17,772	16,957
Other components of equity	15	2,498	2,363
Retained earnings		99,660	78,037
Total equity attributable to company		164,795	142,222
Total liabilities and equity		1,138,144	1,013,279

On January 9, 2023 the Board of Directors and the Board of Supervisory Directors of RBC Royal Bank (Aruba) N.V. approved these financial statements for issuance.

The total authorized number of shares at period end was unlimited with a par value of AWG 1,000 each. All issued shares were fully paid.

The attached notes set out on pages 9 to 97 form an integral part of these financial statements.

Statement of income and other comprehensive income
(in thousands of Aruban Florins)

		Year ended October 31, 2022	2021 Restated
Interest income	16	39,122	39,287
Interest expense	17	(9,664)	(8,207)
Net interest income		29,458	31,080
Non-interest income	18	16,581	13,475
Total revenue		46,039	44,555
Non-interest expenses	19	(33,648)	(36,914)
(Provision for)/release of credit losses on off balance sheet items	21.1	207	236
Release of credit losses on loans	5.1	17,261	17,903
Provision for credit losses on securities	6.2	3	(3)
Total non-interest expenses		(16,177)	(18,778)
Profit before taxation		29,862	25,777
Taxation expense	20	(7,424)	(3,783)
Net profit after taxation		22,438	21,994
Other comprehensive income, net of taxes:			
Net change in income on securities	15	135	642
Other comprehensive income for the year, net of tax		135	642
Total comprehensive income for the year		22,573	22,636

The attached notes set out on pages 9 to 97 form an integral part of these financial statements.

Statement of changes in equity
(in thousands of Aruban Florins)

	Share capital	Share premium	Regulatory loan loss reserve	Other components of equity	Retained earnings	Total equity attributable to company
Year ended October 31, 2021						
Balance at beginning of the year	43,865	1,000	16,742	1,721	56,258	119,586
Other comprehensive income	-	-	-	642	-	642
Income attributable to shareholders	-	-	-	-	21,994	21,994
Total comprehensive income	-	-	-	642	21,994	22,636
Appropriation to regulatory loan loss reserve	-	-	215	-	(215)	-
Balance at end of the year	43,865	1,000	16,957	2,363	78,037	142,222
Year ended October 31, 2022						
Balance at beginning of the year	43,865	1,000	16,957	2,363	78,037	142,222
Other comprehensive income	-	-	-	135	-	135
Income attributable to shareholders	-	-	-	-	22,438	22,438
Total comprehensive income	-	-	-	135	22,438	22,573
Appropriation to regulatory loan loss reserve	-	-	815	-	(815)	-
Balance at end of the year	43,865	1,000	17,772	2,498	99,660	164,795

The attached notes set out on pages 9 to 97 form an integral part of these financial statements.

Statement of cash flows
(in thousands of Aruban Florins)

	Year ended October 31, 2022	2021
Operating activities		
Income before taxation	29,862	25,777
Adjustments for:		
Depreciation and amortisation	4,388	4,581
Provision for credit losses on loans and securities	(17,471)	(15,469)
Losses transferred from other components of equity	135	640
Gain on sale of premises and equipment	(15)	(3)
Operating profit before changes in operating assets and liabilities	16,899	15,526
(Increase)/decrease in operating assets:		
Balances with central bank	(126,493)	(25,667)
Loans	(8,071)	8,051
Due from associated and affiliated companies	(11,297)	3,753
Other assets	294	1,147
Increase/(decrease) in operating liabilities:		
Customers' deposits	96,130	17,989
Due to banks	1,095	439
Due to associated and affiliated companies	3,694	(9,140)
Other liabilities	(1,165)	1,826
Income taxes paid	(1,537)	(1,377)
Cash (used in)/provided by operating activities	(30,451)	12,547
Investing activities		
Proceed from sale of securities	4,978	0
Acquisition of securities	-	(4,975)
Additions to premises and equipment and intangible assets	(814)	(798)
Proceeds from sale of premises and equipment	16	136
Cash used in investing activities	4,180	(5,637)
Financing activities		
Decrease in lease liabilities	(72)	(227)
Cash used in financing activities	(72)	(227)
Net increase in cash and cash equivalents	(26,343)	6,683
Cash and cash equivalents at beginning of the year	320,798	314,140
Effects of exchange rate changes on cash and cash equivalents	(36)	(25)
Cash and cash equivalents at end of the year	294,419	320,798

The attached notes set out on pages 9 to 97 form an integral part of these financial statements.

Notes to the financial statements

1 Incorporation and Business Activities

RBC Royal Bank (Aruba) N.V. (the "Bank"), was incorporated under the laws of Aruba on December 18, 1985 and started operations on February 2, 1987. The principal activities of the Bank is commercial and retail banking in Aruba. The address of RBC Royal Bank (Aruba) N.V.'s registered office is Italiëstraat 36, Aruba.

The Bank is a wholly owned subsidiary of RBC Royal Bank N.V., a company incorporated in Curaçao. Its ultimate parent company is Royal Bank of Canada, a company incorporated in Canada. The address of Royal Bank of Canada's registered office is 200 Bay Street, Royal Bank Plaza, Toronto, Ontario, Canada.

2 Summary of significant accounting policies, estimates and judgments

These Summary Financial Statements have been prepared as required by the Directive on the Publication of the Audited Annual Financial Statements and the Supervisory Directives Section III.6 Directive on the Publication of the Audited Annual Financial Statements, issued by the Central Bank of Aruba (together the "Regulations"). These Summary Financial Statements comprise the Statement of Financial Position, the Statement of Income and Other Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows, and the notes, which include a summary of the significant accounting policies and other explanatory information but which exclude certain disclosures related to the compensation of management and the Supervisory Board, which are set out in the statutory financial statements of RBC Royal Bank (Aruba) N.V.. The principal accounting policies adopted in the preparation of RBC Royal Bank (Aruba) N.V.'s financial statements are set out below. These notes are an extract of the detailed notes prepared in our statutory financial statements. The notes below are consistent in all material aspects with those from which they have been derived. Throughout this report, the word Bank refers to RBC Royal Bank (Aruba) N.V...

Basis of preparation

Statement of compliance
The financial statements, from which these Summary Financial Statements have been derived, are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis of measurement
The financial statements, from which these Summary Financial Statements have been derived, are prepared in Aruban Florin (AWG) and include the assets and liabilities and results of operations of RBC Royal Bank (Aruba) N.V..

Use of estimates and assumptions
The preparation of these 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 areas of estimation uncertainty include: 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.

2 Significant accounting policies, estimates and judgments (continued)

Significant judgments

In preparation of these Financial Statements, management is required to make significant judgments that affect the carrying amounts of certain assets and liabilities, and the reported amounts of revenues and expenses recorded during the period. The economic outlook remains subject to ongoing uncertainty with moderate recessions expected in major developed economies in calendar 2023 reflecting increased downside risks including higher inflation, supply chain disruptions, labour shortages and heightened geopolitical risks, which could impact our financial results. We continue to monitor and assess the impacts of these factors on our critical accounting judgments, estimates and assumptions. Significant judgments have been made in the following areas and discussed as noted in the financial statements:

• Interest rate benchmark reform	Note 2
• Leases	Note 2
• Revenue recognition	Note 2, Note 18
• Fair value of financial instruments	Note 2, Note 26
• Allowance for credit losses	Note 2, Note 5, Note 6
• Other intangibles	Note 2
• Securities impairment	Note 2
• Application of the effective interest method	Note 2
• Derecognition of financial assets	Note 2
• Deferred taxes	Note 2, Note 9
• Litigation Provisions.	Note 2

Non-current assets held for sale and discontinued operations

Non-current assets (and disposal groups) are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is satisfied when the asset is available for immediate sale in its present condition, management is committed to the sale, and it is highly probable to occur within one year. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell and are presented separately from other assets on our Statement of Financial Position.

Interest Rate Benchmark Reform

Effective 1 November 2021, we adopted the Phase 2 amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures* and IFRS 16 *Leases* (the Amendments) in response to the market transition away from interbank offered rates (IBORs) to alternative benchmark rates (ABRs) as part of the IBOR reform (the Reform). The amendment mentioned above has no impact on the Bank’s performance, financial position or disclosures.

2 Significant accounting policies, estimates and judgments (continued)

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 Bank's business model for managing the financial assets and the contractual cash flow characteristics of the instrument.

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

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

All other debt instruments are measured at FVTPL.

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

Business model assessment
The Bank determines the business models at the level that best reflects how the Bank 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 as described in the Risk Management Note 25, 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 Bank, to the extent that these are directly linked to the economic performance of the business model.

2 Significant accounting policies, estimates and judgments (continued)

Other significant accounting policies (continued)

Classification of financial assets (continued)

The Bank'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 Bank'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.

2 Significant accounting policies, estimates and judgments (continued)

Other significant accounting policies (continued)

Securities (continued)

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 Bank 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.

Purchased or Originated Credit Impaired (POCI) securities are already impaired at the time they are purchased or originated. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired will come from observable data about any impairment event as detailed in the allowance for credit losses accounting policy. POCI securities are initially recognized at fair value. The effective interest rate is the yield implied by the credit-adjusted cash flows.

Fair value option

A financial instrument with a reliably measurable fair value can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The fair value option can be used for financial assets if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognizing related gains and losses on a different basis (an “accounting mismatch”). The fair value option can be elected for financial liabilities if: (i) the election eliminates an accounting mismatch; (ii) the financial liability is part of a portfolio that is managed on a fair value basis, in accordance with a documented risk management or investment strategy; or (iii) there is an embedded derivative in the financial or non-financial host contract and the derivative is not closely related to the host contract. These instruments cannot be reclassified out of the FVTPL category subsequently.

Financial assets designated as FVTPL are recorded at fair value and any unrealized gains or losses arising due to changes in fair value are included in Non-interest income. Financial liabilities designated as FVTPL are recorded at fair value and fair value changes attributable to changes in our own credit risk are recorded in OCI.

2 Significant accounting policies, estimates and judgments (continued)

Other significant accounting policies (continued)

Fair value option (continued)

Own credit risk amounts recognized in OCI are not reclassified subsequently to net income. The remaining fair value changes not attributable to changes in our own credit risk are recorded in Non-interest income. Upon initial recognition, if we determine that presenting the effects of own credit risk changes in OCI would create or enlarge an accounting mismatch in net income, the full fair value change in our debt designated as at FVTPL is recognized in net income. To make that determination, we assess whether we expect that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL.

Such an expectation is based on an economic relationship between the characteristics of the liability and the characteristics of the other financial instrument. The determination is made at initial recognition and is not reassessed. To determine the fair value adjustments on our financial liabilities designated as at FVTPL, we calculate the present value of the instruments based on the contractual cash flows over the term of the arrangement by using our effective funding rate at the beginning and end of the period.

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.

2 Significant accounting policies, estimates and judgments (continued)

Other significant accounting policies (continued)

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 financial statements. Provision for credit losses (PCL) on debt securities measured at FVOCI is booked to the Statement of Other Comprehensive Income and the ACL on debt securities measured at FVOCI is presented in other components of equity on the Statement of Financial Position. Financial assets carried at amortized cost are presented net of ACL on the Statement of Financial Position. Provision for credit losses (PCL) on amortized cost instruments are recognized directly in the 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 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.

2 Significant accounting policies, estimates and judgments (continued)

Other significant accounting policies (continued)

Allowance for credit losses (continued)

Measurement of expected credit losses

Expected credit losses are based on a range of possible outcomes and consider available reasonable and supportable information including 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 at the loan level. The estimate is based on an IFRS 9 model that takes into account different segments of our portfolio and forward looking information. To reflect other characteristics that are not already considered through modelling, expert credit judgment can be exercised in determining the final expected credit losses using a range of possible outcomes.

In the previous year, an expected credit loss estimate was produced at the portfolio segment level. Relevant parameters were modeled on a collective basis using portfolio segmentation that allowed for appropriate incorporation of forward looking information. The IFRS 9 model was not calibrated for unprecedented events such as the COVID 19 pandemic we applied an overlay to the model predicted allowance. In the context of IFRS 9, post-model adjustments through overlays are short-term increases or decreases to the estimate credit losses at the portfolio level to account for late breaking events, model limitations and expert credit judgement applied following management review and challenge. Internal governance was in place to regularly monitor these overlays and where possible to reduce the reliance on these through model recalibration or redevelopment, as appropriate. The overlay was based on expert judgement, historical experience and economic growth projections.

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.

2 Significant accounting policies, estimates and judgments (continued)

<u>Other significant accounting policies (continued)</u>

Allowance for credit losses (continued)

Expected life (continued)

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 remains largely the same and 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. Prior year assessment is based on the first three conditions only:

1) The instrument is 30 days past due.
2) The account is watch-listed and centrally monitored and managed. This centrally monitored 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.
3) Retail loans receiving business as usual deferrals granted by our collections team.
4) Loans of clients who had a default during the last three years.
5) Increases in probability of default (PD) at the loan level.

Our assessment of significant increases in credit risk is primarily based on the approach described above. For the previous year which integrated the COVID overlay, the broader macroeconomic impacts of the pandemic were largely reflected in an instrument's lifetime PD. To the extent the impacts of COVID 19 were not already reflected within the lifetime PD model, they were reflected through the qualitative review performed to assess the staging results and adjustments were made as necessary.

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 macroeconomic scenarios. Each macroeconomic scenario used in our expected credit loss calculation includes a projection of all relevant macroeconic variables used in our models for a five year period. In comparison to the previous year in which the PD and LGD inputs were modelled based on the macroeconomic variables (or changes in macroeconomic variables) that were most closely correlated with credit losses in the relevant portfolio such as unemployment rate, GDP and / or inflation rate.

Further details on our forward looking assumptions and scenarios as at October 31, 2022 are provided in Note 5.1.

2 Significant accounting policies, estimates and judgments (continued)

<u>Other significant accounting policies (continued)</u>

Allowance for credit losses (continued)

Scenario design

Our estimation of expected credit losses in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers five distinct 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, except as detailed below, 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 the performance experienced on historical credit card portfolios. 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.

2 Significant accounting policies, estimates and judgments (continued)

Other significant accounting policies (continued)

Allowance for credit losses (continued)

Credit-impaired financial assets (Stage 3) (continued)

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 based on expert credit judgement.

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.

2 Significant accounting policies, estimates and judgments (continued)

Other significant accounting policies (continued)

Allowance for credit losses (continued)

Collectively assessed loans (Stage 3) (continued)

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.

2 Significant accounting policies, estimates and judgments (continued)

<u>Other significant accounting policies (continued)</u>

Allowance for credit losses (continued)

Modifications (continued)

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.

Client relief programs under COVID 19

The COVID-19 relief program which was established to assist clients in good standing through payment deferrals over a moratorium period was concluded end of September 2020. The relief program resulted in no material modifications and did not give rise to derecognition of the original financial asset and recognition of a new financial asset. The relief program focused mainly on loans within Stage 1.

During fiscal 2021 payment deferrals were granted to clients who continue to face challenges as a result of the pandemic on a case by case basis only. The relief extended did not result in any material modifications and did not give rise to derecognition of the original financial asset and recognition of a new financial asset. Payment relief granted in fiscal 2021 was mainly on loans in Stage 1.

During fiscal 2022 the volume of payment deferrals showed a continuous decline with no change to the general terms of relief provided when compared to previous years.

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. These control processes are managed by either Finance or Group Risk Management and are independent of the relevant businesses and their trading functions. Profit and loss decomposition is a process to explain the fair value changes of certain positions and is performed for trading portfolios.
All fair value instruments are subject to IPV, a process whereby trading function valuations are verified against external market prices and other relevant market data. Market data sources include traded prices, brokers and price vendors.

2 Significant accounting policies, estimates and judgments (continued)

<u>Other significant accounting policies (continued)</u>

Determination of fair value (continued)

We give priority to those third-party pricing services and prices having the highest and most consistent accuracy. The level of accuracy is determined over time by comparing third-party price values to traders' or system values, to other pricing service values and, when available, to actual trade data. Other valuation techniques are used when a price or quote is not available. Some valuation processes use models to determine fair value. We have a systematic and consistent approach to control model use. Valuation models are approved for use within our model risk management framework. The framework addresses, among other things, model development standards, validation processes and procedures, and approval authorities. Model validation ensures that a model is suitable for its intended use and sets parameters for its use. All models are revalidated regularly. Valuation adjustments are recorded for the credit risk of our derivative portfolios in order to arrive at their fair values.

Credit valuation adjustments (CVA) take into account our counterparties' creditworthiness, the current and potential future mark-to-market of the transactions, and the effects of credit mitigants such as master netting and collateral agreements. CVA amounts are derived from estimates of exposure at default, probability of default, recovery rates on a counterparty basis, and market and credit factor correlations. Exposure at default is the amounts of expected derivative related assets and liabilities at the time of default, estimated through modeling using underlying risk factors. Probability of default and recovery rate are generally implied from the market prices for credit protection and credit ratings of the counterparty or derived from internal estimates when market data is unavailable.

Correlation is the statistical measure of how credit and market factors may move in relation to one another. Correlation is estimated using historical data and market data where available. CVA is calculated and changes are recorded in non-interest income.

In determining fair value, a hierarchy is used which prioritizes the inputs to valuation techniques. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Determination of fair value based on this hierarchy requires the use of observable market data whenever available. Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model inputs that are either observable, or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 inputs are one or more inputs that are unobservable and significant to the fair value of the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available at the measurement date. The availability of inputs for valuation may affect the selection of valuation techniques. The classification of a financial instrument in the hierarchy for disclosure purposes is based upon the lowest level of input that is significant to the measurement of fair value. Where observable prices or inputs are not available, management judgement is required to determine fair values by assessing other relevant sources of information such as historical data, proxy information from similar transactions, and through extrapolation and interpolation techniques.

2 Significant accounting policies, estimates and judgments (continued)

Other significant accounting policies (continued)

Determination of fair value (continued)

For more complex or illiquid instruments, significant judgement is required in the determination of the model used, the selection of model inputs, and in some cases, the application of valuation adjustments to the model value or quoted price for inactively traded financial instruments, as the selection of model inputs may be subjective and the inputs may be unobservable. Unobservable inputs are inherently uncertain as there is little or no market data available from which to determine the level at which the transaction would occur under normal business circumstances. Appropriate parameter uncertainty and market-risk valuation adjustments for such inputs and other model-risk valuation adjustments are assessed in all such instances.

Interest

Interest is recognized in Interest income and Interest expense in the Statements of Income and Other Comprehensive Income for all interest bearing financial instruments using the effective interest method. The effective interest rate is the rate that discounts estimated future cash flows over the expected life of the financial asset or liability to the net carrying amount upon initial recognition. Judgement is applied in determining the effective interest rate due to uncertainty in the timing and amounts of future cash flows.

Revenue recognition

Revenue is recognized when control of a service transfers to a customer. Service contracts are assessed by taking the following factors 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:

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

The Bank adopts 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. The Bank reviews the services provided as part of the contract, the contract duration, the terms and conditions for 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 Bank’s contracts that are identical or have similar contractual terms (for example standardized banking agreements with retail customers), the expedient is applied to many of the Bank’s current revenue streams.

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

The Bank expenses incremental costs to obtain a contract if the expected amortization period of the asset the Bank otherwise would have recognized is 12 months or less. Anticipated contract renewals and amendments with the same customer are considered when determining whether the period of benefit, and therefore the period of amortization, is 12 months or less.

2 Significant accounting policies, estimates and judgments (continued)

<u>Other significant accounting policies (continued)</u>

Revenue recognition (continued)

Income which falls under the scope of revenue recognition is not netted off against related expense with the exception of credit card fees and commissions. The Bank 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, 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.

Transaction costs

Transaction costs are expensed as incurred for financial instruments classified or designated as at FVTPL. For other financial instruments, transaction costs are capitalized on initial recognition. For financial assets and financial liabilities measured at amortized cost, capitalized transaction costs are amortized through Net interest income over the estimated life of the instrument using the effective interest method.

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset on the statement of financial position when there exists both a legally enforceable right to offset the recognized amounts and an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents comprises cash and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value. Such investments are normally those with original maturities up to three months from the date of acquisition.

2 Significant accounting policies, estimates and judgments (continued)

Other significant accounting policies (continued)

Derecognition of financial assets

Financial assets are derecognized from our Statement of Financial Position when our contractual rights to the cash flows from the assets have expired, when we retain the rights to receive the cash flows of the assets but assume an obligation to pay those cash flows to a third party subject to certain pass-through requirements or when we transfer our contractual rights to receive the cash flows and substantially all of the risk and rewards of the assets have been transferred. When we retain substantially all of the risks and rewards of the transferred assets, the transferred assets are not derecognized from our Statement of Financial Position and are accounted for as secured financing transactions. When we neither retain nor transfer substantially all risks and rewards of ownership of the assets, we derecognize the assets if control over the assets is relinquished. If we retain control over the transferred assets, we continue to recognize the transferred assets to the extent of our continuing involvement.

Management's judgement is applied in determining whether the contractual rights to the cash flows from the transferred assets have expired or whether we retain the rights to receive cash flows on the assets but assume an obligation to pay for those cash flows. We derecognize transferred financial assets if we transfer substantially all the risk and rewards of the ownership in the assets. When assessing whether we have transferred substantially all of the risk and rewards of the transferred assets, management considers the entity exposure before and after the transfer with the variability in the amount and timing of the net cash flows of the transferred assets. In transfers that we retain the servicing rights, management has applied judgement in assessing the benefits of servicing against market expectations. When the benefits of servicing are greater than fair market value, a servicing asset is recognized in Other assets in our Statement of Financial Position. When the benefits of servicing are less than fair market value, a servicing liability is recognized in Other liabilities in our Statement of Financial Position.

Derecognition of financial liabilities

We derecognize a financial liability from our Statement of Financial Position when our obligation specified in the contract expires, or is discharged or cancelled. We recognize the difference between the carrying amount of a financial liability transferred and the consideration paid in our Statement of Income and Other Comprehensive Income.

Guarantees

Financial guarantee contracts are contracts that contingently require us to make specified payments (in cash, other assets or provision of services) to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The Bank has equal and offsetting claims against its customers in the event of a call on these commitments.

Share–based compensation

The ultimate parent company, Royal Bank of Canada, offers performance deferred share and functional unit plans (the "Plans") to certain key employees.

2 Significant accounting policies, estimates and judgments (continued)

Other significant accounting policies (continued)

Income taxes

Income tax comprises current tax and deferred tax and is recognized in our Statement of Income and Other Comprehensive Income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax payable on profits is recognized as an expense based on the applicable tax laws in each jurisdiction in the period in which profits arise, calculated using tax rates enacted or substantively enacted by the Statement of Financial Position date. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities for accounting purposes compared with tax purposes.

A deferred income tax asset or liability is determined for each temporary difference, except for earnings related to our subsidiaries, associates and interests in joint ventures where the temporary differences will not reverse in the foreseeable future and we have the ability to control the timing of reversal.

Deferred tax assets and liabilities are determined based on the tax rates that are expected to be in effect in the period that the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the Statement of Financial Position date. Current tax assets and liabilities are offset when they are levied by the same taxation authority on either the same taxable entity or different taxable entities within the same tax reporting group (which intends to settle on a net basis), and when there is a legal right to offset. Deferred tax assets and liabilities are offset when the same conditions are satisfied. The Statement of Income and Other Comprehensive Income include items that are non-taxable or non-deductible for income tax purposes and, accordingly, this causes the income tax provision to be different from what it would be if based on statutory rates.

Deferred income taxes accumulated as a result of temporary differences and tax loss carryforwards are included on the Statement of Financial Position. On a quarterly basis, we review our deferred income tax assets to determine whether it is probable that the benefits associated with these assets will be realized; this review involves evaluating both positive and negative evidence.

We are subject to income tax laws in various jurisdictions where we operate, and the complex tax laws are potentially subject to different interpretations by the relevant taxation authorities and the Bank. Significant judgement is required in the interpretation of the relevant tax laws, and in assessing the probability of acceptance of our tax positions to determine our tax provision, which includes our best estimate of tax positions that are under audit or appeal by relevant taxation authorities. We perform a review on a quarterly basis to incorporate our best assessment based on information available, but additional liability and income tax expense could result based on decisions made by the relevant tax authorities.

The determination of our deferred income tax asset or liability also requires significant management judgement as the recognition is dependent on our projection of future taxable profits and tax rates that are expected to be in effect in the period the asset is realized or the liability is settled.

2 Significant accounting policies, estimates and judgments (continued)

<u>Other significant accounting policies (continued)</u>

Income taxes (continued)

Any changes in our projection will result in changes in deferred tax assets or liabilities on our Statement of Financial Position, and also deferred tax expense in our Statements of Income and Other Comprehensive Income.

The Bank complies with IFRIC 23 which provides guidance on the recognition and measurement of tax assets and liabilities under IAS 12 Income taxes when there is uncertainty over income tax treatments, replacing our application of IAS 37 Provisions, contingent liabilities and contingent assets for uncertain tax positions. The Bank is subject to income tax laws in various jurisdictions where the Bank operates, and the complex tax laws are potentially subject to different interpretations by management and the relevant taxation authorities. Significant judgement is required in the interpretations of the relevant tax laws and in assessing the probability of acceptance of the Bank's tax positions, which includes the Bank's best estimate of tax positions that are under audit or appeal by relevant taxation authorities. The Bank performs a review on a quarterly basis to incorporate management's best assessment based on information available, but additional liability and income tax expense could result based on the non acceptance of the Bank's tax positions by the relevant taxation authorities.

Business combinations

All business combinations are accounted for using the acquisition method. Non-controlling interests, if any, are recognized at their proportionate share of the fair value of identifiable assets and liabilities, unless otherwise indicated. Identifiable intangible assets are recognized separately from goodwill and included in Other intangibles. Goodwill represents the excess of the price paid for the business acquired over the fair value of the net identifiable assets acquired on the date of acquisition.

Intangible assets

Intangible assets represent identifiable non-monetary assets and are acquired either separately or through a business combination, or generated internally. Intangible assets acquired through a business combination are recognized separately from goodwill when they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably. The cost of a separately acquired intangible asset includes its purchase price and directly attributable costs of preparing the asset for its intended use. After initial recognition, an intangible asset is carried at its cost less any accumulated amortization and accumulated impairment losses, if any. Intangible assets with a finite-life are amortized on a straight-line basis over their estimated useful lives as follows: computer software – 4 to 10 years; and customer relationships – 7 years. We do not have any intangible assets with indefinite lives.

Intangible assets are assessed for indicators of impairment at each reporting period. If there is an indication that an intangible asset may be impaired, an impairment test is performed by comparing the carrying amount of the intangible asset to its recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the CGU to which the asset belongs. If the recoverable amount of the asset (or CGU) is less than its carrying amount, the carrying amount of the intangible asset is written down to its recoverable amount as an impairment loss.

2 Significant accounting policies, estimates and judgments (continued)

<u>Other significant accounting policies (continued)</u>

Intangible assets (continued)

An impairment loss recognized previously is reversed if there is a change in the estimates used to determine the recoverable amount of the asset (or CGU) since the last impairment loss was recognized.
If an impairment loss is subsequently reversed, the carrying amount of the asset (or CGU) is revised to the lower of its recoverable amount and the carrying amount that would have been determined (net of amortization) had there been no prior impairment.
Due to the subjective nature of these estimates, significant judgement is required in determining the useful lives and recoverable amounts of our intangible assets, and assessing whether certain events or circumstances constitute objective evidence of impairment. Estimates of the recoverable amounts of our intangible assets rely on certain key inputs, including future cash flows and discount rates. Future cash flows are based on sales projections and allocated costs, which are estimated, based on forecast results and business initiatives. Discount rates are based on the bank-wide cost of capital, adjusted for asset-specific risks. Changes in these assumptions may impact the amount of impairment loss recognized in Non-interest expense.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period to get ready for their intended use or sale, are added to the cost of those assets, until the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognised in the Statement of Income and Other Comprehensive Income in the period in which they are incurred.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into AWG at rates prevailing at the statement of financial position date. Foreign exchange gains and losses resulting from the translation and settlement of these items are recognized in Non-interest income in the Statement of Income and Other Comprehensive Income.

Non-monetary assets and liabilities that are measured at historical cost are translated into AWG at historical rates. Non-monetary financial assets classified as securities, such as equity instruments, that are measured at fair value are translated into AWG at rates prevailing at the Statement of Financial Position date, and the resulting foreign exchange gains and losses are recorded in other comprehensive income until the asset is sold or becomes impaired. Assets and liabilities of our foreign operations with functional currencies other than AWG are translated into AWG at rates prevailing at the Statement of Financial Position date, and income and expenses of these foreign operations are translated at average rates of exchange for the reporting period.

2 Significant accounting policies, estimates and judgments (continued)

Other significant accounting policies (continued)

Translation of foreign currencies (continued)

Unrealized gains or losses arising as a result of the translation of our foreign operations are reported in other comprehensive income on an after-tax basis. Upon disposal or partial disposal of a foreign operation, a proportionate amount of the accumulated net translation gains or losses is included in Non-interest income.

Premises and equipment

Premises and equipment includes land, buildings, leasehold improvements, computer equipment, furniture, fixtures and other equipment, and are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost comprises the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and the initial estimate of any disposal costs. Depreciation is recorded principally on a straight–line basis over the estimated useful lives of the assets, which are 25 to 50 years for freehold properties, 5 to 50 years for leasehold properties 4 to 5 years for computer equipment, and 5 to 7 years for furniture, fixtures and other equipment. The amortization period for leasehold improvements is the lesser of the useful life of the leasehold improvements or the lease term plus the first renewal period, if reasonably assured of renewal, up to a maximum of 10 years. Land is not depreciated. Gains and losses on disposal are recorded in non–interest income.

Premises and equipment are assessed for indicators of impairment at each reporting period.

If there is an indication that an asset may be impaired, an impairment test is performed by comparing the asset’s carrying amount to its recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the CGU to which the asset belongs and test for impairment at the CGU level. An impairment charge is recorded to the extent the recoverable amount of an asset (or CGU), which is the higher of value in use and fair value less costs of disposal, is less than its carrying amount. Value in use is the present value of the future cash flows expected to be derived from the asset (or CGU). Fair value less costs of disposal is the amount obtainable from the sale of the asset (or CGU) in an orderly transaction between market participants, less costs of disposal.

After the recognition of impairment, the depreciation charge is adjusted in future periods to reflect the asset’s revised carrying amount. If an impairment is later reversed, the carrying amount of the asset is revised to the lower of the asset’s recoverable amount and the carrying amount that would have been determined (net of depreciation) had there been no prior impairment loss. The depreciation charge in future periods is adjusted to reflect the revised carrying amount.

Leases

At inception of a contract, the Bank assesses whether a contract is or contains a lease. A lease is an agreement whereby the lessor conveys to the lessee the right to obtain substantially all of the economic benefits from, and direct the use of, an identified asset for a period of time in return for consideration in the form a payment or series of payments.

2 Significant accounting policies, estimates and judgments (continued)

Other significant accounting policies (continued)

Leases (continued)

When we are the lessee in a lease arrangement, we initially record a right-of-use asset and corresponding lease liability, except for short-term leases and leases of low-value assets. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are unspecialized, common, technologically unsophisticated, widely available, and widely used non-infrastructure assets. For short-term leases and leases of low-value assets, we record the lease payments as an operating expense on a straight-line basis over the lease term.

Where we are reasonably certain to exercise extension and termination options, they are included in the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted at our incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method, recorded in interest expense.

The right-of-use asset is initially measured based on the initial amount of the lease liability, adjusted for lease payments made on or before the commencement date, initial direct costs incurred, and an estimate of costs to dismantle, remove, or restore the asset, less any lease incentives received. Costs related to dismantling are capitalized as part of the leasehold improvement asset (rather than the right-of-use-asset of the lease) when the leasehold improvements are separately capitalized.
The right-of-use asset is depreciated to the earlier of the lease term and the useful life, unless ownership will transfer to the Bank or we are reasonably certain to exercise a purchase option, in which case the useful life of the right-of-use asset is used. The Bank applies IAS 36 Impairment of assets to determine whether a right-of-use asset is impaired and account for any identified impairment loss as described in the premises and equipment accounting policies in these Financial Statements.

The Bank does not apply this accounting treatment to leases of intangible assets.

Provisions

Provisions are liabilities of uncertain timing or amount and are recognized when we have a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured as the best estimate of the consideration required to settle the present obligation at the reporting date. Significant judgement is required in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. We record provisions related to litigation, asset retirement obligations and other items. Provisions are recorded under Other liabilities on our Statement of Financial Position.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, such as an insurer, a separate asset is recognized if it is virtually certain that reimbursement will be received.

2 Significant accounting policies, estimates and judgments (continued)

Other significant accounting policies (continued)

Dividend income

Dividend income is recognized when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities.

Stated capital

We classify a financial instrument that we issue as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments issued by us are classified as equity instruments when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are included in equity as a deduction from the proceeds, net of tax.

3 Cash and cash equivalents

	2022	2021
	(AWG '000)	(AWG '000)
Cash on hand	21,645	20,773
Due from banks	28,990	21,261
Due from Central Bank	68,781	278,771
Certificates of deposit Central Bank	175,000	0
Items in the course of collection with due from other banks	3	(7)
	294,419	320,798

Cash on hand represents cash held in tellers' tills, the vault and cash dispensing machines.

Due from banks are deposits held with other banks on demand or for fixed periods not exceeding 90 days. Treasury bills have original maturities up to three months.

There are no balances due from banks that have been pledged as security on behalf of any affiliated party this year (2021: AWG nil).

4 Balances with central banks

In accordance with regulations governing banks in the region, the Bank is required to maintain monetary reserves with the central bank, which is based on a ratio to customers' deposits and other specified liabilities.

5 Loans

	2022	2021
	(AWG '000)	(AWG '000)
Retail	47,580	52,252
Commercial/corporate	283,584	274,623
Mortgages	276,637	272,855
Gross loans	607,801	599,730
Allowance for credit losses (Note 5.1)	(15,861)	(34,253)
	591,940	565,477
Stage 1	527,127	514,625
Stage 2	44,039	36,931
Stage 3	36,635	48,174
Gross loans	607,801	599,730
Current	66,254	54,225
Non-current	541,547	545,505
Gross loans	607,801	599,730

5 Loans (continued)

5.1 Allowance for credit losses

	For the year ended 2022				
	Balance at beginning of period (AWG '000)	Provision for credit losses (AWG '000)	Net write-offs (AWG '000)	Exchange rate and other (AWG '000)	Balance at end of period (AWG '000)
Retail	3,609	(2,481)	85	(3)	1,210
Commercial/corporate	19,236	(9,137)	(136)	(93)	9,870
Mortgages	11,408	(5,643)	(235)	(749)	4,781
Gross loans and advances	34,253	(17,261)	(286)	(845)	15,861
Undrawn loan commitments	1,005	(764)	-	-	241

	For the year ended 2021				
	Balance at beginning of period (AWG '000)	Provision for credit losses (AWG '000)	Net write-offs (AWG '000)	Exchange rate and other (AWG '000)	Balance at end of period (AWG '000)
Retail	7,086	(3,377)	(100)	-	3,609
Commercial/corporate	24,936	(8,174)	2,474	-	19,236
Mortgages	17,700	(6,352)	60	-	11,408
Gross loans and advances	49,722	(17,903)	2,434	-	34,253
Undrawn loan commitments	1,773	(768)	-	-	1,005

5 **Loans (continued)**

5.1 **Allowance for credit losses (continued)**

The following tables reconcile the opening and closing allowance for credit losses for loans and commitments by stage.

Reconciling items include the following:

- Transfers between stages, which are presumed to occur before any corresponding remeasurements.
- Purchases and originations, which reflect the newly recognized assets and the related allowance during the period.
- Derecognitions and maturities, which reflect the assets and related allowance derecognized during the period without a credit loss being incurred.
- Remeasurements for allowances, which comprise of the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in the measurement following a transfer between stages; and unwinding of the time value discount due to the passage of time. For gross carrying amounts, this represents additional draws, repayments, and the accrual of interest under the effective interest method.
- Write-offs represent the closure/ elimination of a loan balance when there is no realistic prospect of recovery.
- Recoveries are the collection of cash or cash equivalents for a loan balance previously written-off.
- Exchange rate and other. This category includes the unwinding of the impact of time delays in collecting principal and/or interest (time value of money).

5 Loans (continued)

5.1 Allowance for credit losses (continued)

	For the year ended 2022 Allowance For Credit Losses (AWG '000)			
	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at beginning of period	6,553	11,588	16,112	34,253
Provision for credit losses				
Model changes	(2,193)	(640)	-	(2,833)
Transfers in (out) to Stage 1	7,201	(7,191)	(10)	-
Transfers in (out) to Stage 2	(449)	912	(463)	-
Transfers in (out) to Stage 3	(37)	(1,389)	1,426	-
Purchases and originations	621	-	-	621
Derecognitions and maturities	(990)	(633)	(3,644)	(5,267)
Remeasurements	(8,426)	906	(2,262)	(9,782)
Write-offs	-	-	(1,944)	(1,944)
Recoveries	-	-	1,658	1,658
Exchange rate and other	-	-	(845)	(845)
Balance at end of period	2,280	3,553	10,028	15,861

	For the year ended 2021 Allowance For Credit Losses (AWG '000)			
	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at beginning of period	9,463	26,104	14,155	49,722
Provision for credit losses				
Model changes	-	-	-	-
Transfers in (out) to Stage 1	14,185	(13,912)	(273)	-
Transfers in (out) to Stage 2	(281)	537	(256)	-
Transfers in (out) to Stage 3	(453)	(1,960)	2,413	-
Purchases and originations	1,612	-	-	1,612
Derecognitions and maturities	(966)	(1,416)	(5,192)	(7,574)
Remeasurements	(17,007)	2,235	2,831	(11,941)
Write-offs	-	-	(1,412)	(1,412)
Recoveries	-	-	3,846	3,846
Exchange rate and other	-	-	-	-
Balance at end of period	6,553	11,588	16,112	34,253

5 **Loans (continued)**

5.1 **Allowance for credit losses (continued)**

Based on our collections policies, substantially all of the amounts written off during the period are still subject to enforcement activities at year end.

Key inputs and assumptions:

The measurement of expected credit losses is a complex calculation that involves a large number of interrelated inputs and assumptions. The key drivers of changes in expected losses under the IFRS 9 model include our internal historical default rates, changes in credit quality and real GDP growth rates. Prior year's key drivers included our internal historical default rates, transition matrices, unemployment rates, real GDP growth rates and inflation rates.

The global economic outlook is volatile, evidenced by higher interest rates and inflation levels in developed economies and expected recessions in North America, Europe and the UK. Also, inflation rates in the Caribbean have increased. Our base scenario considers the ongoing recovery of 2022 in the Caribbean with an expected slowdown of the growth momentum in the last quarter of 2022 and 2023-2025. The downside scenarios consider potential recessions with different levels of severity. The upside scenario reflects slightly stronger economic growth than the base scenario.

In arriving at the real GDP growth rates, we incorporate external agencies such as IMF and Central Banks projections as well as the actual historic results of GDP growth in the Caribbean.

To assess the reasonableness of our GDP rates, if we amended Year 1 of the calendar quarter forecast of GDP growth rates used in the base case model to estimate the allowance for credit losses, the base case allowance for credit losses will move as follows:

- A 100 basis points increase will lower the allowance for credit losses by AWG 244,455.
- A 100 basis points decrease will increase the allowance for credit losses by AWG 365,335.

Further details on the key inputs and assumptions used as at October 31, 2022 are provided in Note 2 and Note 5.2.

5 **Loans (continued)**

5.1 **Allowance for credit losses (continued)**

The following table compares our probability-weighted estimate of expected credit losses for performing loans to expected credit losses estimated in our base case scenario. Results reflect the Stage 1 and Stage 2 allowance for credit losses.

	As at October 31, 2022	
	Carrying value (AWG)	**Base scenario** (AWG)
ACL on performing loans [1]	5,835,605	4,982,306

	As at October 31, 2021	
	Carrying value (AWG)	**Base scenario** (AWG)
ACL on performing loans [1]	18,141,437	16,672,657

(1) Represents Stage 1 and Stage 2 ACL on loans, acceptances, and commitments.

5 Loans (continued)

5.1 Allowance for impairment losses (continued)

Transfers between stages
The following table illustrates the impact of staging on our ACL by comparing our allowance if all performing loans were in Stage 1 to the actual ACL recorded on these assets.

	As at October 31, 2022	As at October 31, 2021
	Performing loans [1]	Performing loans [1]
	(AWG)	(AWG)
ACL - all performing loans in Stage 1	2,456,724	7,004,681
Impact of staging	3,378,881	11,136,756
Stage 1 and 2 ACL	5,835,605	18,141,437

[1] Represents loans, acceptances, and commitments in Stage 1 and Stage 2.

In the prior year stage 2 was determined based on 30 days past due, centrally managed accounts and retail loans receiving business as usual deferrals granted by the Collections team. Also, as part of our COVID overlay, we qualitatively increased the transfers from stage 1 to 2 to reflect the challenging macroeconomic environment. This qualitative adjustment was informed by economic projections and historical behavior of our portfolio. In this year, staging is based on 30 days past due, centrally managed accounts, retail loans receiving business as usual deferrals granted by the collections team, loans of clients who had a prior default during the last three years and increases in probability of default at the loan level. The new approach used to identify stage 2 exposures is more granular, informed by a larger number of credit risk metrics, in addition to which we have released the COVID overlay in full in 2022.

5.2 Loan modifications

All formal relief programs established to help clients manage through challenges of the COVID-19 pandemic through payment deferrals, interest rate reductions, covenant waivers, and refinancing or credit restructuring were completed in late 2020, any relief provided to clients since then has been on a case by case basis as requested by the client. In some cases, the original terms of the associated loans are renegotiated or otherwise modified, resulting in changes to the contractual terms of the loans that affect the contractual cash flows. The terms were not substantially different and as such the original loans were not derecognised. For the year ended October 31, 2022, the amortized cost of all loans whose contractual terms were modified before the modification was AWG 30.5 million (2021: AWG 45.4 million), resulting in no material modification gains or losses.

6 **Securities**

Carrying value of securities

The following table presents the contractual maturities of the carrying values of financial instruments held at the end of the period.

	As at October 31, 2022						
	Term to maturity[(1)]						
	Within 3 months (AWG '000)	**3 months to 1 year (AWG '000)**	**1 year to 5 years (AWG '000)**	**5 years to 10 years (AWG '000)**	**Over 10 years (AWG '000)**	**With no specific maturity (AWG '000)**	**Total (AWG '000)**
Fair value through profit or loss[(2)]							
Government debt	-	-	-	-	-	-	-
Corporate debt and other debt	-	-	-	-	-	-	-
Money market instruments	-	-	-	-	-	4,482	4,482
	-	**-**	**-**	**-**	**-**	**4,482**	**4,482**
Fair value through other comprehensive income[(3)]							
Treasury bills and treasury notes							
Amortized cost	-	-	-	-	-	-	-
Fair value	-	-	-	-	-	-	-
Government and state-owned enterprises debt							
Amortized cost	-	-	-	-	-	-	-
Fair value	-	-	-	-	-	-	-
Corporate debt							
Amortized cost	-	-	-	-	-	-	-
Fair value	-	-	-	-	-	-	-
Equities							
Cost	-	-	-	-	-	450	450
Fair value[(4)]	-	-	-	-	-	3,780	3,780
	-	**-**	**-**	**-**	**-**	**3,780**	**3,780**
Amortized Cost							
Amortized cost[(5)]	-	-	-	-	-	-	-
Fair value	-	-	-	-	-	-	-
	-	**-**	**-**	**-**	**-**	**-**	**-**
Total carrying value of securities	**-**	**-**	**-**	**-**	**-**	**8,262**	**8,262**

6 Securities (continued)

Carrying value of securities (continued)

	As at October 31, 2021						
	Term to maturity(1)						
	Within 3 months (AWG '000)	3 months to 1 year (AWG '000)	1 year to 5 years (AWG '000)	5 years to 10 years (AWG '000)	Over 10 years (AWG '000)	With no specific maturity (AWG '000)	Total (AWG '000)
Fair value through profit or loss (2)							
Government debt	-	-	-	-	-	-	-
Corporate debt and other debt	-	-	-	-	-	-	-
Money market instruments	-	-	-	-	-	5,502	5,502
	-	**-**	**-**	**-**	**-**	**5,502**	**5,502**
Fair value through other comprehensive income (3)							
Treasury bills and treasury notes							
Amortized cost	-	-	-	-	-	-	-
Fair value	-	-	-	-	-	-	-
Government and state-owned enterprises debt							
Amortized cost	-	-	-	-	-	-	-
Fair value	-	-	-	-	-	-	-
Corporate debt							
Amortized cost	-	-	-	-	-	-	-
Fair value	-	-	-	-	-	-	-
Equities							
Cost	-	-	-	-	-	450	450
Fair value(4)	-	-	-	-	-	3,600	3,600
	-	**-**	**-**	**-**	**-**	**3,600**	**3,600**
Amortized Cost							
Amortized cost(5)	-	4,978	-	-	-	-	4,978
Fair value	-	4,978	-	-	-	-	4,978
	-	**4,978**	**-**	**-**	**-**	**-**	**4,978**
Total carrying value of securities	**-**	**4,978**	**-**	**-**	**-**	**9,102**	**14,080**

(1) Actual maturities may differ from contractual maturities shown above since borrowers may have the right to extend or prepay obligations with or without penalties.

(2) Trading securities are recorded at fair value.

(3) Debt securities carried at fair value through other comprehensive income are presented net of allowance for credit losses.

(4) We hold equity securities designated as FVOCI as the investments are not held-for-trading purposes.

(5) Amortized cost securities, included in Investment securities are recorded at amortized cost, and are presented net of allowance for credit losses.

6 Securities (continued)

6.1 Unrealized gains and losses on securities at fair value through other comprehensive income

The following tables present unrealized gains and losses on securities at fair value through other comprehensive income as at the end of the period.

	As at 2022			
	Cost/Amortized cost	**Gross unrealized gains[1]**	**Gross unrealized losses[1]**	**Fair value**
	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)
Equities[2]	450	3,330	-	3,780
	450	3,330	-	3,780

	As at 2021			
	Cost/Amortized cost	**Gross unrealized gains[1]**	**Gross unrealized losses[1]**	**Fair value**
	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)
Equities[2]	450	3,150	-	3,600
	450	3,150	-	3,600

[1] Gross unrealized gains and losses include allowance for credit losses, excluding equities designated as FVOCI.
[2] Unrealized gains and losses on equities will not reclassify to profit and loss when realised.

6 Securities (continued)

6.2 Allowance for credit losses securities

Significant changes in the gross carrying amount of securities at amortized cost that contributed to changes in the allowance include the following:

	2022	2021
Gross Exposures	(AWG '000)	(AWG '000)
Stage 1	8,262	14,083
Stage 2	-	-
Stage 3	-	-
Securities written-off	-	-
Unearned interest	-	-
Total securities	8,262	14,083
Less: Allowance for credit losses	-	(3)
Less: Write offs	-	-
Securities net of expected credit losses	8,262	14,080

6 **Securities (continued)**

6.2 Allowance for credit losses securities

The following tables reconcile the opening and closing allowance for debt securities at amortized cost and FVOCI by stage. Reconciling items include the following:

- Transfers between stages, which are presumed to occur before any corresponding remeasurement of the allowance.
- Purchases and originations, which reflect the allowance related to assets newly recognized during the period.
- Derecognitions and maturities, which reflect the allowance related to assets derecognized during the period without a credit loss being incurred.
- Remeasurements, which comprise the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in the measurement following a transfer between stages; and unwinding of the time value discount due to the passage of time.
- Write-offs represent the closure/ elimination of a security balance when there is no realistic prospect of recovery.

Allowance for credit losses – securities at amortized cost

	For the year ended 2022 Allowance For Credit Losses (AWG '000)			
	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at beginning of period	3	-	-	3
Provision for credit losses				
Model changes	-	-	-	-
Transfers in (out) to Stage 1	-	-	-	-
Transfers in (out) to Stage 2	-	-	-	-
Transfers in (out) to Stage 3	-	-	-	-
Purchases and originations	4	-	-	4
Derecognitions and maturities	-	-	-	-
Remeasurements	(7)	-	-	(7)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Exchange rate and other	-	-	-	-
Balance at end of period	-	-	-	-

6 Securities (continued)

6.2 Allowance for credit losses securities (continued)

Allowance for credit losses – securities at amortized cost

	For the year ended 2021			
	Allowance For Credit Losses (AWG '000)			
	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at beginning of period	-	-	-	-
Provision for credit losses				
Model changes	-	-	-	-
Transfers in (out) to Stage 1	-	-	-	-
Transfers in (out) to Stage 2	-	-	-	-
Transfers in (out) to Stage 3	-	-	-	-
Purchases and originations	3	-	-	3
Derecognitions and maturities	-	-	-	-
Remeasurements	-	-	-	-
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Exchange rate and other	-	-	-	-
Balance at end of period	3	-	-	3

6 Securities (continued)

6.3 Securities at amortised cost

	2022	2021
	(AWG '000)	(AWG '000)
Government and state-owned enterprises debt securities	-	4,978
	-	4,978
Current	-	4,978
Non-current	-	-
	-	4,978

6 **Securities (continued)**

6.4 Movements in securities

	FVTPL	FVOCI	Amortised Cost	Total
	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)
As at November 1, 2021	5,502	3,600	4,978	14,080
Reclassifications	-	-	-	-
Additions	-	-	-	-
Disposal (sale and redemption)	-	-	(4,978)	(4,978)
Gains / (losses) from changes in fair value	(1,020)	180	-	(840)
Accretion	-	-	-	-
Allowance for credit losses	-	-	-	-
Foreign exchange adjustment	-	-	-	-
As at October 31, 2022	4,482	3,780	-	8,262

	FVTPL	FVOCI	Amortised Cost	Total
As at November 1, 2020	5,543	2,745	-	8,288
Reclassifications	-	-	-	-
Additions	-	-	4,975	4,975
Disposal (sale and redemption)	-	-	-	-
Gains / (losses) from changes in fair value	(41)	855	-	814
Accretion	-	-	6	6
Allowance for credit losses	-	-	(3)	(3)
Foreign exchange adjustment	-	-	-	-
As at October 31, 2021	5,502	3,600	4,978	14,080

There are no investments that have been pledged as security on behalf of any affiliated party this year (2021: nil).

7 Intangible assets

	2022	2021
	Software (AWG '000)	Software (AWG '000)
Opening net carrying value	4,095	7,036
Additions	18	135
Amortisation	(3,051)	(3,076)
Closing net carrying value	1,062	4,095
Cost	29,778	31,960
Accumulated amortisation	(28,716)	(27,865)
Net carrying value	1,062	4,095

The useful life used in the calculation of amortisation of software is 4 - 10 years.

During the year, assets fully depreciated and retired amounted to AWG 2.2 million (2021 - nil).

There were no contractual commitments to acquire intangible assets in 2022 or 2021.

8 Premises and equipment

	2022	2021
	(AWG '000)	(AWG '000)
Premises and equipment owned (Note 8.1)	12,907	13,376
Right-of-use leased assets (Note 8.2)	559	632
	13,466	14,008

8.1 Premises and equipment owned

	Freehold properties	Leasehold improvement	Equipment	Work in progress	Total
	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)
Year ended October 31, 2022					
Opening net book value	12,070	22	1,121	163	13,376
Additions	-	-	157	512	669
Transfers	-	-	94	(94)	-
Disposals	-	-	(1)	-	(1)
Depreciation	(442)	(7)	(688)	-	(1,137)
Closing net book value	11,628	15	683	581	12,907
At October 31, 2022					
Cost	23,811	246	3,380	581	28,018
Accumulated depreciation	(12,183)	(231)	(2,697)	-	(15,111)
Net book value	11,628	15	683	581	12,907
Year ended October 31, 2021					
Opening net book value	12,520	34	1,579	77	14,210
Additions	48	104	309	86	547
Transfers	-	-	-	-	-
Disposals	-	(104)	(29)	-	(133)
Depreciation	(504)	(12)	(654)	-	(1,170)
Adjustments	6	-	(84)	-	(78)
Closing net book value	12,070	22	1,121	163	13,376
At October 31, 2021					
Cost	24,007	1,561	20,995	163	46,726
Accumulated depreciation	(11,937)	(1,539)	(19,874)	-	(33,350)
Net book value	12,070	22	1,121	163	13,376

8 Premises and equipment (continued)

8.1 Premises and equipment owned (continued)

During the year, assets fully depreciated and retired amounted to AWG 19.4 million (2021 - nil).

Impairment of property
There was no impairment in 2022 (2021: nil).

Assets pledged as security
There were no land and buildings pledged to secure borrowings of the Bank in 2022 (2021: nil).

8.2 Right-of-use leased assets

	Properties (AWG '000)	Total (AWG '000)
Year ended October 31, 2022		
Opening net book value	632	632
Additions	127	127
Disposals	-	-
Depreciation charge	(200)	(200)
Closing net carrying value	559	559
At October 31, 2022		
Cost	981	981
Accumulated amortisation	(422)	(422)
Net book value	559	559

	Properties (AWG '000)	Total (AWG '000)
Year ended October 31, 2021		
Opening net book value	858	858
Additions	37	37
Disposals	-	-
Depreciation charge	(263)	(263)
Closing net carrying value	632	632
At October 31, 2021		
Cost	1,253	1,253
Accumulated amortisation	(621)	(621)
Net book value	632	632

8 Premises and equipment (continued)

8.2 Right-of-use leased assets (continued)

Leased assets
The Bank leases various office, branches and other premises. These leases have various terms, escalation and renewal rights and are negotiated on an individual basis. These lease agreements do not include any clauses that impose restrictions on our ability to pay dividends, engage in debt financing transactions, or enter into further lease agreements.

Some lease contracts provide us with the option to terminate after payment of a predetermined amount, allowing us to exit the contracts prior to expiration. Extension options at the discretion of RBC are also made available to lengthen existing lease terms. We are reasonably certain to exercise extension options for certain retail locations and leases of automated teller machines (ATMs). Extension options for real estate leases tend to be at market rates and subject to negotiation prior to expiration of the initial lease term and therefore are not included in the measurement of lease liabilities at the commencement of the lease.

The total cash outflow for leases for the year ended October 31, 2022 was AWG 363 thousand (2021: AWG 369 thousand).

9 Deferred tax assets and liabilities

Deferred tax assets and liabilities result from tax loss carryforwards and temporary differences between the tax basis of assets and liabilities and their carrying amounts on our Financial Position. The following amounts are shown in the statement of financial position:

	As at October 31, 2022			
	Net Asset November 1, 2021 (AWG '000)	Change through equity (AWG '000)	Change through profit or loss (AWG '000)	Net Asset October 31, 2022 (AWG '000)
Net deferred tax asset/(liability)				
Allowance for credit losses	2,781	-	(1,518)	1,263
General loan loss provision	4,266	-	(2,796)	1,470
Securities	(787)	(45)	(1)	(833)
Premises and equipment	(186)	-	1,272	1,086
Other	95	-	(95)	-
	6,169	(45)	(3,138)	2,986
Comprising				
Deferred tax assets	7,142	-	(3,322)	3,820
Deferred tax liabilities	(973)	(45)	184	(834)
	6,169	(45)	(3,138)	2,986

9 Deferred tax assets and liabilities (continued)

	As at October 31, 2021			
	Net Asset November 1, 2020 (AWG '000)	Change through equity (AWG '000)	Change through profit or loss (AWG '000)	Net Asset October 31, 2021 (AWG '000)
Net deferred tax asset/(liability)				
Allowance for credit losses	3,231	-	(450)	2,781
General loan loss provision	8,987	-	(4,721)	4,266
Securities	(572)	(215)	-	(787)
Premises and equipment	(232)	-	46	(186)
Other	95	-	-	95
	11,509	(215)	(5,125)	6,169
Comprising				
Deferred tax assets	12,313	-	(5,171)	7,142
Deferred tax liabilities	(804)	(215)	46	(973)
	11,509	(215)	(5,125)	6,169

As at October 31, 2022, deductible temporary differences of AWG 3.8 million (October 31, 2021: AWG 6.9 million) available to be offset against potential tax adjustments or future taxable income were recognized as deferred tax assets.

10 Assets classified as held for sale

	2022	2021
	(AWG '000)	(AWG '000)
Land	60	60
Buildings	425	425
	485	485
Land		
Cost	60	60
Impairment	-	-
Net book value transferred from premises and equipment	60	60
Buildings		
Cost	1,106	1,106
Impairment	-	-
Accumulated depreciation	(681)	(681)
Net book value transferred from premises and equipment	425	425

The Bank intends to dispose of the land and buildings that are no longer in use within the branch networks in Aruba in the next financial year. At year end an offer was accepted from a buyer. As at year end, the IFRS 5 (Non-current assets held for sale and discontinued operations) criteria to classify as held for sale was met and therefore these assets were maintained as assets held for sale.

11 Other assets

	2022	2021
	(AWG '000)	(AWG '000) Restated
Interest receivable	1,039	1,779
Items in transit	1,210	764
	2,249	2,543

All other assets are current assets.

12 Customers' deposits

	2022	2021
	(AWG '000)	(AWG '000)
Savings	206,346	203,200
Term deposits	180,338	127,585
Current accounts	555,483	515,252
	942,167	846,037

12.1 Sectoral analysis

Consumers	313,432	302,380
Private institutions	580,365	514,215
State institutions	34,573	21,399
Other	13,797	8,043
	942,167	846,037
Current	838,863	739,593
Non-current	103,304	106,444
	942,167	846,037

13 Other liabilities

	2022	2021
	(AWG '000)	(AWG '000)
Accruals and payables	2,874	3,455
Items in transit	506	462
Unclaimed balances	2,672	2,654
Deferred income	3,373	3,639
Interest payable	2,846	2,452
Contract liabilities[1]	302	291
Lease liabilities[2]	565	637
Employee related costs	57	675
Allowance for credit losses (Note 21)	44	251
Other	141	101
	13,380	14,617
Current	8,054	8,890
Non-current	5,326	5,727
	13,380	14,617

Contract liabilities[(1)]
The Bank derives revenue from contracts with customers in the form of annual credit cards fees, which are paid for upfront by cardholders for the right to use certain RBC credit cards products. Under IFRS 15 – Revenue from contracts with customers, the one-time annual fee represents the transaction price received to transfer the performance obligation. However as the performance obligations transpire over time, throughout the annual period, such revenues should be recognized over the applicable annual cycle. The above balance represents the portion of annual fee revenue which was deferred and remained outstanding as at the Statement of Financial Position date.

Lease liabilities[(2)]
The Bank presents its lease liabilities within other liabilities on the Statements of Financial Position. The Bank made an election to measure its right-of-use assets at an amount equal to the value of its lease liabilities. Under IFRS 16 – Leases, lease liabilities represent the present value of the lease payments not paid on the date the contract starts over its lease term. This amount is computed using the interest rate implicit in the lease transaction, or if that is not known, the lessee's incremental borrowing rate.

14 Regulatory loan loss reserve

In accordance with regulations governing banks in the region, the Bank is required, for prudential reasons, to build up a general provision of at least 3% of the net loan portfolio plus other risk items on the asset side of the statement of financial position. The net portfolio is calculated as gross loans minus allocated provisions.

15 Other components of equity

Investment revaluation reserve – securities FVOCI

	2022	2021
Balance at beginning of the year	2,363	1,721
Net losses/(gains)arising during the year on equity securities, net of tax	135	642
Balance at end of the year	2,498	2,363

16 Interest income

	2022	2021
	(AWG '000)	(AWG '000)
Loans and advances to customers	39,494	38,844
Securities and Treasury bills	(538)	400
Due from banks	166	43
	39,122	39,287

16.1 Securities and Treasury bills

	(AWG '000)	(AWG '000)
FVTPL	(935)	44
FVOCI	262	306
Dividends	90	45
At amortized cost	45	5
	(538)	400

17 Interest expense

	2022	2021
	(AWG '000)	(AWG '000)
Customers' deposits	9,567	8,232
Due to banks	40	39
Due to affiliates	50	50
Lease liabilities	7	8
Other interest bearing liabilities	-	(122)
	9,664	8,207

18 Non-Interest income

The Bank derives revenue over time and at a point in time within the following categories.

	2022	2021
	(AWG '000)	(AWG '000)
		Restated
Non-interest income over time:		
Transaction service fees and commissions	4,882	4,708
Non-interest income at a point in time:		
Credit related commissions and fees	2,602	2,844
Foreign exchange earnings	9,097	5,923
	16,581	13,475

19 Non-interest expenses

	2022	2021
	(AWG '000)	(AWG '000)
		Restated
Staff costs	18,173	19,796
Premises and equipment expenses, excluding depreciation and operating lease rentals	1,373	1,513
Advertising	240	232
Depreciation and amortisation of (in)tangibles	4,338	4,581
Short term lease rentals	224	(80)
Directors' remuneration	51	51
Auditors' remuneration	325	291
Other operating expenses	8,924	10,530
	33,648	36,914

19.1 Staff costs

Wages and salaries including bonuses	17,128	18,696
Employees' retirement benefit expense	1,045	1,100
	18,173	19,796

The number of persons employed by the Bank was 119 as per October 31, 2022 (2021: 127).

19 Non-interest expenses (continued)

19.2 Other operating expenses

	2022 (AWG '000)	2021 (AWG '000) Restated
Management fees	6,201	6,803
Telephone, postage and courier expenses	785	750
Security costs	760	815
Other	1,178	2,162
	8,924	10,530

20 Taxation expense

	2022 (AWG '000)	2021 (AWG '000)
Current tax charge	4,001	1,252
Prior years tax charge	285	(2,594)
Deferred tax charge	3,138	5,125
	7,424	3,783

Reconciliation to statutory tax rate

The tax on the profit differs from the theoretical amount that would arise using the average tax rate of the country as follows:

Profit before taxation	29,862	25,777
Prima facie tax calculated at an average rate of 2022 - 25% (2021 - 25%)	7,466	6,444
Expenses not deductible for tax purposes	(3,465)	(5,192)
Adjustment tax payable previous years	285	(2,594)
Net deferred tax	3,138	5,125
Income tax expense	7,424	3,783

21 Contingent Liabilities

21.1 Customers' liability under guarantees, indemnities and letters of credit

These represent the Bank's potential liability, for which there are equal and offsetting claims against its customers in the event of a call on these commitments. These amounts are not reflected in the statement of financial position.

	2022	2021
	(AWG '000)	(AWG '000)
Guarantees	5,938	6,439
Letters of credit	4,514	4,514
	10,452	10,953

Our credit review process, our policy for requiring collateral security, and the types of collateral security held are generally the same as required for loans. We believe that it is highly unlikely that all or substantially all of the guarantees and commitments will be drawn or settled within one year, and contracts may expire without being drawn or settled. Historically, we have not made any significant payments under such indemnifications.

As at October 31, 2022 accumulated allowance for credit losses for contingent liabilities amounted to AWG 44,057 (2021: AWG 250,838) - Note 13.

22 **Credit commitments**

These represent the undrawn credit facilities for which the Bank is potentially liable at year end. These include undrawn facilities on credit cards, overdrafts, bonds, letters of credit, guarantees and indemnities. These amounts are not reflected in the Statement of Financial Position.

The following table breaks down the Bank's main credit exposure of credit commitments as categorized by industry sectors of counterparties:

	2022	2021
	(AWG '000)	(AWG '000)
Consumer	31,933	29,412
Manufacturing	289	355
Distribution	11,023	8,726
Financial services	117	1,043
Transport	2,060	6,978
Construction	1,123	1,756
Real estate	5,284	2,436
Tourism	1,865	1,204
Professional services	269	492
Health services	4,007	531
Other	20,409	11,436
	78,379	64,369

23 **Capital commitments**

There were no capital commitments as at October 31, 2022 (2021 - AWG nil).

24 Related party transactions

A number of banking transactions are entered into with related parties in the normal course of business. The loans to related parties are adequately secured or have been provided for within the adopted loan policy of the Bank.

We have applied the low credit risk exemption on all amounts due to/from associates and affiliates as they demonstrate a low risk of default and the related RBC entity has a strong capacity to meet its contractual cash flow obligations. As a result, any ACL is deemed to be insignificant.

The following balances are outstanding related to other subsidiaries of Royal Bank of Canada.

	2022	2021
	(AWG '000)	(AWG '000)
Loans and investments		
Ultimate parent	214	86
Fellow subsidiaries	20,179	9,010
	20,393	9,096
Deposits and Other liabilities		
Ultimate parent	227	184
Fellow subsidiaries	10,627	6,976
	10,854	7,160
Interest expense		
Fellow subsidiaries	50	50
	50	50

24 Related party transactions (continued)

Key management personnel and Directors

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. They include the senior executives called the Operating Committee (OC) and Executive Management Committee (EMC). The OC and EMC are comprised of the Head Caribbean Banking and those individuals that report directly to him, including the Chief Financial Officer, Chief Human Resources Officer, Chief Risk Officer, and heads of our business and functional units. The OC is ultimately responsible for all material decisions. The OC is also responsible for establishing the overall strategic direction of the subsidiaries of Royal Bank of Canada in the Caribbean ("Group") and, in that regard, sets global parameters for the Group within which the board of directors and management of each subsidiary in the Group exercise their respective discretion to make decisions concerning the strategic direction and day-to-day management of the particular subsidiary. The Directors of RBC do not plan, direct, or control the activities of the Group; they oversee the management of the business and provide stewardship.

Transactions, arrangements and agreements involving key management personnel, Directors and their close family members

In the normal course of business, RBC Royal Bank (Aruba) N.V. provide certain banking services to key management personnel, Directors, and their close family members. These transactions were made on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing and did not involve more than the normal risk of repayment or present other unfavourable features.

Management fees

Administrative charges by RBC Financial (Caribbean) Limited for the year ended October 31, 2022 were AWG 2,169,424 (2021: AWG 3,548,189).
Shared Service Costing charges by RBC Royal Bank (Trinidad and Tobago) Limited for the year ended October 31, 2022 were AWG 2,357,753 (2021: AWG 1,435,358).

RBC Royal Bank N.V., a wholly owned subsidiary of ABC Holdings N.V., charges a fee for management services provided. The total fee charged for the year ended October 31, 2022 is AWG 1,939,360 (2021: AWG 1,237,686). RBC Royal Bank (Aruba) N.V. also charged RBC Royal Bank N.V. a total fee of AWG 1,099,732 (2021: AWG 807,899) for management services and AWG nil ((2021: AWG 168,938) for Shared Service Costing charges.

Business travellers charges by RBC Canada Head Office for the year ended October 31, 2022 were AWG 830,637 (2021: AWG 747,888).

Trademark License Fee by Royal Bank of Canada for the year ended October 31, 2022 was AWG 2,662 (2021: AWG 2,955).

25 Financial Risk Management

25.1 Statement of financial position - categorization

	As at 31 October 2022 (AWG '000)	2021 (AWG '000)
Assets		
Financial assets at fair value through profit or loss		
Securities	4,482	5,502
Financial assets at fair value through other comprehensive income		
Securities – equities instruments[1]	3,780	3,600
	3,780	3,600
Financial assets at amortised costs		
Cash and cash equivalents	294,419	320,798
Balances with central bank	202,048	75,555
Loans	591,940	565,477
Securities	-	4,978
Due from associated and affiliated companies	20,393	9,096
Other assets	1,039	1,779
	1,109,839	977,683
Total financial assets	1,118,101	986,785
Non-financial assets	20,043	26,494
Total assets	1,138,144	1,013,279
Liabilities		
Financial liabilities at amortised costs		
Due to banks	2,113	1,018
Customers' deposits	942,167	846,037
Due to associated and affiliated companies	10,854	7,160
Other liabilities	6,083	5,743
	961,217	859,958
Total financial liabilities	961,217	859,958
Non-financial liabilities	12,132	11,099
Total liabilities	973,349	871,057
Total equity	164,795	142,222
Total equity and liabilities	1,138,144	1,013,279

25 Financial Risk Management (continued)

25.1 Statement of financial position – categorization (continued)

Securities – equity securities designated at FVOCI[1]

The Bank designated certain equity securities which are not held for trading as FVOCI. The Bank irrevocably elected to recognize the equity securities as FVOCI because the equity securities are held for the long term for strategic purposes.

The following table presents the Bank's equity instruments designated as at FVOCI at the end of the period by business category.

	Number of companies	Number of shares/units[a] ('000)	Carrying value 2022 (AWG '000)	Carrying value 2021 (AWG '000)	Dividends received 2022 (AWG '000)	Dividends received 2021 (AWG '000)
Business category						
Clearing house	1	450	3,780	3,600	90	45
Total			3,780	3,600	90	45

(a)During the year ended October 31, 2022 there were no disposals from the equity shares designated as FVOCI portfolio (2021: Nil).

25 **Financial Risk Management (continued)**

25.2 Risk Management

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual company within the Group is accountable for the risk exposures relating to its responsibilities. The Bank is exposed to credit risk, liquidity risk, operating risk and market risk, the latter being subdivided into trading and non-trading risks.

Risk management structure
The Board of Supervisory Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Supervisory Directors
The Board of Supervisory Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Operating Committee (OC)
The OC is responsible for the overall risk management approach and for approving the risk strategies and principles. The main risks arising from the Bank's financial instruments are credit risk, interest rate and market risk, liquidity risk, foreign currency risk and operational risk.

Risk Management Unit
A centralized Risk Management Unit provides oversight of the implementation and maintenance of risk related procedures to ensure an independent control process. The unit which is sub-divided into three departments (Group Market Risk, Group Credit Risk and Group Compliance and Operational Risk), is also responsible for monitoring compliance with risk policies and limits across the Group in the three key areas of credit risk, market risk and operational risk. Each business group has decentralized units which are responsible for the independent control of risks, including monitoring the risk or exposures against limits and the assessment of risks of new products and structured transactions. These decentralized units also ensure the complete capture of the risks in risk measurement and reporting systems.

Asset and Liability Committee (ALCO)
The parent ALCO provides oversight and monitoring of the financial resources of operating entities. The committee's mandate includes the recommendation of policies covering investments, capital, funding and liquidity and market risk to the Operating Committee and the Board, and the monitoring of compliance with risk policies and limits in the areas of credit risk and market risk.

25 Financial Risk Management (continued)

25.2 Risk Management

Internal Audit
Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board's Audit Committee and subsidiary boards' Audit Committees.

Risk measurement and reporting systems
The Bank's risks are measured using methods which reflect the expected loss likely to arise in normal circumstances.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries and geographies.

Information compiled from all the business units is examined and processed in order to analyze, control and identify risks early. This information which consists of several reports is presented and explained to the Board of Supervisory Directors, the Board's Committees, the Asset/Liability Committees, and the head of each business unit. The reports include but are not limited to aggregate credit exposure, open currency positions, liquidity ratios and risk profile changes. On a quarterly basis senior management assesses the appropriateness of the allowance for credit losses.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business units have access to necessary and up-to-date information.

Risk mitigation
As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies.

The risk profile is assessed before entering into hedge transactions, which are authorized by the appropriate level of seniority within the Group. The effectiveness of hedges is assessed by the Group Market Risk and Group Finance units (based on economic considerations rather than the IFRS hedge accounting regulations). The effectiveness of all the hedge relationships is monitored by the Group Market Risk Unit monthly.

The Bank actively uses collateral to reduce its credit risks.

25 Financial Risk Management (continued)

25.3 Liquidity Risk

Liquidity and funding risk (Liquidity risk) is the risk that the Bank may be unable to generate sufficient cash or its equivalents in a timely and cost effective manner to meet our commitments as they come due. Liquidity risk arises from mismatches in the timing and value of cash flows. The Bank's liquidity profile is structured to ensure that we have sufficient liquidity to satisfy current and prospective commitments in both normal and stressed conditions. To achieve this goal, we operate under a comprehensive Liquidity Risk Management Framework (LRMF) that includes Liquidity Risk Policy (LRP), Pledging Policy (PP) and Contingency Plan. The LRMF, LRP and PP are all addendums to the Enterprise and will identify changes within the Caribbean. The Liquidity Contingency Plan is intended to provide communication protocols and forums to give consideration to and support implementation of a predetermined suite of liquidity & funding options to effectively manage, anticipate and address increasing funding risks generated by stress events.

These policies are supported by management limits and authorities that govern the measurement and management of liquidity.

The Bank's liquidity management process is carried out by the Treasury department of each business unit and monitored by Caribbean Treasury and Group ALCO. Liquidity risk is measured monthly via internally defined Net Cash Flow. For example, within the time buckets over 30 and 60 days assets and liabilities are accounted for as follows: assets are haircut as per enterprise haircut grid whilst liabilities are run off within the specific time bucket. Liabilities are assigned run-off rates based on the results of the core assumptions methodology. For example, government bonds generally can be quickly and easily converted to cash without significant loss of value regardless of their contractual maturity. Similarly, while relationship-based deposits contractually can be withdrawn immediately, in practice, these balances can be relatively stable sources of funding depending on several factors, such as the nature of the client and their intended use. Risk methodologies and underlying assumptions are periodically reviewed and validated to ensure their alignment with our operating environment, expected economic and market conditions, regulatory requirements and generally accepted industry practices. To manage liquidity risk within our liquidity risk appetite, limits are set in addition to monthly stress under Idiosyncratic, systemic and combined scenarios.

Stress tests, which include scenario analysis, measure our prospective exposure to idiosyncratic, systemic and combined stress events over a period of several weeks. The contingency liquidity risk planning process identifies contingent funding needs and sources, and as a result, informs requirements for our pool of unencumbered liquid asset portfolios. Our unencumbered liquid asset portfolios consist of diversified, highly rated and liquid marketable securities and unencumbered cash held at central bank's and deposits held with other financial institutions. These portfolios are subject to minimum asset quality levels and, as appropriate, other eligibility guidelines (e.g., maturity, and eligibility for central bank advances) to maximize ready access to additional cash should it be required, when added to other unencumbered liquid assets that we hold contribute to our liquidity reserve.

25 **Financial Risk Management (continued)**

25.3 **Liquidity Risk (continued)**

Our liquidity risk measurement and control activities are divided into three categories as follows:

Structural (longer-term) liquidity risk
To guide our secured and unsecured wholesale term funding activities, we employ an Internal Liquidity Metric (ILM) to manage and control the structural alignment between long-term assets and longer-term funding sources from core deposits.

Tactical (shorter-term) liquid risk
To address potential immediate cash flows risks in times of stress, we use short-term net cash flow limits to control risk of material units, subsidiaries and currencies and perform stress testing assessments. Net cash flow positions are determined by applying results of core assumptions methodology i.e. internally-derived risk assumptions and parameters to known and anticipated cash flows for all material unencumbered assets, liabilities and off-balance sheet activities. Encumbered assets are not considered a source of available liquidity.

Contingency liquidity risk
Contingency liquidity risk planning assess the impact of sudden stress events, and our planned responses. The Bank's Liquidity Contingency Plan (LCP) maintained and administered by Caribbean Treasury, has been developed to guide our potential responses to liquidity crises. The contingency liquidity risk planning process identifies contingent funding needs and sources under various stress scenarios, and as result informs requirements for our earmarked unencumbered liquid asset portfolios.

25 **Financial Risk Management (continued)**

25.3 **Liquidity Risk (continued)**

The amounts disclosed in the following table are the contractual undiscounted cash flows of all non-derivative financial assets and financial liabilities and excludes any projected interest on loans, securities or deposits.

	Less than three	Three to six months	Six to twelve	One to five years	Over five years	Total
	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)
As at October 31, 2022						
Assets						
Cash on hands	21,645	-	-	-	-	21,645
Due from other banks	272,774	-	-	-	-	272,774
Cash and cash equivalents	294,419	-	-	-	-	294,419
Balances with central bank	202,048	-	-	-	-	202,048
Loans	81,823	19,814	39,260	216,853	250,051	607,801
Allowance for credit losses	-	-	-	-	-	(15,861)
Securities	8,262	-	-	-	-	8,262
Due from associated and affiliated companies	20,393	-	-	-	-	20,393
Other assets	1,039	-	-	-	-	1,039
Total financial assets less derivatives	607,984	19,814	39,260	216,853	250,051	1,118,101
Liabilities						
Due to banks	2,113	-	-	-	-	2,113
Customers' deposits	813,445	2,331	23,087	98,304	5,000	942,167
Due to associated and affiliated companies	10,854	-	-	-	-	10,854
Other liabilities	5,542	36	73	432	-	6,083
Total financial liabilities less derivatives	831,954	2,367	23,160	98,736	5,000	961,217
Liquidity gap	(223,970)	17,447	16,100	118,117	245,051	156,884
Cumulative gap	(223,970)	(206,523)	(190,423)	(72,306)	172,745	

25 Financial Risk Management (continued)

25.3 Liquidity Risk (continued)

The amounts disclosed in the following table are the contractual undiscounted cash flows of all non-derivative financial assets and financial liabilities and excludes any projected interest on loans, securities or deposits.

	Less than three	Three to six months	Six to twelve	One to five years	Over five years	Total
	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)
As at October 31, 2021						
Assets						
Cash on hands	20,773	-	-	-	-	20,773
Due from other banks	300,025	-	-	-	-	300,025
Cash and cash equivalents	320,798	-	-	-	-	320,798
Balances with central bank	75,555	-	-	-	-	75,555
Loans	14,221	2,859	2,892	109,944	435,561	565,477
Securities	9,102	4,978	-	-	-	14,080
Due from associated and affiliated companies	9,096	-	-	-	-	9,096
Other assets	1,779	-	-	-	-	1,779
Total financial assets less derivatives	430,551	7,837	2,892	109,944	435,561	986,785
Liabilities						
Due to banks	1,018	-	-	-	-	1,018
Customers' deposits	721,919	8,690	8,984	81,444	25,000	846,037
Due to associated and affiliated companies	7,160	-	-	-	-	7,160
Other liabilities	5,128	31	62	502	20	5,743
Total financial liabilities less derivatives	735,225	8,721	9,046	81,946	25,020	859,958
Liquidity gap	(304,674)	(884)	(6,154)	27,998	410,541	126,827
Cumulative gap	(304,674)	(305,558)	(311,712)	(283,714)	126,827	

25 **Financial Risk Management (continued)**

25.3 **Liquidity Risk (continued)**

25.3.2 **Contingent liabilities and commitments**

The table below summarizes the Bank's contingent liabilities and commitments based on contractual maturity dates.

	Up to one year	One to five years	Over five years	Total
	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)
As at October 31, 2022				
Guarantees, acceptances, indemnities and letters of credit	5,652	3,007	1,793	10,452
Credit commitments	78,379	-	-	78,379
Operating lease commitments	133	432	-	565
	84,164	3,439	1,793	89,396
As at October 31, 2021				
Guarantees, acceptances, indemnities and letters of credit	6,101	2,909	1,943	10,953
Credit commitments	64,369	-	-	64,369
Operating lease commitments	131	523	-	654
	70,601	3,432	1,943	75,976

25 Financial Risk Management (continued)

25.4 Market Risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from non-trading activities are measured separately by the Treasury department. Regular reports are submitted to the Group ALCO on a regular basis.

Non-trading portfolios primarily arise from the interest-rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of interest rate, foreign exchange and equity risks arising from the Group's amortised and FVOCI securities.

25.4.1 Market Risk measurement techniques

The major measurement technique used by the Bank to measure and control market risk is stress testing.

Group Market Risk applies stress tests to provide an indication of the potential size of losses that could arise in extreme conditions. Group Market Risk performs a risk sensitivity analysis by applying possible foreign currency rate stress events on the Group's foreign currency trading portfolio in order to assess potential impacts to foreign exchange earnings.

25.4.2 Interest rate risk

To monitor and control interest rate risk in the banking book (IRRBB), the Bank assesses two primary metrics, Net Interest Income (NII) risk and Economic Value of Equity (EVE) risk, under a range of market shocks, scenarios, and time horizons. Market scenarios include currency-specific parallel and non-parallel yield curve changes and interest rate volatility shocks.
IRRBB – as defined by the Basel Committee – is the "current or prospective risk to a bank's capital and earnings, arising from adverse movements in interest rates that affect the bank's banking book positions." Insufficient management, measurement and control of IRRBB can pose a significant threat to the Bank's capital base and/or its future earnings.

In measuring NII risk, detailed structural balance sheets are stressed to determine the impact of changes in interest rates on accrual or projected earnings. In accordance with generally accepted practice, NII risk is measured as the risk to net interest income over a 1 year-time horizon.

Value risk management focuses on managing the exposure of the institution's economic value of equity (EVE) to interest rate changes. EVE is measured as the difference in net present value of assets minus liabilities plus the net value of off-balance sheet items. In measuring EVE risk, scenario valuation techniques are applied to detailed spot position data.

25 Financial Risk Management (continued)

25.4 Market Risk (continued)

A number of assumptions affecting cash flows, product re-pricing and the administration of rates underlie the models used to measure NII and EVE risk. All assumptions are derived empirically based on historical client behaviour and product pricing. All models and assumptions used to measure IRRBB are subject to independent oversight by Group Risk Management. The Board approves the risk appetite for IRRBB, and the Asset-Liability Committee (ALCO), along with GRM, provides ongoing governance of IRRBB measurement and management through risk policies, limits, operating standards and other controls. IRRBB reports are reviewed monthly by GRM, ALCO, and quarterly by the Board.

The following table reflects the results before the impact of tax of an immediate and sustained 100 bps increase or decrease in interest rates on projected 12-month NII and EVE, assuming no subsequent hedging. Rate floors are applied within the declining rates scenarios which prevent EVE valuation and NII simulation rate levels from falling below a minimum average level of negative 25 bps for hard currencies and 0 bps for local currencies.

	EVE Risk		NII Risk	
	Local Currency (AWG '000)	Hard Currency (AWG '000)	Local Currency (AWG '000)	Hard Currency (AWG '000)
As at October 31, 2022				
Impact before tax				
100 bps increase in rates	(7,862)	1,647	(272)	496
100 bps decrease in rates	9,236	(1,721)	272	(496)
As at October 31, 2021				
Impact before tax				
100 bps increase in rates	(12,325)	6,159	(558)	736
100 bps decrease in rates	14,291	(6,765)	558	(736)

25 **Financial Risk Management (continued)**

25.4 **Market Risk (continued)**

25.4.2 **Interest rate risk (continued)**

Interest sensitivity of assets and liabilities to repricing risk

The table below summarizes the Bank's exposure to interest rate repricing risk. It includes the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	Up to one year	One to five years	Over five years	Non-interest bearing	Total
	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)
As at October 31, 2022					
Assets					
Cash and cash equivalents	175,000	-	-	119,419	294,419
Balances with central bank	-	-	-	202,048	202,048
Loans	50,393	114,354	427,193	-	591,940
Securities	4,482	-	-	3,780	8,262
Due from associated and			-	-	
affiliated companies	-	-	-	20,393	20,393
Other assets	1,039	-	-	-	1,039
Total financial assets	230,914	114,354	427,193	345,640	1,118,101
Liabilities					
Due to banks	-	-	-	2,113	2,113
Customers' deposits	402,817	98,304	5,000	436,046	942,167
Due to associated and affiliated companies	4,868	-	-	5,986	10,854
Other liabilities	5,651	432	-	-	6,083
Total financial liabilities	413,336	98,736	5,000	444,145	961,217
Interest sensitivity gap	(182,422)	15,618	422,193		

25 **Financial Risk Management (continued)**

25.4 **Market Risk (continued)**

25.4.2 **Interest rate risk (continued)**

Interest sensitivity of assets and liabilities to repricing risk (continued)

	Up to one year	One to five years	Over five years	Non-bearing	Total
	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)	(AWG
As at October 31, 2021					
Assets					
Cash and cash equivalents	-	-	-	320,798	320,798
Balances with central bank	-	-	-	75,555	75,555
Loans	19,972	109,944	435,561	-	565,477
Securities	10,480	-	-	3,600	14,080
Due from associated and affiliated companies	-	-	-	9,096	9,096
Other assets	1,779	-	-	-	1,779
Total financial assets	32,231	109,944	435,561	409,049	986,785
Liabilities					
Due to banks	-	-	-	1,018	1,018
Customers' deposits	334,287	81,444	25,000	405,306	846,037
Due to associated and affiliated companies	4,777	-	-	2,383	7,160
Other liabilities	5,221	502	20	-	5,743
Total financial liabilities	344,285	81,946	25,020	408,707	859,958
Interest sensitivity gap	(312,054)	27,998	410,541		

25 **Financial Risk Management (continued)**

25.4 **Market Risk (continued)**

25.4.3 **Maturity and rate sensitivity risk**

The table below summarizes the Bank's loans and advances to customers and investment securities categorized by the earlier of contractual repricing or maturity dates.

	Up to one year	One to five years	Over five years	Total
	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)
As at October 31, 2022				
Loans:				
Retail	16,025	23,883	7,672	47,580
Commercial/corporate	48,582	75,129	159,873	283,584
Mortgages	1,647	15,342	259,648	276,637
Gross loans	66,254	114,354	427,193	607,801
Securities:				
Securities at FVTPL	-	-	4,482	4,482
Securities at FVOCI	-	-	3,780	3,780
Securities at amortised cost	-	-	-	-
Gross securities	-	-	8,262	8,262
As at October 31, 2021				
Loans:				
Retail	15,915	31,164	5,172	52,251
Commercial/corporate	37,075	64,213	173,335	274,623
Mortgages	1,235	14,567	257,054	272,856
Gross loans	54,225	109,944	435,561	599,730
Securities:				
Securities at FVTPL	-	-	5,502	5,502
Securities at FVOCI	-	-	3,600	3,600
Securities at amortised cost	4,981	-	-	4,981
Gross securities	4,981	-	9,102	14,083

25 **Financial Risk Management (continued)**

25.4 **Market Risk (continued)**

25.4.3 **Maturity and rate sensitivity risk (continued)**

The table below summarizes the Bank's lending portfolio by interest rate sensitivity.

	Fixed rate	Floating rate	Non-rate sensitive	Total
	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)
As at October 31, 2022				
Loans:				
Retail	47,580	-	-	47,580
Commercial/corporate	283,584	-	-	283,584
Mortgages	276,637	-	-	276,637
Gross loans	607,801	-	-	607,801
As at October 31, 2021				
Loans:				
Retail	52,252	-	-	52,252
Commercial/corporate	274,623	-	-	274,623
Mortgages	272,855	-	-	272,855
Gross loans	599,730	-	-	599,730

25.4.4 **Other price risk**

Other price risk arises due to the possibility that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Bank is affected by changing prices of equity instruments designated as fair value through other comprehensive income with fair value movements recognised in other comprehensive income attributable to the Bank.

25 **Financial Risk Management (continued)**

25.5 Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

25.5.1 Concentrations of currency risk – financial instruments on and off Statement of Financial Position

Assets are primarily funded by like currency liabilities thus reducing the element of cross-currency risk and in most regional markets, US dollar denominated transactions must be officially sanctioned by the relevant authorities thus reducing exposure. Currency exposure resides mainly in trading activity. The table below summarizes the Bank's exposure to foreign currency exchange rate risk.

	AWG	USD	EUR	Other	Total
	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)
As at October 31, 2022					
Assets					
Cash and cash equivalents	255,530	40,227	(1,362)	24	294,419
Balances with central bank	202,048	-	-	-	202,048
Loans	554,613	37,827	-	-	592,440
Securities	3,780	4,482	-	-	8,262
Due from associated and affiliated companies	12,468	710	-	7,215	20,393
Other assets	1,016	23	-	-	1,039
Total financial assets	1,029,455	83,269	(1,362)	7,239	1,118,601
Liabilities					
Due to banks	2,113	-	-	-	2,113
Customers' deposits	861,054	80,126	987	-	942,167
Due to associated and affiliated companies	45	5,715	-	5,094	10,854
Other liabilities	3,849	2,164	7	63	6,083
Total financial liabilities	867,061	88,005	994	5,157	961,217
Net statement of financial position	162,394	(4,736)	(2,356)	2,082	157,384
Credit commitments	46,888	31,491	-	-	78,379

25 **Financial Risk Management (continued)**

25.5 **Currency Risk (continued)**

25.5.1 **Concentrations of currency risk – financial instruments on and off Statement of Financial Position (continued)**

	AWG	USD	EUR	Other	Total
	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)
As at October 31, 2021			(Restated)		
Assets					
Cash and cash equivalents	291,077	29,626	10	85	320,798
Balances with central bank	75,555	-	-	-	75,555
Loans	528,493	36,983	1	-	565,477
Securities	8,578	5,502	-	-	14,080
Due from associated and affiliated companies	4,954	707	-	3,435	9,096
Other assets	1,755	24	-	-	1,779
Total financial assets	910,412	72,842	11	3,520	986,785
Liabilities					
Due to banks	539	-	479	-	1,018
Customers' deposits	765,819	78,780	1,438	-	846,037
Due to associated and affiliated companies	5	4,962	-	2,193	7,160
Other liabilities	3,526	2,145	8	64	5,743
Total financial liabilities	769,889	85,887	1,925	2,257	859,958
Net statement of financial position	140,523	(13,045)	(1,914)	1,263	126,827
Credit commitments	36,271	28,727	-	-	64,998

25.5.2 **Foreign currency exchange risk**

Analysis was conducted to determine the sensitivity to reasonable possible movements of select currencies against the AWG to which the Bank had significant exposure at October 31 in respect of its assets and liabilities holding all other variables constant. The results revealed that as at October 31, 2022, if the AWG had weakened 10% against the Euro and all other currencies with all other variables held constant, profit before tax for the year would have been AWG 236 thousand lower (2021 – 191 thousand lower) and other components of equity would have been AWG nil million higher (2021 – AWG nil).

25 Financial Risk Management (continued)

25.6 Credit Risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits for Corporate and Commercial counterparties are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. For the retail portfolio the bank has stringent lending criteria which include conservative debt service coverage, loan to value ratios and stability of earnings. These exposures are continuously monitored to identify any change in the credit worthiness of the borrower. The credit quality review process allows the bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

25.6.1 Credit Risk Management

<u>Loans</u>

The Bank measures the credit risk of loan and advances to Corporate and Commercial customers and to banks at the counterparty level using an internal risk rating matrix. The ratings are generated by combining weighted financial and statistical criteria with credit officer judgment which is mapped against established internal benchmarks at the time credit is granted. The bank risk rating is seven tiered as shown below and reflects the perceived counterparty risk. This means that, in principle, exposures migrate between levels as the assessment of their riskiness changes. The risk weightings and internal benchmarks are consistently reviewed and upgraded as necessary.

Group's rating	Description of the grade	Credit quality
1	Excellent	High grade
2	Very Good	High grade
3	Good	Standard grade
4	Special Mention	Substandard grade
5	Unacceptable	Past due or impaired
6	Bad and Doubtful	Past due or impaired
7	Virtual Certain Loss	Past due or impaired

25 **Financial Risk Management (continued)**

25.6 **Credit Risk (continued)**

25.6.1 **Credit Risk Management (continued)**

Debt securities and other bills

For debt securities and other bills external rating such as Standard & Poor's rating or their equivalents are used by Group Risk Management Unit for managing of the credit risk exposures.

25.6.2 **Risk limit control and mitigation policies**

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Operating Committee.

Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its periodic review of loan accounts in arrears.

Credit-related commitments

The primary purpose of those instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

25 **Financial Risk Management (continued)**

25.6 **Credit Risk (continued)**

25.6.3 Maximum exposure to credit risk before collateral held or other credit enhancements

	Gross maximum exposure 2022 (AWG '000)	Gross maximum exposure 2021 (AWG '000)
Credit risk exposures relating to on and off balance sheet assets are as follows:		
Due from banks	272,771	300,032
Balances with central bank	202,048	75,555
Loans and advances to customers	607,801	599,730
Securities at FVTPL	4,482	5,502
Securities at FVOCI	3,780	3,600
Securities at amortised cost	-	4,978
Due from associated and affiliated companies	20,393	9,096
Other assets	1,039	1,779
Total	1,112,314	1,000,272
Credit risk exposures related to off-Balance sheet financial assets are as follows:		
Contingent liabilities (letter of credit and financial guarantees)	10,453	10,953
Credit commitments	78,378	64,998
Total	88,831	75,951
Total credit risk exposure	1,201,145	1,076,223

The above table represents a worst-case scenario of credit risk exposure to the Bank without taking account of any collateral held or other credit enhancement attached.

25 Financial Risk Management (continued)

25.6 Credit Risk (continued)

25.6.4 Concentration of risk of financial assets with credit risk exposure by industry sectors

The following table breaks down the Bank's main credit exposure of their carrying amounts, as categorized by industry sectors of counterparties.

	Gross maximum exposure 2022 (AWG '000)	**Gross maximum exposure 2021 (AWG '000)**
Consumer	325,346	325,107
Manufacturing	14,610	10,906
Distribution	40,891	36,228
Financial services	17,188	7,090
Transport	7,226	6,319
Construction	6,327	7,255
Real estate	72,326	72,782
Tourism	16,468	16,561
Professional services	9,166	7,439
Health services	22,504	24,951
Other	75,749	85,092
	607,801	599,730

25.6.5 Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty and by industry sector. The maximum credit exposure to any client or counterparty as at October 31, 2022 was AWG 26,826,000 (2021: AWG 26,802,000) before taking account of collateral or other credit enhancements.

25 Financial Risk Management (continued)

25.6 Credit Risk (continued)

25.6.6 Credit quality by class of financial assets

	Stage 1 (AWG '000)	Stage 2 (AWG '000)	Stage 3 (AWG '000)	Total (AWG '000)
As at October 31, 2022				
Due from banks	272,771	-	-	272,771
Loans:				
Retail	45,958	816	806	47,580
Commercial/corporate	229,859	30,639	23,086	283,584
Mortgages	251,310	12,584	12,743	276,637
Loans (Gross)	527,127	44,039	36,635	607,801
Securities:				
FVTPL:				
Other	4,482	-	-	4,482
FVOCI:				
Other	3,780	-	-	3,780
Amortised cost:				
Government	-	-	-	-
Securities (Gross)	8,262	-	-	8,262
Total	808,160	44,039	36,635	888,834

25 Financial Risk Management (continued)

25.6 Credit Risk (continued)

25.6.7 Credit quality by class of financial assets (continued)

	Stage 1 (AWG '000)	Stage 2 (AWG '000)	Stage 3 (AWG '000)	Total (AWG '000)
As at October 31, 2021				
Due from banks	300,032	-	-	300,032
Loans:				
Retail	48,248	2,572	1,432	52,252
Commercial/corporate	221,027	19,232	34,364	274,623
Mortgages	245,350	15,127	12,378	272,855
Loans (Gross)	514,625	36,931	48,174	599,730
Securities:				
FVTPL:				
Other	5,502	-	-	5,502
FVOCI:				
Other	3,600	-	-	3,600
At amortised cost:				
Government	4,981	-	-	4,981
Securities (Gross)	14,083	-	-	14,083
Total	828,740	36,931	48,174	913,845

For those exposures that are stage 2 the majority are rated between standard (good) to excellent which is high grade.

25 **Financial Risk Management (continued)**

25.6 **Credit Risk (continued)**

25.6.8 **Credit risk exposure on due from banks, debt securities and other bills based on the Group's internal corporate rating system**

The table below presents an analysis of balances due from banks, debt securities, treasury bills and other eligible bills by internal and equivalent rating agency designation.

	Standard & Poor's equivalent grades	2022 Total (AWG '000)	2021 Total (AWG '000)
Excellent			
AA	BB+	277,253	305,534
		277,253	305,534

25.7 **Capital management**

Capital management is a proactive process that ensures that the Bank has and remains able to generate or raise sufficient capital on a timely and cost-effective basis to underpin its risks and ultimately protect depositors and other creditors from unexpected losses.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, based on an internal risk assessment approach employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision as implemented by the local banking regulators of the various territories in which the Group operates.

The Bank is governed by the risk based capital targets set by the Central Bank of Aruba, and are required to calculate capital ratios and capital-to-risk adjusted assets multiples using the framework adopted by the Central Bank of Aruba. Under the local guidelines, adjusted qualifying capital includes core capital and supplementary capital. Core capital mainly consists of fully paid and issued share capital, audited retained earnings, statutory reserve fund, capital reserves excluding asset revaluation reserves less goodwill. Supplementary capital includes subordinated debt, asset revaluation reserves and unaudited profits. Regulatory capital ratios are calculated by dividing core capital by risk-weighted assets and qualifying capital by risk adjusted assets. The required information is filed with the authorities on a monthly or quarterly basis as prescribed by the regulator.

25 Financial Risk Management (continued)

25.7 Capital management (continued)

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the years ended October 31.

	2022 (AWG '000)	2021 (AWG '000)
Tier 1 capital		
Share capital (net of treasury shares)	44,865	44,865
Retained earnings	99,660	78,037
Total qualifying Tier 1 capital	144,525	122,902
Tier 2 capital		
Other components of equity	2,498	2,363
Statutory reserve	17,772	16,957
Total qualifying Tier 2 capital	20,270	19,320
Total regulatory capital	164,795	142,222
Risk-weighted assets:		
Risk weighted assets for credit risk	504,705	484,304
Total risk-weighted assets	504,705	484,304
Total regulatory capital to risk weighted assets	33%	29%

The licensed banking entity in Aruba is required to maintain a qualifying capital ratio of at least 16%, however in response to the adverse economic developments resulting from the COVID 19, during the prior year the Central Bank of Aruba temporarily relaxed the requirement to 14%. The temporary relaxation was revoked by the CBA effective September 1, 2021. Throughout the current year and prior year, the Bank submitted regulatory returns inclusive of calculations that complied with all of the externally imposed capital requirements to which it is subject.

26 Fair value of financial assets and liabilities

Disclosures of fair value for financial instruments that are carried at amortised cost

The following fair value hierarchy table presents fair values of financial assets and liabilities that are carried at amortised cost, and therefore excludes financial instruments that are measured and disclosed at fair value on a recurring basis.

Financial assets and liabilities for which fair value are disclosed

	Fair value always approximates carrying value	Fair value may not approximate carrying value	Total Fair value
	(AWG '000)	(AWG '000)	(AWG '000)
As at October 31, 2022			
Cash equivalents	272,771	-	272,771
Securities	-	-	-
Loans	-	568,543	568,543
Other assets	1,039	-	1,039
Due to banks	-	2,113	2,113
Customers' deposits	555,483	392,991	948,474
Other liabilities	6,083	-	6,083

	Level 1	Level 2	Level 3	Total
As at October 31, 2022				
Cash equivalents	-	272,771	-	272,771
Securities	-	-	-	-
Loans	-	-	568,543	568,543
Other assets	-	-	1,039	1,039
Due to banks	-	-	2,113	2,113
Customers' deposits	-	-	948,474	948,474
Other liabilities	-	-	6,083	6,083

26 Fair value of financial assets and liabilities (continued)

Financial assets and liabilities for which fair value are disclosed (continued)

	Fair value always approximates carrying value	Fair value may not approximate carrying value	Total Fair value
	(AWG '000)	(AWG '000)	(AWG '000)
As at October 31, 2021			
Cash equivalents	300,032	-	300,032
Securities	-	4,978	4,978
Loans	-	563,940	563,940
Other assets	1,779	-	1,779
Due to banks	-	1,018	1,018
Customers' deposits	515,251	334,309	849,560
Other liabilities	5,743	-	5,743

	Level 1	Level 2	Level 3	Total
As at October 31, 2021				
Cash equivalents	-	300,032	-	300,032
Securities	-	4,978	-	4,978
Loans	-	-	563,940	563,940
Other assets	-	-	1,779	1,779
Due to banks	-	-	1,018	1,018
Customers' deposits	-	-	849,560	849,560
Other liabilities	-	-	5,743	5,743

26 **Fair value of financial assets and liabilities (continued)**

Financial assets and liabilities for which fair value are disclosed (continued)

Carrying amounts of certain financial instruments approximate their fair values due to short-term nature and generally insignificant credit risk of the instruments: (i) loans and deposits with original maturity of less than three months or payable on demand; and (ii) certain receivables and payables in other assets and other liabilities.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- Loans to customers are similarly valued taking into account credit portfolio experience. The valuation model is reviewed on an annual basis and updated as necessary to reflect portfolio experience.

Disclosures of fair value for financial instruments that are measured and disclosed at fair value

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

26 Fair value of financial assets and liabilities (continued)

Valuation techniques and assumptions applied for the purposes of measuring fair value (continued)

As at October 31, 2022	Level 1	Level 2	Level 3	Total
	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)
Securities at FVTPL				
Securities FVTPL classified				
Money market instruments	4,482	-	-	4,482
	4,482	-	-	4,482
Securities FVOCI				
Securities FVOCI designated				
Equity securities	-	-	3,780	3,780
	-	-	3,780	3,780
	4,482	-	3,780	8,262

26 Fair value of financial assets and liabilities (continued)

Valuation techniques and assumptions applied for the purposes of measuring fair value (continued)

As at October 31, 2021	Level 1	Level 2	Level 3	Total
	(AWG '000)	(AWG '000)	(AWG '000)	(AWG '000)
Securities at FVTPL				
Securities FVTPL classified				
Money market instruments	5,502	-	-	5,502
	5,502	-	-	5,502
Securities FVOCI				
Securities FVOCI designated				
Equity securities	-	-	3,600	3,600
	-	-	3,600	3,600
	5,502	-	3,600	9,102

There were no transfers between levels during 2022 and during 2021.

26 Fair value of financial assets and liabilities (continued)

Positive and negative fair value movement of Level 3 financial instruments from using reasonably possible alternative assumptions

A financial instrument is classified as Level 3 in the fair value hierarchy if one or more of its unobservable inputs may significantly affect the measurement of its fair value. In preparing the financial statements, appropriate levels for these unobservable input parameters are chosen so that they are consistent with prevailing market evidence or management judgment. Due to the unobservable nature of the prices or rates, there may be uncertainty about valuation of these Level 3 financial instruments.

The following table summarizes the impact to fair values of Level 3 financial instruments using reasonably possible alternative assumptions. This sensitivity disclosure is intended to illustrate the potential impact of the relative uncertainty in the fair value of Level 3 financial instruments. In reporting the sensitivities below, we have considered offsetting balances in instances when: (i) the move in valuation factor caused an offsetting positive and negative fair value movement, (ii) both offsetting instruments are in Level 3, and (iii) when exposures are managed and reported on a net basis. With respect to overall sensitivity, it is unlikely in practice that all reasonably possible alternative assumptions would be simultaneously realized.

	Level 3 Fair value	Positive fair value movement from using reasonably possible alternatives	Negative fair value movement from using reasonably possible alternatives
	(AWG '000)	(AWG '000)	(AWG '000)
As at October 31, 2022			
Securities at FVTPL	-	-	-
Securities at FVOCI	3,780	(1,018)	612
	3,780	(1,018)	612

26 Fair value of financial assets and liabilities (continued)

Positive and negative fair value movement of Level 3 financial instruments from using reasonably possible alternative assumptions (continued)

	Level 3 Fair value	Positive fair value movement from using reasonably possible alternatives	Negative fair value movement from using reasonably possible alternatives
	(AWG '000)	(AWG '000)	(AWG '000)
As at October 31, 2021			
Securities at FVOCI	3,600	230	(601)
	3,600	230	(601)

Sensitivity results

As at October 31, 2022, the effects of applying other reasonably possible alternative assumptions to the Level 3 asset positions would be an increase of AWG -1,018 thousand and a reduction of AWG -612 thousand in fair value, of which AWG -1,018 thousand and AWG -612 thousand would be recorded in other components of equity, respectively. The effects of applying these assumptions to the Level 3 liability positions would result in a decrease of nil and an increase of nil in fair value as there are no liability positions.

Level 3 valuation inputs and approaches to developing reasonably possible alternative assumptions

The following is a summary of the unobservable inputs of the Level 3 instruments and our approaches to develop reasonably possible alternative assumptions used to determine sensitivity.

Financial assets or liabilities	Sensitivity methodology
Government debt and corporate debt Equity securities	• Sensitivities are determined based on adjusting, plus or minus 20 bps shift in the yield curve. • For private equities, sensitivities are derived from valuation range. When the fair value is kept at historical nominal value or there is no valuation range, zero sensitivity is assigned since there are no alternative assumptions.

26 Fair value of financial assets and liabilities (continued)

Reconciliation of Level 3 fair value measurements of financial assets

	FVTPL	FVOCI	Total
	(AWG '000)	(AWG '000)	(AWG '000)
As at November 1, 2021	-	3,600	3,600
Additions	-	-	-
Disposal (sale and redemption)	-	-	-
Gains / (losses) from changes in fair value	-	180	180
Transfer from Level 3	-	-	-
As at October 31, 2022	-	3,780	3,780

	FVTPL	FVOCI	Total
	(AWG '000)	(AWG '000)	(AWG '000)
As at November 1, 2020	-	2,745	2,745
Additions	-	-	-
Disposal (sale and redemption)	-	-	-
Gains / (losses) from changes in fair value	-	855	855
Transfer from Level 3	-	-	-
As at October 31, 2021	-	3,600	3,600

There were no transfers out of level 3 during 2022 and during 2021.

Financial assets classified as fair value through profit or loss

For our financial assets classified as FVTPL, we measure the change in fair value attributable to changes in credit risk as the difference between the total change in the fair value of the instrument during the period and the change in fair value calculated using the appropriate risk-free yield curves.

There were no significant changes in the fair value of the financial assets classified as FVTPL attributable to changes in credit risk during the year ended October 31, 2022, and cumulatively since initial recognition of the assets.

Net gains (losses) from financial instruments classified as fair value through profit or loss

Financial instruments classified as at FVTPL, which includes mainly trading securities are measured at fair value with realized and unrealized gains and losses recognized in Non-interest income, primarily in trading revenue.

27 **Restatements**

Reclassifications to non-interest income and non-interest expenses have been made to prior year figures to offset credit cards expenses within cards revenue included in the Transaction service fees and commissions in non-interest income in order to be consistent with the rest of the RBC Caribbean Banking entities. Additionally, we have made reclassifications within the provision for credit losses also to align with the RBC group as shown below.

The effect of this change to the 2021 statement of income and other comprehensive income is summarised in the table below.

	Year ended October 31, 2021		
	As previously Stated	Reclassifications	As Restated
Interest income	39,287	-	39,287
Interest expense	(8,207)	-	(8,207)
Net interest income	31,080	-	31,080
Non-interest income	20,205	(6,730)	13,475
Net income	51,285	(6,730)	44,555
Non-interest expenses	(43,644)	6,730	(36,914)
Release of credit losses on off balance sheet	-	236	236
Release of credit losses on loans	18,136	(233)	17,903
Provision for credit losses on securities	-	(3)	(3)
Total non-interest expenses	(25,508)	6,730	(18,778)
Profit before taxation	25,777	-	25,777
Taxation expense	(3,783)	-	(3,783)
Net profit after taxation	21,994	-	21,994
Other comprehensive income, net of taxes:			
Net change in income on securities	642	-	642
Other comprehensive income for the year, net of	642	-	642
Total comprehensive income for the year	22,636	-	22,636