Royal Bank

Consolidated Financial Highlights 2022

October 31, 2022

Board of Managing Directors' Report

In 2022, we saw a resurgence of business activities as remaining COVID-19 restrictions were relaxed in Aruba, Bonaire, Curaçao, Saba and St. Maarten. Market conditions continued to be challenging as we emerged from pandemic conditions. Despite these challenges, RBC Royal Bank N.V. ("the Bank") realized continued improvement in net income after tax in fiscal 2022. The results reflect a resilient bank that is well-positioned to pursue strategic growth.

Even with most if not all of the pandemic conditions behind us, we continue to live through a period of historic change, in consumers' behaviours, priorities and needs. In 2022, we saw a continued growth in the demand for our digital banking offerings. As a relationship-driven bank, our employees remained focused on creating exceptional client experiences, while ensuring an inclusive environment as we continued to manage our digital journey.

At RBC, our clients are at the centre of everything we do. Enabled by our investments in technology and talent, we believe our differentiated advice, products and services deliver long-term value to our clients. Throughout the past year, we accelerated actions focused on enhancing the client experience underpinned by programs across growth and transformation priorities, including product development and digitization. In the coming year, we will continue to focus on growth strategies, improving operational efficiency, and adding value for our clients. This commitment to our clients is a reflection of our culture and Purpose – to help clients thrive and communities prosper.

In the past year, our employees proved their resilience and adaptability by returning to offices in a new hybrid work environment. We've been finding the right balance as we continue to build our flexible and hybrid working model for the future – a model that will strengthen our creative, collaborative, inclusive and always-learning culture.

Financial Performance

In 2022 the Bank reported net income after tax of Nafl 65.7 million, representing a year-over-year increase of Nafl of 33.8 million. This was driven by the release of all COVID-19 provisions established at the onset of the pandemic as well as an update to our provision for estimated credit losses model to better reflect current circumstances and historic trends. Business performance also improved year-over-year with a Nafl 6.0 million or 5.6% improvement in revenue driven by higher interest income from loan volumes and yields on our investments, in addition to higher other operating income. Non-interest expenses were down Nafl 1.6 million or 1.6% mainly from salary and employee expenses. As a direct result of the release of the COVID-19 provision, we also saw the release of associated deferred taxes that was reflected in a higher tax expense of Nafl 7.8 million. The higher revenue and lower costs contributed to an overall improvement in our efficiency ratio.

Economic Outlook

Aruba: The economy experienced a strong rebound in 2022, supported by robust tourism travel. For the full-year 2022, stopover arrivals reached 98% of 2019 levels, with average hotel occupancy reaching 75% relative to 84% in 2019. Cruise travel recovered 74% with 21 fewer cruise ship calls in 2022 versus 2019. According to IMF estimates, the economy grew 4.4% in real terms in 2022. Real GDP growth is, however, projected to slow to 1.6% in 2023 amid recessionary expectations for Aruba's major tourism source markets and the continued global uncertainty. The easing of global supply chain disruptions and a softening of international commodity prices led to the domestic inflation rate declining from a high of 7.7% year-over-year in August 2022 to 5.7% year-over-year in December 2022. The economic recovery was sturdy enough to offset the growing government debt, resulting in the debt-to-GDP ratio falling to 101.7% in June 2022, down from an estimated 120% in March 2021. Total debt stock climbed from Afl. 5.23 billion in March 2021 to Afl. 5.97 billion in June 2022 driven mainly by loan proceeds from the Netherlands. No further liquidity support from the Netherlands is anticipated for 2023 as recovery from the COVID pandemic has reached an advanced stage. Additionally, the government will no longer be allowed to deviate from the budgetary norms in 2023.

Curaçao: According to the Central Bank of Curaçao and St. Maarten (CBCS), real GDP grew by an estimated 5.9% in 2022, reflecting primarily a faster than initially expected growth of stay-over tourism particularly during the second half of 2022. Growth is expected to moderate to 2.7% in 2023 in line with the projected economic slowdowns and recessions in Curaçao's main tourism source markets. For the full-year 2022, stayover arrivals surpassed 2019 levels by 5.6%, with average hotel occupancy reaching 70.7% relative to 72% in 2019. Cruise travel recovered 66% with 30 fewer cruise ship calls in 2022 versus 2019. In line with the increase in economic activity, labor demand rose particularly in the hospitality and construction sectors. The CBCS estimates that the unemployment rate dropped from 20.6% in 2021 to 18.8% in 2022 and is projected to decline further to 17.3% in 2023. The headline inflation rate reached 8.8% year-over-year in October 2022, with the largest year-over-year contributors being food (15.1%), home furnishings and household goods (12.8%), and transport and communications (10.4%). The public debt-to-GDP ratio improved from 86.7% in 2021 to 78.8% in 2022, due to the rise in the nominal GDP level. However, the total public debt stock rose largely as a result of liquidity loans from the Netherlands. No further liquidity support from the Netherlands is anticipated for 2023 as recovery from the COVID pandemic has reached an advanced stage.

St. Maarten: Following an 8.2% growth rate in 2021, the CBCS projects that real GDP will expand by 5.1% in 2022 led by a surge in stay-over arrivals. For the full-year 2022, stayover arrivals reached 372,808 surpassing 2019 levels by 17%. Cruise travel was slower to recover, reaching 52% of 2019 levels. However, momentum is expected to increase during the Q1 2023 peak winter travel period. As a result of the increase in economic activity, the CBCS estimated that the unemployment rate dropped from 15% in 2021 to 12% in 2022 and is projected to decline further to 9.5% in 2023. Inflation edged up 3.76% year-over-year in Q4 2022 due to surging costs in household expenditure categories and food and non-alcoholic beverages (11.22% year-over-year). The CBCS projects that inflation will climb to 4.2% year-over-year in 2023. The higher import bill resulted in a decline in gross official reserves of the monetary union, with the import coverage standing at 4.7 months by the end of 2022. Given this declining trend, the CBCS raised the pledging rate on three occasions in 2022, with 100 basis points in June, 150 basis points in September, and 125 basis points in November. As a result, the pledging rate stood at 4.75% at the end of 2022.

Bonaire and Saba: Data released by the Tourism Corporation Bonaire (TCB) showed that 170,194 visitors traveled to the island by air in 2022, exceeding 2019 levels by 7.7%. Travellers from the Netherlands accounted for 47% of all visitors, while 26% originated from the USA and 12% from Curaçao. Over 304,000 cruise passengers visited in 2022, representing two-thirds of what was received in 2019. Saba's visitor arrivals stood at approximately 2,400 in the first half of 2022, approximately half of the total recorded in the first six months of 2019. According to Statistics Netherlands (CBS), Bonaire's inflation rate fell from 12.2% year-over-year in Q3 2022 to 8.1% in Q4 2022. The decline was largely attributable to a subsidy on the fixed usage rate for electricity that was implemented as of November 1, 2022. Inflation remained stable in Saba with consumer prices rising by 9.7% year-over-year in both Q3 2022 and Q4 2022.

RBC and our community

Our collective success depends on attracting, retaining and developing the right talent to deliver on our strategy. From wellness and flexibility, to skill building and leadership development, we are committed to supporting, enabling and empowering our employees as they help our clients thrive and communities prosper.

Supporting the communities where we live and work is central to our Purpose. Through our local partnerships, donations and employee initiatives, RBC is committed to building vibrant, socially inclusive and sustainable communities. In 2022, we were particularly proud of the various initiatives that broaden economic opportunity amongst youth and underrepresented groups and foster community spirit. With our Caribbean Acts of Kindness campaign we highlighted the everyday acts of kindness that were helping individuals and communities navigate through the coronavirus pandemic. We also continued our long-standing relationship with the Little League Foundations in Aruba, Bonaire, Curaçao and St. Maarten as main sponsorship partner.

On behalf of the Board of Directors and management of RBC Royal Bank N.V., we would like to thank our clients for their continued confidence and their loyalty. We would also like to thank our employees, who continue to be the driving force behind all of our achievements. We remain committed to serving the Dutch Caribbean region and steadfast in delivering excellence as we help our clients thrive and our communities prosper.

Pierrot Hurtado
RBC Royal Bank N.V.
Managing Director

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

Independent auditor's report on the consolidated financial highlights

To the Shareholder of RBC Royal Bank N.V.

Our opinion

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

The consolidated financial highlights

The Group's consolidated financial highlights derived from the audited consolidated financial statements for the year ended October 31, 2022 comprise:

- the consolidated statement of financial position as at October 31, 2022;
- the consolidated statement of income and other comprehensive income for the year then ended;
- the related notes to the consolidated financial highlights.

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

The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated January 20, 2023.

Management's responsibility for the consolidated financial highlights

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

Auditor's responsibility

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

PricewaterhouseCoopers

Port of Spain
Trinidad, West Indies
22 February 2023

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

(Expressed in thousands of Antillean Guilders)

	As at 31 October	
	2022 ANG	2021 ANG
Assets		
Cash and due from banks	1,312,651	1,305,428
Securities	394,612	286,049
Loans and advances to customers	1,579,568	1,467,561
Customers' liability under acceptances	19,172	23,880
Bank premises and equipment	30,998	32,544
Goodwill and other intangible assets	5,383	13,530
Deferred tax assets	15,232	25,866
Other assets	11,829	21,510
Total assets	3,369,445	3,176,368
Liabilities and shareholders' equity		
Liabilities		
Customers' deposits	2,841,423	2,683,593
Due to other banks	30,747	51,601
Acceptances outstanding	19,172	23,880
Profit tax payable	4,551	11,771
Deferred tax liabilities	7,691	3,438
Provisions	670	666
Other liabilities	36,030	37,940
Total liabilities	2,940,284	2,812,889
Shareholders' equity		
Issued capital	114,455	114,455
Share premium	87,053	87,053
General reserve	29,609	27,041
Other reserve	2,893	2,869
Retained earnings	195,151	132,061
Total shareholders' equity	429,161	363,479
Total liabilities and shareholders' equity	3,369,445	3,176,368

Royal Bank

Consolidated Financial Highlights 2022

October 31, 2022

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

(Expressed in thousands of Antillean Guilders)

	Year ended 31 October 2022 ANG	2021 ANG
Interest income	99,483	95,171
Interest expense	24,722	21,420
Net interest income	74,761	73,751
Fee and commission income	20,996	21,327
Net fee and commission income	20,996	21,327
Other operating income	17,245	11,929
Total revenue	113,002	107,007
Salaries and other employee expenses	43,070	46,270
Occupancy expenses	6,968	6,928
Provision for credit losses	(64,872)	(30,187)
Other operating expenses	45,067	43,492
Operating expenses	30,233	66,503
Net result from operations	82,769	40,504
(Loss) / income from associates	(532)	147
Income before taxation	82,237	40,651
Taxation expense	(16,579)	(8,799)
Net income after taxation	65,658	31,852
Other comprehensive income, net of taxes:		
Net change in income on securities	24	688
Other comprehensive income for the year, net of tax	24	688
Total comprehensive income for the year	65,682	32,540

A. Significant accounting policies

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

Basis of preparation

The consolidated financial statements, from which these Consolidated Financial Highlights have been derived, are prepared in Antillean Guilders (ANG) and in accordance with International Financial Reporting Standards.

Use of estimates and assumptions

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates that affect the reported amount of assets, liabilities, net income and related disclosures. Estimates made by management are based on historical experience and other assumptions that are believed to be reasonable. Key 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. Accordingly, actual results may differ from these and other estimates thereby impacting our future Consolidated Financial Statements. These consolidated financial highlights have been prepared based on the criteria established by the Provisions for the Disclosure of Consolidated Financial Highlights of Domestic Banking Institutions, as set out by the Central Bank of Curaçao and Sint Maarten. Management do not believe there to be a material gap between the estimates used in these Consolidated Financial Statements and actual results based on historic performance.

Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of RBC Royal Bank N.V. (the parent company) and its wholly owned subsidiaries RBC Royal Bank (Aruba) N.V., ABC International N.V., RBC Royal Bank International N.V., Trade Center St. Maarten N.V., Royal Services (Curaçao) N.V. and Royal Services International (Curaçao) N.V (the Group) after the elimination of intercompany transactions and balances.

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

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

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

The following accounting policies are applicable to all periods presented:

Classification of financial assets

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

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

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

All other debt instruments are measured at FVTPL.

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

Business model assessment

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

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

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

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

SPPI assessment

Instruments held within a HTC or HTC&S business model are assessed to evaluate if their contractual cash flows are comprised of solely payments of principal and interest. SPPI payments are those which would typically be expected for basic lending arrangements. Principal amounts include the fair value of the financial asset at initial recognition from lending and financing arrangements, and interest primarily relates to basic lending return, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest can also include other basic lending risks and costs (for example, liquidity risk, servicing or administrative costs) associated with holding the financial asset for a period of time, and a profit margin.

Securities

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

Investment securities include all securities classified as FVOCI and amortized cost.

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

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

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

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

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.

Loans

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

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

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

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

Allowance for credit losses

An allowance for credit losses (ACL) is established for all financial assets, except for financial assets classified or designated as FVTPL and equity securities designated as FVOCI, which are not subject to impairment assessment.

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

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

We measure the ACL on each statement of financial position date according to a three-stage expected credit loss impairment model:

- Performing financial assets
  - Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring over the 12 months or shorter if remaining term is less than 12 months following the reporting date.
  - Stage 2 – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognized equal to the credit losses expected over the remaining lifetime of the asset.
- Impaired financial assets
  - Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance is recognized equal to credit losses expected over the remaining lifetime of the asset.

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

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

The ACL represents an unbiased estimate of expected credit losses on our financial assets as at the statement of financial position date. Judgment is required in making assumptions and estimations when calculating the ACL, including movements between the three stages and the application of forward looking information. The underlying assumptions and estimates may result in changes to the allowances from period to period that significantly affects the results of operations.

Measurement of expected credit losses

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

An expected credit loss estimate is produced 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.

A. Significant accounting policies (continued)

Allowance for credit losses (continued)

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

Determining the instruments in scope for this exemption and estimating the appropriate remaining life based on our historical experience and credit risk mitigation practices requires significant judgment.

Assessment of significant increase in credit risk

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

Our assessment of significant increases in credit risk 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 prior default during the last three years.
5) Increases in the 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.

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.

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

The expected principal and interest collection is estimated on a portfolio basis and references historical loss experience of comparable portfolios with similar credit risk characteristics, adjusted for the current environment and expected future conditions. A portfolio specific coverage ratio is applied against the impaired loan balance in determining the collectively-assessed ACL. The time value of money component is calculated by using the discount factors applied to groups of loans sharing common characteristics. The discount factors represent the expected recovery pattern of the comparable group of loans, and reflect the historical experience of these groups adjusted for current and expected future economic conditions and/or industry factors. Significant judgment is required in assessing evidence of impairment and estimation of the amount and timing of future cash flows when determining expected credit losses. Changes in the amount expected to be recovered would have a direct impact on the Provision for credit losses and may result in a change in the ACL.

Write-off of loans

Loans are generally written off, either partially or in full, when there is no or minimal realistic prospect of recovery. Where loans are secured, they are generally written off after receipt of any proceeds from the realization of collateral. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write off may be earlier. For credit cards, the balances are generally written off when payment is 180 days past due. Unsecured loans are generally written off at 365 days past due. Loans secured by real estate are generally written off at 2,000 days past due unless liquidation of underlying real estate collateral is expected to be closed in the short term. In such cases write-off may be delayed beyond 2,000 days. In all other instances, the write-off will be completed at 2,000 days, although recovery efforts will continue.

Modifications

The original terms of a financial asset may be renegotiated or otherwise modified, resulting in changes to the contractual terms of the financial asset that affect the contractual cash flows. The treatment of such modifications is primarily based on the process undertaken to execute the renegotiation and the nature and extent of changes expected to result. Modifications can be tracked through the original financial asset or result in derecognition of the original financial asset and recognition of a new financial asset.

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

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

RBC 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. 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.

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.

Cash and due from banks

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

Customer liability under acceptances/acceptances outstanding

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

Occupancy expenses

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

B. Specification of accounts

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

	31 October	
	2022	2021
	ANG	ANG
I. Assets		
Securities		
FVTPL	4,528	5,559
FVOCI	4,755	4,640
At amortised cost	385,329	275,850
Net securities	394,612	286,049
Loans and advances to customers		
Retail customers	822,024	858,664
Corporate customers	789,477	707,648
Public sector	1,012	1,065
Total loans and advances	1,612,513	1,567,377
Less allowance for loan losses	(32,945)	(99,816)
Net loans and advances	1,579,568	1,467,561

	31 October	
	2022	2021
	ANG	ANG
II. Liabilities		
Customers' deposits		
Retail customers	1,079,494	1,055,874
Corporate customers	1,695,090	1,580,044
Other	66,839	47,675
Total customers' deposits	2,841,423	2,683,593