

Consolidated Financial Highlights

December 31, 2019



Your Personal Banker

CONSOLIDATED BALANCE SHEET OF ORCO BANK N.V.
(All amounts are expressed in thousands of Antillean Guilders)

	31-Dec-2019	31-Dec-2018
Assets		
Cash and due from banks	117,751	127,393
Investment securities	11,870	12,717
Loans and advances to customers	764,344	681,301
Bank premises and equipment	15,899	16,978
Other assets	5,519	5,567
Total assets	915,383	843,956
Liabilities		
Deposits from customers	781,689	719,346
Amounts due to banks	783	175
Deferred tax liabilities	6,849	6,263
Other liabilities	8,122	9,021
	797,443	734,805
Shareholder's equity		
Issued capital	7,774	7,774
Share premium	18	18
General provision on loans and leases	30,832	27,558
Retained earnings	79,316	73,801
	117,940	109,151
Total shareholder's equity and liabilities	915,383	843,956

CONSOLIDATED INCOME STATEMENT OF ORCO BANK N.V.
(All amounts are expressed in thousands of Antillean Guilders)

	31-Dec-2019	31-Dec-2018
Interest income	40,963	38,943
Interest expense	10,811	11,568
Total net interest income	30,152	27,375
Fee and commission income	4,026	3,827
Fee and commission expense	-	-
Total net fee and commission income	4,026	3,827
Net trading income	1,245	937
Other operating income	223	212
Total net operating income	1,468	1,149
Total income	35,646	32,351
Salaries and other employee expenses	16,100	13,339
Occupancy expenses	2,752	2,682
Net impairment losses on loans and advances	1,124	1,395
Other operating expenses	7,146	8,688
Operating expenses	27,122	26,104
Net result from operations	8,524	6,247
Income from associates	-	-
Net result before tax	8,524	6,247
Profit tax expenses	(265)	1,224
Net income after tax	8,789	5,023

SPECIFICATION OF ACCOUNTS
(All amounts are expressed in thousands of Antillean Guilders)

	31-Dec-2019	31-Dec-2018
Assets		
Investment securities		
Debt securities at amortized cost	11,864	12,711
Financial assets at fair value through profit or loss	6	6
Total investments	11,870	12,717
Less allowance for expected credit losses	-	-
Net investments	11,870	12,717
Loans and advances to customers		
Retail customers	448,385	408,360
Corporate customers	300,375	263,277
Other	23,968	17,046
Total loans and advances	772,728	688,683
Accrued interest receivables on loans and advances	2,913	3,179
Allocated loan loss provision	(11,297)	(10,560)
Net Loans and advances	764,344	681,301
Liabilities		
Customers' deposits		
Retail customers	299,658	310,612
Corporate customers	449,946	382,403
Other	27,464	21,579
	777,068	714,594
Accrued interest payable on customers' deposits	4,621	4,752
Total customers' deposits	781,689	719,346

Independent Auditor's Report

To the Shareholder and Management Board of Orco Bank N.V.

Opinion

The accompanying consolidated financial highlights, which comprise the consolidated balance sheet as at 31 December 2019 and consolidated income statement for the year then ended and related notes, are derived from the audited consolidated financial statements of Orco Bank N.V. ("the Bank") for the year ended 31 December 2019.

In our opinion, the accompanying consolidated financial highlights are consistent, in all material respects, with the audited consolidated financial statements of the Bank, in accordance with the Provisions for the Disclosure of Consolidated Financial Highlights of Domestic Banking Institutions, as set by the Central Bank of Curaçao and Sint Maarten ("CBCS").

Consolidated financial highlights

The accompanying consolidated financial highlights do not contain all the disclosures required by International Financial Reporting Standards. Reading the accompanying consolidated financial highlights and our report thereon, therefore, is not a substitute for reading the audited consolidated financial statements of the Bank and our auditor's report thereon.

The audited consolidated financial statements and our auditor's report thereon
We expressed an unmodified audit opinion on the consolidated financial statements 2019 of the Bank in our auditor's report dated 5 February 2020.

Responsibilities of management for the consolidated financial highlights
Management is responsible for the preparation of the accompanying consolidated financial highlights in accordance with the Provisions for the Disclosure of Consolidated Financial Highlights of Domestic Banking Institutions, as set by the CBCS.

Auditor's responsibilities

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

Willemstad, Curaçao, February 5, 2020

Ernst & Young Accountants, drs. R.J.W. van Nimwegen RA

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Report of the Managing Board

Introduction

In 2019, despite the economic contraction experienced in Curaçao which is our largest market, Orco Bank was still able to realize portfolio growth and achieve another year of profitable operations. We continued to focus on our niche market, to provide personalized service and an enhanced customer experience, to ensure high compliance standards and to maintain stringent portfolio management, all of which contributed to our end result. The commercial environment in all islands in which we operate remained very competitive with continuing pressure on interest margins. This notwithstanding, with focused execution of our strategy, careful treasury management and the cohesive commitment of our staff in all islands, we were able to achieve and actually exceed our projected results.

The economic situation of the islands

According to the latest estimates of the CBCS, the Curaçao economy contracted by 1.9% in 2019, a slightly lower contraction than in 2018. The contraction was caused by a decrease in both domestic and net foreign demand. The latter was due mainly to a decrease in exports due largely to lower production at the Isla refinery and fewer activities in the harbor. Domestic demand contracted as both private and public spending dropped. The debt-to-GDP ratio of the government of Curaçao was projected to be 51.9% at the end of 2019, down from 52.8% at the end of 2018.

On the other hand, according to the latest figures of the CBCS, the economy of Sint Maarten recorded an expansion of 5.5% in 2019, indicating a strong turnaround compared to the 6.6% contraction in 2018 and that the island is on the path of economic recovery following the devastation caused by Hurricane Irma. There was a sharp rebound in both stay-over and cruise tourism arrivals and nearly all economic sectors experienced a positive turnaround. In addition, as the increase in the nominal GDP surpassed the rise in public debt, Sint Maarten's debt-to-GDP ratio is projected to decrease to 41.6% in 2019 from 43.1% in 2018.

The Public Entity Bonaire is moving forward with the central Dutch Government from The Hague to realize the objectives agreed upon by both parties. At the moment the funds have been allocated for roads, strengthening of the public services and the ongoing increase of social benefits. The main problem at the moment for the execution of the road enhancement projects is the capacity/manpower to prepare and execute these projects. On top of the available funds the Ministry of Internal Affairs committed EUR 3.2 million extra to get the capacity needed to move forward with the execution.

Major developments within the Bank

The challenges we encountered in 2019 were in some cases similar in each jurisdiction, and coming from all regulatory institutions operating in each jurisdiction, and concerned the fields of Corporate Governance, Compliance, sound Risk Management and Client Awareness Assessments. As a result various Policies and Procedures were introduced, modified and updated to meet the regulatory and international standard requirements. During 2019 Mr. Kenneth (Kenny) Canword also retired as Managing Director and CEO of the Bank after a distinguished career of nearly 20 years.

Bank's performance - financial highlights

In 2019, the balance sheet total increased by 8% to ANG 915,383 (2018: ANG 843,956). The increase can be attributed to the decrease of Cash and due from banks from ANG 127,393 to ANG 117,751 (a decrease of 8%) and an increase of Loans and Advances to Customers from ANG 681,301 to ANG 764,344 (an increase of 12%). The liabilities which increased are Deposits from Customers from ANG 719,346 to ANG 781,689 (an increase of 9%).

The increase in Net interest income from ANG 27,375 to ANG 30,152 (an increase of 10%), decrease of Interest expenses to ANG 10,811 (-7%) and

increase of the Net result on financial transactions to ANG 1,245 (33%), all contributed to the Bank recording a profit after tax for 2019 of ANG 8,789 (2018: ANG 5,023). The Personnel expenses increased with 21% and the Other operating expenses decreased with 16%, causing the Other operating expenses to remain stable.

Outlook for 2020

For Curaçao, the economic landscape for 2020 remains challenging and will be significantly influenced by, amongst other things, the future of the refinery. In the scenario where the refinery remains open (and operating at the same minimum level as in 2019), the CBCS estimates that GDP will decline by 2.3%. If the refinery were to close in 2020, the projected economic contraction according to the CBCS could be 5.2%, despite a positive contribution from the tourism sector. In either scenario, inflation is expected to climb to 4.0%. Consumer spending is also expected to be reduced with the planned introduction of the ABB general consumption tax. The ongoing economic and humanitarian crisis in Venezuela continues to pose a downside risk to the 2020 outlook.

The outlook for Sint Maarten is positive, with real GDP projected to grow by 3.0% in 2020. Private investments are also projected to increase as a result of, inter alia, the start of the second phase of the reconstruction of the airport and the construction of new hotels. These would lead to a continued recovery in stay-over tourism although cruise tourism is expected to decline in 2020 due to regional competition and scheduling.

The economic outlook for Bonaire remains promising. The inflation in the last quarter of 2019 is 2.2% higher than the fourth quarter of last year. With an inflation of 2.2% (last quarter of 2019) and an increase of the minimum wage with 6.2% there will still be a positive impact on the purchasing power of the population.

Our aim will be to continue to excel in the heavily competitive markets in which we operate, Bonaire, Curaçao and Sint Maarten. We are even more committed and even pledge to go the extra mile for our clients. Service Excellence will continue to be our motto during 2020, by offering quick turnaround of requests and efficient handling of compliance and good corporate governance principles.

In order to deal with the interest margin that is constantly under pressure we intend to maintain an even more stringent treasury management and be even more cost-conscious during our operations.

The Ride for the Roses event continues to be our flagship event and in February 2020 we proudly celebrated the 16th anniversary. We are committed to continue to promote awareness that cancer is curable. With this event we also support the 'Stichting Prinses Wilhelmina Kanker Fonds' in executing their charitable and supportive tasks to the cancer patients and their families.

The Managing Board is thankful for the commitment and support of our dedicated and motivated staff, without whom we could not have achieved our goals and successes of 2019. The Managing Board also thanks our Supervisory Board, our shareholders, and above all our esteemed clients for their continuous guidance, trust and business.

Willemstad, Curaçao, February 5, 2020

The Managing Board
of Orco Bank N.V.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL HIGHLIGHTS OF ORCO BANK N.V.

Accounting policies

General

The principal accounting policies adopted in the preparation of the Consolidated Financial Highlights of Orco Bank N.V. and its subsidiaries (the 'Bank') are set out below. These explanatory notes are an extract of the detailed notes included in the consolidated financial statements and are consistent in all material respects with those from which they have been derived.

Basis of preparation

The Bank's consolidated financial statements, from which the Consolidated Financial Highlights have been derived, are prepared in accordance with International Financial Reporting Standards ('IFRS').

The figures presented in these highlights are stated in thousands of Antillean Guilders and are rounded to the nearest thousand. The accounting policies used have been consistently applied by the Bank and are consistent, in all material respects, with those used in the previous year.

Basis of consolidation

Subsidiaries are all entities (including special purpose entities, if any) over which the Bank has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are de-consolidated from the date that control ceases.

The following subsidiaries have been consolidated as of December 31, 2019: Orco Finance N.V., Orco Bank Onroerend Goed N.V., Flamboyant Onroerend Goed N.V., Jan Noordduynweg Onroerend Goed N.V., Westpunt Onroerend Goed N.V., Orco Bank Investments Holding N.V., Orco Bank Investments B.V., Cerrito Onroerend Goed N.V. and Willemsplein Onroerend Goed N.V.

Classification and subsequent measurement of financial assets

Classification and subsequent measurement of the financial assets depend on:

- the Bank's business model for managing the asset; and
- the cash flow characteristics of the asset.

Business model assessment

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL.

SPPI

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- Amortized cost:

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance as further described below. Interest

income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

- Fair value through profit or loss ("FVPL"):

Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Derecognition of financial assets

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. If the terms are substantially different, the Bank derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

Expected credit loss principles

Based on IFRS 9, the loans are grouped into Stage 1, Stage 2 and Stage 3 as described below:

- Stage 1: When loans are first recognized, the Bank recognizes an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2;
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3;
- Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECLs;

Calculation of Expected credit losses

The key elements of the ECL calculations are as follows:

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.
- EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs such as GDP growth, Unemployment rates and the Consumer Price Index. The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.