

Report of the Management Board

Introduction

The markets in which Orco Bank operates remained resilient even though the global economy has been facing significant challenges such as inflation impacting consumer purchasing power, volatility in energy prices, supply chain shortages and challenges in the labor market which are all directly or indirectly linked to the Ukraine war and the lingering consequences of the COVID-19 pandemic. With a clear vision and core purpose, the Bank continued its focus on being the preferred banking partner in all jurisdictions we operate in, providing innovative, effective and customer-driven solutions that enable our customers to achieve financial freedom both responsibly and sustainably, while creating shared value for the communities we serve. The Bank was able to realize positive results in this challenging year thanks to the mutual trust of the Bank and its clients and the staff commitment.

The economic situation of the islands

Curaçao experienced an upswing during the second half of 2022. Real GDP growth in Curaçao increased further by 5.9% in 2022, mainly due to the strong growth of stay-over tourism due to an inflated demand for international travel and easing of travel restrictions. According to the CBCS the island did see an inflation rate surge towards 6.0%, mainly impacted by the increased prices of food, fuel and utilities driven by the sharp increase in international commodity prices.

General economic developments in Sint Maarten indicate that the real GDP growth of the island increased to 5.1% in 2022. Sint Maarten also experienced the robust growth because of the island removing the stringent lockdown measures, business curfews, and travel restrictions. The growth in stay-over visitors to the island was the result of increased visitors from the United States and the gradual return of cruise passengers and cruise-related activities. Meanwhile the surge in international commodity prices, oil prices in particular, resulted in an accelerated percentage of inflation that reached 4.6%.

During 2022 the Public Entity Bonaire established administrative work agreements through intensive collaboration with the Kingdom of the Netherlands, which resulted in several actions that have stimulated the local economy that had a positive effect on the people of Bonaire. In comparison to Curaçao and Sint Maarten, Bonaire experienced an even higher inflation rate of approximately 8.1% for 2022, according to Statistics Bureau (CBS).The increase was mainly caused by an increase in cost for fuel, food and electricity. Tourism remains the most important sector of Bonaire's economy, which has kept the economy of Bonaire moving forward along with the financial support of the Kingdom.

Major developments within the Bank

The Bank aims continuing to excel in Curaçao, Sint Maarten and Bonaire and wants to do this by differentiating its brand. We are committed to superior customer service and homing in on service excellence, offering quick turnaround by efficiently handling compliance and good corporate governance principles.

In 2022 the Bank focused on the continuation of process optimization and cost structures by simplifying how it does business. The Bank aims to grow its share of wallet with its existing clients, attract new clients, and improve sales and service capability by being responsive to the needs of its customers. Considering the Bank's aim to continue its growth in Curaçao, Sint Maarten and Bonaire, we have embarked on a transformation journey that involves learning to do things differently, to change as an organization attracting new prospects and for employees to be even better equipped serving our customers. Across the islands the Orco Bank team has been working on aligning people, processes, policies and technology to design and deliver a best-in-class customer (onboarding) experience. Orco Bank will continue to invest in automation and digitalization to ensure its competitiveness in the banking industry.

Several new banking products and services were launched to be able to offer excellent customer experience. Many of these new products and services go hand in hand with a further digitalization of the Bank's products and services such as our new Online and Mobile Banking application.

During 2022 Orco Bank remained focused on building long-term relationships with our clients and stakeholders while our main initiatives revolved around making banking easier, faster, and better for our customers. The Bank continued working on efforts to strengthen the partnership with sister bank Aruba Bank N.V.

Orco Bank is actively involved in its local communities and society at large. It is committed to doing business ethically, yielding long-term and sustainable benefits for all stakeholders. The Bank supports organizations on the islands through sponsorships and donations. Especially in education, sports, culture, health, and children's well-being. Orco Bank is the main sponsor of the famous Ride for the Roses event. Orco Bank follows an environmentally conscious policy, making the operations as paperless as possible, using natural light, and minimizing the overall energy consumption at the branches.

Bank's performance - financial highlights

The Bank's balance sheet saw a healthy increase of 6% to 1.217 million, mainly attributed by a strong loan portfolio growth of 11%. The loan portfolio has grown with 78 million to a total net loan portfolio of 814 million. The customers deposits base continued to grow, showing customers' trust in Orco Bank. The total income of the Bank increased with 9% to 33.9 million, due to increased interest income and operating income totaling 4.6 million.

With a clear vision and core purpose, the Bank invested in new products, innovative technology and employees, while maintaining a focus on being the preferred banking partner in all jurisdictions where it currently operates, providing innovative, effective and customer-driven solutions. These efforts resulted in an overall increased level of expenses, whereas operating expenses increased with 3.2 million. This affected the net income before tax, which decreased from 6.4 million in 2021 to 4.5 million in 2022.

Outlook for 2023

The current outlook primarily reflects factors carried over from 2022. The war in the Ukraine has shocked the commodity markets and has driven prices of food and energy up. With inflation rapidly rising more steadily than initially anticipated, its effects will be felt in other areas as well. According to the CBCS the lingering effects of the COVID-19 pandemic and renewed bottlenecks in global supply chains are slowing down economic activity. With this backdrop in mind, Central Banks worldwide have placed a stronger grip on monetary policy, resulting in increased interest rates volatility on the financial markets.

The latest estimates of the CBCS indicate that Curaçao's real GDP forecast for 2023 has been adjusted to 2.7%, a 0.2 percentage point decrease compared to the CBCS's outlook of September 2022. This revision was driven by a stronger decrease in net foreign demand, moderated by a slightly sharper increase in domestic demand. The CBCS also indicates that the real economic growth in Sint Maarten is projected to slow down from 5.1% in 2022 to 3.3% in 2023. The 2023 growth figure represents a downward revision of 0.3 percentage point compared to the CBCS's earlier publication. Meanwhile, the inflation forecast for 2023 is 4.5% for Curacao 4.2% for Sint Maarten. The Bank's aim will be to continue to excel in Curaçao, Sint Maarten and Bonaire. Service Excellence remains key, as well as quick turnaround of requests and efficient handling of compliance and good corporate governance principles. We expect a certain slowdown in all three economies as well as increased inflation rates. Orco Bank's risk appetite will remain consistent with last year. Our relationship with clients and prospects remains a top priority. We will continue to work on offering an excellent customer experience and continue to develop and improve our state of the art Online and Mobile Banking application, as well as the development of new products and self-service options. The Bank will continue to optimize processes and cost structure by simplifying the way we do business and aim to grow our share of wallet with our existing clients, attract new clients, improve sales and service capability by being responsive and offering a personalized experience.

The Management Board is thankful for the commitment and support of our dedicated and motivated staff, without them we could not have achieved our goals and successes of 2022. The Management Board also thanks our Supervisory Board, our Shareholder, and above all our esteemed clients for their continuous guidance, trust, and business.

Willemstad, Curaçao, 31 January 2023.
The Management Board of Orco Bank N.V.

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

A. Accounting policies

1.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.

2.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.

3.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, 2022:
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.

4.Classification and subsequent measurement of financial assets

Classification and subsequent measurement of the financial assets depend on:

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

Business model assessment
The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank'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 FVTPL.

SPPI

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank 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 FVTPL, 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 other comprehensive income ("FVOCI"):

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through profit or loss ("FVTPL"):

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 Bank 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.

Auditors Report
Independent auditor's
report on the audit of
the consolidated
financial highlights

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 2022 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 2022.

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 2022 of the Bank in our auditor's report dated 30 January 2023.

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.

Curaçao, 31 January 2023

for Ernst & Young Accountants

Drs. R.J.W. van Nimwegen RA