

Orco Bank N.V.

Consolidated

Financial Highlights

December 31, 2023

Report of the Management Board

Introduction

The markets in which Orco Bank operates experienced robust growth driven by a strong rebound of tourism, even though the global economy growth remained slow. The Bank maintained its commitment to being the go-to banking choice across all the regions where the Bank operates in. The Bank's dedication is towards offering inventive, efficient, and client-centric solutions that empower its customers to attain financial independence in a responsible and sustainable manner. Simultaneously, the Bank aims to generate mutual benefits for the communities the Bank is a part of. In late October, The Bank announced it will acquire a significant part of CIBC First Caribbean's Curaçao and Sint Maarten client portfolio.

The economic situation of the islands

In 2023, Orco Bank navigated a global economic landscape marked by moderate growth and several challenges. While global economic expansion slowed from 3.5% in 2022 to 3.0% in 2023, the Caribbean islands – Curaçao, Sint Maarten, and Bonaire – demonstrated resilience, driven largely by robust tourism performance. This annual report provides an overview of the economic context in which Orco Bank operated, highlighting the achievements, challenges, and strategic responses of the bank in this dynamic environment.

2023 saw moderation in global economic growth, influenced by the lasting effects of COVID-19, ongoing geopolitical tensions, policy tightening by central banks, and adverse weather events. Contrasting the global trend, the economies of Curaçao, Sint Maarten, and Bonaire continued their recovery. Curaçao's real GDP grew by 4.1%, and Sint Maarten's by 3.8%, with forecasts for 2024 predicting further growth. The driving force behind this resilience has been a better-than-expected performance in tourism, with all three islands welcoming a significant increase in visitors.

Orco Bank remained steadfast in its commitment to providing exceptional banking services. The continued economic recovery in core markets of Curaçao, Sint Maarten, and Bonaire has been a pillar of the Bank's operational stability.

Curaçao's record-breaking tourism numbers, with over 500,000 resort guests in 2023, and Sint Maarten's 9% increase in stay-over tourists significantly impacted our business positively. Bonaire's record passenger numbers, despite higher inflation rates, also contributed to our robust financial performance.

Orco Bank adapted its services and products to align with the booming tourism sector, offering tailored financial solutions to support the flourishing hospitality and service industries in the islands. The Bank's focus remained on sustainable banking practices, supporting projects that foster long-term economic growth and stability in our communities.

In a year marked by global challenges and regional opportunities, Orco Bank has demonstrated resilience, adaptability, and a commitment to sustainable growth. The Bank thanks its clients, partners, and employees for their unwavering support and look forward to a prosperous 2024.

Major developments within the Bank

In 2023, the Bank concentrated its efforts on expanding its market footprint. This was achieved by not only deepening relationships with existing clients but also by attracting new customers through strategic acquisitions. Concurrently, the Bank strengthened its sales and service capabilities to better meet customer demands. A key initiative in this endeavor was the launch of a branding positioning campaign across all three islands. This campaign re-introduced the bank to the islands, showcasing a refreshed and innovative image, and reinforced the Bank's commitment to being closer to its customers.

Orco Bank launched new products and services, like Smart Savings and Money Market account, to cater to customer needs. The Bank focusses on cultivating long-standing relationships with clients and stakeholders, aiming to make banking simpler, faster, and better.

The Bank's active participation in local community initiatives reflects its dedication to ethical business practices that offer long-term, sustainable benefits for all stakeholders. The Bank supports various causes across the islands, particularly in education, sports, culture, health, and children's welfare, and is the main sponsor of the Ride for the Roses event in Curaçao and Bonaire. The Bank's environmental efforts focus on reducing paper use, maximizing natural light, and minimizing energy consumption at its branches.

Targeting growth in Curaçao and Sint Maarten, Orco Bank is set to acquire a significant part of CIBC First Caribbean's client portfolio in these areas. The teams on these islands are committed to harmonizing people, processes, policies, and technology to deliver an exceptional customer onboarding experience. The Bank also invested in automation and digitalization to remain competitive in the banking industry.

This strategic acquisition, which involves key banking assets in Curaçao and Sint Maarten, has obtained approval from the Central Bank of Curaçao and Sint Maarten (CBCS) in January 2024.

This acquisition presents Orco Bank with a remarkable chance to improve its services for both existing and new clients. The Bank's goal is to become the preferred banking partner by offering innovative, effective, and customer-centric solutions for achieving financial freedom in a responsible and sustainable manner, all while contributing positively to the communities the Bank serves.

The Bank's collaboration with CIBC First Caribbean demonstrates its commitment to ensuring a seamless transition for their customers in Curaçao and Sint Maarten. This acquisition marks a significant step in Orco Bank's growth strategy, enhancing its ability to serve its valued clients effectively.

Bank's performance – financial highlights

The Bank's balance sheet saw a healthy increase of 16% to 1,413 million, mainly attributed by a strong loan portfolio growth of 19%. The loan portfolio has grown with 158 million to a total net loan portfolio of 971 million. The customers' deposits base continued to grow, with 199 million (20%), a testament to customers' trust in Orco Bank. The total income of the Bank increased with 29% to 44 million, due to increased interest income and operating income totaling 10 million.

With a clear vision and core purpose, the Bank invested in 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 by 5.5 million. Due to the improved performance of the Bank's loan portfolio, the release of its expected credit loss provision amounts to 2 million. This all together resulted in a net income before tax of 10.8 million, which is an increase of 7.6 million compared to 2022.

Outlook for 2024

As we look towards 2024, the economic forecast for both Curaçao and Sint Maarten presents a picture of steady growth and manageable inflation. In Curaçao, the Bank anticipates a slight acceleration in Real GDP growth to 4.4%, buoyed by a robust tourism sector and strengthened economic ties with the United States. This upward trend follows a strong performance in 2023, where GDP growth exceeded expectations at 4.1%, driven by a vibrant tourism industry. Inflation, which saw a downward revision in 2023 to 3.3%, is expected to stabilize at 2.8% in 2024, slightly influenced by global oil prices. The primary engine of growth will be domestic demand, with private consumption showing resilience despite a predicted slowdown in major investment projects.

Sint Maarten, on the other hand, is set to experience a Real GDP growth of 3.0% in 2024, reflecting a continuation of the positive trend seen in 2023, where the economy grew by 3.8%. This growth is largely attributed to its strong relationship with the United States and its major trading partners. Inflation is expected to remain steady at 2.8%, mirroring the trend set in 2023. The economic expansion will be primarily be fueled by domestic demand, notably in private investments and public spending, though at a slightly reduced pace compared to the previous year. Both islands are poised for a year of sustained growth and economic stability, with tourism and domestic demand playing key roles in driving their economies forward.

For 2024, Bonaire is poised for a significant increase in tourist arrivals, largely driven by an expansion in seat capacity from major airlines, especially those originating from Canada and the United States. This development is expected to have a ripple effect across various sectors of Bonaire's economy. 2024 holds promising prospects for Bonaire, with the expected growth in visitor arrivals presenting opportunities for economic expansion, and continued efforts towards sustainable tourism.

Orco Bank is embarking on an ambitious growth strategy, marked by the strategic acquisition of significant parts of CIBC First Caribbean's portfolios in Curaçao and Sint Maarten. This significant move is set to unfold over the next few months, beginning with the takeover of the Curaçao portfolio in the first and second quarters. The integration of the Sint Maarten portfolio is anticipated to be completed between early and mid-2025. The Bank is committed to ensuring a seamless transition for their customers in Curaçao and Sint Maarten. This carefully orchestrated expansion aligns with Orco Bank's vision to significantly grow its presence and service in the region. The transition is expected to enhance Orco Bank's market position, combining its strong customer-focused approach with the robust portfolios of CIBC First Caribbean, ultimately providing more comprehensive financial solutions to its customers in these key markets.

The Management Board expresses its deep gratitude to the Bank's committed and enthusiastic staff, whose dedication was essential in achieving the goals and successes of 2023. The Bank also extends its thanks to its Supervisory Board, its Shareholder, and most importantly, its valued clients, for their ongoing guidance, trust, and patronage.

Willemstad, Curaçao, 29 January 2024

The Management Board of Orco Bank N.V.

Consolidated Balance Sheet of Orco Bank N.V.

(All amounts are expressed in thousands of Antillean Guilders.)

	December 31, 2023	December 31, 2022
Assets		
Cash and due from banks	394,712	363,877
Investment securities	20,759	20,867
Amounts due from related parties	6,945	0
Loans and advances to customers	971,423	813,643
Bank premises and equipment	12,938	12,353
Goodwill and other intangible assets	722	1,161
Other assets	5,708	5,398
Total assets	1,413,207	1,217,299

	December 31, 2023	December 31, 2022
Liabilities		
Deposits from customers	1,216,485	1,017,373
Amounts due to banks	45,216	59,233
Profit tax payable	1,078	1,982
Deferred tax liabilities	5,834	4,478
Provisions	902	1,990
Other liabilities	3,289	2,628
	1,272,804	1,087,664

Shareholder's equity		
Issued capital	7,774	7,774
Share premium	18	18
General provision on loans and leases	38,857	32,546
Retained earnings	93,754	89,298

	140,403	129,636
Total shareholder's equity and liabilities	1,413,207	1,217,299

Consolidated Income Statement of Orco Bank N.V.

(All amounts are expressed in thousands of Antillean Guilders.)

	2023	2022
Interest income	55,400	43,147
Interest expense	17,940	16,012
Total net interest income	37,460	27,135
Fee and commission income	4,602	4,061
Fee and commission expense	(1,556)	(916)
Total net fee and commission income	3,046	3,145
Net trading income	2,947	3,042
Other operating income	176	548
Total net operating income	3,123	3,590
Total income	43,629	33,870

Salaries and other employee expenses	18,412	15,035
Occupancy expenses	4,100	4,021
Net impairment losses on loans and advances	(1,980)	213
Other operating expenses	12,165	10,139
Operating expenses	32,697	29,408
Net result from operations	10,932	4,462
Income from associates	-	-
Net result before tax	10,932	4,462
Profit tax expenses	164	1,352
Net income after tax	10,768	3,110

Specification of accounts

(All amounts are expressed in thousands of Antillean Guilders.)

	December 31, 2023	December 31, 2022
I. Assets		
Investment securities		
Debt securities at amortized cost	20,753	20,861
Financial assets at fair value through profit or loss	6	6
Total investments	20,759	20,867
Allowance for ECL	-	-
Net investments	20,759	20,867

Loans and advances to customers

Retail customers	574,290	470,705
Corporate customers	393,644	349,011
Other	-	-

Total loans and advances	973,934	819,716
Accrued interest receivable	4,321	2,796
Allowance for ECL	(6,832)	(8,871)
Net loans and advances	971,423	813,643

II. Liabilities

Retail customers	494,470	412,546
Corporate customers	712,838	597,617
Other	-	-
	1,207,308	1,010,163

Accrued interest payable on customers' deposits	9,177	7,210
Total customers' deposits	1,216,485	1,017,373

Explanatory Notes to the Consolidated Financial Highlights of Orco Bank N.V.

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, 2023:
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., Cerito 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.

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 2023 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 2023. 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 2023 of the Bank in our auditor's report dated 29 January 2024.

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, 29 January 2024
for Ernst & Young Accountants
drs. R.J.W. van Nimwegen RA