Managing Director's Report

Economic Situation and Effect on Republic Bank (St. Maarten) N.V.

- In March 2020, the World Health Organization confirmed COVID-19 as a global pandemic. Since then, the pandemic has had a direct impact on St. Maarten where tourism accounts for 50 - 80% of the GDP.
- As a result of the crisis, the Central Bank of Curaçao and Sint Maarten (CBCS) forecast economic contraction to be approximately 14.9% of GDP due to the borders remaining closed for 3 months and their gradual reopening. The expected economic impact included:
  - I. Increased unemployment
  - II. Failure of businesses and individuals to meet financial obligations
  - III. Increased Government budget deficits due to the combined impact of sharp declines in tax revenue and increasing expenditures on payment balances
  - IV. Decline in foreign reserves

In May 2020, the Republic Bank Group developed an extensive impact analysis of COVID-19 and the Bank's business operations with suitable mitigating actions identified for implementation.

MAJOR DEVELOPMENTS WITHIN THE BANK IN THE 2019/2020 FISCAL PERIOD:

During the last fiscal period Republic Bank (St. Maarten) N.V. placed focus on:

- Support mechanisms for retail and commercial customers (moratoriums, technical support and loan restructuring). These mechanisms will extend into the foreseeable future, with measured moratorium support until September 2021, to allow for recovery efforts and reduce short-term impact on non-performing loans (NPL).
- Closing the Bank's human resources gaps, as well as hiring and formalising contract positions. All senior roles have since been filled. Other junior roles were also filled as the branch prepared to fully open the Philipsburg location.
- Completing remedial work at the Philipsburg branch. The facility was opened to the public on October 19, 2020.
- Examining the Corporate Non-Performing Loan Portfolio to identify opportunities for rewrite based on Republic Financial Holdings Limited's (RFHL) risk criteria and appetite.
- Re-establishing and strengthening partnerships with external 'Centres of Influence'(car dealerships, real estate agents etc.) The Bank forged relationships with several local car dealerships and real estate agents, co-hosting public events (car shows and open houses) towards meeting and extending its services to new customers.
- Bringing the RBEC Group's COVID-19 Resumption Plan in line with the St. Maarten Government's 4-phase Economic Re-opening Plan. The Bank's plan sought to fully maximise the digital banking platform, digital adoption and customer onboarding while ensuring a seamless transition for customers. To further enhance the Group's plan, Republic Bank (St. Maarten) N.V. implemented a localised business continuity plan that addressed the Bank's specific exposure in St. Maarten.

CORPORATE SOCIAL RESPONSIBILITY:
At the onset of the COVID-19 Pandemic, the Bank partnered with several institutions on relief projects that included the donation of a ventilator machine to the St. Maarten Medical Center Foundation, an institution that serves patients in St. Maarten, Saba, St. Eustatius and other surrounding islands. This is fundamental to the Republic Bank Group's philosophy of building successful societies and thrust of the Power to Make A Difference Programme in the territories in which the Group operates.

FINANCIAL PERFORMANCE:
The impact of the COVID-19 crisis on the Bank's performance was evident in its Income Statement and Balance Sheet. Management observed positive performance in commercial loans when compared to forecasts, while other portfolios saw some contraction. Through various concessions and waivers offered to assist customers, the Bank realised significantly lower revenues from its non-interest streams. The Bank also saw an increase in its credit losses resulting from default in Credit Card facilities. Based on these challenges, the Bank reported a Net Loss for this financial year. Notwithstanding this financial performance, the Bank is extremely proud that through the implementation of moratoriums, fee waivers and its COVID-19 Care Package it was able to continue serving its customers and communities while contributing to St. Maarten's health objectives.

ACKNOWLEDGEMENTS:
I would like to express my sincere gratitude and appreciation to the Chairman and the Board of Directors of Republic Bank (St. Maarten) N.V. for their commitment to the growth of the team in St. Maarten. I also want to say thank you to the Executive Management Team of Republic Bank (St. Maarten) N.V., my devoted team at the Philipsburg and Simpson Bay branches as well as our internal and external regulators.

We also extend our sincere thanks to the customers and general public of St. Maarten.

Sterl Lyons
General Managing Director

Independent Auditor's Report on the Financial Highlights

Grant Thornton

Report of the Independent Auditor

To Management and Board of Directors of
Republic Bank (St. Maarten) N.V.
St. Maarten

Reference: HEB/67.004.0/46377

Our opinion

The accompanying financial highlights as at and for the eleven-month period ended September 30, 2020 ('the summary financial statements') of Republic Bank (St. Maarten) N.V. ('the Bank') based in St. Maarten are derived from the audited financial statements of Republic Bank (St. Maarten) N.V. as at and for the eleven-month period ended September 30, 2020.

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with the audited financial statements.

Summary financial statements

The summary financial statements are presented in accordance with the Provisions for the Disclosure of Financial Highlights of Domestic Banking Institutions as set out by the Central Bank of Curacao and Sint Maarten. The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards (IFRS). Reading the summary financial statements and our report thereon, therefore, is not a substitute for reading the audited financial statements of Republic Bank (St. Maarten) N.V. and our auditor's report thereon. The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our auditor's report on those audited financial statements of December 24, 2020.

The audited financial statements and our auditor's report thereon

We expressed an unmodified audit opinion on the audited financial statements as at and for the eleven-month period ended September 30, 2020 in our auditor's report dated December 24, 2020.

Responsibilities of management and the Board of Directors for the summary financial statements

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

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

Our responsibilities

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which we conducted in accordance with International Standard 810 'Engagements to report on summary financial statements'.

St. Maarten, 29 March 2021

Grant Thornton Sint Maarten

Herbert Beldman AA RA CIA

Republic Bank (St. Maarten) N.V.

FINANCIAL HIGHLIGHTS
September 30, 2020

STATEMENT OF FINANCIAL POSITION
As at September 30, 2020
Expressed in thousands of Netherlands Antillean Guilder (Naf.'000)

	2020
ASSETS	
Cash and Due From Banks	166,719
Investment securities	35,800
Loans and advances to customers – net (see Note 3)	205,622
Bank premises and equipment	9,535
Deferred tax assets	4
Other assets	8,121
TOTAL ASSETS	**425,800**
LIABILITIES	
Customer Deposits (see Note 3)	374,211
Due to Other Banks	9,144
Other Liabilities	7,999
TOTAL LIABILITIES	**391,354**
EQUITY	
Issued Capital	34,685
Retained earnings	(239)
TOTAL EQUITY	**34,446**
TOTAL LIABILITIES AND EQUITY	**425,800**

The accompanying notes form an integral part of these financial highlights. These financial highlights must be read together with the audited statements that were approved by the Board of Directors on December 24, 2020 from which these financial highlights were derived from.

Karen Yip Chuck, Chairman

Whitfield Vlaun, Managing Director

Sterl Lyons, General Managing Director

Janelle Bernard, Corporate Secretary

STATEMENT OF COMPREHENSIVE INCOME
For Eleven Months Ended September 30, 2020
Expressed in thousands of Netherlands Antillean Guilder (Naf.'000)

	2020
Interest income	13,769
Interest expense	4,565
Net interest income	9,204
Fee and commission income (net)	1,295
Net Fee and commission income	1,295
Net trading income	511
Other operating income	1,363
Operating Income	1,874
Salaries and other employee expenses	3,922
Occupancy expenses	849
Net impairment losses on loans and advances	1,661
Other operating expenses	6,184
Operating expenses	12,616
Net results from operations	(243)
Taxation expense	4
Net results after taxation	(239)
Total Comprehensive Loss	(239)

The accompanying notes form an integral part of these financial highlights. These financial highlights must be read together with the audited statements that were approved by the Board of Directors on December 24, 2020 from which these financial highlights were derived from.

EXPLANATORY NOTES TO THE FINANCIAL HIGHLIGHTS OF REPUBLIC BANK (ST. MAARTEN) N.V.

Note 1: Basis of preparation
These financial highlights have been prepared based on the criteria established by the Provisions for the Disclosure of Financial Highlights of Domestic Banking Institutions, as set out by the Central Bank of Curaçao and Sint Maarten. The financial statements, from which these financial highlights have been derived, are prepared in Antillean Guilders (ANG) and in accordance with International Financial Reporting Standards. The financial statements are prepared under the historical cost convention and at fair value through profit or loss (FVTPL). The preparation of the 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. Actual results may differ from these and other estimates.

Note 2: Significant accounting policies

Note 2.1: Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, to facilitate changes to the original loan agreement or arrangement due to weaknesses in the borrower's financial position and/or non-repayment of the debt as arranged and terms and conditions have been restructured to the extent that, substantially, it becomes a new loan, with the difference recognised as an impairment loss. The newly recognised loans are classified as Stage 2 for ECL measurement purposes.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original rate (or credit adjusted EIR for purchased or credit-impaired financial assets), the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Derecognition other than for substantial modification

Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset, or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement.

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:
- The Bank has transferred substantially all the risks and rewards of the asset, or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

EXPLANATORY NOTES TO THE FINANCIAL HIGHLIGHTS OF REPUBLIC BANK (ST. MAARTEN) N.V. (continued)

Note 2: Significant accounting policies (continued)

Note 2.1: Derecognition of financial assets and liabilities (continued)

Derecognition other than for substantial modification (continued)

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Note 2.2: Impairment of financial assets

Overview of the ECL principles

The Bank records an allowance for expected credit losses (ECL) for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The Bank uses the general probability of default approach when calculating ECLs. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the size and nature of the underlying portfolio of financial instruments. Where the financial asset meets the definition of purchased or originated credit-impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank classifies its loans and investments into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1
When financial assets are first recognised and continue to perform in accordance with the contractual terms and conditions after initial recognition, the Bank recognises an allowance based on 12mECLs. Stage 1 financial assets also include facilities where the credit risk has improved and the financial asset has been reclassified from Stage 2.

Stage 2
When financial assets have shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 financial assets also include facilities where the credit risk has improved and the financial asset has been reclassified from Stage 3.

Stage 3
Financial assets considered credit-impaired (as outlined in Note 16.2). The Bank records an allowance for the LTECLs.

POCI
POCI assets are financial assets that are credit-impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The calculation of ECLs

The Bank calculates ECLs based on the historical measure of cash shortfalls, discounted at the instrument's coupon rate. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD - The Probability of Default is an estimate of the likelihood of default over a given period of time. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised 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 realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Bank considers among other factors the risk rating category and aging of the financial asset. Each of these is associated with different PDs, EADs and LGDs. When relevant, it also incorporates how defaulted loans and investments are expected to be recovered, including the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out, the maximum period for which the credit losses are determined is the contractual life of a financial instrument.

Impairment losses and recoveries are accounted for and disclosed separately. The mechanics of the ECL method are summarised below:

Stage 1
The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12- month default probabilities are applied to a forecast EAD and multiplied by the expected LGD which are derived as explained under Stage 3 for loans and using Global Credit Loss tables for traded investments and modified with management overlays when not traded.

Stage 2
When a financial asset has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The LGDs are derived as explained under Stage 3 for loans and using Global Credit Loss tables for traded investments and modified with management overlays when not traded.

Stage 3
For financial assets considered credit-impaired, the Bank recognises the LTECL for these financial assets. The method is similar to that for Stage 2 assets, with the PD set at 100%.

POCI
POCI assets are financial assets that are credit-impaired on initial recognition. The Bank only recognises the cumulative changes in LTECLs since initial recognition, based on a probability-weighting, discounted by the credit-adjusted EIR.

In most instances, LGDs are determined on an individual loan or investment basis, including discounting the expected cash flows at the original EIR. Stage 3 LGDs are grouped by similar types to provide percentage averages to be applied for Stage 1 and Stage 2 loans.

In limited circumstances within the Bank, where portfolios were small and the products homogenous with minimal history of defaults, a simplified ECL approach was applied using historical loss rates and staged based on the sovereign rating of the residence of the loan.

Note 3: Specification of key accounts

	2020 NAf.
ASSETS	
Loans and advances to customers	
Retail customers	142,471
Corporate customers	68,924
Total Loans and advances to customers	211,395
Less allowances	5,774
Net loans and advances	**205,622**
LIABILITIES	
Customer deposits	
Retail deposits	182,180
Corporate Customers	184,636
Public Sector	7,395
TOTAL CUSTOMER DEPOSITS	**374,211**

Note 4: Subsequent events

These financial highlights do not reflect the effects of events that occurred subsequent to December 24, 2020 the date of the audit report on the audited statements from which these financial highlights were derived from.