# Managing Director's Report

**Republic Bank (St. Maarten) N.V.**

**1. Economic Review: Key Country Highlights**

- Tourism continues to be the main contributor to the economy in St. Maarten. The Ministry of Tourism is positively encouraged by the statistics for visitor arrivals for 2022. For quarter one of 2022, St. Maarten received 101,919 arrivals, the highest performing Quarter since 2017. Quarter 2 and 3, saw an estimated 421,416 arrivals, also the highest performing since 2017.
- The Central Bank of Curacao and St. Maarten provided updated economic stats during the year 2022. Some key items to note were: (i) Significant growth in Business loans of 15% year over year when compared to mortgages and consumer loans which reduced by 2% and 3% respectively. (ii) Liquidity among all banks fell by ANG 300Million from January 2022 to September 2022.
- The Central Bank of Curacao and St. Maarten stated that Real GDP growth for St. Maarten in 2022 was recorded at 5.1% (preliminary figures) and is projected at 3.3% in 2023.
- A restriction was introduced on March 20, 2020, to limit possible capital flight after the outbreak of the COVID-19 pandemic. Under the capital restriction, no foreign exchange licenses were granted for capital transfers abroad, to limit the outflow of foreign exchange and safeguard the fixed peg of ANG to USD. In 2020, however, the official foreign exchange reserves increased by ANG 612 million to ANG 2.9 billion, and the import coverage rose from 6.2 to 7.1 months. The foreign exchange position strengthened further during 2021, increasing by ANG 338 million to ANG 3.2 billion, and the import coverage rose to 7.5 months. In such consideration, the CBCS repealed capital restriction as at January 1, 2022.

**2. Financial Review - Fiscal Year January 2022 Performance:**

**Highlights of financial performance**

**i. Profit/loss quarter by quarter & FYE**

- In April 2022, we undertook the conversion of our core banking systems from the native systems of the predecessor Bank of Nova Scotia to that of the Republic Group. Republic Bank (St Maarten) N.V. (RBSXM) operated for the first six (6) months of the fiscal on a platform which was not accessible to our external auditors at end of the fiscal. Consequently, there were limitations in verifying sources of income and expenditure within that six (6) month period. This has resulted in the issuance of a qualified audit report. Management acknowledges this as a one-off incident which is expected to fall away in 2023 as all information now resides on the RBSXM native banking system.
- Net Interest Income increased relative to target due to significant increases in the performing loans portfolio.
- Non-Interest Income increased relative to target resulting from a general increase of income from commission and fees owing to the normalization of economic activities when compared to the prior year.
- Operating expenses increased against budget due to increase in staff costs and audit expenses.

**ii. Total assets**

**Loans Growth/Decline:**

Over the fiscal 2022, the total productive loans grew by 17.3%. Growth was primarily attributed to the commercial loans sector which grew by 20.5% while the retail loans sector grew by 15.4%.

**iii. Deposits**

Over the fiscal 2022, there was an increase in the deposits portfolio by 1.9% which was primarily due to increases in Commercial Term Deposits.

**3. Key Considerations**

**ANG Currency**

The RBSXM continues its strategic plans to raise ANG deposits through Deposit Campaigns. NPLs remain stable with more stringent borrowing criteria in place by way of strong credit underwriting procedures and practices.

Stress testing continues to be performed to determine the impact on cash flow from movements in deposits.

**Credit - Mitigating Increased Delinquency and NPL**

- Management employees were engaged to support the site representative to place special focus on delinquency.
- The management focused on the Commercial and Small Business portfolio and liquidated assets where the client showed no commitment to the debt.
- Delinquency as at September 2022 increased by 3% when compared to the prior year. The majority of the delinquency residing in the 1-30day segment suggesting that the delinquency was not hardcore but more so transient. Strategies have been implemented to address this early stage of delinquency.

**4. Ongoing Initiatives**

**a. New products or new initiatives for the reporting period.**

**Technology Conversion Initiative.**

- Successful conversion of systems to the new IT platform occurred on April 1, 2022. Management and staff worked through a transitionary period which demanded focus from all resource areas to allow effective operation with the new core systems.

**Power to Make A Difference**

- Power to Make A Difference (PMAD) – The PMAD Programme was launched in August 2022 under the theme "Enabling Sustainable Societies" in the form of a hybrid event involving key stakeholders from the not-for-profit sector in each Republic Bank (EC) Limited (RBEC) territory including RBSXM. The programme will allow RBSXM to build and support the local communities by providing financial aid to organizations aimed at enhancing core sectors of the society.

**b. Growth opportunities for the RBSXM**

- Increase our Credit Card product offering with branded partner cards (E.g., American Airlines/ Jet Blue)
- To offer a Residential Mortgage alternative to local resident in USD currency.

**5. Market share**

In Fiscal 2022 Republic Bank (St. Maarten) N.V. saw Deposit Market share holding flat at 18% year over year. However, there was growth in the loan share from 21% to 24%.

**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 operations in St. Maarten. I also want the say thank you to the executive management of RBEC, my devoted team at the Philipsburg and Simpson Bay branches as well as our auditors and regulators for working with us and providing the required support in this transitionary year. We move forward in 2023 with a vision for growth and making a positive impact in the lives of our customers and the general public.

**Sterl Lyons**
General Managing Director

# Independent Auditor's Report on the Financial Highlights

**Opinion**
The accompanying financial highlights, which comprise the balance sheet as at 30 September 2022 and income statement for the year then ended and related notes, are derived from the audited financial statements of Republic Bank (St. Maarten) N.V. ("the Bank") for the year ended 30 September 2022.

In our opinion, the accompanying financial highlights are consistent, in all material respects, with the audited 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 Saint Maarten ("CBCS").

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

**The audited financial statements and our auditor's report thereon**
We expressed a qualified audit opinion on the audited financial statements 2022 of the Bank in our auditor's report dated 27 February 2023. The basis for our qualified audit opinion was that we were unable to obtain sufficient and appropriate audit evidence for (1) the pre-conversion commission income of ANG 3.4 million out of the total commission income of ANG 5 million for the year ended 30 September 2022 and (2) pre-conversion operating expenses for the year then ended, due to the system migration in 2022 to another banking platform, which impacted the pre-conversion commission income and the operating expenses related to supporting documents. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

**Other information**
Management is responsible for the other information. The other information consists of the Managing Director's Report but does not include the financial highlights and our auditor's report thereon. Our opinion on the financial highlights does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial highlights, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial highlights or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of management for the financial highlights**
Management is responsible for the preparation of the accompanying 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 financial highlights are consistent, in all material respects, with the audited 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, 25 April 2023

for Ernst & Young Accountants

Signed by
F. de Windt-Ferreira CPA

**Republic Bank (St. Maarten) N.V.**

# FINANCIAL HIGHLIGHTS
September 30, 2022

## STATEMENT OF FINANCIAL POSITION
As at September 30, 2022
Expressed in thousands of Netherlands Antillean Guilder (ANG'000)

| | 2022 | 2021 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | 106,963 | 119,028 |
| Investment securities | 17,748 | 21,941 |
| Loans and advances to customers | 288,075 | 254,672 |
| Premises and equipment | 9,850 | 9,473 |
| Deferred tax assets | 1,413 | 3,396 |
| Other assets | 6,901 | 4,400 |
| **TOTAL ASSETS** | **430,950** | **412,910** |
| **LIABILITIES** | | |
| Customer deposits | 356,769 | 350,248 |
| Due to other banks | 9,004 | 8,199 |
| Profit tax payable | 2,721 | - |
| Deferred tax liabilities | 1,160 | 2,765 |
| Other liabilities | 13,737 | 9,563 |
| **TOTAL LIABILITIES** | **383,391** | **370,775** |
| **EQUITY** | | |
| Share capital | 34,685 | 34,685 |
| Share premium | 1,115 | 1,115 |
| Other reserves | 1,752 | – |
| Retained earnings | 10,007 | 6,335 |
| **TOTAL EQUITY** | **47,559** | **42,135** |
| **TOTAL LIABILITIES AND EQUITY** | **430,950** | **412,910** |

The financial statements from which these financial highlights have been derived were approved by the (Supervisory) Board of Directors on February 27, 2023 and signed on its behalf by:

**Karen Yip Chuck, Chairman**

**Whitfield Vlaun, Managing Director**

**Sterl Lyons, General Managing Director**

**Janelle Bernard, Corporate Secretary**

## STATEMENT OF INCOME
For the year ended September 30, 2022
Expressed in thousands of Netherlands Antillean Guilder (ANG'000)

| | 2022 | 2021 |
|---|---|---|
| Interest income | 18,508 | 17,584 |
| Interest expense | 2,619 | 3,088 |
| **Net interest income** | 15,889 | 14,496 |
| Fee and commission income | 5,078 | 3,498 |
| Fee and commission expense | 216 | 8 |
| **Net Fees and commission income** | 4,862 | 3,490 |
| Net trading income | 1,088 | 562 |
| Other operating income | 3,413 | 3,704 |
| **Operating income** | 25,252 | 22,252 |
| Salaries and other employee expenses | 4,892 | 5,645 |
| Occupancy expenses | 1,552 | 1,797 |
| Net impairment losses on loans and advances | (665) | 1,358 |
| Net impairment losses on investment securities | 4 | 17 |
| Other operating expenses | 10,493 | 7,488 |
| **Operating expenses** | 16,276 | 16,305 |
| **Net result before tax** | 8,976 | 5,947 |
| Profit tax expense | 3,552 | (627) |
| **Net results after tax** | 5,424 | 6,574 |

## EXPLANATORY NOTES TO THE FINANCIAL HIGHLIGHTS OF REPUBLIC BANK (ST. MAARTEN) N.V.
For the year ended September 30, 2022
Expressed in thousands of Netherlands Antillean Guilder (ANG'000)

**A. Accounting policies**

**1. General**

The principal accounting policies adopted in the preparation of the financial highlights of Republic Bank (St. Maarten) N.V. (the 'Bank') are set out below. These explanatory notes are an extract of the detailed notes included in the financial statements and are consistent in all material respects with those from which they have been derived.

**2. Basis of preparation**

These financial highlights have been prepared 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 Saint Maarten. The financial statements, from which these financial highlights have been derived, are prepared in accordance with International Financial Reporting Standards ('IFRS'). The figures presented in these financial highlights are stated in thousands of Antillean Guilders ('ANG') and are rounded to the nearest thousand. The accounting policies used have been consistently applied and are consistent, in all material respects, with those used in previous year. The financial statements are prepared under the historical cost convention except for financial assets at fair value through profit or loss ('FVTPL').

**3. Classification and measurement of financial instruments**

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

The Bank classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms, measured at either:

- Amortised cost or
- FVPL

Financial liabilities, other than loan commitments and financial guarantees are measured at amortised cost.

***Financial assets at amortised cost:***

The Bank only measures financial assets at amortised cost if both of the following conditions are met:

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding and
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

*Solely payments of principal and interest (the 'SPPI test')*

The Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL or fair value through other comprehensive income (FVOCI) without recycling.

*Business model assessment*

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

***Financial assets at fair value through profit or loss:***

Financial assets in this category are those that are designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management may designate an instrument at FVPL upon initial recognition. The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis.

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

Financial assets at FVPL are recorded at fair value. Interest earned or incurred on instruments designated at FVPL is accrued in interest income, using the effective interest rate (EIR), taking into account any discount/premium and qualifying transaction costs being an integral part of the instrument. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other income when the right to the payment has been established.

**4. 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.

***Derecognition other than for substantial modification***

*Financial assets*

A financial asset 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.

*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.

**5. Impairment of financial assets**

***Overview of the expected credit loss ('ECL') principles***

The Bank records an allowance for 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).

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.

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 and Stage 3, as described below:

*Stage 1*

When financial assets are first recognised and continue to perform in accordance with the contractua l 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. The Bank records an allowance for the LTECLs.

***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.

***Forward looking information***

In its ECL models, the Bank considers a broad range of forward looking information as economic inputs, such as currency rates, GDP growth, unemployment rates, industry risk, real estate price trends and commodity price inflation rates. The inputs and models used for calculating ECLs may not always capture all characteristics and expectations of the market at the date of the financial statements. To reflect this, management adjustments or overlays are made by assessing the macroeconomic factors and applying judgements, when such differences are significantly material.

**B. Specification of accounts**

| | **2022**<br>ANG | **2021**<br>ANG |
|---|---|---|
| **I ASSETS** | | |
| **Investment securities** | | |
| Debt securities at amortized cost | 17,592 | 21,721 |
| Financial assets at fair value through profit or loss | 78 | 79 |
| **Total investment securities** | 17,670 | 21,800 |
| Accrued interest receivables on debt securities | 99 | 158 |
| Less allowance for expected credit loss | 21 | 17 |
| **Net investment securities** | 17,748 | 21,941 |
| **Loans and advances to customers** | | |
| Retail customers | 179,165 | 161,213 |
| Corporate Customers | 113,820 | 93,252 |
| **Total Loans and advances to customers** | 292,985 | 254,465 |
| Accrued interest receivable on loans and advances | 1,530 | 7,212 |
| Less allowances for expected credit loss | 6,440 | 7,005 |
| **Net loans and advances to customers** | 288,075 | 254,672 |
| **II LIABILITIES** | | |
| **Customer deposits** | | |
| Retail customers | 187,503 | 185,763 |
| Corporate customers | 169,266 | 164,485 |
| **TOTAL CUSTOMER DEPOSITS** | 356,769 | 350,248 |