

Annual Report 2021

Aruba Bank N.V.

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1 NOTES TO THE READER

1.1 Introduction

The Annual Report for the year 2021 of Aruba Bank N.V. consists of the Report of the Supervisory Board, the Report of the Management Board, the consolidated financial statements for the year ended December 31, 2021 as prepared by the Management Board of Aruba Bank N.V. and adopted by the Supervisory Board of Aruba Bank N.V. as well as the unqualified independent auditor's report dated January 28, 2022 of Ernst & Young Accountants on these consolidated financial statements.

1.2 Presentation of information

The financial information contained in this Annual Report has been prepared in accordance with International Financial Reporting Standards. The financial information is presented in Aruban Florin * 1,000, which is the functional and presentation currency of Aruba Bank N.V. Certain percentages in this document have been calculated using rounded figures.

1.3 Abbreviations

The following abbreviations have been used in the Annual Report (in alphabetical order):

<u>Abbreviation</u>	<u>Definition</u>
"AIB"	AIB Bank N.V.
"Annual Report"	Annual Report 2021
"Aruba Bank" or "Bank"	Aruba Bank N.V.
"AWG"	Aruban Florins
"CBA"	Central Bank of Aruba
"Consolidated financial statements"	Consolidated financial statements for the year ended December 31, 2021
"Directives"	State Ordinance on the Supervision of the Credit System for Credit Institutions
"EAD"	Exposure at default
"ECL"	Expected credit loss
"ERM"	Enterprise Risk Management
"EUR"	Euro
"FVOCI"	Fair value through other comprehensive income
"FVTPL"	Fair value through profit or loss
"Group"	Aruba Bank N.V. and its subsidiaries
"IAS"	International Accounting Standards
"IFRS"	International Financial Reporting Standards
"EY"	Ernst & Young Accountants
"LGD"	Loss given default
"LGL"	Loss given loss
"LTECL"	Lifetime expected credit loss
"Management Board"	Board of Managing Directors of Aruba Bank
"Managing Directors"	Members of the Board of Managing Directors of Aruba Bank
"OCI"	Other comprehensive income
"OHRA"	OHRA Hypotheekbank N.V.
"Orco Aruba Holding"	Orco Aruba Holding N.V.
"PD"	Probability of default
"POCI"	Purchased or originated credit impaired
"SPPI"	Solely payments of principal and interest
"Supervisory Board"	Board of Supervisory Directors of Aruba Bank
"Supervisory Directors"	Members of the Board of Supervisory Directors of Aruba Bank N.V.
"USD"	US dollars

2 REPORT OF THE SUPERVISORY BOARD

The Supervisory Board has reviewed and adopted the Annual Report including the consolidated financial statements. The Supervisory Board evaluated and discussed the Annual Report with the Management Board and the independent auditor Ernst & Young Accountants (“EY”). Due notice was taken of the independent auditor’s report dated January 28, 2022 issued by EY on the consolidated financial statements. The consolidated financial statements were prepared by the Management Board and have been authorized for issue on January 28, 2022.

2.1 SUPERVISORY BOARD

The Supervisory Board is charged with the supervision and advising of the Management Board. The Corporate Strategy, Risk and the Internal Control Framework, amongst others, are typically discussed and assessed by the Supervisory Board in their meetings, which take place at least five times a year. During 2021, the Supervisory Board continued to closely monitor the developments concerning the global pandemic and how it affected the bank.

Due to the unpredictable and unprecedented circumstances encountered in 2021, the Supervisory Board has made additional efforts to ensure solid ratio adherence, Portfolio Management, Risk, Compliance, Corporate Governance, Financial affairs, and Integrity. Maintaining the right balance between its leadership position, while showing empathy for those in need remained at the center of Aruba Bank’s efforts throughout the year.

The Supervisory Board has five committees in place, such as the Audit and Compliance Committee, the Nomination and Remuneration Committee, the Related Party Transactions Committee, the Board Credit Committee, and the Board Asset and Liability Management Committee.. However, the Supervisory Board as a whole remains responsible for the various tasks and responsibilities of each committee.

2.2 AUDIT AND COMPLIANCE COMMITTEE (ACC)

In addition to virtual consultations, the ACC formally convened six times in 2021. Standard items on the agenda of the Committee include topics such as Financial Reporting, Corporate Control, Internal and External Auditing (management letter, hard-close findings and audit report), Tax, Risk Management, Regulatory matters, and Compliance. The Committee also discusses the performance of the independent audit firm. The bank’s independent officers, the Group Chief Internal Auditor, the Money Laundry Compliance Officer and the Integrity Officer have a direct reporting line to the ACC.

2.3 BOARD CREDIT COMMITTEE (BCC)

While the BCC convened twice during 2021, regular consultations by telephone and email have taken place to assess and discuss credit extensions as well as relevant market developments. Loans in excess of the threshold amount of 1,500 of both Retail and Corporate clients were discussed, in addition to credit in general and specific risks related therewith.

2.4 NOMINATION AND REMUNERATION COMMITTEE (N&RC)

The N&RC is responsible for the review of the performance of the Managing Directors and compliance with the performance targets. The committee also prepares recommendations regarding the Supervisory Board member profiles and Management Board member profiles when applicable.

2.5 BOARD ASSET AND LIABILITY MANAGEMENT COMMITTEE (BALM)

The BALM monitors overall financial performance of the bank, including performance ratios, asset/liability management strategies and tactics, liquidity positions and funding needs, current and prospective capital levels, interest rates, asset mix, investment portfolio, as well as significant changes and trends in the Bank's results.

2.6 RELATED PARTY TRANSACTIONS COMMITTEE (RPTC)

The purpose of this Committee is to evaluate and to approve transactions between the Bank and its related parties, be it other group companies, shareholders, and/or first- and second-degree family members of the Supervisory Board and Management Board members. The committee ensures that these transactions are at arm's length and compliant with the supervisory framework.

2.7 INDEPENDENT AUDIT FIRM

Aruba Bank appointed EY as its independent auditor for the financial year 2018 onwards.

2.8 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The General Meeting of Shareholders is invited to approve the 2021 consolidated financial statements, the proposed appropriation of the net profit and to discharge the members of the Supervisory Board and Management Board, in accordance with article 16, sub 5, of the Articles of Association of Aruba Bank.

Considering this is another highly unusual year, the Supervisory Board would like to express its heartfelt appreciation and gratitude towards the Management Board and staff of Aruba Bank for their unwavering commitment and hard work.

Oranjestad, Aruba, January 28, 2022

B.W.H. Guis
Chairman

F.A. Tuininga
Vice-chairman

P.C. Dams
Member

H.S. George
Member

J.A. Stam
Member

3 REPORT OF THE MANAGEMENT BOARD

3.1 Introduction

The Aruban economy in 2021 continued its recovery from the effects of the COVID-19 pandemic.

We saw a steady decrease in the need of relief efforts for businesses and personal banking customers alike, nonetheless we continued to focus on offering our customers a superior experience, while ensuring that we remained compliant with requirements from a regulatory perspective as well as from a health perspective. The bank continues to implement measures to ensure our offices and premises remain COVID-19 proof, while we actively stimulate and encourage the use of online banking and self-services options.

Our main initiatives still revolved around making banking easier, faster, and better for our customers, as we continue the road to pre-COVID-19 levels.

The full impact of this global health crisis is difficult to assess, but we are confident that we shall overcome the challenges ahead if we stay committed to our values, being professional, accountable, and innovative.

3.2 Our Mission and Strategy

As a leading commercial bank in Aruba, our business is building long-term relationships with our clients and stakeholders. Our mission is to be the preferred partner, offering innovative, effective and customer driven solutions that enable our customers to achieve financial freedom in a responsible and sustainable way, while creating shared value for the communities we serve.

Our strategy is based on the following four pillars:

We Deliver: the best in banking and transactional services;

We Care: for our clients and for the society that we serve, with integrity;

We Build: an organization with a culture of continuous improvement;

We Collaborate: between departments, with our sister bank Orco Bank, and with stakeholders.

3.3 Economic and market conditions

The Aruban economy continued its recovery from the effects of the COVID-19 pandemic in 2021. Aruba Bank has also seen a further improvement in performance of its business and personal banking customers, in line with the recovery of community activity as a whole.

The bank continued initiatives primarily directed at investing in innovation and enhancing customer experience, in 2021. The bank was able to maintain its leadership position, while still providing aid there where necessary to keep the economy going without taking unnecessary risks.

Amid the recuperation the bank found it opportune to move forward to strengthen the partnership with sister bank Orco Bank to together, be the preferred banking partner of our respective customers, offering innovative, effective and customer driven solutions that enable our customers to achieve financial freedom, in a responsible way, whilst creating shared value for the communities we serve.

As we continue to focus on steering the bank into the future together with our customers, our employees, our partners and stakeholders, we must also acknowledge the net result of 2021, which the bank achieved.

We wish to express our genuine appreciation for the unwavering support and trust from all our stakeholders. We look forward to continuing to count on their support in the coming years.

3.4 Consolidated statement of financial position

The net loan portfolio (gross loan portfolio minus allocated loan loss provision) as at December 31, 2021 decreased with 2.7% to 1,454,048. The retail and corporate loan portfolio showed below market growth. Our overall market share decreased marginally and reached 42.8%.

As a result of new investments in government bonds of Aruba, the investment securities increased with 19.4% to 306,188 as per year end 2021.

Our financial position shows an increasing development in liquid assets (cash and cash equivalents and amounts due from banks), thus leading to a prudential liquidity ratio as at December 31, 2021 of 34.4% (2020: 31.0%), well above the minimum regulatory ratio of 18%.

The capital ratio at year-end 2021 stood at 29.7% (2020: 25.0%), which is also well above the minimum regulatory requirement (16%). The loan-to-deposit ratio is 57.9% at year-end 2021 (2020: 65.2%), below the regulatory maximum of 80%.

3.5 Consolidated statement of profit or loss

The financial figures reflect hard work and dedication during a worldwide pandemic. All market segments in which the Bank operates made a positive contribution to the Bank's 2021 performance. The profit before tax for the year 2021 amounts to 68,761 (2020: 24,064). Lower market interest rates and a limited decline in our portfolio accounted for pressure on interest income, which was compensated by a decrease in credit provisions of 8,052. Besides a decline in the total net interest income of 2.9%, the consolidated statement of profit or loss shows the following developments:

- Increase in total net commission and fees income of 13.8% from 19,233 to 21,890 due to an increase in other fees and commissions.
- Our net result on financial transaction increased with 48.0% due to the lifting of the limitation on outgoing foreign transactions by the CBA;
- Other income increased with 3,471 to 4,195 as a result of a final decision in a legal case, which resulted in a release of the provision;
- Other operating expenses decreased with 9.9% from 30,625 to 27,585 as a result of a decrease in automation expenses and marketing expenses;
- The personnel expenses increased with 6.7% to 37,144, due to voluntary packages offered to our staff during the year;

3.6 Organization and market

Network

Aruba Bank offers commercial and retail banking services to a wide variety of personal banking, commercial and institutional customers. The bank continues to focus on new services to support customers in the face of setbacks of the pandemic.

In 2021 Aruba Bank noticed enduring trust amongst all stakeholders. The bank continues to develop, innovate, and invest in products and services, at the convenience of their customers and the community. In this respect we are proud that in 2021 our new online banking application as well as our new mobile banking app have been launched.

Staff

As a service providing institution the Bank strongly believes in the ongoing training and development of management and staff. As of December 31, 2021, our full-time staff numbered 269 (December 31, 2020: 275).

3.7 Corporate governance

Aruba Bank is a company established under the laws of Aruba. The Articles of Association form the foundation from which the Corporate Governance Structure is derived. It is based on a two-tier governance structure consisting of a Management Board and a Supervisory Board.

The **Supervisory Board** is charged with the supervision and advising of the Management Board. The corporate strategy, risk, and the internal control framework, amongst many other subjects, are discussed and assessed by the Supervisory Board in their meetings, which take place at least five times a year. The Supervisory Board has several committees in place, such as the Audit and Compliance Committee, the Nomination and Remuneration Committee, the Related Party Transactions Committee, the Board Credit Committee, and the Board Asset and Liability Management Committee. The Supervisory Board remains responsible for the various tasks and responsibilities of each committee.

The **Management Board** is responsible for the setting and achieving of the Bank's strategy, objectives, and policies, and to ensure that the Bank is compliant with all relevant laws and regulations. The Management Board is accountable for the performance of its duties to the Supervisory Board and the General Meeting of Shareholders.

The **Management Team** of Aruba Bank supports the Management Board in the execution of the strategy and policies of the bank. It operates as a team together with the Management Board members to ensure alignment in achieving effectiveness, as well as overseeing individual areas of responsibility, which are as follows as per December 31, 2021:

Retail, Platinum, Insurance, and Corporate: Mrs. G.N. (Gina) Habibe - Arendsz
Risk and Compliance: Mrs. N.M. (Nataly) Simmons - Thompson
Finance and Operations: Mrs. M.C.C. (Marleen) van der Borgt
Human Resources: Ms. B.I. (Barbara) Bronswinkel

3.8 Corporate responsibility

Helping our community is at the heart of what we do. We have always supported community organizations. While we have seen a steady recuperation of our community, we continue to focus our support to the most vulnerable.

Examples of ongoing support include the donations to the Red Cross and their Feminine Hygiene Products drive and ventilators donation for Ambiente Feliz, a special care home for mentally impaired members of our community. We made financial contributions to support the Stimami Sterilisami Foundation, a cats and dogs' sterilization program, as well as the Luna Foundation, to help save stray dogs in Aruba.

Education stimulation was done by providing donations to various schools including OLV Fatima College's musical room and library. Throughout the year the bank supported numerous sports teams through the sponsorship of uniforms and sporting goods. We also helped support the personal development of clients of Respaldo Aruba, through volunteered, sponsored art programs. Respaldo is a center for mental health in Aruba, which has served the increased need for mental health support since the COVID-19 outbreak.

Our involvement in these areas allow us to continue to strengthen the community where our people live and work for the months and years ahead.

3.9 Outlook

The economy is forecasted to record a growth in 2022 as it recovers from a 26% contraction in 2020. The growth path reflects tourism dynamics benefiting from market concentration in the US Northeast.

The bank will continue to invest in technological innovation as well as in its people, the bank as a whole, and our island. This dedication fits seamlessly with our goal to continuously improve. Particularly investments in further digitalization of our offering as well as investments in compliance and onboarding of new clients are to be expected.

It is expected that in the first quarter of 2022 the acquisition of the assets and liabilities of FCIB Aruba will be completed. We are committed to welcoming our new clients in a seamless manner, providing former FCIB clients with the same care and dedication that our existing clients have come to expect.

Lastly, the unending dedication, hard work and commitment our staff has demonstrated, is something we are proud of. We extend our sincere gratitude to each and every one of them.

The Management Board
Oranjestad, Aruba, January 28, 2022

P.H.M. (Peter) Staal
Managing Director

S.M.S. (Sharon) Fränkel – de Cuba
Managing Director

4 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31, 2021.

	Note	December 31, 2021	December 31, 2020
Assets			
Cash and cash equivalents		527,049	471,792
Amounts due from banks		451,227	247,456
Investment securities	10.1	306,188	256,538
Loans and advances to customers	10.2	1,454,048	1,494,229
Other assets	10.3	10,914	15,782
Property and equipment	10.4	52,232	61,204
Goodwill and other intangible assets	10.5	24,508	18,534
Total assets		2,826,166	2,565,535
Shareholder's equity			
Share capital	10.6	35,000	35,000
Revaluation reserve	10.6	2,819	2,768
General (unallocated) loan loss provision	10.6	70,061	70,080
Retained earnings	10.6	297,650	241,353
Total shareholder's equity		405,530	349,201
Liabilities			
Amounts due to banks		13,217	10,061
Deposits from customers	10.7	2,368,600	2,170,557
Current tax liabilities	11.3	1,556	1,550
Other liabilities	10.8	22,940	20,175
Deferred tax liabilities	11.3	10,475	7,744
Provisions	10.9	3,848	6,247
Total liabilities		2,420,636	2,216,334
Total shareholder's equity and liabilities		2,826,166	2,565,535

The accompanying notes are an integral part of these consolidated financial statements.

5 CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

For the year ended December 31, 2021.

	Note	2021	2020
Interest income		115,903	120,341
Interest expenses		(28,431)	(30,244)
Net interest income		87,472	90,097
Operating income		37,966	27,983
Total income	11.1	125,438	118,080
Operating expenses	11.2	(64,729)	(65,429)
Credit loss expense on financial assets	10.2	8,052	(28,587)
Total expenses		(56,677)	(94,016)
Income before tax		68,761	24,064
Tax expense	11.3	(12,483)	(1,518)
Net income for the year		56,278	22,546
Other comprehensive income:			
Net gain on investments at FVOCI	10.1	51	(594)
Total comprehensive income for the year		56,329	21,952
Net income and other comprehensive income for the year attributable to:			
Shareholder		56,329	21,952
Total		56,329	21,952

The accompanying notes are an integral part of these consolidated financial statements.

6 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2021.

	Share capital	Revaluation reserve	General (unallocated) loan loss provision	Retained earnings	Total
Balance as at January 1, 2020	35,000	3,362	55,027	233,860	327,249
Net income 2020	-	-	-	22,546	22,546
Other comprehensive income for the year 2020	-	(594)	-	-	(594)
Transfer to general (unallocated) loan loss provision	-	-	15,053	(15,053)	-
Balance as at December 31, 2020	35,000	2,768	70,080	241,353	349,201
Net income 2021	-	-	-	56,278	56,278
Other comprehensive income for the year 2021	-	51	-	-	51
Transfer to general (unallocated) loan loss provision	-	-	(19)	19	-
Balance as at December 31, 2021	35,000	2,819	70,061	297,650	405,530

The accompanying notes are an integral part of these consolidated financial statements.

7 CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2021.

	Note	2021	2020
Operating activities			
Income before tax	5	68,761	24,064
Adjustments for:			
Interest expenses	11.1	28,431	30,244
Interest income	11.1	(115,903)	(120,341)
Depreciation and amortization expenses	11.2	5,844	4,947
Credit loss expense on financial assets		(8,052)	28,587
Decrease/(Increase) in amounts due from and due to banks		(200,615)	28,933
Decrease/(Increase) in loans and advances to customers	10.2	45,254	15,504
(Increase)/Decrease in other assets and investment interest receivable	10.3	830	(6,247)
Increase in deposits from customers	10.7	198,453	91,695
Decrease in other liabilities	10.8	2,765	(2,569)
Increase in provisions	10.9	(2,399)	195
Interest paid		(28,841)	(32,717)
Interest received		122,800	119,527
Income taxes paid		(9,747)	(6,305)
Cash generated by operating activities		107,581	175,517
Investing activities			
Purchase of investment securities	10.1	(52,450)	-
Additions to property and equipment	10.4	(3,193)	(8,491)
Redemptions of investment securities	10.1	2,972	56,400
Disposals of property and equipment	10.4	347	3,749
Cash (used in) / generated by investing activities		(52,324)	51,658
Financing activities			
Dividends paid to the shareholder	6	-	-
Cash used in financing activities		-	-
Net increase in cash and cash equivalents		55,257	227,175
Cash and cash equivalents as at January 1	4	471,792	244,617
Cash and cash equivalents as at December 31	4	527,049	471,792
Changes in cash and cash equivalents for the year		55,257	227,175

The accompanying notes are an integral part of these consolidated financial statements.

8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.1 Corporate information

Aruba Bank provides corporate and retail banking operations in Aruba and has served the banking needs of their clients since 1925. The Bank is a limited liability company and is incorporated in Aruba and its registered office is Camacuri 12, Oranjestad, Aruba.

As at December 31, 2021, Aruba Bank has 3 branches, 31 ATMs, 10 smart deposit machines and 269 employees. Aruba Bank has managed to maintain its market-leading position and is a full-fledged, customer-oriented commercial bank.

The Group's parent company is Orco Aruba Holding N.V., a limited liability company, which is incorporated in Aruba and its registered office is Camacuri 12, Oranjestad, Aruba. The Group's intermediate parent company is Orco Bank International N.V., a limited liability company, which is incorporated in Curacao and its registered office is at Landhuis Cerrito, Schottegatweg Oost z/n, Curacao. The Group's ultimate parent company is Orco Group N.V., a limited liability company incorporated in Curacao with its registered office at Plantage Groot Sint Joris z/n, Curacao.

The consolidated financial statements were prepared and authorized for issue by the Management Board and subsequently approved by the Supervisory Board on January 28, 2022.

8.2 Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and are stated in thousands of Aruban Florins (AWG 1,000), except where otherwise stated. Reference is made to note 10.6.3 for the General (unallocated) loan loss provision.

These consolidated financial statements have been prepared on a historical cost basis, except for the for the measurement of investment securities measured at amortized cost or fair value. The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions. Actual results could differ from those estimates. Significant accounting judgements and estimates in applying the accounting policies have been described in note 9.

8.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of Aruba Bank and controlled entities, thus incorporating the assets, liabilities, revenues and expenses of Aruba Bank and its subsidiaries. Non-controlling interests in both equity and results of group companies are presented separately in the consolidated financial statements. The financial statements of subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies.

All intercompany balances and transactions, and any related unrealized gains and losses, are eliminated in preparing the consolidated financial statements.

8.4 Changes in accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended December 31, 2020. The Group did not early adopt any other standard, interpretation or amendment that has been issued but is not yet effective.

8.4.1 New and amended standards not affecting amounts reported and/or disclosures in the consolidated financial statements.

In the current year, a number of new and amended standards issued by the IASB are mandatorily effective as follows:

- Amendments to IFRS 4 “Insurance contracts”
- Amendments to IFRS 16 “Leases”

Note that the new and amended standards are either not applicable or do not require any significant change to current practice and have not resulted in additional disclosures for the Group.

8.4.2 Standards and amendments in issue not yet effective

The following is a list of standards and amendments that are not yet effective up to the date of issuance of the Group’s consolidated financial statements. These standards will be applicable to the Group at a future date and will be adopted when they become effective. The Group will assess the impact of these standards and amendments in the coming period.

IAS 16	Property, Plant and Equipment (1)
IAS 37	Provisions, Contingent Liabilities and Contingent Assets (1)
IFRS 3	Business Combinations (1)

(1) Effective for annual periods ending on December 31, 2022;

8.5 Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

8.5.1 Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments, cash at hand and at bank, treasury bills and bankers’ acceptances with original maturities of three months or less.

8.5.2 Amounts due from banks

Amounts due from banks consists of the statutory deposit with the CBA and current accounts and deposits with other banks.

In accordance with statutory provisions, Aruba Bank N.V. is required to maintain with the CBA, statutory reserve requirements in relation to the short-term liabilities of less than 2 years and the statutory reserve requirement is excluded from the calculation of the prudential liquidity ratio.

8.5.3 Financial instruments – initial recognition

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value, except in the case of financial assets or financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (“ECL”) is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognized in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Group recognizes the difference as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

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

8.5.4 Financial assets

8.5.4.1 Classification and subsequent measurement

The Group only measures financial assets at amortized costs if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- 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.

The classification requirements for debt and equity instruments are described below:

8.5.4.2 Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

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

Based on these factors, the Group 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 recognized and measured as described in note 8.5.7. 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 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.

Business model assessment

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI

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

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

8.5.4.3 Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in the 'Net trading income' line in the statement of profit or loss.

8.5.5 Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Group did not reclassify any of its financial assets or liabilities in 2021.

8.5.6 Derecognition of financial assets and liabilities

Derecognition due to modification of terms and conditions

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Derecognition other than for a substantial modification

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

Financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

8.5.7 Impairment of financial assets

ECL principles

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss ("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 Groups policies for determining if there has been a significant increase in credit risk are set out in note 12.2.2.5.

The 12mECL is the portion of the 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 nature of the underlying portfolio. The Groups policy for grouping financial assets measured on a collective basis is explained in note 12.2.2.6.

The Group 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 loans are grouped into Stage 1, Stage 2, Stage 3 and POCI, 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;
- POCI: Purchased or originated credit impaired ("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 recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

Calculation of ECLs

The Group calculates ECLs based on the historical measure of cash shortfalls. 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 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 realisation of any collateral. It is usually expressed as a percentage of the EAD.

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 unless the Bank has the legal right to call it earlier.

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 Group 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 and discounted by an approximation to the original EIR.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group 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 expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Group recognizes the lifetime expected credit losses for these loans. 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 Group only recognizes the cumulative changes in lifetime ECLs since initial recognition, discounted by the credit-adjusted EIR.

8.5.8 Credit cards and other revolving facilities

The Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behaviour, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities. The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products.

8.5.9 Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters of credit and loan commitments. Financial guarantees, letters of credit and loan commitments are off-balance sheet instruments and have no history of default.

8.5.10 Forward looking information

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs (macro-economic variables), such as:

- GDP growth
- Unemployment rates
- 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.

8.5.11 Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Group's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at inception and re-assessed on a regular basis. For financial assets with sufficient collateral no provision has been recorded. The total outstanding balance for special assets is 164,597.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on independent valuations and other data provided by third parties or sight visits.

8.5.12 Write-offs

Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

8.5.13 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. The Group has a policy to not enter into finance leases.

All other leases classify as an exemption, leases of 'low-value' assets and/or short-term leases, for the accounting of the leases under the single on-balance sheet model. All other leases are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred

8.5.14 Property and equipment

Premises and equipment are stated at historical cost, less any accumulated depreciation and accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate on a prospective basis. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of income.

The depreciation rates used are as follows:

Freehold land	0%
Premises	2.5% - 10%
Other equipment	20% - 33.3%

Assets in the course of construction for operations are carried at cost, less any impairment loss. Cost includes professional fees and borrowing costs (specifically related to qualifying assets) capitalized in accordance with the Group's accounting policy and IFRS. Such assets are classified to the appropriate category of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

8.5.15 Goodwill and other intangible assets

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets, including software development costs are directly incurred in connection with identifiable and unique software products and which will likely provide economic benefits exceeding the costs for longer than one year are recognized as other intangible assets. Expenditures that improve the performance of software as compared with their original specifications are added to the original cost of the software. Software development costs are recognized as other intangible assets and are amortized on a linear basis over a period not exceeding five years. Costs related to the maintenance of software are recognized as an expense at the time they are incurred.

8.5.16 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

8.5.17 Employee benefits

Pension obligations

The Group has a defined contribution plan. Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions. Pension contributions are partially paid for by the Group and partially by the employees. The Group is under no obligation to cover back service liabilities, if any. For those employees that do not reach the minimum threshold, severance benefits have to be paid.

Severance benefits

The Group is committed, by legislation in Aruba, to make payments to employees upon severance. Such payments are considered severance benefits. As severance benefits do not provide the Group with future economic benefits, these severance benefits are recognized as an expense in profit or loss at the earlier of when the Group can no longer withdraw the offer of the severance benefit and when the Group recognizes any related restructuring costs. These severance benefits are calculated based

on the number of years employed. Severance benefits are also payable at retirement, but only if the retiree does not receive a pension from a pension plan of at least equal to the state pension.

Severance benefits are discounted when they fall due more than 12 months after the reporting period. The rate used to discount is determined by reference to long-term market yields (five year government bonds) at the end of the reporting period.

8.5.18 Taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the consolidated statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognized as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Aruba Bank and its subsidiaries (with the exception of OHRA, IB Aruba Finance N.V. and AB Beleggingen VBA) are part of the fiscal unity of which Orco Aruba Holding is the parent. Orco Aruba Holding files a consolidated tax return on behalf of the fiscal unity. The income tax calculation for Aruba Bank is prepared as if the entity is a stand-alone entity with all deferred and current tax charges or benefits, receivables, and payables included in these consolidated financial statements. Payables to or receivables from Orco Aruba Holding are included in the intercompany accounts with Orco Aruba Holding.

8.5.19 Foreign currencies

In preparing the consolidated financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing on the transaction date. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

8.5.20 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Interest from interest-bearing assets and liabilities not measured at fair value through profit or loss is recognized as net interest income using the effective interest rate ("EIR"). EIR is the rate that discounts expected future cash flows for the expected life of the financial instrument to its carrying value. The calculation takes into account the contractual interest rate along with any fees or incremental costs that are directly attributable to the instrument and all other premiums or discounts.

Commission and fee income

Fees and commissions are recognized on an accrual basis when the service has been rendered. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-apportionate basis. Performance-linked fees or fee components are recognized when the performance criteria are fulfilled.

Dividend income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

9 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures and the disclosure of contingent liabilities. Actual results may differ from those estimates and assumptions. There have been no changes in accounting estimates in 2021.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

9.1 Critical judgments in applying accounting policies

The following is the critical judgment, apart from those involving estimations (see note 9.2 below), that the Management Board has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

9.1.1 Equity securities at FVOCI

Note 8.5.4 describes how Aruba Bank has accounted for the shareholding in AIB. The Management Board has assessed the carrying value of the shareholding in AIB and are satisfied that the value in the consolidated statement of financial position, based on the discounted cash flow model with a discount rate of 9.4%, inflation of 1% and tax rate of 25%, is reliable under the circumstances considering the yield and limited liquidity.

9.1.2 Income tax

Besides some smaller other temporary differences, the loan loss provisioning under fiscal valuation rules and IFRS differs materially. Reference is made to note 11.3 for a breakdown of fiscal versus commercial differences. The Management Board believes that the calculation and assumptions used in the determination of the fiscal and commercial loan losses are appropriate in determining the tax position and tax benefits/ expense.

9.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

9.2.1 Impairment of financial assets

The measurement of impairment losses both under IFRS 9 and IAS 36 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- Internal credit rating model, which assigns individual provisions;
- Determining criteria for significant increase in credit risk;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs in the ECL models.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. The allocated loan loss provision as described in more detail in note 10.2.2 is estimated based on the combination of specific reviews and estimates with regards to credit rating, collateral type, and past due status. Certain aspects of this process require (significant) judgment, such as the determination of the probability of default, the expected loss, the (time) value of the collateral, discount rates, cash flows, relief given and other economic factors. As a result of COVID-19, additional individual provisions were calculated in 2020. Based on the improvements in the economic situation in 2021, part of these individual provisions has been released based on repayments and cancellation of relief programs. However, seen the unpredictable situation the forward-looking macroeconomic scenario are still adjusted with a high probability on an adverse scenario. Despite the fact that Aruba's economy is recovering well, Aruba faces significant challenges, amongst others, reduction of the high government debt, downside risks of new COVID-19 variants and its potential effect on the tourism sector, measures by the government to cope with the economic crisis as well as measures related to the planned structural reforms, and discontinuity of the liquidity support by the Netherlands. Considering the positive outlook 2021 post crisis recovery and the uncertainties mentioned, the scenario weights for the forward-looking macroeconomic scenarios have been adjusted to a lower weight on the adverse scenario and a higher weight in comparison to 2020 on the base scenario.

The Management Board believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments. Undrawn loan commitments and letters of credit are in the scope of the ECL requirements for all exposures classified as special assets, but no ECL was determined for non special assets exposures based on historical observation of defaults.

The Management Board considers the expected credit loss on the credit card portfolio to be very low and immaterial, given that credit cards can be revoked when a client deteriorates or limits can be reduced, and that the lifetime of a credit card is short. Therefore, the Management Board has chosen to simplify the calculation of the provision of the credit card portfolio and not to be based on ECL.

9.2.2 Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Management Board to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Reference is also made to note 10.5.

The Management Board believes that the impairment analysis and assumptions used are appropriate in determining that the goodwill is not impaired as at December 31, 2021 (December 31, 2020: no impairment).

9.2.3 Measurement of other liabilities and provisions

As described in note 10.9, the Group uses valuation techniques to measure the severance liabilities. Note 10.9 provides detailed information about the key assumptions used in the determination of the severance liabilities.

In addition, Aruba Bank is, from time to time, involved in litigation which requires material judgment from the Management Board with regards to the potential cash outflow including related interest charges and penalties, if any. The Management Board believes that the valuation techniques and assumptions used in the determination of the provisions are appropriate in determining the provisions. Reference is made to note 12.6.

10 NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

10.1 INVESTMENT SECURITIES

Equity securities at FVOCI

Equity securities at FVOCI amounting to 7,496 (December 31, 2020: 7,325) relate for 7,265 to the shareholding by Aruba Bank in AIB and for 180 to an investment in Renobacion Aruba N.V.

Aruba Bank has 19.97% of the ownership interest and voting power as per December 31, 2021 (December 31, 2020: 19.97%) of AIB Bank N.V. AIB Bank N.V. is incorporated in Oranjestad, Aruba and their principal activity is banking. Although Aruba Bank has almost 20% shareholding in AIB, the Management Board does not consider that Aruba Bank is able to exercise significant influence over the financial and operating policy decision-making process due to the legal structure which allows only for limited voting rights for Aruba Bank which is not comparable to the actual shareholding. Dividends received are recognized in the consolidated statement of profit or loss and other comprehensive income.

AIB has been valued using a discounted cash flow model over the profit before tax of ten years and applying a terminal value.

Debt securities at amortized cost

Debt securities at amortized cost as at December 31 of 298,692 (December 31, 2020: 249,213) are all government bonds related to the government of Aruba.

The fair values of the government bonds amount to 313,182 as at December 31, 2021 (December 31, 2020: 263,979) compared to a carrying value of 298,692 as at December 31, 2021 (December 31, 2020: 249,213).

The government bonds are not quoted in an active market. As a result, the fair values of these bonds have been derived from the discounted cash flow method. Aruba Bank has the firm intention to hold the Debt securities at amortized cost until maturity.

10.2 LOANS AND ADVANCES TO CUSTOMERS

10.2.1 Loans and advances to customers

Loans and advances to customers as at December 31 can be specified as follows:

December 31, 2021	Corporate lending	Retail lending	Overdrafts	Credit Cards	Total
Performing loans and advances	552,825	797,480	53,974	32,834	1,437,113
Non-performing loans and advances	18,105	37,547	1,533	3,757	60,942
	570,930	835,027	55,507	36,591	1,498,055
Accrued interest receivable	4,057	6,117			10,174
Total gross loans and advances	574,987	841,144	55,507	36,591	1,508,229
Allowance for ECL's	(18,071)	(25,493)	(6,146)	(4,471)	(54,181)
Net loans and advances	556,916	815,651	49,361	32,120	1,454,048

December 31, 2020	Corporate lending	Retail lending	Overdrafts	Credit Cards	Total
Performing loans and advances	571,642	803,125	63,408	32,689	1,470,864
Non-performing loans and advances	17,497	50,624	1,577	5,719	75,417
	589,139	853,749	64,985	38,408	1,546,281
Accrued interest receivable	5,322	6,348	-	-	11,670
Total gross loans and advances	594,461	860,097	64,985	38,408	1,557,951
Allowance for ECL's	(16,909)	(33,628)	(6,014)	(7,171)	(63,722)
Net loans and advances	577,552	826,469	58,971	31,237	1,494,229

10.2.2 Impairment allowance for loans and advances to customers

The table below shows the loans and advances to customers and the related ECLs per staging based on the Bank's criteria as explained in note 8.5.7.

December 31, 2021	Corporate lending	Retail lending	Overdrafts	Credit Cards	Total
Gross loans and advances	574,987	841,144	55,507	36,591	1,508,229
Stage 1	(2,574)	(3,139)	(4,613)	(714)	(11,040)
Stage 2	(12,465)	(5,202)	-	(404)	(18,071)
Stage 3	(3,032)	(17,152)	(1,533)	(3,353)	(25,070)
Net loans and advances	556,916	815,651	49,361	32,120	1,454,048

December 31, 2020	Corporate lending	Retail lending	Overdrafts	Credit Cards	Total
Gross loans and advances	594,461	860,097	64,985	38,408	1,557,951
Stage 1	(2,606)	(4,323)	(4,438)	(1,452)	(12,819)
Stage 2	(12,254)	(11,912)	-	(985)	(25,151)
Stage 3	(2,049)	(17,393)	(1,576)	(4,734)	(25,752)
Net loans and advances	577,552	826,469	58,971	31,237	1,494,229

Stage 1	Corporate lending	Retail lending	Overdrafts	Credit Cards	Total
ECL as at January 1, 2021	(2,606)	(4,323)	(4,438)	(1,452)	(12,819)
ECL on new instruments issued in 2021	(186)	(468)	-	-	(654)
Other credit loss movements	218	1,652	(175)	738	2,433
ECL as at December 31, 2021	(2,574)	(3,139)	(4,613)	(714)	(11,040)

Stage 2	Corporate lending	Retail lending	Overdrafts	Credit Cards	Total
ECL as at January 1, 2021	(12,254)	(11,912)	-	(985)	(25,151)
ECL on new instruments issued in 2021	(407)	(457)	-	-	(864)
Other credit loss movements	196	7,167	-	581	7,944
ECL as at December 31, 2021	(12,465)	(5,202)	-	(404)	(18,071)

Stage 3	Corporate lending	Retail lending	Overdrafts	Credit Cards	Total
ECL as at January 1, 2021	(2,049)	(17,393)	(1,576)	(4,734)	(25,752)
ECL on new instruments issued in 2021	-	(250)	-	-	(250)
Other credit loss movements	(983)	491	43	1,381	932
ECL as at December 31, 2021	(3,032)	(17,152)	(1,533)	(3,353)	(25,070)

The total ECL of 54,181 (63,722 as per December 31, 2020) is for 16% (27% as per December 31, 2020) based on a collective basis and for 84% (73% as per December 31, 2020) on an individual basis.

10.3 OTHER ASSETS

The balance of other assets as at December 31, 2021 and 2020, respectively, consists primarily of prepaid expenses, accrued interest receivables on investment securities and other receivables not related to loans and advances. These other assets have a short-term nature.

10.4 PROPERTY AND EQUIPMENT

The movements of property and equipment per category can be specified as follows:

	Land and premises	Other equipment	Assets under construction	Total
January 1, 2021				
Acquisition costs	58,474	55,579	8,969	123,022
Accumulated depreciation	(17,457)	(44,361)	-	(61,818)
Carrying value	41,017	11,218	8,969	61,204
Movements				
Additions	30	1,199	2,720	3,949
Reclassification	1,384	679	(9,378)	(7,315)
Cost of disposals	-	(1,961)	(237)	(2,198)
Depreciation of disposals	-	1,851	-	1,851
Depreciation	(1,612)	(3,647)	-	(5,259)
	(198)	(1,879)	(6,895)	(8,972)
December 31, 2021				
Acquisition costs	59,888	55,496	2,074	117,458
Accumulated depreciation	(19,069)	(46,157)	-	(65,226)
Carrying value	40,819	9,339	2,074	52,232

	Land and premises	Other equipment	Assets under construction	Total
January 1, 2020				
Acquisition costs	57,902	54,700	8,392	120,994
Accumulated depreciation	(16,171)	(43,414)	-	(59,585)
Carrying value	41,731	11,286	8,392	61,409
Movements				
Additions	-	1,627	7,193	8,820
Reclassification	938	2,200	(3,138)	-
Cost of disposals	(366)	(2,948)	(3,478)	(6,792)
Depreciation of disposals	231	2,812	-	3,043
Depreciation	(1,517)	(3,759)	-	(5,276)
	(714)	(68)	577	(205)
December 31, 2020				
Acquisition costs	58,474	55,579	8,969	123,022
Accumulated depreciation	(17,457)	(44,361)	-	(61,818)
Carrying value	41,017	11,218	8,969	61,204

The difference of 585 (depreciation 2020: 329) between the depreciation in the movement per category and the depreciation expenses in the Consolidated Statement of profit or loss and other comprehensive income and the difference between the additions in the movement per category and the additions to property and equipment in the Consolidated Statement of cash flows relates to the surcharge to Orco Bank based on the Service Level Agreement and the amortization of the other intangible assets.

The amount of assets under construction is primarily related to several automation projects which are expected to be finalized in 2022.

10.5 GOODWILL AND OTHER INTANGIBLE ASSETS

10.5.1 Goodwill

The goodwill of 18,534 (2020: 18,534) is primarily generated from the acquisitions of Interbank Aruba N.V. and OHRA. The recoverable amounts of the cash-generating unit is determined based on a value in use calculation which uses a discounted cash flow model covering a ten-year period. The Management Board believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit. Based on the latest impairment test held in 2021, no impairment has been recognized as at December 31, 2021.

The key assumptions used in the value in use calculation (discounted cash flow method) for Interbank Aruba N.V. and OHRA (both together) cash-generating unit is based on a ten year projected declining cash flow period based on financial budgets approved by management and the values assigned to key assumptions reflect past performance. The growth rate is nil.

The impact of COVID-19 has created uncertainty in the estimation of cash flow projections, discount rates and terminal growth rates. The goodwill impairment tests were conducted using sensitivity analysis, including a range of growth rates and recovery assumptions.

10.5.2 Other intangible assets

Other intangible assets includes software development costs with a carrying value of 5,974 (2020: nil), an acquisition cost of 7,315 (2020: nil) and accumulated amortization of 1,341 (2020: nil).

10.6 SHAREHOLDER'S EQUITY

10.6.1 Share capital

The Group has issued share capital amounting to 35,000 as at December 31, 2021 (December 31, 2020: 35,000). The total authorized and issued share capital as at December 31, 2021 and 2020, respectively, amounted to 7,000 shares at par value of 5 per share. All shares have been issued and paid-in. The Group has not granted share options as at December 31, 2021 and 2020, respectively.

10.6.2 Revaluation reserve

The revaluation reserve arises from the revaluation of Equity securities at FVOCI. When revalued Equity securities at FVOCI are sold, the portion of the revaluation reserve that relates to that asset is transferred directly to retained earnings. Items of other comprehensive income included in the revaluation reserve will not be reclassified subsequently to profit or loss.

Distributions from the revaluation reserve can be made where they are in accordance with the requirements of Aruba Bank's Articles of Incorporation, and relevant case law or any amounts transferred directly to retained profits in accordance with IFRS. The Management Board has currently no intention to make any distributions from the revaluation reserve.

10.6.3 General (unallocated) loan loss provision

The Directives of the CBA require the Group to maintain a general (unallocated) loan loss provision. This is a special form of a dynamically determined provision related to the general risk that the Group runs, directly or indirectly, originating from granting loans and conducting other banking activities. This provision serves as a buffer for losses, which cannot be foreseen and therefore cannot be quantified. The Directives require a minimum provision of 3% of the net loan portfolio plus other risk items on the asset side of the consolidated statement of financial position. The net portfolio is calculated as gross loans less the allocated loan loss provision. The general (unallocated) loan loss provision of Aruba Bank (4%) is higher than the minimum requirement. The primary driver thereof is related to the current economic picture of Aruba in combination with the large dependency on tourism as Aruba's primary mean of revenues. As a result, Aruba Bank believes that it should be slightly more conservative than the requirements set forth by the CBA.

10.6.4 Retained earnings

Retained earnings is related to past net results appropriated to shareholder's equity based on the decisions taken at the Annual General Meeting of Shareholders and net income for the year. Dividends paid will be offset against retained earnings. Dividend payments are subject to approval by the CBA. No dividend payments were made in 2021.

10.7 DEPOSITS FROM CUSTOMERS

Deposits from customers as at December 31 can be specified as follows:

	2021	2020
Corporate	1,426,002	1,307,183
Retail	931,758	852,124
Accrued interest payable	10,840	11,250
	2,368,600	2,170,557

10.8 OTHER LIABILITIES

Other liabilities as at December 31 can be specified as follows:

	2021	2020
Due to insurance companies	8,913	9,102
Accounts payable	2,061	1,512
Personnel related liabilities	5,210	3,458
Insurance prepayments by customers	1,068	696
Other liabilities and accrued expenses	5,688	5,407
	22,940	20,175

The other liabilities and accrued expenses consist of accruals for pending invoices and a liability related to the Aruba Bank Rewards program of cards.

10.9 PROVISIONS

The movements can be specified as follows:

	2021	2020
Balance at the beginning of the year	6,247	6,052
Additions/(releases)	(2,399)	195
Balance at the end of the year	3,848	6,247

The balance consists of severance and legal provisions. For an explanation of the legal provisions, reference is made to note 12.6.1.

The Group has calculated the severance liabilities in accordance with IAS 19 “*Employee benefits*”. The key assumptions as at December 31, 2021 are a discount rate of 4.5% (December 31, 2020: 4.50%), employee turnover 6.0% (December 31, 2020: 5.5%), and salary increase of 2.0% (December 31, 2020: 1.0%).

Anniversary bonus provisions are calculated based on bonuses expected to be payable to the current employees.

The Group operates a defined contribution pension plan for all qualifying employees. The assets of the defined contribution plan are held separately from those of the Group in funds under the control and management of the Guardian Group Fatum, Aruba. The total expense recognized in the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2021 amounted to 1,350 (2020: 1,382). The total expense represents contributions paid/payable to this defined contribution plan by the Group at rates specified in the rules of the Plan as well as to other personal pension schemes. As at December 31, 2021, contributions of nil (December 31, 2020: nil) due in respect of the 2021 (2020) reporting period had not been paid over to the defined contribution plan. The amounts were paid subsequent to the end of the reporting period.

The legal provisions amounting to 2,192 is mainly related to an old case dating back to 2005. The bank believes that it has sufficiently provided for the expected outflow in the consolidated statement of financial position.

11 NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

11.1 TOTAL INCOME

Total income can be specified as follows:

	2021	2020
Interest income on loans and advances to customers	102,480	106,040
Interest income on investment securities	13,423	14,301
Interest expense	(28,431)	(30,244)
Net interest income	87,472	90,097
Card commissions	29,913	20,056
Other commission and fee income	19,227	16,057
Commission expense	(27,250)	(16,880)
Net result on financial transactions	11,881	8,026
Other income	4,195	724
Operating income	37,966	27,983
	125,438	118,080

11.2 OPERATING EXPENSES

Operating expenses can be specified as follows:

	2021	2020
Personnel	37,144	34,804
Automation	8,803	12,141
Depreciation and amortization	5,844	4,947
Premises	4,240	4,216
Marketing	1,125	1,729
Communication	1,507	1,733
Consulting	576	925
Legal	572	533
Insurance	602	499
Others	4,316	3,902
	64,729	65,429

11.3 PROFIT TAX

11.3.1 Tax expense recognized in profit or loss

	2021	2020
Tax expense current year	12,885	1,860
Current tax expense due to amendment prior years	(402)	(342)
	12,483	1,518

11.3.2 Reconciliation of the effective tax rate

	2021	2020
Income before tax	68,761	24,064
Income tax at applicable statutory tax rates	17,190	6,016
Effect profit tax subsidiaries	(4,488)	(4,343)
Prior year differences	(402)	(342)
Other differences	183	187
	12,483	1,518

The tax rate for the 2021 reconciliations is the corporate tax rate of 25% (2020: 25%), payable by corporate entities in Aruba on taxable profits under tax law in Aruba. The effective tax rate for 2021 is 18.2% (2020: 6.3%).

11.3.3 Current tax liabilities

The current tax liabilities are settled with Orco Aruba Holding as head of the fiscal unity. The outstanding balance is primarily related to tax liabilities for IB Aruba Finance N.V. and AB Beleggingen VBA which are not part of the fiscal unity.

11.3.4 Deferred tax liabilities

The following is the analysis of deferred tax liabilities presented in the consolidated statement of financial position:

	Balance as at January 1, 2020	Net move- ments 2020	Balance as at December 31, 2020	Net move- ments 2021	Balance as at December 31, 2021
Loan loss provision	8,082	(4,354)	3,728	2,403	6,131
Goodwill	3,738	-	3,738	-	3,738
Other	367	(89)	278	328	606
	12,187	(4,443)	7,744	2,731	10,475

The deferred tax liability related to the loan loss provision is determined in accordance with previous years, a consistent line has been maintained based on the assumption that the tax authority will maintain the percentage of the unallocated loan loss provision for 2021.

12 OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12.1 SUBSIDIARY COMPANIES

Name of Company	Principal activity	Country of incorporation	Equity interest	
			12/31/21	12/31/20
Aruba Bank Onroerend Goed N.V.	Holding branches	Aruba	100%	100%
Aruba Bank Onroerend Goed II N.V.	Holding Camacuri office	Aruba	100%	100%
Aruba Bank Onroerend Goed III N.V.	Holding Hato office	Aruba	100%	100%
OHRA Hypotheekbank N.V.	Dormant	Aruba	100%	100%
IBA Corporation N.V.	Holding of loans	Aruba	100%	100%
IB Aruba Finance N.V.	Holding of loans	Aruba	100%	100%
AB Beleggingen VBA	Investments	Aruba	100%	100%

12.2 RISK MANAGEMENT

12.2.1 Introduction

The Group's prudent banking practices are founded on solid risk management. In an effort to keep apace with its dynamic environment, the Group has established a comprehensive framework for managing risks, which is continually evolving as the Group's business activities change in response to market, credit, product and other developments.

The Group monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk, credit risk, liquidity risk and operational risk.

Aruba Bank has an ERM policy in place as well as an ERM Framework to capture significant risks to which Aruba Bank is (potentially) exposed. This ERM Framework covers the most important risks that Aruba Bank is exposed to and covers risk areas such as Acts of God, compliance, credit, foreign exchange, interest rate, liquidity, legal, operational, outsourcing, price, reputation, and strategy. The Asset, Liability and Risk Management department is responsible for the risk identification, documentation, assessment, testing, and follow-up plans for mitigating the likelihood and impact of identified risks. No significant changes in exposures to risks and how they arise were identified compared to 2020.

The use of financial instruments is governed by the Group's policies approved by the Management Board, which provide written principles on asset and liability management. Compliance with policies and exposure limits is reviewed by the Internal Audit department. The Group does not enter into or trade financial instruments for speculative purposes.

The main risks arising from the Group's financial instruments are credit risk, interest rate and market risk, liquidity risk, foreign currency risk and operational risk.

12.2.2 Credit risk

Credit risk is the potential that a borrower or counterparty will fail to meet its stated obligations in accordance with agreed terms. The objective of the Group's credit risk management function is to maximise the Group's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The Management

Board and Supervisory Board periodically discuss the level of credit exposure by product and by industry sector at its periodic meetings. Certain limits are also imposed by the CBA and any limits set by the Group take into account the regulatory requirements. Concentrated Group accounts are monitored closely. The total large exposures as defined in the regulatory requirements are allowed up to 600% of test capital. The total large exposures account for 32.5% (December 31, 2020: 53.3%) of test capital.

Classification of gross carrying amount is as follows:

	Dec 31, 2021	Dec 31, 2020
Satisfactory	1,344,229	1,398,369
Substandard	111,605	109,638
Doubtful / Loss	52,395	49,944
	<u>1,508,229</u>	<u>1,557,951</u>

12.2.2.1 Impairment assessment

Individual provisions are reviewed at least two times a year and recommended provisions arising out of this review are submitted to the Management Board and Supervisory Board for approval. Non-performing debts recommended for write-off are also reviewed annually and action taken in accordance with the internal procedures. Subsequent recoveries of accounts previously written off are recognized in the consolidated statement of profit or loss and other comprehensive income.

12.2.2.2 Default

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in cases when the borrower becomes 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

The credit risk from loans and advances to customers is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate.

12.2.2.3 Modification of Financial assets and recovery

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery. Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. These modifications rarely result in an impairment loss and if it does, it is not material.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more.

12.2.2.4 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (“ECL”) is measured on either a 12-month (“12M”) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (“PD”), Exposure at Default (“EAD”), and Loss Given Default

("LGD"), whereby the the LGD is considered to be equal to the Loss Given Loss ("LGL") multiplied with one minus the Cure Rate ("CR"), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. The Group calculates the average PD based on the transition of assets in each half year data. From this data an annual average is derived.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). The Group estimates the EAD as the expected discounted exposure at half of the remaining contractual lifetime, or as the current exposure.
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).
- LGL represents the part of the exposure that results in a loss given there is a loss. The Group assumes the loss to be associated with the historical discounted write-offs. LGL is calculated as the percentage of a loss (write-off) at the time of default (account has entered the nonaccrual status).
- CR is calculated as the probability that an impaired asset becomes performing in the future. In the ECL model the CR is applied conditionally to default (greater than 90 days). The CR depends on the days past due and does not differ per product type.

The ECL is determined by projecting the PD, LGD and EAD for future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

12.2.2.5 Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition. The two backstops the Group applies on which the latest an asset should move to the next stage is as follows:

- Facility should be the latest in stage 2 if the asset is 30 days past due;
- Facility should be the latest in stage 3 if the asset is 90 days past due.

In addition to the backstops the Group applies the criteria that if a facility is within the special assets portfolio the facility is in stage 2.

Currently Aruba Bank has special assets procedure in place to monitor the quality of the facilities. Based on qualitative and quantitative factors a facility can be in special assets. This could be when a facility starts to show behavior which could indicate significant increase in credit risk, or when a facility is recovering, but is still in special assets to monitor the behavior more closely. This way the IFRS 9 staging is consistent with how Aruba Bank manages their credit risk.

12.2.2.6 Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

Retail Groupings for collective measurement:

- Product types: personal loans, car loans and mortgage loans/ term loans

Corporate Groupings for collective measurement:

- Product types: personal loans, car loans and mortgage loans/ term loans

The Mortgage and Term loans are considered to be very similar with similar credit risk characteristics, therefore are treated as one product (type) and not individually.

The following exposures are assessed individually:

- Accounts within the Special Assets portfolio. If an asset is in Stage 2 and in special assets, the ECL is assessed on an individual basis and calculated according the procedures for individual assessments. If an asset is in Stage 3, the ECL is always based on an individual assessment.
- Current Accounts, not classified as special assets.
- Credit Cards. The expected credit loss on the credit card portfolio is considered very low and immaterial, therefore the provision calculation of the Credit Card portfolio will be simplified and not based on the ECL parameters.

Credit-related commitments

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extent credit are contingent upon customers maintaining specific credit standards.

12.2.2.7 Credit risk exposure

Analysis of gross carrying amount and corresponding ECLs are as follows:

	Dec 31, 2021	Dec 31, 2020
Stage 1	89.1%	89.8%
Stage 2	7.4%	7.0%
Stage 3	3.5%	3.2%
	<u>100.0%</u>	<u>100.0%</u>

December 31, 2021

Stage 1	Corporate lending	Retail lending	Overdrafts	Credit Cards	Total
Gross loans and advances	461,415	796,006	53,974	32,834	1,344,229
ECL	(2,574)	(3,139)	(4,613)	(714)	(11,040)
Net loans and advances	<u>458,841</u>	<u>792,867</u>	<u>49,361</u>	<u>32,120</u>	<u>1,333,189</u>
ECL as a % of gross loans and advances	0.6%	0.4%	8.5%	2.2%	0.8%

December 31, 2020

Stage 1	Corporate lending	Retail lending	Overdrafts	Credit Cards	Total
Gross loans and advances	498,913	803,359	63,408	32,689	1,398,369
ECL	(2,606)	(4,323)	(4,438)	(1,452)	(12,819)
Net loans and advances	<u>496,307</u>	<u>799,036</u>	<u>58,970</u>	<u>31,237</u>	<u>1,385,550</u>
ECL as a % of gross loans and advances	0.5%	0.5%	7.0%	4.4%	0.9%

The ECLs of Stage 1 decreased from December 31, 2020 (0.9%) to December 31, 2021 (0.8%).

December 31, 2021

Stage 2	Corporate lending	Retail lending	Overdrafts	Credit Cards	Total
Gross loans and advances	96,716	14,485	-	404	111,605
ECL	(12,465)	(5,202)	-	(404)	(18,071)
Net loans and advances	<u>84,251</u>	<u>9,283</u>	<u>-</u>	<u>0</u>	<u>93,534</u>
ECL as a % of gross loans and advances	12.9%	35.9%	-	100.0%	16.2%

December 31, 2020

Stage 2	Corporate lending	Retail lending	Overdrafts	Credit Cards	Total
Gross loans and advances	86,265	22,388	-	985	109,638
ECL	(12,254)	(11,912)	-	(985)	(25,151)
Net loans and advances	<u>74,011</u>	<u>10,476</u>	<u>-</u>	<u>0</u>	<u>84,487</u>
ECL as a % of gross loans and advances	14.2%	53.2%	-	100.0%	22.9%

The ECLs of Stage 2 decreased from December 31, 2020 (22.9%) to December 31, 2021 (16.2%).

December 31, 2021

Stage 3	Corporate lending	Retail lending	Overdrafts	Credit Cards	Total
Gross loans and advances	16,879	30,906	1,533	3,353	52,671
ECL	(3,032)	(17,152)	(1,533)	(3,353)	(25,070)
Net loans and advances	<u>13,847</u>	<u>13,754</u>	<u>0</u>	<u>0</u>	<u>27,601</u>
ECL as a % of gross loans and advances	18.0%	55.5%	100.0%	100.0%	47.6%

December 31, 2020

Stage 3	Corporate lending	Retail lending	Overdrafts	Credit Cards	Total
Gross loans and advances	9,284	34,350	1,576	4,734	49,944
ECL	(2,049)	(17,393)	(1,576)	(4,734)	(25,752)
Net loans and advances	<u>7,235</u>	<u>16,957</u>	<u>0</u>	<u>0</u>	<u>24,192</u>
ECL as a % of gross loans and advances	22.1%	50.6%	-	100.0%	51.6%

The ECLs of Stage 3 decreased from December 31, 2020 (51.6%) to December 31, 2021 (47.6%).

The analysis of transitioning of ECL between stages are as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL December 31, 2020	12,819	25,151	25,752	63,722
Transfer from new loan to stage 1	654	-	-	654
Transfer from new loan to stage 2	-	864	-	864
Transfer from new loan to stage 3	-	-	250	250
Transfer from stage 1 to Stage 2	(520)	3,317	-	2,797
Transfer from stage 1 to Stage 3	(29)	-	1,941	1,912
Transfer from stage 2 to Stage 1	540	(8,631)	-	(8,091)
Transfer from stage 2 to Stage 3	-	(1,678)	2,820	1,142
Transfer from stage 3 to Stage 1	184	-	(662)	(478)
Transfer from stage 3 to Stage 2	-	1,063	(973)	90
Remeasurements	(1,998)	503	(1,241)	(2,736)
Payments received	(610)	(2,518)	(146)	(3,274)
Write-offs	-	-	(2,671)	(2,671)
ECL December 31, 2021	<u>11,040</u>	<u>18,071</u>	<u>25,070</u>	<u>54,181</u>

12.2.3 Liquidity risk

This is the risk to earnings or capital arising from a possible scenario that the Group might not be able to meet its obligations when they come due, without incurring unacceptable losses. This is the ability of the Group to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from a failure to recognize or address changes in the market conditions that affect the ability to liquidate assets quickly and with minimal loss in value. The Group is exposed to daily calls on its available cash resources from current accounts, maturing deposits, loan draw-downs and guarantees. The Group does not maintain cash resources to meet all of these calls as experience indicates that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The liquidity analysis presents the same grouping as would be applicable for the interest sensitivity analysis, except for the non-interest bearing amount, considering that in most cases the contractual reprising date equals the maturity date. Ultimate responsibility for liquidity risk management rests with the Management Board, which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously

monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The following analysis is based upon the amounts as stated in the consolidated statement of financial position:

December 31, 2021	Less than 1 month	1 - 12 months	1 - 5 years	more than 5 years	Total
Assets					
Cash and cash equivalents	455,549	71,500	-	-	527,049
Amounts due from banks	437,291	13,936	-	-	451,227
Investment securities	-	-	68,367	237,821	306,188
Loans and advances to customers	99,888	106,804	168,553	1,078,803	1,454,048
Other assets	10,914	-	-	-	10,914
Total assets	1,003,642	192,240	236,920	1,316,624	2,749,426
Liabilities					
Amounts due to banks	13,217	-	-	-	13,217
Deposits from customers	1,307,600	173,432	188,658	698,599	2,368,289
Current tax liabilities	1,556	-	-	-	1,556
Other liabilities	22,940	-	-	-	22,940
Provisions	-	-	3,848	-	3,848
Total liabilities	1,345,313	173,432	192,506	698,599	2,409,850
Net balance sheet position	(341,671)	18,808	44,414	618,025	339,576
December 31, 2020	Less than 1 month	1 - 12 months	1 - 5 years	more than 5 years	Total
Assets					
Cash and cash equivalents	386,792	85,000	-	-	471,792
Amounts due from banks	234,926	12,530	-	-	247,456
Investment securities	-	-	63,078	193,460	256,538
Loans and advances to customers	110,747	32,249	295,864	1,055,369	1,494,229
Other assets	15,782	-	-	-	15,782
Total assets	748,247	129,779	358,942	1,248,829	2,485,797
Liabilities					
Amounts due to banks	10,061	-	-	-	10,061
Deposits from customers	1,106,838	150,914	200,653	712,152	2,170,557
Current tax liabilities	1,550	-	-	-	1,550
Other liabilities	20,175	-	-	-	20,175
Provisions	-	-	6,247	-	6,247
Total liabilities	1,138,624	150,914	206,900	712,152	2,208,590
Net balance sheet position	(390,377)	(21,135)	152,042	536,677	277,207

12.2.4 Market risk

This is the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments. The term market risk is also known as "price risk". Price risk may result in volatile earnings. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group's approved risk tolerance for fixed interest securities and other equity products is prudent. Furthermore, the portfolio and related market risks are monitored periodically.

12.2.4.1 Foreign exchange risk

Foreign exchange risk is the risk to earnings or capital arising from movement of foreign exchange rates. This risk is found in cross border investing and operating activities. Market making and position taking in foreign currencies is price risk. Substantially all loans and off balance sheet commitments granted by the Group are to customers located in Aruba and to a lesser extent to customers in Latin America and Europe (with collateral held in Aruba). Deposits received are primarily from customers located in Aruba and Latin America.

Foreign currency sensitivity analysis

The Group only enters into transactions in ANG, USD, AWG, and/or the EUR. The Group's exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its consolidated financial position and consolidated cash flows is minimal as the major part of the position is in US Dollars to which the AWG is pegged. Note that the ANG is also pegged to the USD.

The following details the Group's sensitivity to a 10% increase and decrease in the AWG against the EUR. 10% is the sensitivity used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding EUR denominated monetary items and adjusts its translation at the period end for a 10% change in foreign currency rates. The total outstanding balance in EUR as per December 31, 2021 was AWG 2,406 (December 31, 2020: AWG 339). An increase or decrease of 10% will not have a material impact on the profit or equity.

12.2.4.2 Interest rate risk

This is the current and prospective risk to earnings or capital arising from movement in interest rates. Changes in interest rates affect income earned from assets and the cost of funding those assets. A change in interest rates also affects the economic value of the Group's consolidated statement of financial position. The economic perspective focuses on the value of the Group in today's interest rate environment and the sensitivity of that value to changes in interest rates.

A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 100 basis points higher/lower and all other variables used were held constant, the Group's profit for the year ended December 31, 2021 would decrease/increase by 14,636 (December 31, 2020: 15,139). This is mainly attributable to the Group's exposure to interest rates on floating instruments.

12.2.4.3 Operational risk

This is the current and prospective risk to earnings and capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position and manage information. Systems that directly affect liquidity include wire transfers for check and securities clearing, electronic banking, and operations governing credit, debit, and smart card usage. Significant problems can develop very quickly if the systems that process transactions fail or delay execution. If customers have difficulty accessing their accounts, they may close them, which will diminish liquidity. As such, transaction risk is considered in the Group's contingency planning process.

The Group has implemented policies and procedures with sufficient internal controls and loss mitigation actions to mitigate the inherent risks in the business processes. Substantial resources are devoted to developing efficient procedures, to identify and rectify weaknesses in existing procedures and to train staff.

12.2.4.4 Compliance risk

This is the current and prospective risk to earnings or capital arising from violations of or non-conformance with, laws, rules, regulations, prescribed practices or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain Bank products or activities of the Group's customers may be ambiguous or untested. The Group has implemented policies and procedures with internal controls and actions to mitigate the inherent risks in the area of compliance. Substantial resources are devoted to developing efficient procedures, to identify and rectify weaknesses in existing procedures and to train staff.

12.3 CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balances. The Group's overall strategy remains unchanged from 2020.

The Group is subject to externally imposed capital requirements. The Group monitors the adequacy of its capital using ratios established by the CBA and according to the CBA directives. These ratios measure the capital adequacy by comparing the Group's capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at a weighted amount to reflect their relative risk. All assets are weighted according to broad categories of risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) have been applied. The minimum requirement for the capital ratio as set by the Basel Committee for Banking Supervision is 8% of risk-weighted assets whereas the CBA applies 16%, due to the fact that the Aruban economy is highly dependent on one source of income being tourism. During 2020, the Group complied with the capital requirements by the CBA.

	<u>2021</u>	<u>2020</u>
Capital Ratio	29.7%	25.0%

12.4 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Management Board consider that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values. There are no financial instruments designated as Level 1. Aruba Bank has the following financial instruments of which the respective carrying values approximate the fair value (Level 2):

- Cash and cash equivalents;
- Amounts due from banks;
- Investment securities;
- Loans and advances to customers;
- Deposits from customers;
- Current and deferred tax liabilities;
- Other liabilities;

The fair value of the financial instruments Level 3 amounts to 7,496 (December 31, 2020: 7,325). The movements in fair value of the Level 3 assets are specified in note 10.1.

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

12.5 RELATED PARTY TRANSACTIONS

12.5.1 Trading transactions

The balance on the current accounts from related parties was 70,865 (2020: 62,739) at the end of the reporting period.

The related party transactions during the year were as follows:

	2021	2020
Interest income	19	25
Other income	3	9
Interest expenses	215	192
	237	226

The transactions with related parties are primarily with Orco Group N.V., Orco Aruba Holding N.V., Orco Bank International N.V. and Orco Bank N.V. Reference is also made to note 11.3 for the income tax payable of nil (December 31, 2020: nil) to Orco Aruba Holding and the current tax liability of 1,556 (2020: 1,550) in the consolidated statement of financial position which is related to IB Aruba Finance N.V. and AB Beleggingen VBA. In the course of normal business, the Bank, Orco Group N.V., Orco Bank N.V., and Orco Bank International N.V. have entered into transactions at arm's length.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior years for bad or doubtful debts in respect of the amounts owed by/owed to related parties.

As a result of the service level agreements in place with related parties Orco Bank N.V. and Orco Bank International N.V., Aruba Bank has recharged 4,071, net (2020: 5,159) of the other operating expenses and personnel expenses to these related parties.

12.5.2 Loans to and from related parties

The Group has provided several of its Managing and Supervisory Directors with term loans at rates that are in accordance with the benefit protocol of the Group which applies to all employees for the Managing Directors and in accordance with commercial rates for the Supervisory Directors. The majority of the loans to the Managing Directors are secured.

The Group did not enter into loans from related parties except for the subordinated loan granted by Orco Bank International N.V. and bank accounts held by related parties in the ordinary course of business.

Aruba Bank is in full compliance with the requirements and ratios set forth by the CBA related to credit extensions to insiders. Note that all related party transactions are subject to pre-approval by the Related Party Transactions Committee.

	2021	2020
Loans and advances to Managing Directors	521	561
Loans and advances to Supervisory Directors	0	0
Total loans and advances	521	561
Liabilities due to Managing Directors	2,064	1,661
Liabilities due to Supervisory Directors	244	195
Total liabilities	2,308	1,856

12.6 CONTINGENT LIABILITIES AND OFF BALANCE SHEET COMMITMENTS

In the normal course of business the Bank is party in activities whose risks are not reflected in whole or part in the consolidated financial statements. Based on the needs of its customers, the Bank offers financial products related to loans. These products relate to traditional off-balance sheet credit related financial instruments.

Contingent liabilities and commitments as at December 31 can be specified as follows:

	2021	2020
Guarantees	53,955	53,320
Letters of credit	8,941	9,286
Balance at the end of year	62,896	62,606

All guarantees and letters of credit will mature in 2022, excluding the total amount of 2,850 with a maturity date in 2023 or 2024. The irrevocable commitments as at December 31, 2021 amount to 85,128 (December 31, 2020: 153,294). This item relates to credit facilities not (yet) drawn that could lead to a credit risk. The Bank has insignificant leasing arrangements with external parties of 355 per annum (2020: 416).

12.6.1 Legal proceedings

As per reporting period the Group is involved with certain legal proceedings. Adequate provisions have been made as necessary based on management's assessment of the possible outcome of such proceedings.

12.7 EVENTS AFTER THE REPORTING PERIOD

There are no events after the reporting period that would have a (significant) effect on the 2021 consolidated financial statements, except as noted elsewhere in these financial statements.

12.8 STATUTORY PROVISIONS FOR PROFIT APPROPRIATION

Article 17 of the Articles of Association stipulates the following:

- 17.1 The profit, being the net profit after deduction of taxes as laid down in the determined profit and loss account, is in full at the disposal of the general meeting of shareholders.
- 17.2 If according to the profit and loss account in any year a loss is reported, that cannot be settled out of the reserves or discharged in any other way, no profit distributions will take place the following years for as long as such loss is not compensated.
- 17.3 Management is allowed, after receiving prior approval of the CBA, to declare interim dividend as prepayment on anticipated dividends.

12.9 PROPOSED PROFIT APPROPRIATION

In the General Annual Meeting of Shareholders, it will be proposed to appropriate the net profit of 56,278 to retained earnings which has been reflected in the consolidated financial statements.

Independent Auditor's Report

To the Management Board and the Supervisory Board of Aruba Bank N.V.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Aruba Bank N.V. and its subsidiaries ("the Bank"), which comprise:

- ▶ The consolidated statement of financial position as at 31 December 2021
- ▶ The consolidated statement of profit and loss and other comprehensive income for the year 2021
- ▶ The consolidated statement of changes in equity for the year ended 31 December 2021
- ▶ The consolidated statement of cash flows for the year 2021
- ▶ The notes to the consolidated financial statements, including a summary of significant accounting policies

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Bank's 2021 annual report

Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements 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 and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Aruba, 28 January 2022
12007104/RvN/007

for Ernst & Young Accountants

(Sgd.) drs. R.J.W. van Nimwegen RA