RBC FinCo

2022

ANNUAL REPORT

FINCO

ANNUAL REPORT

20
22

A leading provider of long-term
homeownership solutions

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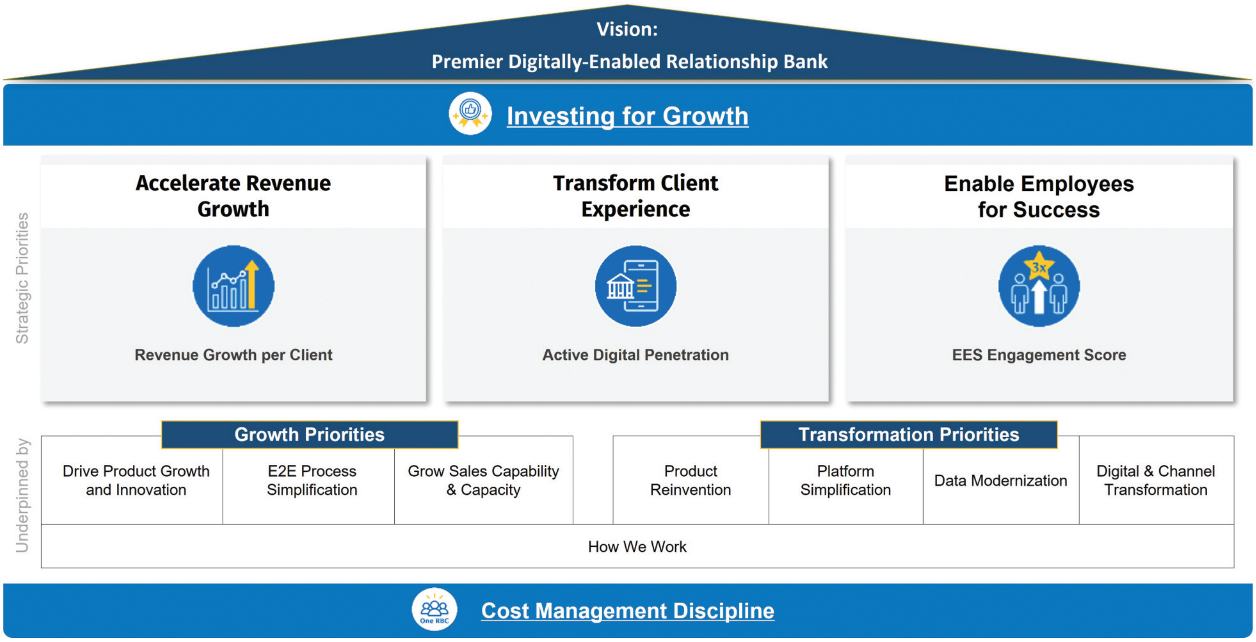
CORPORATE PROFILE & COLLECTIVE AMBITION



Finance Corporation of Bahamas Limited was incorporated on July 24, 1953. As of April 1, 1982, the Bank became a wholly-owned subsidiary of R.B.C. Holdings (Bahamas) Limited, a wholly-owned subsidiary of Royal Bank of Canada. On March 1, 1984, R.B.C. Holdings (Bahamas) Limited sold 25% of its ownership to the Bahamian general public, retaining 75%. On May 10, 2011, R.B.C. Holdings (Bahamas) Limited sold its ownership of the Bank to RBC Royal Bank Holdings (Bahamas) Limited. RBC Royal Bank Holdings (Bahamas) Limited sold its ownership of the Bank to RBC Royal Bank (Bahamas) Limited on April 29, 2019.

The Bank employs 27 people who serve more than 50,000 clients through offices in Nassau and Freeport, and has more than 4,000 shareholders.

The Bank's brand is RBC FINCO. It trades as FINCO on BISX and is licensed to engage in banking and trust businesses. Its primary business is providing Bahamian dollar mortgage financing on residential properties, mortgage origination insurance, a full range of Bahamian dollar deposit services, foreign exchange and automated banking machines (ABMs). RBC FINCO is a market leader in providing homes for Bahamians.

2022 FINCO DISCLOSURE

Royal Bank of Canada (RBC) is a global financial institution with a purpose-driven, principles-led approach to delivering leading performance. RBC's success comes from the 95,000+ employees who leverage their imaginations and insights to bring its vision, values and strategy to life so it can help its clients thrive and communities prosper. As Canada's biggest bank, and one of the largest in the world based on market capitalization, RBC has a diversified business model with a focus on innovation and providing exceptional experiences to its 17 million clients in Canada, the United States (U.S.) and 27 other countries.

Personal & Commercial Banking provides a broad suite of financial products and services to individuals and businesses for their day-to-day banking, investing and financing needs in Canada, the Caribbean and the U.S. RBC's commitment to building and maintaining deep and meaningful relationships with its clients is underscored by the delivery of exceptional client experiences, the breadth of its product suite, its depth of expertise, and the features of its digital solutions. Personal & Commercial Banking operates through two businesses – Canadian Banking and Caribbean & U.S. Banking. Canadian Banking serves RBC's home market in Canada, where it maintains top (#1 or #2) rankings in market share for all key retail and business products. It has the largest branch network, the most ATMs and one of the largest mobile sales forces across Canada along with market-leading digital capabilities. In Caribbean & U.S. Banking, it offers a broad range of financial products and services in targeted markets. In Canada, RBC competes with other Schedule I banks, independent trust companies, foreign banks, credit unions, caisses populaires, auto financing companies, as well as emerging entrants to the financial services industry. In the Caribbean, its competition includes banks, trust companies and investment management companies serving retail and corporate clients, as well as public institutions. In the U.S., it competes primarily with other Canadian banking institutions that have U.S. operations.

Wealth Management serves affluent, high net worth (HNW) and ultra-high net worth (UHNW) clients from its offices in key financial centres mainly in Canada, the U.S., the United Kingdom (U.K.), Europe, and Asia. It offers a comprehensive suite of investment, trust, banking, credit and other advice-based solutions. Wealth Management also provides asset management products to institutional and individual clients through its distribution channels and third-party distributors. Its lines of businesses include Canadian Wealth Management, U.S. Wealth Management (including City National), Global Asset Management (GAM) and International Wealth Management. Canadian Wealth Management is the largest full-service wealth advisory business in Canada, as measured by assets under administration (AUA), serving HNW and UHNW clients. Canadian Wealth Management competes with domestic banks and trust companies, investment counselling firms, bank-owned full-service brokerages and boutique brokerages, mutual fund companies, and global private banks. U.S. Wealth Management (including City National) also encompasses its private client group (PCG) and clearing and custody businesses. PCG is the 6th largest full-service wealth advisory firm in the U.S., as measured by AUA, and City National is a premier U.S. private and commercial bank serving HNW, UHNW and commercial clients. Competitors for U.S. Wealth Management (including City National) include other broker-dealers, commercial banks and other financial institutions that service HNW and UHNW individuals, entrepreneurs and their businesses. GAM is the largest retail mutual fund company in Canada, as measured by assets under management, as well as a leading institutional asset manager. GAM faces competition in Canada from banks, insurance companies and asset management organizations; in the U.S. from independent asset management firms, as well as those that are part of national and international banks and insurance companies; and internationally, from asset managers that are owned by international banks, as well as national and regional asset managers in the geographies where RBC serves

MAJORITY SHAREHOLDER'S PROFILE (continued)

clients. International Wealth Management serves HNW and UHNW clients, primarily through key financial centres in the U.K., Ireland, Channel Islands and Asia. Competitors to the International Wealth Management business include global wealth managers, traditional private banks and domestic wealth managers.

Insurance offers a wide range of advice and solutions for individual and business clients, including life, health, wealth, home, auto, travel, annuities, and reinsurance. RBC Insurance® is the largest Canadian bank-owned insurance organization on a total revenue basis and operates under two business lines: Canadian Insurance and International Insurance. In Canada, it offers life, health, travel, wealth accumulation solutions, and annuities to individuals and businesses, as well as home and auto insurance for individuals through a distribution agreement with Aviva Canada. Its products and services are distributed through a wide variety of channels, including advice centres, RBC Insurance® stores, mobile advisors, digital platforms, independent brokers and partners. In Canada, many of its competitors specialize in life and health or property and casualty products. Outside Canada, it operates globally in the reinsurance and retrocession markets offering life, disability and longevity reinsurance. The global reinsurance market is competitive with significant market opportunities in the U.S., U.K., and Europe. Market share is largely being held by a small number of reinsurers, with RBC Insurance® continuing to have steady growth.

Investor & Treasury Services provides asset, payment and treasury services to financial institutions and asset owners worldwide. It is a leader in Canadian cash management and transaction banking services. Trusted with nearly $4 trillion in AUA, its focus is on safeguarding client assets and supporting its clients' growth. Its product and service offering includes custody, fund administration, shareholder services, private capital services, middle office, transaction banking (including trade finance, insourced solutions and services to broker dealers), and treasury and market services (including cash/liquidity management, foreign exchange and securities finance). Investor & Treasury Services' transaction banking business competes against the largest banks in Canada. Its asset services business competes against the world's largest custodians in selected countries in North America, Europe and the U.K.

Capital Markets provides expertise in advisory & origination, sales & trading, and lending & financing to corporations, institutional clients, asset managers, private equity firms and governments globally. Its professionals ensure that clients receive the advice, products, and services their businesses need from 63 offices in 18 countries. Its presence extends across North America, the U.K. & Europe, and Australia, Asia & other regions. Capital Markets operates two main business lines, Corporate and Investment Banking and Global Markets. In North America, it offers a full suite of products and services which include equity and debt origination and distribution, advisory services, and sales & trading. In Canada, it is a market leader with a strategic presence in all lines of capital markets businesses. In the U.S., where its competitors include large global investment banks, it has a full industry sector coverage and investment banking product range, as well as capabilities in credit, secured lending, municipal finance, fixed income, currencies & commodities, and equities. Outside North America, it has a targeted strategic presence in the U.K. & Europe, Australia, Asia & other markets aligned to its global expertise. In the U.K. & Europe, it offers a diversified set of capabilities in key industry sectors of focus. In Australia and Asia, it competes with global and regional investment banks in targeted areas aligned to its global expertise, including fixed income distribution and currencies trading, secured financing, as well as corporate and investment banking.

Corporate Support consists of Technology & Operations, which provides the technological and operational foundation required to effectively deliver products and services to its clients, Functions, which includes its finance, human resources, risk management, internal audit and other functional groups, as well as the Corporate Treasury function. Reported results for Corporate Support mainly reflect certain activities related to monitoring and oversight of enterprise activities which are not allocated to business segments.

2022 FINANCIAL HIGHLIGHTS

(EXPRESSED IN BAHAMIAN DOLLARS)

	Change 2022/2021	2022	2021	2020	2019	2018
EARNINGS						
Net interest income	–3.2%	$34,787,947	$35,930,420	$37,670,095	$39,101,626	$42,593,747
Non-interest income	–8.1%	1,677,119	1,824,755	1,965,510	2,958,202	2,237,225
Total Income	–3.4%	36,465,066	37,755,175	39,635,605	42,059,828	44,830,972
(Release of)/provision for credit losses	9.5%	(16,913,679)	(15,452,569)	16,248,789	6,825,373	5,606,942
Non-interest expense	–4.9%	13,283,367	13,972,157	14,185,276	14,408,302	13,905,748
Net Income	2.2%	40,095,378	39,235,587	9,201,540	20,826,153	25,318,282
Efficiency Ratio	–58 bps	36.4%	37.0%	35.8%	34.3%	31.0%
Return on equity	–146 bps	15.4%	16.8%	4.2%	9.9%	12.3%
BALANCE SHEET DATA						
Loans and advances to customers	–2.6%	$622,161,572	$639,069,944	$656,142,377	$685,328,230	$704,779,674
Total Assets	–0.3%	729,099,046	731,614,966	756,759,812	800,049,625	817,354,531
Customer Deposits	–13.7%	280,028,507	324,466,643	379,571,167	464,509,564	502,913,724
Total Equity	10.3%	273,799,049	248,333,236	218,307,664	217,111,723	201,585,473
COMMON SHARE INFORMATION						
Earnings per share	$0.03	$1.50	$1.47	$0.35	$0.78	$0.95
Dividend per share	0.21	0.55	0.34	0.30	0.20	0.30
Book value per share-year-end	0.96	10.27	9.31	8.19	8.14	7.56
NUMBER OF:						
Employees		27	28	26	25	27
Automated banking machines		5	5	5	5	5
Service delivery units		4	4	4	4	4

Net Interest Income

Net interest income is comprised of interest earned on loans, mortgages and securities, less interest paid on deposits from customers and other financial institutions. Net interest income decreased by 3.2% compared to fiscal year 2021. This decrease is predominantly due to lower loan volumes that continue to affect the bank's core revenue. The bank continues to manage its challenges with respect to new credit origination.

Non-Interest Income

Non-interest income consists of all income not classified as interest income such as bank fees, commissions and service charges. Non-interest income is 8.1% lower than the previous year given lower service based fees and commission income.

Release of Provision for Credit Losses

Release of provision for credit losses was $16.9 million representing a 9.5% increase compared to the previous year's provision release of $15.5 million. This favourable movement is due to releases and reversals of provisions taken in previous years in response to the economic shock of the Covid-19 pandemic. The total allowance for loan losses is 9.2% (2021: 12.2%) of the total loan portfolio and the stage 3 allowance represents 57.6% (2021: 54.3%) of non-performing loans.

FINANCIAL HIGHLIGHTS (continued)

Non-Interest Expenses

Non-interest expenses went down by 4.9% compared to fiscal year 2021. This favourable movement is mostly due to a reduction in equipment costs, regulatory fees and other intragroup related costs. The Bank continues to actively manage its costs and seek opportunities to improve efficiency.

Net Income

Net income increased to $40.1 million compared to $39.2 million for fiscal 2021. This growth was mainly driven from reversals and releases of provisions for credit losses and lower operating costs which were partially offset by lower revenues.

Efficiency Ratio

The efficiency ratio is calculated based on the amount of expenses compared to total revenues. The efficiency ratio improved by 58bps driven by the decrease in operating costs in relation to the decrease in total revenues when compared to fiscal 2021.

Return on Equity

Return on equity (ROE) is calculated as a function of net income compared to the average total equity of the current and previous years. During the year ROE decreased by 146bps.

Loans and Advances to Customers

Loans and advances to customers was $622.2 million, a decrease of 2.6% from $639.1 million reported in 2021. This decrease continues to be a result of credit origination challenges within the current economic environment and non-performing loans which were written off during the year. Our Sales Professionals continue to navigate these challenges through increased contact with our clients via proactive calls. They are also deepening and expanding our relationships with realtors and developers in our market and focusing on new client acquisitions through advice events and competitive mortgage campaigns.

Earnings per Share

Earnings per share increased to $1.50 compared to $1.47 in the previous year and is the result of net income growth. The weighted average number of ordinary shares in issue remained unchanged during the year.

Dividend per Share

At each quarterly meeting, the Board of Directors give careful consideration on delivering a return on the investments of shareholders after considering the bank's overall financial performance and regulatory requirements. Shareholders received dividend payments during the year totaling $0.55 (2021: $0.34) per share.

CHAIRMAN’S REPORT

Dear Shareholders,

On behalf of my fellow RBCers, I’m honored to share our story for 2022 – a year in which, despite our challenges, we focused on creating more value for our clients, communities, and shareholders.

For nearly 70 years, Finance Corporation of Bahamas Limited (RBC FINCO) has been a leader in providing homeownership solutions to our clients in The Bahamas. Within that time, we are proud to have assisted thousands of Bahamians in realizing their dreams of owning their homes and helping build their financial futures. Our employees strive to help our clients achieve their financial goals by providing them with sound financial advice. As an organization, we are committed to helping our clients thrive, and communities prosper.

For the fiscal year ended October 31, 2022, RBC FINCO recorded $40.1 million in net income. This represents a 2.2 percent increase over net income recorded in FY2021. This growth was mainly driven from reversals and releases of provisions for credit losses and lower operating costs which were partially offset by lower revenues.

Non-performing mortgages of $82.9 million (2021: $94.1 million) as a percentage of the portfolio was 12.1% at the end of the fiscal year. This result is compared to 12.9% at the end of FY2021 and compared to the industry at 10.05% as of October 2022. Operating in a low growth economy overcoming the major financial impacts of COVID-19, RBC FINCO will continue to be challenged with mortgage growth and credit losses resulting from higher levels of non-performing mortgages.

Notwithstanding the growth and non-performing loans challenges, the Bank continues to maintain a strong capital position well above regulatory guidelines and adequate provisions for non-performing loans. We remain profitable, and there are no liquidity issues. Taking these factors into consideration, the Board of Directors declared quarterly dividends totaling $0.55 per share throughout FY2022. The Board reviews payment of dividends on a quarterly basis and will continue to carefully monitor the economy, the mortgage portfolio, and overall performance to ensure prudent management of RBC FINCO’s financial performance.

The ultimate Beneficial Owner, Royal Bank of Canada (RBC), remains a strong international financial services institution. Our ability to leverage the strength of RBC helps to ensure the continued safety and soundness of RBC FINCO.

On behalf of the Board of Directors, I wish to commend our management and employees for their unwavering commitment to RBC FINCO in 2022 despite the year's economic challenges. I also wish to thank our more than 4,000 shareholders for their on-going confidence and support of RBC FINCO. We are grateful to our Board of Directors for their service and acknowledge their dedication to the highest standards of corporate governance.

Chris Ronald
Chairman, Finance Corporation of Bahamas Limited

MANAGING DIRECTOR'S REPORT

I am proud to report a solid performance for Finance Corporation of Bahamas Limited (RBC FINCO) despite the strong headwinds and uncertainties of 2022.

Economic recovery in The Bahamas supported our 2022 financial performance, as the releases of provisions resulted in an increase in net income of $859,791. However, market competitive pressure continues to impact our net interest margins for our interest rate-sensitive business.

Our Mobile Mortgage Specialist and Relationship Managers continue to navigate these challenges through increased contact with our clients via proactive calls. They are also deepening and expanding our relationships with realtors and developers in our market and focusing on new client acquisitions through advice events and competitive mortgage campaigns.

With the recovery, Fiscal 2022 saw opportunities for us to help more Bahamians look beyond today and focus on the future. In 2022, we helped over 200 clients with long-term homeownership solutions. Additionally, with the launch of our RBC FINCO Digital Banking platform more than a year ago, we leveraged the opportunity to bring more self-service capability to our clients. I am pleased to report that this approach resonated as more than 1,700 clients are now digitally enabled.

RBC FINCO continues to be one of the country's leading providers of long-term homeownership solutions, with our sights set on growth to continue to succeed now and in the future. To do so, we must keep challenging ourselves to better problem solve for our clients and innovate to operate successfully in an ever-changing, fast-paced, technologically advanced environment.

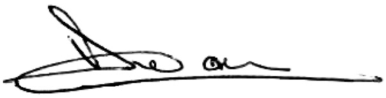
In 2022, our employees focused on delivering exceptional client experiences and remain energized as they look to the future. I am proud to share that five of our team members moved into new promotion opportunities. Investing in meaningful career discussions and embracing a future-ready skill mindset is key as we develop talent for today and tomorrow.

We have solid momentum going into 2023 and will continue to leverage the global strength of RBC, its international standards, policies and procedures, and best practices to align with the expectations of our compliance, anti-money laundering, and operations divisions. This relationship and RBC's management oversight allow for sound risk management and governance practices at RBC FINCO.

RBC FINCO has a proud history in The Bahamas, as we help our clients thrive and communities prosper. Our success today and in the future is because of a dedicated team of professionals who care for our clients.

It is both an honor and a great privilege to serve as Managing Director. I am grateful for the past Managing Directors who have led us to this exciting point in RBC FINCO's journey.

I also want to thank you for your trust and belief in RBC FINCO and what we'll do to thrive and prosper together in the years ahead.



Deverson Warner
Managing Director
Finance Corporation of Bahamas Limited

BOARD OF DIRECTORS

CHRIS RONALD

HEAD, CARIBBEAN BANKING
Finance Corporation of Bahamas Limited

Chris Ronald has been Head of Caribbean Banking since November 2021.

Ronald is responsible for overseeing RBC's business strategy, operations, product offerings, and marketing activities across the region. In addition, he helps set the overall strategic direction and vision of RBC in the Caribbean.

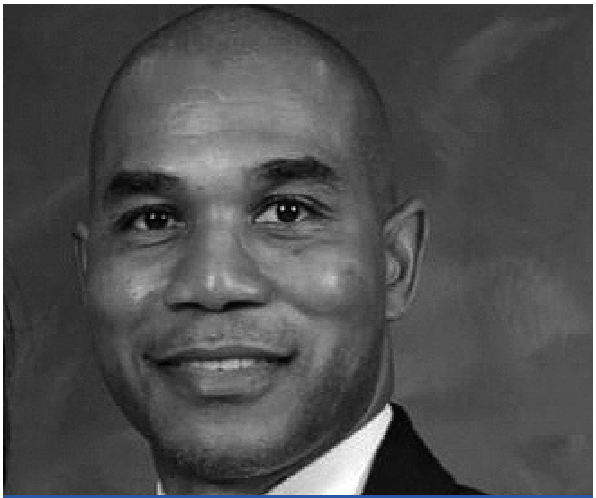
Prior to joining Caribbean Banking, Ronald served as RBC's Regional President for Atlantic Canada. In that role, he oversaw the sales and market management for the four jurisdictions that make up the Atlantic region. This included setting the direction, developing strategy and managing the overall performance and delivery of RBC's products and services to more than 800,000 personal and business clients in Nova Scotia, New Brunswick, Prince Edward Island, and Newfoundland and Labrador.

Since joining RBC in 1988, Ronald has held a wide variety of regional and national office positions, with a concentration in Retail Banking, Commercial Banking, Advice (Contact) Centres and Human Resources. Prior to assuming his current role and his role of Regional President for Atlantic Canada, in 2018 Ronald was Regional Vice President of Corporate, Commercial and Private Banking for the Caribbean.

Ronald holds a Masters in Business Administration from the Richard Ivey School of Business and a Bachelor of Arts from the University of Western Ontario.

A believer in community service and giving back, Ronald has been involved in numerous volunteer activities, particularly with the Multiple Sclerosis (MS) Society. In addition to serving on the Mount Saint Vincent University Board of Governors, he also sits on the boards of the Queen Elizabeth II Hospital Foundation and Halifax Partnership.

Ronald is married with two daughters and a stepson, and resides in Nassau, The Bahamas.



DEVERSON WARNER

EXECUTIVE DIRECTOR
Managing Director
Finance Corporation of Bahamas Limited

Deverson Warner is a career Banker with 20 plus years of experience in the industry.

Warner is a proven Senior Sales Leader who has implemented successful sales strategies that win for the team, the client, and RBC in the areas of retail & commercial banking, credit risk recoveries and specialized sales. He has extensive experience in coaching teams through specific activities that achieve significant revenue across mul-

BOARD OF DIRECTORS (continued)

tiple lines of business in Caribbean Banking. He is known for his exceptional execution that has delivered results as well as thoughtful leadership that builds engaged teams to achieve success.

In Warner's former role as Director Cash Transformation Caribbean Banking, he led cross-functional teams to evolve how cash was managed in RBC Caribbean Banking operations, while delivering a valued client experience. He holds an MBA in Finance and Accounting from London's University of Liverpool.

LASONYA MISSICK

NON-EXECUTIVE DIRECTOR

Managing Director & Head of Personal Banking, The Bahamas & TCI

LaSonya Missick is the Managing Director and Head of Personal Banking for RBC Royal Bank (Bahamas) Limited. The Managing Director is the face of the Bank and the leader responsible for all governance and regulatory matters.

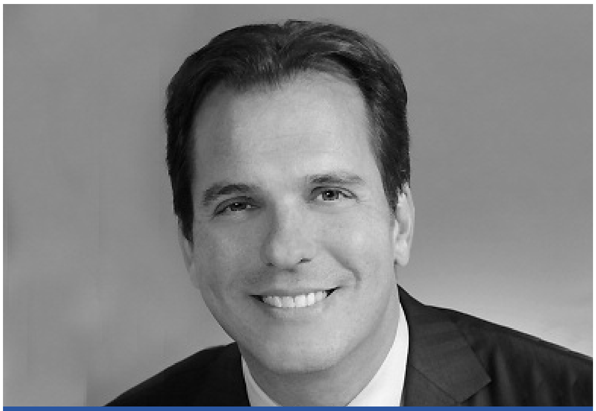
In her dual role as Head of Personal Banking, Missick is responsible for leading the thirteen RBC branches in The Bahamas. Missick has led this group of retail branches over the past three years focusing on delivering an excellent banking experience to clients while also helping to achieve the Bank's business performance goals. She is also the former Chair of the Clearing Banks Association.

Missick has twenty-five years of banking experience. She started her career as a part-time Teller in 1994. She advanced to senior positions including Personal Banking Officer, Assistant Manager of Personal Banking, Assistant Manager of Small Business, Manager of Personal Banking, and multiple Branch Manager roles prior to her cross-functional leadership assignment as Director of Human Resources for Scotiabank, Northern Caribbean. Here, she was responsible for HR governance, people strategy, and leadership deployment across four countries. Missick developed a depth of Retail Banking knowledge having held positions such as Senior Branch Manager for Scotiabank's largest retail operation in The Bahamas. Notably, she was the first female to hold this position and now the first female to hold the position of Managing Director, RBC Royal Bank (Bahamas) Limited.

Missick's proven success in leadership, sales management, and her exemplary record of people development has given her a unique business perspective. As a bank executive, she has been responsible for implementing strategic initiatives, building high employee engagement and bringing to life the vision of digital enablement as the future of banking for Bahamians.

Missick has a Master of Business Administration (MBA) from the University of Liverpool and a Master's Certificate in Sales Leadership from Schulich School of Business, York University. She is also a member of the Chartered Management Institute (CMI) and is a Director on the Boards of RBC Royal Bank (Bahamas) Limited, Finance Corporation of Bahamas Limited, Safeguard Insurance Brokers Ltd., R.B.C. Holdings (Bahamas) Limited, Royal Bank of Canada Trust Company (Bahamas) Limited and the former Chair of the Bahamas Automated Clearing House.

The Bank's Independent Non-Executive Directors for fiscal 2022 were Ross McDonald, Teresa Butler, and Anthony Robinson. They continue to meet the requirements of independence as stated in the relevant Corporate Governance Guidelines. There were 6 board meetings held during fiscal 2022.



NICK TOMOVSKI

NON-EXECUTIVE DIRECTOR
Senior Vice President, P&CB
Royal Bank of Canada

Nick Tomovski is Senior Vice President of Finance covering Personal & Commercial Banking, Technology and Operations and Functions at Royal Bank of Canada.

Tomovski is responsible for providing financial advisory services to enable and support the Canadian Banking, Caribbean and U.S. Banking businesses, T&O and Functional groups in achieving their strategic initiatives and priorities.

Tomovski joined Royal Bank of Canada in January 2006. He has over 25 years of experience in finance and business advisory. Prior to his current position, he was Vice President, Global Head of Financial Control within Wholesale Finance and Chief Financial Officer of RBC Dominion Securities Inc.

Tomovski began his career in Toronto with Price Waterhouse in 1993. In 2000, he joined CIBC in the Treasury & Balance Sheet Management Finance group. He was promoted to Vice President TBRM Finance in February 2002 and became Global Head of Middle Office in May 2004.

Tomovski is a Chartered Accountant and holds Bachelor of Arts degree in Financial & Economic Studies from the University of Western Ontario.

ROSS A. MCDONALD

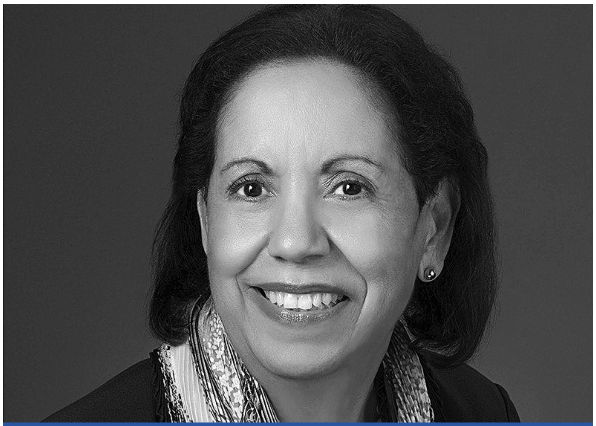
INDEPENDENT NON-EXECUTIVE DIRECTOR
Former Head of Caribbean Banking
RBC Royal Bank

Ross McDonald served 35 years with Royal Bank of Canada ("RBC") retiring as Senior Vice President & Head of Caribbean Banking. From 2003 until his retirement in 2011, Mr. McDonald led RBC's commercial and retail banking operations throughout the Caribbean.

McDonald is Chairman of Cable Bahamas Limited and a director of BeAliv Limited. He also serves as Chairman of RF Holdings Limited, which provides investment and corporate advisory services in The Bahamas, Barbados and the Cayman Islands. He is also a director of Bahamas Petroleum Company Plc and Aim listed public company, which is a Caribbean and an Atlantic-focused oil and gas company.

McDonald received a Bachelor of Arts from the University of Vermont in 1973 and a Master of Business Administration from the Richard Ivey School of Business in 1976.

BOARD OF DIRECTORS (continued)



MARIA-TERESA G. S. BUTLER

INDEPENDENT NON-EXECUTIVE DIRECTOR
Retired Civil Servant

Retired Permanent Secretary, former Chairman of the Public Service Commission, and member of the Judicial and Legal Services Commission (2002–2005), Maria-Teresa Butler served as Senior Policy Advisor in the Office of the Prime Minister between 2007 and 2012.

Butler served in the Bahamas Public Service between 1974 and 2002. She transferred to the Ministry of External Affairs in 1979 and was appointed to the Foreign Service in the Bahamas Embassy/ Permanent Mission of The Bahamas to the Organisation of American States in Washington, D.C. in 1983.

Butler returned to the Ministry of Foreign Affairs in Nassau in April 1988. She was transferred to the Office of the Prime Minister and promoted to the post of Permanent Secretary in August 1992. She retired from the Public Service on 31 January, 2002.

During her more than 30 years in public service, Butler attended numerous international conferences and meetings at the regional, hemispheric, and global level as a representative of the Government of The Bahamas.

Butler served as a Member of the Council of Economic Advisors from 1994 to 1998, as a Director on the Board of the Bank of The Bahamas from 1994 to 2002, as a member of the Board of Directors of the First Caribbean International Bank from 2003 to 2007 and as a Director on the Board of RBC FINCO since December 2015.

Butler has a Bachelor of Arts Degree (Hons.) with a concentration in History, and minors in Economics and Spanish, from the College of New Rochelle, New Rochelle, New York. She completed graduate level courses in international law and economics at the Fletcher School of Law and Diplomacy, Tufts University in Medford, Massachusetts. In 1985, she was awarded a Master's Degree in International Economics from Georgetown University, Washington, D.C.

ANTHONY A. ROBINSON

INDEPENDENT NON-EXECUTIVE DIRECTOR
President & CEO, FOCOL Holdings Ltd.

Anthony Robinson is President & Chief Executive Officer of Focol Holdings Limited, a publicly traded company listed on Bahamas International Securities Exchange.

Robinson joined Focol Holdings Ltd. in 1991 and has been directly involved in all aspects of the business as President and CEO. Prior to joining the Company, he held various managerial and supervisory positions with Shell Bahamas Limited, Franklin Chemicals and Syntex Corporation. Robinson obtained a B.Sc. Degree in Chemistry and a minor in Economics from Jacksonville University, Florida in 1984.

In 2005, Robinson played a pivotal role in the acquisition of Shell Bahamas Limited. He successfully led the integration of the Shell operations into the FOCOL Group of Companies; a publicly traded company since 1999 with over 1,000 Bahamian Investors. He has served on the Board of FINCO since 2012.

FINANCE CORPORATION OF BAHAMAS LIMITED

CORPORATE GOVERNANCE REPORT

Introduction

Finance Corporation of Bahamas Limited (the "Bank") is committed to maintaining the highest standards of corporate governance. Our Board champions the strong corporate values that are entrenched in our culture. We recognize that integrity and accountability are the foundation for the Bank's strong reputation and brand.

We continuously monitor and update as necessary our internal systems in order to ensure our standards reflect the requirements of our regulators, the Central Bank of The Bahamas and the Securities Commission of The Bahamas and best international practices tailored to the specific needs of the Bank.

Board Appointment / Training Process

Board size and composition are determined in alignment with applicable legal and regulatory requirements. The Board derives its strength from the diversity, qualities, competencies and experiences of its members. Diversity is a key priority and is embedded in all board selection considerations. Independent nominees are selected for such qualities as integrity and ethics, business judgement, and business or professional expertise.

The Board strives to ensure that new directors receive a thorough introduction to the role and all directors have access to the resources they need to focus on ongoing development.

The SGO facilitates continuing education for Directors and ensures procedures are in place to give the Board timely access to the information it needs to carry out its duties. In particular Directors:

- Receive a comprehensive package of information prior to each board and committee meeting;
- Receive reports on the work of board committees following committee meetings;
- Are involved in setting the agenda for board and committee meetings;
- Identify their continuing education needs, through discussions with management, board self-assessment surveys and at board and committee meetings.

Board Responsibilities

The Board is responsible for the overall stewardship of the Bank. Directors are elected by the shareholders to supervise management of the business and affairs of the Bank. The Board's role consists of two fundamental elements: decision-making and oversight. Through its collective expertise, skills, experiences and competencies, the Board provides objective and thoughtful guidance to, and oversight of, senior management by the demonstration of sound judgment, initiative, responsiveness and operational excellence.

Directors' Independence

Regulatory guidelines prescribe that the Bank must maintain a majority of non-executive directors on the Board one of which must be an independent Director. The Board is compliant with these independence requirements.

Director Compensation

Remuneration for Non-Employee Directors is benchmarked periodically with a view to providing market competitive compensation. Directors who are also employees of RBC receive no remuneration as directors.

Committee of the Board of Directors

To assist in exercising its responsibilities, and in satisfaction of regulatory requirements, the Board has established an Audit Committee. The Audit Committee has a written mandate that sets out its responsibilities and qualifications for committee membership under the applicable laws and regulations. The Committee is chaired by an independent director who is responsible for the effective operation of the Committee and the fulfillment of the Committee's mandate.

The Audit Committee is responsible for the oversight of the financial reporting and internal controls of the Bank, which includes the review and evaluation of the appropriate accounting principles and practices to be observed in the preparation of the Bank's accounts. The Audit Committee is also responsible for the initial review of the Bank's annual audited financial statements prior to consideration thereof by the Board of Directors. It approves the scope of the audit activities proposed each year to be conducted by the independent auditors. It also recommends the appointment and approves the terms of engagement of the independent auditors.

Summary of Board Evaluation Results

The Directors conduct a periodic evaluation of the performance and effectiveness of the Board in light of its mandate. In this process, Directors provide their views on whether the Board is functioning effectively, as well as matters as specific as key strategic, operational and risk issues and the effectiveness of the director orientation and education programme. The results of the evaluation are reviewed by the full Board who consider whether any changes to the Board's processes, composition, or committee structure are appropriate. Based on the 2022 survey results, the Board is operating effectively and in accordance with its mandate.

Code of Conduct

The RBC Code of Conduct (Code) promotes standards of desired behaviors that apply to directors, senior management and all employees including the responsibility to be truthful, respect others, comply with laws, regulations and our policies, and engage in sales practices that are fair and not misleading. The RBC Board annually approves the Code and closely collaborates with management to set the tone from above and promote a strong governance culture that influences RBC at every level. The Code reflects our global businesses as well as new and emerging risk areas and sets out fundamental principles that guide the Board in its deliberations. Our Code fosters an open and transparent environment where employees can speak up and raise concerns without any form of retaliation. It creates a frame of reference for properly addressing sensitive and complex issues and provides for accountability if standards of conduct are not upheld. We have an online learning program and annual employee testing and certification to demonstrate that employees are familiar with and understand the values and principles outlined in our Code. Directors of FINCO must acknowledge each year that they have read and understand the Code, and certify that they are in compliance with it.

Major Shareholdings and Voting Rights

NAME & ADDRESS OF SHAREHOLDER	CLASS	NO. OF UNITS	VALUE	PERCENTAGE
RBC Royal Bank (Bahamas) Limited East Hill Street, Nassau, N.P., The Bahamas	Common	20,000,000	B$4,000,000	75%
Bahamian Public	Common	6,666,670	B$1,333,334	25%

Enterprise Risk Management

Under the oversight of the Board of Directors and senior management, the RBC Enterprise Risk Management Framework provides an overview of enterprise-wide programmes for managing risk, including identifying, assessing, measuring, controlling, monitoring and reporting on the significant risks that face the Bank.

Risk Governance

The risk governance model is well-established. The Board of Directors oversees the implementation of the Bank's risk management framework, while employees at all levels of the organization are responsible for managing the day-to-day risks that arise in the context of their mandate. As shown below, the Bank uses a 'three lines of defence' governance model to manage risks.

Risk Appetite

The Bank's risk appetite is the amount and type of risk that the Bank is able and willing to accept in the pursuit of its business objectives. The goal in managing risk is to protect the Bank from an unacceptable loss or an undesirable outcome with respect to earnings volatility, capital adequacy or liquidity, while supporting and enabling its overall business strategy.

Internal Audit

RBC Internal Audit (IA) provides independent, objective risk assessment and evaluation of risk management practices, internal controls and governance processes, to provide assurance on the adequacy and effectiveness, for all areas of RBC including the Bank. While remaining independent and objective, IA works with management in achieving business objectives by ensuring appropriate remedial action takes place to improve operations in areas with identified weaknesses. Key stakeholders include the Board of Directors, shareholders' auditors, regulators and senior management. IA has a risk-based audit approach to assess the different corporate governance and risk governance activities across RBC. The audit approach to address these topics gives consideration to the implementation at the different enterprise, business segment, and subsidiary levels. As well, IA assesses the design and operations of RBC practices consistent with regulatory expectations. Specific local regulatory expectations are incorporated in the evaluation where applicable.

Compliance

From an enterprise wide perspective, RBC has a comprehensive Regulatory Compliance Management Framework, designed to promote the proactive, risk-based management of compliance and regulatory risk and applies to all of our businesses and operations, legal entities and employees globally, including the Bank. Compliance confirms the shared accountability of all employees by ensuring it maintains robust and effective compliance and regulatory risk controls.

RBC Global Compliance provides independent control and oversight of the management of RBC's regulatory and compliance risks and controls as they relate to laws, regulations and regulatory expectations relevant to the activities of RBC and subsidiaries in the jurisdictions in which they operate. Global Compliance works with Senior Management and employees throughout RBC to drive a culture of ethics, compliance and integrity and ensure the quality and consistency of RBC's compliance performance globally.

Global Compliance does this through:

- **Compliance Programmes –** develop, maintain and communicate policies, processes and controls at enterprise and business levels;
- **Oversight and Monitoring –** oversee and monitor compliance processes within the enterprise to ensure effectiveness, achieve compliance and manage regulatory risk; monitor review findings and resolution;
- **Reporting –** provide reporting to enable senior management and boards/committees to effectively perform their management and oversight responsibilities;
- **Working Relationships –** develop and maintain good working relationships with stakeholders including regulators.

CORPORATE GOVERNANCE REPORT (continued)

BOARD OF DIRECTORS OF THE COMPANY

- The Board of Directors establishes the tone from the top, and sets the standards of conduct and champions RBC's values as set out in RBC's Code of Conduct.
- From a Risk Governance perspective, the Board also approves the Company's risk appetite, provides oversight and carries out its risk management mandate primarily by reviewing and approving the credit risk and operational risk reports.
- The Board ensures that appropriate systems and controls are in place for effective risk management, and that the Company respects and complies with applicable regulatory, corporate, securities and other legal requirements, while remaining current with new/increasing risks applicable to the Company's business environment. From an operational risk perspective the Board monitors the integrity and effectiveness of the Company's internal controls and management information systems.

SENIOR MANAGEMENT OF THE COMPANY

- Actively shape the Company's risk appetite and recommends it for Board approval.
- Visibly support and communicate enterprise risk appetite, ensuring that sufficient resources and expertise are in place to help provide effective oversight of adherence to the enterprise risk appetite.
- Ensure alignment of strategic planning, financial planning, capital planning, and risk appetite.
- Seeks to ensure principles, policies, authorities, resources, responsibilities and reporting are in place to support the control infrastructure.

FIRST LINE OF DEFENCE

RISK OWNERS

- All employees across our businesses and functionl areas
- Accountable for:
  – Identification
  – Assessment
  – Mitigation
  – Monitoring, and
  – Reporting of risk against approved policies and appetite.

SECOND LINE OF DEFENCE

RISK OVERSIGHT

RISK MANAGEMENT | **GLOBAL COMPLIANCE AND ANTI-MONEY LAUNDERING**

- The CRO has direct access to the Risk Committee
- The Chief Compliance Officer (CCO) and the Chief Anti-Money Laundering Officer (CAMLO) have direct access ro the Audit Committee
- Establishes risk management practices and provides risk guidance
- Provides oversight of the effectiveness of First Line risk management practices
- Monitors and independently reports on the level of risk against established appetite

THIRD LINE OF DEFENCE

INDEPENDENT ASSURANCE

- Internal audit
- Independent assurance to management and the Board of Directors on the effectiveness of risk management practices.

1.1. Risk Appetite

(a) The Company's risk appetite is the amount and type of risk that the Company is able and willing to accept in the pursuit of its business objectives. It reflects our self-imposed upper bound to risk taking, and influences our risk management philosophy, conduct, operation style, and resource allocation. The goal in managing risk is to protect the Company from an unacceptable loss or an undesirable outcome with respect to earnings volatility, capital adequacy or liquidity, while supporting and enabling its overall business strategy.

1.2. Internal Audit

(a) RBC Internal Audit ("IA") provides independent, objective risk assessment and evaluation of risk management practices, internal controls and governance processes, to provide assurance on the adequacy and effectiveness, for all areas of RBC including the Company. While remaining independent and objective, IA works with management in achieving business objectives by ensuring appropriate remedial action takes place to improve operations in areas with identified weaknesses. Key stakeholders include the board of directors, shareholders' auditors, regulators and senior management. IA has a risk-based audit approach to assess the different corporate governance and risk governance activities across RBC. The audit approach to address these topics gives consideration to the implementation at the different enterprise, business segment, and subsidiary levels. As well, IA assesses the design and operations of RBC practices consistent with regulatory expectations. Specific local regulatory expectations are incorporated in the evaluation where applicable.

1.3. Compliance

(a) From an enterprise wide perspective, RBC has a comprehensive Regulatory Compliance Management Framework, designed to promote the proactive, risk-based management of compliance and regulatory risk and applies to all of our businesses and operations, legal entities and employees globally, including the Company. Compliance confirms the shared accountability of all employees by ensuring it maintains robust and effective compliance and regulatory risk controls.

FINANCE CORPORATION OF BAHAMAS LIMITED

BOARD OF DIRECTORS' ANNUAL CERTIFICATION TO THE SECURITIES COMMISSION OF THE BAHAMAS

a. We, the Board of Directors of Finance Corporation of Bahamas Limited are familiar with the contents of the **Securities Industry (Corporate Governance) Rules 2019** (hereinafter referred to as "the Rules"), enacted on 18th March, 2019, and acknowledge our role and responsibilities under the Rules;

b. We have carefully considered the reporting of Senior Management and other information relevant to forming an opinion as to whether the Bank is following the Rules; and,

c. Senior Management is required to certify to the Ultimate Parent Company of FINCO, the Royal Bank of Canada, that policies and procedures are in place to ensure FINCO's continuing compliance with local legislation and Guidelines (hereinafter referred to as "Regulatory Compliance"). We are satisfied that internal rules, circulars, guidelines and manuals are accurate and complete in all material respects and that the Bank's local internal audit function and review processes provide reasonable assurances of Regulatory Compliance. We further confirm:

d. We are satisfied that FINCO remains a going concern;

e. We are performing our functions and fulfilling our obligations under the Rules;

f. We are of the opinion that FINCO is following the Rules, paying particular attention to Part IV of the Rules, indicating the Board's responsibility for the total process of risk management. Based on the information reported by Senior Management, we are satisfied with the effectiveness of the process as well as the safety and soundness of the operations of FINCO.

g. We understand and are in compliance with our responsibilities as directors in connection with the preparation of the financial statements of FINCO;

h. We are familiar with the details of the accounting policies utilized and are aware of any reasons for changes in the accounting policies, where applicable;

i. The value of all material benefits and compensation paid to directors collectively did not exceed $2.2 million dollars for the calendar year;

j. The value of non-executive directors' fees and allowances was $39,500 for the calendar year;

This Certificate is in respect of calendar year 2022.

DEVERSON WARNER

ANTHONY ROBINSON

CHRISTOPHER RONALD

LASONYA MISSICK

ROSS MCDONALD

NICK TOMOVSKI

TERESA BUTLER

Dated this 13th day of January, 2023

FINANCE CORPORATION OF BAHAMAS LIMITED

STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management is responsible for the following:

- Preparing and fairly presenting the accompanying consolidated financial statements of Finance Corporation of Bahamas Limited (the bank and its subsidiary collectively "the Group") which comprise the consolidated statement of financial position as at October 31, 2022 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and significant accounting policies and other explanatory information;
- Ensuring that the Group keeps proper accounting records;
- Selecting appropriate accounting policies and applying them in a consistent manner;
- Implementing, monitoring and evaluating the system of internal control that assures security of the Group's assets, detection/prevention of fraud, and the achievement of the Group operational efficiencies;
- Ensuring that the system of internal control operated effectively during the reporting period;
- Producing reliable financial reporting that comply with laws and regulations; and
- Using reasonable and prudent judgement in the determination of estimates.

In preparing these financial statements, management utilized the International Financial Reporting Standards, as issued by the International Accounting Standards Board. Where International Financial Reporting Standards presented alternative accounting treatments, management chose those considered most appropriate in the circumstances.

Nothing has come to the attention of management to indicate that the Group will not remain a going concern for the next twelve months from the reporting date; or up to the date the accompanying financial statements have been authorized for issue, if later.

Management affirms that it has carried out its responsibilities as outlined above.

DEVERSON WARNER
Managing Director
January 13, 2023

CHRISTOPHER HANNA
Senior Manager, Finance Northern Caribbean
January 13, 2023

Independent auditors' report

To the Shareholders of Finance Corporation of Bahamas Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Finance Corporation of Bahamas Limited (the Bank) and its subsidiary (together 'the Group') as at October 31, 2022, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at October 31, 2022;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview

- Overall group materiality: $2,004,770, which represents approximately 5% of net income.

- The consolidated group consists of the Bank, and one wholly owned subsidiary, Safeguard Insurance Brokers Limited, both incorporated and registered in The Bahamas.
- The audit engagement team was the auditor for both the Bank and the subsidiary.
- A full scope audit was performed on both entities.

- Assumptions used in the stage 1 and 2 allowance for credit losses loan model in respect of future macroeconomic scenarios, including forward-looking information, may not be reasonable.

PricewaterhouseCoopers, 2 Bayside Executive Park, West Bay Street & Blake Road, P. O. Box N-3910, Nassau, Bahamas
T: + 1 242 302 5300, F: + 1 242 302 5350, www.pwc.com/bs

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Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

A full scope audit was performed on both the Bank and its subsidiary by PwC Bahamas. In respect of the Bank, we were assisted by our component teams, PwC Trinidad & Tobago and PwC Canada, who were instructed by the Group engagement team to perform specified procedures over certain financial information. The Group engagement team determined the level of involvement we needed to have in the audit work at the components and reviewed all reports with regards to the approach and findings of the component auditors in detail. This, together with additional procedures performed at the Group level, provided us with the evidence we needed for our opinion on the Group's consolidated financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	$2,004,770
How we determined it	5% of net income
Rationale for the materiality benchmark applied	We chose net income as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is within a range of acceptable benchmark thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $100,240, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Assumptions used in the stage 1 and 2 allowance for credit losses loan model in respect of future macroeconomic scenarios, including forward-looking information, may not be reasonable. *Refer to notes 2(c) and 5 to the consolidated financial statements for disclosures of related accounting policies and balances.*	
Stage 1 and 2 loans and advances to customers of $604 million represents 83% of the Group's total assets at the consolidated statement of financial position date. The Group has recorded an allowance for credit losses (ACL) in the amount of $15.8 million on these loans and advances.	We performed the following procedures, amongst others, over the stage 1 and 2 allowance for credit losses: • obtained an understanding of management's process to calculate the stage 1 and 2 ACL;

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Management's determination of the ACL for loans and advances to customers for stage 1 and stage 2 loans is a complex calculation which involves a significant number of interrelated inputs and assumptions including internal historical default rates, changes in credit quality and macroeconomic factors. The probability of default and loss given default inputs used to calculate the ACL are modelled based on macroeconomic scenarios.

Management considers multiple future macroeconomic scenarios, each of which includes a forecast of relevant macroeconomic variables, designed to capture a range of possible outcomes. The future macroeconomic variables are probability-weighted according to management's expectation of the relative likelihood of the range of outcomes each scenario represents.

As a result of the significant volatility in the economic environment in which the Group operates, the Group's ACL has a higher degree of uncertainty. The key input surrounding the forward-looking assumptions pertains to the Gross Domestic Product (GDP) rates, which are inherently subjective, and can materially impact the estimate of the stage 1 and stage 2 ACL in future periods.

The significant level of judgement required by management to estimate future macroeconomic assumptions and the high degree of estimation uncertainty surrounding the impact that management's forward-looking assumptions has on the ACL resulted in this being a key area of focus.

- tested the design and operating effectiveness of certain relevant controls relating to the stage 1 and 2 ACL, including controls over:
  - the Allowance Committee's review of the model, macroeconomic forecasts, scenarios and probability weightings, results of model validation and assessment of the final ACL; and
  - the validation of the ACL model.
- on a sample basis, tested the completeness and accuracy of underlying data used in the estimation of the stage 1 and 2 ACL model;
- with the assistance of our credit modelling experts, tested the appropriateness of the historical macroeconomic and forward-looking information and related assumptions used in the design of future macroeconomic variables for each forward-looking scenario by comparing these assumptions with relevant external market and industry data; and
- performed a sensitivity analysis on economic variables including GDP forecasts.

Based on the procedures performed, assumptions used in the stage 1 and 2 ACL in respect of future macroeconomic scenarios, including forward-looking information, were not unreasonable.

Other information

Management is responsible for the other information. The other information comprises the RBC FINCO Annual Report 2022 (but does not include the consolidated financial statements and our auditors' report thereon), which is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 identified above when it becomes available 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.

When we read the RBC FINCO Annual Report 2022, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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Auditors' 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 auditors' 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 ISAs 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 scepticism 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Myra Lundy-Mortimer.

PricewaterhouseCoopers

Chartered Accountants
Nassau, Bahamas
February 8, 2023

FINANCE CORPORATION OF BAHAMAS LIMITED
(Incorporated under the laws of the Commonwealth of The Bahamas)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT OCTOBER 31, 2022

(Expressed in Bahamian Dollars)

	Notes	2022 $	2021 $
ASSETS			
Cash and cash equivalents	3	39,501,591	21,016,518
Balance with central banks	4	37,190,298	35,575,739
Loans and advances to customers	5	622,161,572	639,069,944
Investment securities	6	28,075,852	31,791,539
Premises and equipment	7	66,559	91,097
Other assets		2,103,174	4,070,129
Total Assets		**729,099,046**	**731,614,966**
LIABILITIES			
Customer deposits	8	280,028,507	324,466,643
Due to affiliated companies	20	171,983,594	155,802,366
Other liabilities	9	3,287,896	3,012,721
Total Liabilities		**455,299,997**	**483,281,730**
EQUITY			
Stated capital	11	5,333,334	5,333,334
Share premium		2,552,258	2,552,258
Other components of equity	11	39,182	2,079
Retained earnings		265,874,275	240,445,565
Total Equity		**273,799,049**	**248,333,236**
Total Liabilities and Equity		**729,099,046**	**731,614,966**

On January 13, 2023 the Board of Directors of Finance Corporation of Bahamas Limited authorized these financial statements for issue.

DEVERSON WARNER
Director

LASONYA MISSICK
Director

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

FINANCE CORPORATION OF BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED OCTOBER 31, 2022

(Expressed in Bahamian Dollars)

	Notes	2022 $	2021 $
INCOME			
Interest income	13	40,558,389	42,345,590
Interest expense	14	(5,770,442)	(6,415,170)
Net interest income		**34,787,947**	**35,930,420**
Non-interest income	15	1,677,119	1,824,755
Total revenue		**36,465,066**	**37,755,175**
Non-interest expenses	16	(13,283,367)	(13,972,157)
(Provision)/release for credit losses on off balance sheet items		(23,878)	4,926
Release of credit losses on loans		16,215,544	15,698,461
Release/(provision) for credit losses on securities		722,013	(250,818)
Net income		**40,095,378**	**39,235,587**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to net income			
Net gains/(losses) on investments in debt instruments measured at FVOCI		13,172	(5,303)
Release/(provision) for expected credit losses on FVOCI investments		23,931	(4,711)
Total comprehensive income		**40,132,481**	**39,225,573**
Earnings per share (basic and diluted)	12	**1.50**	**1.47**

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

FINANCE CORPORATION OF BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED OCTOBER 31, 2022

(Expressed in Bahamian Dollars)

	Stated Capital $	Share Premium $	Components of Equity $	Retained Earnings $	Total $
As at November 1, 2020	5,333,334	2,552,258	12,093	210,409,979	218,307,664
Comprehensive income					
Net income	–	–	–	39,235,587	39,235,587
Other comprehensive income	–	–	(10,014)	–	(10,014)
Total comprehensive income	–	–	(10,014)	39,235,587	39,225,573
Transactions with owners					
Dividends (Note 17)	–	–	–	(9,200,001)	(9,200,001)
Total transactions with owners	–	–	–	(9,200,001)	(9,200,001)
As at October 31, 2021	**5,333,334**	**2,552,258**	**2,079**	**240,445,565**	**248,333,236**
As at November 1, 2021	5,333,334	2,552,258	2,079	240,445,565	248,333,236
Comprehensive income					
Net income	–	–	–	40,095,378	40,095,378
Other comprehensive income	–	–	37,103	–	37,103
Total comprehensive income	–	–	37,103	40,095,378	40,132,481
Transactions with owners					
Dividends (Note 17)	–	–	–	(14,666,668)	(14,666,668)
Total transactions with owners	–	–	–	(14,666,668)	(14,666,668)
As at October 31, 2022	**5,333,334**	**2,552,258**	**39,182**	**265,874,275**	**273,799,049**

Dividends per share (Note 17) $0.55 (2021: $0.34)

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

FINANCE CORPORATION OF BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED OCTOBER 31, 2022

(Expressed in Bahamian Dollars)

	Notes	2022 $	2021 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		40,095,378	39,235,587
ADJUSTMENTS FOR:			
Release for credit losses		(16,913,679)	(15,452,569)
Depreciation and amortization	7	33,690	43,543
Loss on disposal of premises and equipment		16,421	–
		23,231,810	23,826,561
(INCREASE)/DECREASE IN OPERATING ASSETS:			
Reserve deposits with central banks		5,874,378	2,251,662
Loans and advances to customers		33,123,917	32,770,894
Other assets		1,967,007	3,861,394
INCREASE/(DECREASE) IN OPERATING LIABILITIES:			
Customer deposits		(44,438,136)	(55,104,524)
Due to affiliated companies		14,431,228	(304,215)
Other liabilities		(308,158)	(361,679)
Net cash from operating activities		**33,882,046**	**6,940,093**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of premises and equipment	7	(25,573)	(7,907)
Purchase of investment securities	6	(4,854,500)	(6,799,700)
Proceeds from maturity of investment securities	6	9,292,200	2,296,600
Net cash from/(used in) investing activities		**4,412,127**	**(4,511,007)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	17	(12,333,335)	(8,600,001)
Net cash used in financing activities		**(12,333,335)**	**(8,600,001)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**25,960,838**	**(6,170,915)**
Effects of fair value changes on cash and cash equivalents		13,172	(5,303)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		39,569,969	45,746,187
CASH AND CASH EQUIVALENTS, END OF YEAR		**65,543,979**	**39,569,969**
CASH AND CASH EQUIVALENTS:			
Cash and cash equivalents	3	39,501,591	21,016,518
Unrestricted cash balance with Central Bank	4	26,042,388	18,553,451
		65,543,979	**39,569,969**
SUPPLEMENTAL INFORMATION:			
Interest received		41,747,734	46,076,426
Interest paid		(5,935,993)	(6,268,635)

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

FINANCE CORPORATION OF BAHAMAS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2022

1. INCORPORATION AND BUSINESS ACTIVITIES

Finance Corporation of Bahamas Limited (the "Bank") was incorporated in the Commonwealth of The Bahamas (The Bahamas) and is licensed under the provisions of the Banks and Trust Companies Regulation Act, 2020 and is also licensed as an Authorized Dealer, pursuant to the Exchange Control Regulations Act. The Bank is 75% majority owned by RBC Royal Bank (Bahamas) Limited (Immediate Parent), a company also incorporated in The Bahamas, which is a wholly-owned subsidiary of the ultimate parent company, Royal Bank of Canada (RBC or RBC Group) incorporated in Canada. The Bank's shares are publicly traded and listed on the Bahamas International Securities Exchange (BISX) with 25% of its ownership being held by the Bahamian public.

The Bank has three branch locations in New Providence and one branch in Freeport, Grand Bahama. Its business activities include the acceptance of savings, term and demand deposits, the buying and selling of foreign currency, and mortgage lending in New Providence and Grand Bahamas Islands of The Bahamas. The Bank's registered office is located at Royal Bank House, East Hill Street, Nassau, The Bahamas.

The Bank has a wholly-owned subsidiary, Safeguard Insurance Brokers limited which is incorporated in The Bahamas and provides insurance brokerage services to mortgage customers of the Bank. The Bank and its subsidiary are collectively referred to as the Group.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These accounting policies conform, in all material respects, to the International Financial Reporting Standards (IFRS). Except where otherwise noted, the same accounting policies have been applied to all periods presented.

a. Basis of preparation

The financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB), and under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Notes 2(c), 2(k) and 24.

The economic outlook remains subject to ongoing uncertainty with moderate recessions expected in major developed economies in calendar 2023 reflecting increased downside risks including higher inflation, supply chain disruptions, labour shortages and heightened geopolitical risks, which could impact the Group's financial results. The Group continues to monitor and assess the impacts of these factors on its critical accounting judgments, estimates and assumptions.

New standards, amendments and interpretations adopted by the Group

Standards, amendments and interpretations to published standards that became effective for the Group's financial year beginning on November 1, 2021 were either not relevant or not significant to the Group's operations and accordingly did not have a material impact on the Group's accounting policies or consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Basis of preparation (continued)

New, revised and amended standards not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after November 1, 2022. The Group has not early-adopted any of them and therefore they have not been applied in preparing these consolidated financial statements. These standards, amendments and interpretations are not expected to have a material impact on the Group's financial statements.

b. Basis of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Group.

c. Financial instruments

Classification and measurement of financial assets

Financial assets are measured at initial recognition at fair value, and are classified and subsequently measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost based on the Group’s business model for managing the financial assets and the contractual cash flow characteristics of the instrument.

Debt instruments are measured at amortized cost if both of the following conditions are met and the asset is not designated as FVTPL: (a) the asset is held within a business model that is Held-to-Collect (HTC) as described below, and (b) the contractual terms of the instruments give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Debt instruments are measured at FVOCI if both of the following conditions are met and the asset is not designated as FVTPL: (a) the asset is held within a business model that is Held-to-Collect-and-Sell (HTC&S) as described below, and (b) the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI.

All other debt instruments are measured at FVTPL.

Equity instruments are measured at FVTPL, unless the asset is not held for trading purposes and the Group makes an irrevocable election to designate the asset as FVOCI. This election is made on an instrument-by-instrument basis.

Business model assessment

The Group determines the business models at the level that best reflects how it manages portfolios of financial assets to achieve business objectives. Judgement is used in determining the business models, which is supported by relevant, objective evidence including:

- How the economic activities of the business generate benefits, for example through trading revenue, enhancing yields or other costs and how such economic activities are evaluated and reported to key management personnel;
- The significant risks affecting the performance of the business, for example, market risk, credit risk, or other risks as described in the Risk Management Note 22, and the activities taken to manage those risks;
- Historical and future expectations of sales of the instruments managed as part of a business model; and

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Classification and measurement of financial assets *(continued)*

Business model assessment (continued)

- The compensation structures for managers of the businesses within the Group, to the extent that these are directly linked to the economic performance of the business model.

The Group's business models fall into three categories, which are indicative of the key categories used to generate returns:

- HTC: the objective of this business model is to hold instruments to collect contractual principal and interest cash flows; sales are incidental to this objective and are expected to be insignificant or infrequent;
- HTC&S: both collecting contractual cash flows and sales are integral to achieving the objective of the business model; and
- Other fair value business models: these business models are neither HTC nor HTC&S, and primarily represent business models where assets are held-for-trading or managed on a fair value basis.

SPPI assessment

Instruments held within a HTC or HTC&S business model are assessed to evaluate if their contractual cash flows are comprised of solely payments of principal and interest. SPPI payments are those which would typically be expected for basic lending arrangements. Principal amounts include the fair value of the financial asset at initial recognition from lending and financing arrangements, and interest primarily relates to basic lending return, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest can also include other basic lending risks and costs (for example, liquidity risk, servicing or administrative costs) associated with holding the financial asset for a period of time, and a profit margin.

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basis lending arrangement the related financial asset is classified and measured at fair value through profit or loss. The Group reclassifies debt instruments 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. No changes occurred during the period.

Investment Securities

Investment securities include all securities classified as amortized cost. Treasury bills which have original contractual maturities of three months or less have been classified at fair value through other comprehensive income and are included as part of cash and cash equivalents.

Investment securities carried at amortized cost are measured using the effective interest rate method, and are presented net of any allowance for credit losses, calculated in accordance with the Group's policy for allowance for credit losses, as described below. Interest income, including the amortization of premiums and discounts on securities measured at amortized cost are recorded in net interest income. Impairment gains or losses recognized on amortized cost securities are recorded in provision for credit losses in the consolidated statement of comprehensive income. When a debt instrument measured at amortized cost is sold, the difference between the sale proceeds and the amortized cost of the security at the time of sale is recorded as a net gain/(loss) on investment securities in non-interest income.

Debt securities carried at FVOCI are measured at fair value with unrealized gains and losses arising from changes in fair values recognised in other comprehensive income and included in other components of equity. Impairment gains and losses are included in the provision for credit losses and correspondingly reduce or increase the accumulated change in fair value included in other components in equity. When a debt instrument measured at FVOCI is sold, the cumulative gain or loss and allowance for credit losses is reclassified from other components of equity to net gain/(loss) on investment securities in non-interest income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Classification and measurement of financial assets *(continued)*

Investment Securities (continued)

The Group accounts for all securities using settlement date accounting and changes in fair value between trade date and settlement date are reflected in income for securities measured at FVTPL, and changes in fair value of securities measured at FVOCI between trade date and settlement dates are recorded in other comprehensive income (OCI), except for changes in foreign exchange rates on debt securities, which are recorded in non-interest income.

Purchased or Originated Credit Impaired (POCI) securities are already impaired at the time they are purchased or originated. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired will come from observable data about any impairment event as detailed in the allowance for credit losses accounting policy. POCI securities are initially recognized at fair value. The effective interest rate is the yield implied by the credit-adjusted cash flows.

Loans and advances to customers

Loans and advances to customers are debt instruments recognized initially at fair value and are subsequently measured in accordance with the classification of financial assets policy described above. All of the Group's loans and advances to customers are carried at amortized cost using the effective interest method, which represents the gross carrying amount less allowance for credit losses.

Interest on loans and advances to customers are recognized in interest income using the effective interest method. The estimated future cash flows used in this calculation include those determined by the contractual term of the asset and all fees that are considered to be integral to the effective interest rate. Also included in this amount are transaction costs and all other premiums or discounts. Fees that relate to activities such as originating, restructuring or renegotiating loans are deferred and recognized as interest income over the expected term of such loans using the effective interest method. Where there is a reasonable expectation that a loan will be originated, commitment and standby fees are also recognized as interest income over the expected term of the resulting loans using the effective interest method. Otherwise, such fees are recorded as other liabilities and amortized into non-interest income over the commitment or standby period. Prepayment fees on mortgage loans are not included as part of the effective interest rate at origination. If prepayment fees are received on a renewal of a mortgage loan, the fee is included as part of the effective interest rate; and if not renewed, the prepayment fee is recognized in interest income at the prepayment date.

Provision for credit losses is recognized at each statement of financial position date in accordance with the three-stage impairment model outlined in these accounting policies.

Allowance for credit losses

An allowance for credit losses (ACL) is established for all financial assets, except for financial assets classified or designated as FVTPL and equity securities designated as FVOCI, which are not subject to an impairment assessment. Assets subject to an impairment assessment include loans and advances to customers, debt securities, interest-bearing deposits with banks, accounts and accrued interest receivable. Provision for credit losses (PCL) on debt securities measured at FVOCI is included the release/(provision) for credit losses in the consolidated statement of comprehensive income and the ACL on debt securities measured at FVOCI is presented in other components of equity in the consolidated statement of financial position. Financial assets carried at amortized cost are presented net of the ACL in the consolidated statement of financial position. PCL on amortized cost instruments are recognized directly in the consolidated statement of comprehensive income.

Off-statement of financial position items subject to impairment assessment include financial guarantees and undrawn loan commitments. The ACL for undrawn credit commitments is included in the ACL for loans and advances to customers. ACL for financial guarantees is included in other liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Allowance for credit losses (continued)

The Group measures the ACL at each consolidated statement of financial position date according to a three-stage expected credit loss impairment model:

Performing financial assets:

- Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring over a 12 month period or shorter if the remaining term is less than 12 months following the reporting date.
- Stage 2 – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognized equal to the credit losses expected over the remaining lifetime of the asset.

Impaired financial assets:

- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance is recognized equal to credit losses expected over the remaining lifetime of the asset.

The ACL is a discounted probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant time horizon. For loan commitments, credit loss estimates consider the portion of the commitment that is expected to be drawn over the relevant time period.

Increases or decreases in the required ACL attributable to purchases and new originations, derecognitions or maturities, and remeasurements due to changes in loss expectations or stage migrations are recorded in the PCL. Write-off and recoveries are recorded against ACL.

The ACL represents an unbiased estimate of expected credit losses on financial assets as at the consolidated statement of financial position date. Judgment is required in making assumptions and estimations when calculating the ACL, including movements between the three stages and the application of forward-looking information. The underlying assumptions and estimates may result in changes to the allowances from period to period that significantly affects the results of operations.

Measurement of expected credit losses

Expected credit losses are based on a range of possible outcomes and consider available, reasonable and supportable information including internal and external ratings, historical credit loss experience and expectations about future cash flows. The measurement of expected credit losses is based primarily on the product of the instrument’s probability of default (PD), loss given default (LGD) and exposure at default (EAD) discounted to the reporting date. The main difference between Stage 1 and Stage 2 expected credit losses for performing financial assets is the respective calculation horizon. Stage 1 estimates project PD, LGD and EAD over a maximum period of 12 months while Stage 2 estimates project PD, LGD and EAD over the remaining lifetime of the instrument.

An expected credit loss estimate is produced at the loan level. The estimate is based on a model that takes into account different segments of the Group’s portfolio and forward looking information. To reflect other characteristics that are not already considered through modeling, expert credit judgment can be exercised in determining the final expected credit losses using a range of possible outcomes.

In the previous year, an expected credit loss estimate was produced at the portfolio segment level. Relevant parameters were modeled on a collective basis using portfolio segmentation that allowed for appropriate incorporation of forward looking information. The IFRS 9 model was not calibrated for unprecedented events such as the COVID 19 pandemic, so the Group applied an overlay to the model predicted allowance. In the context of IFRS 9, post-model adjustments through overlays are short-term increases or decreases to the estimate credit losses at the portfolio level to account for late breaking events, model limitations and expert credit judgement applied following management review and challenge. Internal governance was in place to regularly monitor these overlays and where possible to reduce the reliance on these through model recalibration or redevelopment, as appropriate. The overlay was based on expert judgement, historical experience and economic growth projections.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Allowance for credit losses (continued)

Measurement of expected credit losses (continued)

Expected credit losses continue to be discounted to the reporting period date using the effective interest rate.

Expected life

For instruments in Stage 2 or Stage 3, the loss allowance reflects the expected credit loss over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life.

An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a loan and undrawn commitment component; (b) the Group has the contractual ability to demand repayment and cancel the undrawn commitment; and (c) the Group's exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may exceed the remaining contractual life and is the period over which the Group's exposure to credit losses is not mitigated by its normal credit risk management actions. This period varies by product and risk category and is estimated based on historical experience with similar exposures and consideration of credit risk management actions taken as part of a regular credit review cycle. The products in scope of this exemption includes overdraft balances and lines of credit. Determining the instruments in scope for this exemption and estimating the appropriate remaining life based on historical experience and credit risk mitigation practices requires significant judgment.

Assessment of significant increase in credit risk

The assessment of a significant increase in credit risk requires significant judgment. Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly relative to the date it was initially recognized. This assessment is performed at the instrument level.

The Group's assessment of significant increases in credit risk is based on factors such as delinquency status, watch-list reports and whether the account is being managed by the special loans group. If any of the following conditions is met, the instrument is moved from Stage 1 to Stage 2. The prior year assessment was based on the first three conditions only:

1) The instrument is 30 days past due;
2) The account is watch-listed and centrally monitored and managed. This centrally monitored portfolio today remains a mix of accounts which are in default and accounts with minimal or no delinquency. The latter remains within the purview of the specialized management team due to circumstances other than delinquency which marks the account as having a higher risk component;
3) Retail loans receiving business as usual deferrals granted by our collections team;
4) Loans of clients who has a prior default during the last three years; and
5) Increases in the probability of default (PD) at the loan level.

The Group's assessment of significant increases in credit risk is primarily based on the approach described above. For the previous year which integrated the COVID overlay, the broader macroeconomic impacts of the pandemic were largely reflected in an instrument's lifetime PD. To the extent the impacts of COVID 19 were not already reflected within the lifetime PD model, they were reflected through the qualitative review performed to assess the staging results and adjustments were made as necessary.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Allowance for credit losses (continued)

Use of forward-looking information

The PD and LGD inputs used to estimate the Stage 1 and Stage 2 credit loss allowances under the IFRS 9 model are modelled based on macroeconomic scenarios. Each macroeconomic scenario used in the Group's expected credit loss calculation includes a projection of all relevant macroeconomic variables used in the Group's models for a five year period. In comparison to the previous year in which the PD and LGD inputs were modelled based on the macroeconomic variables (or changes in macroeconomic variables) that were most closely correlated with credit losses in the relevant portfolio such as unemployment rate, GDP and \ or inflation rate.

Further details on the Group forward looking assumptions and scenarios as at October 31, 2022 are provided in Note 5.

Scenario Design

The Group's estimation of expected credit losses in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers five distinct future macroeconomic scenarios. Scenarios and scenario weights are set at the RBC Group level; considering the RBC baseline forecast and reasonable downside and upside assumptions.

Scenarios are global in nature and include predictions of macroeconomic conditions in North America, Europe and the Caribbean. Having scenarios and scenario weights set at the enterprise level allows RBC to have a consistent view of macroeconomic scenarios across business lines and legal entities.

Scenarios are designed to capture a wide range of possible outcomes and weighted on the relative likelihood of the range of outcomes that each scenario represents. Scenario weights take into account historical frequency, current trends, and forward-looking conditions and are updated on a quarterly basis. All scenarios considered are applied to all portfolios subject to expected credit losses with the same probability weighting.

Definition of default

The definition of default used in the measurement of expected credit losses is consistent with the definition of default used for the Group's internal credit risk management purposes. The definition of default may differ across products and consider both quantitative and qualitative factors, such as the terms of financial covenants and days past due. For retail and wholesale borrowers, except as detailed below, default occurs when the borrower is 90 days or more past due on any material obligation to the Group, and/or the Group considers the borrower unlikely to make their payments in full without recourse action, such as taking formal possession of any collateral held. The definition of default used is applied consistently from period to period and to all financial instruments unless it can be demonstrated that circumstances have changed such that another definition of default is more appropriate.

Credit-impaired financial assets (Stage 3)

Financial assets are assessed for credit-impairment at each consolidated statement of financial position date and more frequently when circumstances warrant further assessment. Evidence of credit-impairment may include indications that the borrower is experiencing significant financial difficulty, probability of bankruptcy or other financial reorganization, as well as a measurable decrease in the estimated future cash flows evidenced by the adverse changes in the payments status of the borrower or economic conditions that correlate with defaults. An asset that is in Stage 3 will move back to Stage 2 when, as at the reporting date, it is no longer considered to be credit-impaired.

The asset will migrate back to Stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly from initial recognition, which could occur during the same reporting period as the migration from Stage 3 to Stage 2.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Allowance for credit losses (continued)

Credit-impaired financial assets (Stage 3) (continued)

When a financial asset has been identified as credit-impaired, expected credit losses are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate. For impaired financial assets with drawn and undrawn components, expected credit losses also reflect any credit losses related to the portion of the loan commitment that is expected to be drawn down over the remaining life of the instrument.

When a financial asset is credit-impaired, interest ceases to be recognized on the regular accrual basis, which accrues income based on the gross carrying amount of the asset. Rather, the accrual is calculated by applying the effective interest rate to the carrying amount, which is recorded in the consolidated statement of financial position. The discount resulting from the impact of time delays in collecting principal payments (time value of money) is established and recorded through the provision for credit losses.

ACL for credit-impaired financial assets in Stage 3 are established at the financial asset level, where losses related to impaired financial assets are identified on individually significant financial asset, or collectively assessed and determined through the use of portfolio-based rates, without reference to particular financial assets.

Individually assessed loans (Stage 3)

When individually significant loans are identified as impaired, the carrying value of the loan is reduced to its estimated realizable value by recording an individually assessed ACL to cover identified credit losses. The individually assessed ACL reflects the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered, and the impact of time delays in collecting principal and/or interest (time value of money). The estimated realizable value for each individually significant loan is the present value of expected future cash flows discounted using the original effective interest rate for each loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated realizable amount may be determined using observable market prices for comparable loans, the fair value of collateral underlying the loans, and other reasonable and supported methods based on management judgment.

Individually-assessed allowances are established in consideration of a range of possible outcomes, to the extent relevant to the circumstances of the specific borrower being assessed. Assumptions used in estimating expected future cash flows reflect current and expected future economic conditions based on expert credit judgement.

Significant judgment is required in assessing evidence of credit-impairment and estimation of the amount and timing of future cash flows when determining expected credit losses. Changes in the amount expected to be recovered would have a direct impact on the provision for credit losses and may result in a change in the ACL.

Collectively assessed loans (Stage 3)

Loans that are collectively assessed are grouped on the basis of similar risk characteristics, taking into account loan type, geographic location, collateral type, past due status and other relevant factors.

The collectively-assessed ACL reflects: (i) the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered, and (ii) the impact of time delays in collecting principal and/or interest (time value of money). The expected principal and interest collection is estimated on a portfolio basis and references historical loss experience of comparable portfolios with similar credit risk characteristics, adjusted for the current environment and expected future conditions.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Allowance for credit losses (continued)

Collectively assessed loans (Stage 3) (continued)
A portfolio specific coverage ratio is applied against the impaired loan balance in determining the collectively-assessed ACL. The time value of money component is calculated by using the discount factors applied to groups of loans sharing common characteristics. The discount factors represent the expected recovery pattern of the comparable group of loans, and reflect the historical experience of these groups adjusted for current and expected future economic conditions and/or industry factors. Significant judgment is required in assessing evidence of impairment and estimation of the amount and timing of future cash flows when determining expected credit losses. Changes in the amount expected to be recovered would have a direct impact on the provision for credit losses and may result in a change in the ACL.

Write-off of loans

Loans are generally written off, either partially or in full, when there is no or minimal realistic prospect of recovery. Where loans are secured, they are generally written off after receipt of any proceeds from the realization of collateral. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. Unsecured loans are generally written off at 365 days past due. Loans secured by real estate are generally written off at 2,000 days past due unless liquidation of the underlying real estate collateral is expected to be closed in the short term. In such cases, write-off may be delayed beyond 2,000 days. In all other instances, the write-off will be completed at 2,000 days, although recovery efforts will continue.

Modifications

The original terms of a financial asset may be renegotiated or otherwise modified, resulting in changes to the contractual terms of the financial asset that affect the contractual cash flows. The treatment of such modifications is primarily based on the process undertaken to execute the renegotiation and the nature and extent of the expected changes. Modifications can be tracked through the original financial asset or result in derecognition of the original financial asset and recognition of a new financial asset.

If a modification of terms does not result in derecognition of the financial asset, the carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows, discounted at the original effective interest rate and a gain or loss is recognized. The financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment, as described above.

A modified financial asset will migrate out of Stage 3 if the conditions that led to it being identified as credit-impaired are no longer present and relate objectively to an event occurring after the original credit-impairment was recognized. A modified financial asset will migrate out of Stage 2 when it no longer satisfies the relative thresholds set to identify significant increases in credit risk, which are based on changes in its lifetime PD, days past due and other qualitative considerations.

If a modification of terms results in derecognition of the original financial asset and recognition of the new financial asset, the new financial asset will generally be recorded in Stage 1, unless it is determined to be credit-impaired at the time of the renegotiation. For the purposes of assessing for significant increases in credit risk, the date of initial recognition for the new financial asset is the date of the modification.

Client relief programs under COVID 19

The COVID-19 relief program which was established to assist clients in good standing through payment deferrals over a moratorium period was concluded end of September 2020. The relief program resulted in no material modifications and did not give rise to derecognition of the original financial asset and recognition of a new financial asset. The relief program focused mainly on loans within Stage 1.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Client relief programs under COVID 19 (continued)

During fiscal 2021, payment deferrals were granted to clients who continued to face challenges as a result of the pandemic on a case-by-case basis only. The relief extended did not result in any material modifications and did not give rise to derecognition of the original financial asset and recognition of a new financial asset. Payment relief granted in fiscal 2021 was mainly on loans in Stage 1. During fiscal 2022, the volume of payment deferrals showed a continuous decline with no change to the general terms of relief provided when compared to previous years.

Determination of fair value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group determines fair value by incorporating all factors that market participants would consider in setting a price, including commonly accepted valuation approaches.

The Group has established policies, procedures and controls for valuation methodologies and techniques to ensure fair value is reasonably estimated. Major valuation processes and controls include, but are not limited to, profit and loss decomposition, independent price verification (IPV) and model validation standards. These control processes are managed by either Finance or Group Risk Management and are independent of the relevant businesses and their trading functions.

All fair value instruments are subject to IPV, a process whereby trading function valuations are verified against external market prices and other relevant market data. Market data sources include traded prices, brokers and price vendors. The Group gives priority to those third-party pricing services and prices having the highest and most consistent accuracy. The level of accuracy is determined over time by comparing third-party price values to traders' or system values, to other pricing service values and, when available, to actual trade data. Other valuation techniques are used when a price or quote is not available. Some valuation processes use models to determine fair value. The Group has a systematic and consistent approach to control model use. Valuation models are approved for use within the Group's model risk management framework.

The framework addresses, among other things, model development standards, validation processes and procedures, and approval authorities. Model validation ensures that a model is suitable for its intended use and sets parameters for its use. All models are revalidated regularly.

In determining fair value, a hierarchy is used which prioritizes the inputs to valuation techniques. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Determination of fair value based on this hierarchy requires the use of observable market data whenever available. Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Group has the ability to access at the measurement date. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model inputs that are either observable, or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 inputs are inputs that are unobservable. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available at the measurement date. The availability of inputs for valuation may affect the selection of valuation techniques. The classification of a financial instrument in the hierarchy for disclosure purposes is based upon the lowest level of input that is significant to the measurement of fair value. Where observable prices or inputs are not available, management judgement is required to determine fair values by assessing other relevant sources of information such as historical data, proxy information from similar transactions, and through extrapolation and interpolation techniques. For more complex or illiquid instruments, significant judgement is required in the determination of the model used, the selection of model inputs, and in some cases, the application of valuation adjustments to

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Determination of fair value (continued)

the model value or quoted price for inactively traded financial instruments, as the selection of model inputs may be subjective and the inputs may be unobservable. Unobservable inputs are inherently uncertain as there is little or no market data available from which to determine the level at which the transaction would occur under normal business circumstances. Appropriate parameter uncertainty and market-risk valuation adjustments for such inputs and other model-risk valuation adjustments are assessed in all such instances.

Transaction costs

Transaction costs are expensed as incurred for financial instruments classified or designated as at FVTPL. For other financial instruments, transaction costs are capitalized on initial recognition. For financial assets and financial liabilities measured at amortized cost, capitalized transaction costs are amortized through interest income over the estimated life of the instrument using the effective interest method.

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset on the consolidated statement of financial position when there exists both a legally enforceable contractual right to offset the recognized amounts and an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Derecognition of financial assets

Financial assets are derecognized when the Group's contractual rights to the cash flows from the assets have expired, when the Group retains the rights to receive the cash flows of the assets but assume an obligation to pay those cash flows to a third party subject to certain pass-through requirements or when the Group transfers its contractual rights to receive the cash flows and substantially all of the risk and rewards of the assets have been transferred. When the Group retains substantially all of the risks and rewards of the transferred assets, the transferred assets are not derecognized and are accounted for as secured financing transactions. When the Group neither retains nor transfer substantially all risks and rewards of ownership of the assets, it derecognizes the assets if control over the assets is relinquished. If the Group retains control over the transferred assets, it continues to recognize the transferred assets to the extent of its continuing involvement.

Management's judgement is applied in determining whether the contractual rights to the cash flows from the transferred assets have expired or whether the Group retains the rights to receive cash flows on the assets but assume an obligation to pay for those cash flows. The Group derecognizes transferred financial assets if it transfers substantially all the risk and rewards of the ownership in the assets. When assessing whether the Group has transferred substantially all of the risk and rewards of the transferred assets, management considers the entity exposure before and after the transfer with the variability in the amount and timing of the net cash flows of the transferred assets. In transfers that the Group retains the servicing rights, management has applied judgement in assessing the benefits of servicing against market expectations. When the benefits of servicing are greater than fair market value, a servicing asset is recognized in other assets in the consolidated statement of financial position. When the benefits of servicing are less than fair market value, a servicing liability is recognized in other liabilities in the consolidated statement of financial position.

Derecognition of financial liabilities

The Group derecognizes a financial liability when its obligation specified in the contract expires, or is discharged or cancelled. The Group recognizes the difference between the carrying amount of a financial liability transferred and the consideration paid in the consolidated statement of comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates (the functional currency). The consolidated financial statements are presented in Bahamian dollars (B$), which is the Group's functional currency.

Transactions and balances

In preparing the consolidated financial statements' transactions in currencies other than the functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities that are denominated in foreign currencies and carried at fair value are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items denominated in foreign currencies and carried at historical cost are translated at the rate prevailing at the date of the transaction.

Exchange differences are recognized in net income in the consolidated statement of comprehensive income in the period in which they arise.

e. Customer deposits

Customer deposits are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Customer deposits are derecognized when the financial liability has been extinguished.

f. Income and expense recognition

Revenue recognition

Revenue is recognized when control of a service transfers to a customer. Service contracts are assessed by taking the following factors into consideration sequentially, which individually will vary based on the facts and circumstances present in a contract with a customer and will require the exercise of management judgement:

1. Identified all contracts with customers;
2. Identified the separate performance obligations under a contract;
3. Determined the transaction price of the contract;
4. Allocated the transactions price to each of the separate performance obligations; and
5. Recognized the revenue as each performance obligation is satisfied.

The Group adopts the portfolio approach, as an operational expedient, where contracts are assessed as a portfolio as opposed to individually assessed when the characteristics of each contract is similar. The Group reviews the services provided as part of the contract, the contract duration, the terms and conditions for the contract, the amount, form and timing of consideration and the timing of the transfer of the service. Due to the high volume of the Group's contracts that are identical or have similar contractual terms (for example standardized banking agreements with retail customers), the expedient is applied to many of its current revenue streams.

In addition, the Group does not adjust for the effects of a significant financing component for contracts with a 12 months or less expected time difference between when we the transfer the service to the customer and the receipt of the contract consideration.

The Group expenses incremental costs to obtain a contract if the expected amortization period of the asset otherwise would have been recognized in 12 months or less. Anticipated contract renewals and amendments with the same customer are considered when determining whether the period of benefit, and therefore the period of amortization, is 12 months or less.

Income which falls under the scope of revenue recognition is not netted off against related expense with the exception of credit related fees and commissions. The Group does not incur material costs to obtain contracts with customers such as sales commissions.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Income and expense recognition (continued)

Interest income and expense

Interest income and interest expense are recognized in the consolidated statement of comprehensive income for all financial instruments measured at amortized cost using the effective interest method. Loan origination 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 loans.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or where appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (e.g. prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Non-interest income and expense

Non-interest income primarily relate to transactions service fees and commissions and are recognized based on the applicable service contracts with customers.

When service fees and other costs are incurred in relation to commissions and fees earned, the Group records these costs on a gross basis in ‘non-interest expense’ based on its assessment of whether it has primary responsibility to fulfill the contract with the customer and have discretion in establishing the price for the commissions and fees earned, which may require judgment.

Income which falls under the scope of revenue recognition is not netted off against related expense. The Group does not incur material costs to obtain contracts with customers such as sales commissions.

Commissions earned and incurred on insurance policies are recognized when the policies are written as the Group has no further service obligations associated with these policies.

Expenses are recognized on the accrual basis.

g. Premises and equipment

Premises and equipment are carried at historical cost less accumulated depreciation, amortization and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of an item. 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 repairs and maintenance are charged to the consolidated statement of comprehensive income as part of net income during the financial period in which they are incurred.

Depreciation and amortization is calculated principally on the straight-line method to write off the depreciable amounts over their estimated useful lives as follows:

Leasehold improvements	Straight line lease term plus 1 renewal term
Furniture and other equipment	Straight line 5 years and declining balance – 20%
Computer equipment & software	Straight line – 3 to 7 years

Management reviews the estimated useful lives, residual values and methods of depreciation at each year-end. Any changes are accounted for prospectively as a change in accounting estimate. Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset’s fair value less costs to

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Premises and equipment (continued)

sell and its value in use. Gains and losses on disposal of premises and equipment are determined by reference to their carrying amounts and are included in the consolidated statement of comprehensive income as part of net income in the period.

h. Impairment of tangible assets

At the end of each reporting date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in net income.

i. Cash and cash equivalents

Cash and cash equivalents comprises cash and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value. Such investments are normally those with original maturities up to three months from the date of acquisition.

j. Leases

At inception of a contract, the Group assesses whether a contract is or contains a lease. A contract is, or contains, a lease if the contract conveys the right to obtain substantially all of the economic benefits from, and direct the use of, an identified asset for a period of time in return for consideration. Costs related to space sharing arrangements that do not meet the definition of a lease under IFRS 16 are expensed as incurred to the statement of comprehensive income.

k. Provisions

Provisions are liabilities of uncertain timing or amounts and are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured as the best estimate of the consideration required to settle the present obligation at the reporting date. Significant judgement is required in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. The Group records provisions related to litigation, asset retirement obligations and other items. Provisions are recorded under other liabilities in the consolidated statement of financial position.

The Group is required to estimate the results of ongoing legal proceedings, expenses to be incurred to dispose of capital assets, and credit losses on undrawn commitments and guarantees. The forward-looking nature of these estimates requires the Group to use a significant amount of judgement in projecting the timing and amount of future cash flows. The Group records its provisions based on all available information at the end of the reporting period and makes adjustments on a quarterly basis to reflect current expectations. Should actual results differ from those expectations, the Group may incur an expense in excess of the provisions recognized.

l. Stated capital

The Group classifies a financial instrument that the Group issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments issued by the Group are classified as equity instruments when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are included in equity as a deduction from the proceeds. Shares issued for cash are accounted for at the issue price less any transaction costs of the issue.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. Dividends

Dividends that are proposed and declared during the period are accounted for as an appropriation of retained earnings in the consolidated statement of changes in equity. Dividends that are proposed and declared after the consolidated statement of financial position are disclosed as a subsequent event.

n. Employee benefits

The Group's employees participate in a defined benefit pension plan and a defined contribution pension plan of RBC.

Defined benefit plan

Employees become eligible for membership in the defined benefit pension plan (the Plan) after completing a probationary period and receive their benefits after retirement. The Plan's benefits are determined based on years of service, contributions and average earnings at retirement. Due to the long-term nature of the Plan, the calculation of benefit expenses and obligations depends on various assumptions such as discount rates, expected rates of return on assets, projected salary increases, retirement age, mortality and termination rates. The accrued pension obligation is retained by and recorded in the books of RBC. The Group recognizes its proportionate share of pension costs as an expense during the period, after which the Group has no further obligations to the Plan.

Defined contribution plan

Under the defined contribution plan, an employee may contribute up to 10% of their salary and the Group matches half of the employee's contribution up to 3% of the employee's salary.

Contributions made by the employee are immediately vested and contributions made by the Group become vested after the completion of ten years of service. Expenses for services rendered by the employees and related to the defined contribution plan are recognized as an expense during the period. The Group has no further payment obligations once the recognized contributions have been paid.

o. Guarantees, indemnities and letters of credit

Financial guarantees are financial contracts that contingently require the issuer to make specified payments (in cash, other assets or provision of services) to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The Group has equal and offsetting claims against its customers in the event of a call on these commitments.

p. Taxation

Under the current laws of The Bahamas, the country of domicile of the Group, there are no income, capital gains or other corporate taxes imposed. The Group's operations do not subject it to taxation in any other jurisdiction.

q. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, which is the person or group responsible for allocating resources and assessing performance of the operating segments, has been identified as the management of the Group.

Income and expenses directly associated with each segment are included in determining business segment performance. The Group has identified the following business segments: banking and insurance brokerage services.

r. Corresponding figures

Corresponding figures were amended in the cash flow statement and Note 4 to disclose the mandatory reserves from the unrestricted cash balance. Loan modifications disclosed in Note 5 was updated to include all loans restructured during the period.

3. CASH AND CASH EQUIVALENTS

	2022 $	2021 $
Treasury bills	10,983,361	6,511,722
Due from banks	28,518,230	14,504,796
	39,501,591	**21,016,518**

Due from banks are deposits held with other banks on demand or for fixed periods up to three months. Treasury bills have original maturities up to three months. Due from banks are non-interest bearing. Treasury bills earn interest rates ranging from 2.74% to 2.91% (2021: 2.18% to 2.79%).

4. BALANCES WITH CENTRAL BANKS

The balance with The Central Bank of The Bahamas is non-interest bearing and includes a mandatory daily average reserve deposit which is not available for use in the Group's daily operations and is based on a ratio to customers' deposits. Fluctuations in balances with central banks are generally due to movement in investment securities and customer deposits denominated in Bahamian dollars.

	2022 $	2021 $
Mandatory reserve	11,147,910	17,022,288
Unrestricted cash balance	26,042,388	18,553,451
	37,190,298	**35,575,739**

5. LOANS AND ADVANCES TO CUSTOMERS

	2022 $	2021 $
Retail	690,361	424,964
Home equity and other mortgages	147,970,369	168,824,457
Residential mortgages	538,311,964	560,467,220
Government insured mortgages	337,805	403,018
	687,310,499	730,119,659
Allowance for impairment losses	(63,514,181)	(88,941,819)
Loan origination fees and cost (net)	(1,634,746)	(2,107,896)
	622,161,572	**639,069,944**

Loans categorized by performance are as follows:

	2022 $	2021 $
Stage 1	499,742,139	560,368,157
Stage 2	104,660,740	75,673,889
Stage 3	82,907,620	94,077,613
	687,310,499	**730,119,659**

Loans categorized by maturity are as follows:

	2022 $	2021 $
Current (due within one year)	10,745,822	10,921,061
Non-current (due after one year)	676,564,677	719,198,598
	687,310,499	**730,119,659**

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Loans and advances classified as stage 3 represent 12.06% (2021: 12.89%) of the total loans and advances portfolio. The allowance for impairment losses represents 9.24% (2021: 12.18%) of the total loans and advances portfolio and the stage 3 allowance represents 57.57% (2021: 54.32%) of the total stage 3 loans.

Allowance for credit losses

Allowance for credit losses consists of the following:

	For the year ended October 31, 2022				
	Balance at beginning of year	**Provision for/ (release of) credit losses**	**Net (write-offs)**	**Other**	**Balance at end of year**
	$	**$**	**$**	**$**	**$**
Retail	221,120	6,238,611	(6,402,548)	(3,779)	53,404
Mortgages	88,720,699	(22,454,155)	(1,243,195)	(1,562,572)	63,460,777
	88,941,819	**(16,215,544)**	**(7,645,743)**	**(1,566,351)**	**63,514,181**
The above includes:					
Undrawn loan commitments	322,159	(271,898)	–	–	50,261

	For the year ended October 31, 2021				
	Balance at beginning of year	**Release of credit losses**	**Net (write-offs)**	**Other**	**Balance at end of year**
	$	**$**	**$**	**$**	**$**
Retail	11,310	(3,036,289)	3,246,266	(167)	221,120
Mortgages	106,559,923	(12,662,173)	(4,531,342)	(645,709)	88,720,699
	106,571,233	**(15,698,462)**	**(1,285,076)**	**(645,876)**	**88,941,819**
The above includes:					
Undrawn loan commitments	524,421	(202,262)	–	–	322,159

The tables below reconcile the opening and closing allowance for credit losses by stage for each major product category. Reconciling items include the following:

- Transfers between stages, which are presumed to occur before any corresponding remeasurements.
- Purchases and originations, which reflect the newly recognized assets and the related allowance during the period.
- Derecognitions and maturities, which reflect the assets and related allowance derecognized during the period without a credit loss being incurred.
- Remeasurements for allowances, which comprise of the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in the measurement following a transfer between stages; and unwinding of the time value discount due to the passage of time. For gross carrying amounts, this represents additional draws, repayments, and the accrual of interest under the effective interest method.
- Write-offs represent the closure/elimination of a loan balance when there is no realistic prospect of recovery.
- Recoveries are the collection of cash or cash equivalents for a loan balance previously written-off.
- Other. This category includes the unwinding of the impact of time delays in collecting principal and/or interest (time value of money).

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Allowance for credit losses (continued)

	For the year ended October 31, 2022			
	Allowance for Credit Losses			
	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Balance at beginning of year	12,386,200	25,448,290	51,107,329	88,941,819
Provision for credit losses:				
Model changes	(8,312,459)	4,421,263	–	(3,891,196)
Transfers in (out) to Stage 1	12,274,851	(12,274,851)	–	–
Transfers in (out) to Stage 2	(1,468,905)	11,519,123	(10,050,218)	–
Transfers in (out) to Stage 3	(416,032)	(5,950,705)	6,366,737	–
Purchases and originations	322,081	–	–	322,081
Derecognitions and maturities	(792,118)	(456,652)	(1,614,711)	(2,863,481)
Remeasurements	(10,698,758)	(10,215,984)	11,131,794	(9,782,948)
Write-offs	–	–	(16,189,168)	(16,189,168)
Recoveries	–	–	8,543,425	8,543,425
Other	–	–	(1,566,351)	(1,566,351)
Balance at end of year	**3,294,860**	**12,490,484**	**47,728,837**	**63,514,181**

	For the year ended October 31, 2021			
	Allowance for Credit Losses			
	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Balance at beginning of year	13,540,287	43,043,355	49,987,591	106,571,233
Provision for credit losses:				
Model changes				
Transfers in (out) to Stage 1	30,807,481	(23,019,530)	(7,787,951)	–
Transfers in (out) to Stage 2	(1,013,659)	2,512,546	(1,498,887)	–
Transfers in (out) to Stage 3	(631,294)	(7,609,819)	8,241,113	–
Purchases and originations	755,126	–	–	755,126
Derecognitions and maturities	(573,365)	(352,642)	(1,411,970)	(2,337,977)
Remeasurements	(30,498,376)	10,874,380	5,508,385	(14,115,611)
Write-offs	–	–	(7,639,013)	(7,639,013)
Recoveries	–	–	6,353,937	6,353,937
Other	–	–	(645,876)	(645,876)
Balance at end of year	**12,386,200**	**25,448,290**	**51,107,329**	**88,941,819**

Based on the Group collections policies, substantially all of the amounts written off during the period are still subject to enforcement activities at year end.

Key inputs and assumptions:

The measurement of expected credit losses is a complex calculation that involves a large number of interrelated inputs and assumptions. The key drivers of changes in expected losses under the IFRS 9 model include the Group's internal historical default rates, changes in credit quality and real GDP growth rate. Prior year's key drivers included our internal historical default rates, transition matrices, unemployment rates, real GDP growth rates and inflation rates.

Notes to Consolidated Financial Statements (continued)

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Allowance for credit losses (continued)

Key inputs and assumptions: (continued)

The global economic outlook is volatile, evidenced by higher interest rates and inflation levels in developed economies and expected recessions in North America, Europe and the UK. Also, inflation rates in the Caribbean have increased. The Group's base scenario considers the ongoing recovery of 2022 in the Caribbean with an expected slowdown of the growth momentum in the last quarter of 2022 and 2023-2025. The downside scenarios consider potential recessions with different levels of severity. The upside scenario reflects slightly stronger economic growth than the base scenario.

In arriving at the real GDP growth rates, the Group incorporated external agencies such as IMF and Central Banks projections as well as the actual historic results of GDP growth in the Caribbean.

To assess the reasonableness of the Group GDP rates, if the Group amended Year 1 of the calendar quarter forecast of GDP growth rates used in the base case model to estimate the allowance for credit losses, the base case allowance for credit losses will move as follows:

- A 100 basis points increase will lower the allowance for credit losses by $271,377.
- A 100 basis points decrease will increase the allowance for credit losses by $311,301.

Further details on the key inputs and assumptions used as at October 31, 2022 are provided in Note 2(c).

The following table compares the Group's probability-weighted estimate of expected credit losses for performing loans to expected credit losses estimated in the Group base case scenarios. Results reflect the Stage 1 and Stage 2 allowance for credit losses.

	As at October 31	
	2022	2021
ACL on performing loans [1]	$	$
Carrying value	15,785,344	37,834,490
Base scenario	14,286,700	36,317,671

[1] Represents Stage 1 and Stage 2 ACL on loans, acceptances, and commitments.

Transfers between stages

The following table illustrates the impact of staging on the Group ACL by comparing the Group allowance if all performing loans were in Stage 1 to the actual ACL recorded on these assets.

	As at October 31 Performing Loans [1]	
	2022 $	2021 $
ACL – all performing loans in Stage 1	3,982,006	14,032,495
Impact of staging	11,803,338	23,801,995
Stage 1 and 2 ACL	**15,785,344**	**37,834,490**

[1] Represents Stage 1 and Stage 2 ACL on loans, acceptances, and commitments.

In the prior year stage 2 was determined based on loans which were 30 days past due, centrally managed accounts and retail loans receiving business as usual deferrals granted by the Collections team. Also, as part of the Group's COVID overlay, the Group qualitatively increased the transfers from stage 1 to 2 to reflect the challenging macroeconomic environment. This qualitative adjustment was informed by economic projections and historical behavior of the Group's portfolio. In the current year, staging is based on 30 days past due, centrally managed accounts, retail loans receiving business as usual deferrals granted by the collections team, loans of clients who

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Allowance for credit losses (continued)

Key inputs and assumptions: (continued)

Transfers between stages (continued)

had a prior default during the last three years and increases in probability of default at the loan level. The new approach used to identify stage 2 exposures is more granular, informed by a larger number of credit risk metrics.

Loan modifications

All formal relief programs established to help clients manage through challenges of the COVID-19 pandemic through payment deferrals, interest rate reductions, covenant waivers, and refinancing or credit restructuring were completed in late 2020, any relief provided to clients since then has been on a case by case basis as requested by the client. In some cases, the original terms of the associated loans are renegotiated or otherwise modified, resulting in changes to the contractual terms of the loans that affect the contractual cash flows. The terms were not substantially different and as such the original loans were not derecognized. For the year ended October 31, 2022, the amortized cost of all loans whose contractual terms were modified before the modification was $37,412,372 (2021:$69,554,195), resulting in no material modification gains or losses.

6. INVESTMENT SECURITIES

The following table presents the carrying value of securities at the end of the year:

	2022 $	2021 $
Bahamas Government Registered Stocks	27,254,800	31,692,500
Locally issued corporate bonds	2,738,400	2,738,400
	29,993,200	34,430,900
Allowance for expected credit losses	(1,917,348)	(2,639,361)
	28,075,852	**31,791,539**

The following table represents the contractual maturities of the carrying values of investment securities held at the end of the year.

	As at October 31, 2022					
	Within 3 months $	**3 months to 1 year $**	**1 year to 5 years $**	**5 years to 10 years $**	**Over 10 years $**	**Total $**
Amortized cost						
Amortized cost	64,800	6,819,700	10,229,600	5,985,100	6,894,000	29,993,200
Fair value	64,800	6,809,578	10,274,823	6,010,465	6,678,314	29,837,980
Total carrying value of investments	**64,800**	**6,819,700**	**10,229,600**	**5,985,100**	**6,894,000**	**29,993,200**

	As at October 31, 2021					
	Within 3 months $	**3 months to 1 year $**	**1 year to 5 years $**	**5 years to 10 years $**	**Over 10 years $**	**Total $**
Amortized cost						
Amortized cost	651,800	8,640,400	10,599,500	6,877,500	7,661,700	34,430,900
Fair value	651,735	8,630,830	10,643,107	6,926,686	7,694,449	34,546,807
Total carrying value of investments	**651,800**	**8,640,400**	**10,599,500**	**6,877,500**	**7,661,700**	**34,430,900**

Notes to Consolidated Financial Statements (continued)

6. INVESTMENT SECURITIES (CONTINUED)

Investment securities have floating interest rates ranging from 0.125% to 1.625% (2021: 0.125 to 1.625) above the B$ Prime rate of 4.25% (2021: 4.25%). All investment securities is comprised of level 2 securities in the fair value hierarchy (Note 24).

The movement in investment securities during the year is as follows:

	2022 $	2021 $
Balance, beginning of year	31,791,539	27,539,257
Purchases	4,854,500	6,799,700
Maturities	(9,292,200)	(2,296,600)
Decrease/(increase) in allowance for credit losses	722,013	(250,818)
Balance, end of year	**28,075,852**	**31,791,539**

Allowance for credit losses on investment securities

Significant changes in the gross carrying amount of securities at amortized cost that contributed to changes in the allowance include the following:

	2022 $	2021 $
Stage 1	4,854,500	6,799,700
Stage 2	25,138,700	27,631,200
Total securities	29,993,200	34,430,900
Allowance for credit losses	(1,917,348)	(2,639,361)
Securities net of expected credit losses	**28,075,852**	**31,791,539**

The following table reconciles the opening and closing allowance for debt securities at amortized cost by stage. Reconciling items include the following::

- Transfers between stages, which are presumed to occur before any corresponding remeasurement of the allowance.
- Purchases and originations, which reflect the allowance related to assets newly recognized during the period.
- Derecognitions and maturities, which reflect the allowance related to assets derecognized during the period without a credit loss being incurred.
- Remeasurements, which comprise the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in the measurement following a transfer between stages; and unwinding of the time value discount due to the passage of time.
- Write-offs represent the closure/elimination of a security balance when there is no realistic prospect of recovery.

6. INVESTMENT SECURITIES (CONTINUED)

Allowance for credit losses on investment securities (continued)

	For the year ended October 31, 2022			
	Performing		Impaired	
	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Balance at beginning of year	74,387	2,564,974	–	2,639,361
Provision for credit losses:				
Model changes	–	–	–	–
Purchases and originations	54,549	–	–	54,549
Derecognitions and maturities	(41,678)	40,549	–	(1,129)
Remeasurements	(54,272)	(721,161)	–	(775,433)
Balance at end of year	**32,986**	**1,884,362**	**–**	**1,917,348**

	For the year ended October 31, 2021			
	Performing		Impaired	
	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Balance at beginning of year	–	2,388,543	–	2,388,543
Provision for credit losses:				
Model changes	(73,184)	142,434	–	69,250
Purchases and originations	157,327	–	–	157,327
Derecognitions and maturities	–	(44,274)	–	(44,274)
Remeasurements	(9,756)	78,271	–	68,515
Balance at end of year	**74,387**	**2,564,974**	**–**	**2,639,361**

Allowance for credit losses for securities at FVOCI was $29,440 (2021: $5,509).

Notes to Consolidated Financial Statements (continued)

7. PREMISES AND EQUIPMENT

	Leasehold Improvements $	Furniture & Other Equipment $	Computer Equipment & Software $	Total $
Year ended October 31, 2022				
Opening net book value	746	18,066	72,285	91,097
Additions	–	–	25,573	25,573
Disposal	(723)	(15,698)	–	(16,421)
Depreciation charge	(23)	(2,368)	(31,299)	(33,690)
Closing net book value	**–**	**–**	**66,559**	**66,559**
At October 31, 2022				
Cost	105,007	–	273,506	378,513
Accumulated depreciation	(105,007)	–	(206,947)	(311,954)
Net book value	**–**	**–**	**66,559**	**66,559**

	Leasehold Improvements $	Furniture & Other Equipment $	Computer Equipment & Software $	Total $
Year ended October 31, 2021				
Opening net book value	790	22,510	103,433	126,733
Additions	–	–	7,907	7,907
Depreciation charge	(44)	(4,444)	(39,055)	(43,543)
Closing net book value	**746**	**18,066**	**72,285**	**91,097**
At October 31, 2021				
Cost	414,446	759,869	1,568,784	2,743,099
Accumulated depreciation	(413,700)	(741,803)	(1,496,499)	(2,652,002)
Net book value	**746**	**18,066**	**72,285**	**91,097**

Computer equipment and software includes computer software with a net book value of $56,168 (2021: $52,961) which is an intangible asset. During the year, the Group capitalized computer software $25,573 (2021: $7,907) and disposed of $1,320,851 of computer equipment that were fully depreciated.

8. CUSTOMER DEPOSITS

	2022 $	2021 $
Term deposits	180,216,474	217,340,331
Savings deposits	87,912,532	93,569,253
Demand deposits	11,899,501	13,557,059
	280,028,507	**324,466,643**
Deposits categorized by customer type are as follows:		
Personal	190,203,940	211,436,731
Non-Personal	89,824,567	113,029,912
	280,028,507	**324,466,643**
Deposits categorized by maturity are as follows:		
Current (due within one year)	280,026,507	324,448,996
Non-current (due after one year)	2,000	17,647
	280,028,507	**324,466,643**

8. CUSTOMER DEPOSITS (CONTINUED)

Deposits carry fixed interest rates ranging from 0.00% to 2.50% (2021: 0.00% to 2.50%) per annum, but the fixed interest rates are determined based on variable market rates and can be adjusted based on changes in market rates.

9. OTHER LIABILITIES

	2022 $	2021 $
Accrual and payables	1,389,842	771,140
Interest payable	361,489	361,574
Staff related liabilities	139,156	135,115
In-transit and other	1,397,409	1,744,892
	3,287,896	**3,012,721**

10. PENSION PLANS

Employees of the Group participate in a defined benefit pension plan of Royal Bank of Canada (the Plan). Employees become eligible for membership after completing a probationary period on a contributory or non-contributory basis. The Plan provides pensions based on years of service, contribution to the Plan and average earnings at retirement. The Plan also covers a portion of the current medical insurance premiums for retirees. RBC funds the Plan in accordance with actuarially determined amounts required to satisfy employee benefit entitlements under current pension regulations. The most recent actuarial valuation performed was completed on January 1, 2022 at which time the actuarial present valued accrued pension benefits exceeded the actuarial valuation of net assets.

The principal assumptions used for the purpose of the actuarial valuation are as follows:

	2022	2021
Discount rate	4.55%	4.10%
Expected return on plan assets	5.10%	4.67%
Rate of increase in future compensation	1.00% – 6.50%	1.00% – 9.00%

The Group's employees also participate in a defined contribution plan of Royal Bank of Canada. Under the defined contribution plan, an employee may contribute up to 10% of their salary and the Group matches half of the employee's contribution up to 3% of the employee's salary. Contributions made by the employee are immediately vested and contributions made by the Group become vested after the completion of ten years of service.

Royal Bank of Canada charges the Group for its share of the amount of funding required in the Plan. This cost is recognized as an expense in the consolidated statement of comprehensive income after which no further obligation is required of the Group. During the year, the Group's pension expenses arising from the Plan was $670,115 (2021: $1,133,618) and the defined contribution plan was $19,507 (2021: $16,531).

11. STATED CAPITAL & RESERVES

Stated capital consists of the following:

	2022 $	2021 $
27,500,000 common shares at par value B$0.20		
Issued and fully paid: 26,666,670 common shares	5,333,334	5,333,334

Notes to Consolidated Financial Statements (continued)

11. STATED CAPITAL & RESERVES (CONTINUED)

Other components of equity comprise:

	Revaluation Reserve $	Expected Credit Losses (FVOCI) $	Total $
Year Ended October 31, 2022			
Balance at beginning of year	(3,430)	5,509	2,079
Allowance for credit losses FVOCI	–	23,931	23,931
Net change in fair value	13,172	–	13,172
Balance at end of year	**9,742**	**29,440**	**39,182**

	Revaluation Reserve $	Expected Credit Losses (FVOCI) $	Total $
Year Ended October 31, 2021			
Balance at beginning of year	1,873	10,220	12,093
Allowance for credit losses FVOCI	–	(4,711)	(4,711)
Net change in fair value	(5,303)	–	(5,303)
Balance at end of year	**(3,430)**	**5,509**	**2,079**

12. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to the equity shareholders divided by the weighted average number of ordinary shares outstanding during the period.

	2022 $	2021 $
Total earnings for the year attributable to the equity shareholders	40,095,378	39,235,587
Weighted average number of ordinary shares in issue	26,666,670	26,666,670
Basic and diluted earnings per share	**1.50**	**1.47**

13. INTEREST INCOME

	2022 $	2021 $
Loans and advances to customers	38,919,820	40,796,181
Investment securities	1,638,569	1,549,409
	40,558,389	**42,345,590**

Included in interest income is interest attributable to the time value of money component of non-performing loans of $2,066,158 (2021: $2,525,038).

14. INTEREST EXPENSE

	2022 $	2021 $
Customer deposits	1,402,483	1,926,793
Due to affiliated companies	4,367,959	4,488,377
	5,770,442	**6,415,170**

15. NON-INTEREST INCOME

	2022 $	2021 $
Non-interest income over time:		
Transaction service fees and commission	94,072	92,960
Non-interest income at a point in time:		
Foreign exchange earnings	(4,482)	7,844
Other service charges and fees	1,612,168	1,723,951
Loss on disposal of fixed assets	(16,421)	–
	1,591,265	1,731,795
Loss on redemption of FVOCI investments	(8,218)	–
	1,677,119	**1,824,755**

16. NON-INTEREST EXPENSES

	2022 $	2021 $
Salaries and staff benefits	1,812,356	1,710,674
Operating lease rentals	389,849	389,849
Premises and equipment expenses excluding operating lease rentals	83,933	171,328
Depreciation and amortization	33,690	43,543
Business and miscellaneous taxes	4,012,949	4,234,785
Deposit insurance premium	177,188	200,950
Professional fees	605,580	554,423
Management and internal fees	5,949,172	6,411,719
Other operating expense	218,650	254,886
	13,283,367	**13,972,157**

The Protection of Depositors Act, 1999 requires that the Group pay an annual premium to the Deposit Insurance Fund based on insurable deposit liabilities outstanding. During the year, the Group paid $177,188 (2021: $200,950) into the fund.

17. DIVIDENDS

During the year, dividends were declared to shareholders of record on the dates specified as follows:

	Cents per share	Amount $
Declaration Date		
January 20, 2022	7	1,866,667
April 21, 2022	16	4,266,667
July 7, 2022	16	4,266,667
October 20, 2022	16	4,266,667
	55	**14,666,668**

Dividends of $0.34 per share were declared during the fiscal year ended 2021.

18. CONTINGENT LIABILITIES

Various legal proceedings are pending that challenge certain practices or actions of the Group. Many of these proceedings are loan-related and are in reaction to steps taken by the Group to collect delinquent loans and enforce rights in collateral securing such loans. Management considers that the aggregate liability resulting from these proceedings will not be material.

Notes to Consolidated Financial Statements (continued)

19. COMMITMENTS

Credit commitments

As of the date of the consolidated statement of financial position, the Group is committed to extending credit for mortgages in the normal course of business in the amount of $2,779,656 (2021: $4,595,946).

20. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties include: i) key management personnel, including directors; ii) entities that have the ability to control or exercise significant influence over the Group in making financial or operational decisions; and iii) entities that are controlled, jointly controlled or significantly influenced by parties described in i) and ii).

Key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. They include the senior executives called the Operating Committee (OC) and Executive Management Committee (EMC). OC and EMC are comprised of the Head of Caribbean Banking and those individuals that report directly to him, including the Chief Financial Officer, Chief Human Resources Officer, Chief Risk Officer, and heads of our business and functional units. The OC is ultimately responsible for all material decisions. The OC is also responsible for establishing the overall strategic direction of the Group and, in that regard, sets global parameters for the Group within which the board of directors and management exercise their respective discretion to make decisions concerning the strategic direction and day-to-day management. The directors of RBC Financial (Caribbean) Limited do not plan, direct, or control the activities of the Group; they oversee the management of the business and provide stewardship.

These consolidated financial statements include the following balances and transactions with related parties not otherwise disclosed in these consolidated financial statements:

The Group has technical service and license agreements with its Immediate Parent. During the year $5,600,689 (2021: $5,615,992) was expensed in reference to these agreements and is included in general and administrative expense in the consolidated statement of comprehensive income. The Group also paid for various technical and back office services to other affiliated entities $738,332 (2021: $1,185,576) for services rendered. The Group continues to pursue opportunities for outsourcing with related parties to improve operational efficiency.

Nostro and clearing accounts are maintained with the Immediate Parent, which acts as a clearing account for the Group. These balances are included in cash and cash equivalents and was $28,172,178 (2021: $14,145,215). These deposits are non-interest bearing and are held as a part of the Group's liquidity reserve requirement.

Included in due to affiliate are balances that are medium term lending arrangements with terms up to three years and bearing interest at effective rates of 1.80% and 2.30% (2021: 1.80% and 2.30%).

The following table shows balances and transactions with related parties not disclosed elsewhere in these consolidated financial statements:

	2022 $	2021 $
Cash and cash equivalents:		
Immediate parent	28,172,178	14,145,215
Loans and advances to customers:		
Directors and key management personnel	–	187,052
Customer deposits:		
Directors and key management personnel	2,830,764	2,821,240
Due to affiliated companies:		
Immediate parent	171,300,690	154,716,156
Other related parties	682,904	1,086,210
Interest income:		
Directors and key management personnel	–	7,928

20. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

Non-interest expense:		
Other related parties	6,339,022	6,801,568
interest expense:		
Directors and key management personnel	7,849	3,351
Staff costs:		
Salaries and other short term benefits	195,140	161,510

21. CATEGORIZATION OF FINANCIAL ASSETS AND LIABILITIES

Consolidated Statement of Financial Position:

	2022 $	2021 $
ASSETS		
Financial assets at fair value through other comprehensive income		
Cash and cash equivalents	10,983,361	6,511,722
Financial assets at amortized cost:		
Cash and cash equivalents	28,518,230	14,504,796
Balance with central banks	37,190,298	35,575,739
Loans and advances to customers	622,161,572	639,069,944
Investment securities	28,075,852	31,791,539
Other assets	1,444,377	3,377,698
Total financial assets	**728,373,690**	**730,831,438**
LIABILITIES		
Financial liabilities at amortized cost:		
Customer deposits	280,028,507	324,466,643
Due to affiliated companies	171,983,594	155,802,366
Other liabilities	3,287,896	3,012,721
Total financial liabilities	**455,299,997**	**483,281,730**

22. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring subject to risk limits and other controls. The process of risk management is critical to the Group's continuing profitability. The Group is exposed to credit risk, liquidity risk, operational risk and market risk.

Risk Management Structure

The Group's board of directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Operating Committee (OC)

The OC is responsible for the overall risk management approach and for approving the risk strategies and principles.

Group Asset and Liability Committee (ALCO)

The RBC Group's ALCO provides oversight and monitoring of the financial resources of the Group. The committee's mandate includes the recommendation of policies covering investments, capital, funding and liquidity and market risk to the Operating Committee and the Board, and the monitoring of compliance with risk policies and limits in the areas of credit risk and market risk.

22. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Risk Limit Control and Mitigation Policies

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 group of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Operating Committee.

Risk Management Unit

A centralized Risk Management Unit of the RBC Group provides oversight of the implementation and maintenance of risk related procedures to ensure an independent control process.

The unit, which is sub-divided into three departments (Group Market Risk, Group Credit Risk and Group Compliance and Operational Risk), is also responsible for monitoring compliance with risk policies and limits across the region in the three key areas of credit risk, market risk and operational risk. Each business unit has decentralized units which are responsible for the independent control of risks, including monitoring the risk or exposures against limits and the assessment of risks of new products and structured transactions. These decentralized units also ensure the risks are completely captured in the risk measurement and reporting systems.

Internal Audit

Risk management processes throughout the RBC Group are audited by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. The internal audit unit discusses the results of all assessments with management and reports its findings and recommendations to the Group's audit committee and the audit committee of the Group's Immediate Parent.

Risk Measurement and Reporting Systems

The Group's risks are measured using methods which reflect the expected loss likely to arise in normal circumstances.

Monitoring and controlling risks is primarily performed based on limits established by the RBC Group. These limits reflect the business strategy and market environment of the group as well as the level of risk that the group is willing to accept, with additional emphasis on selected industries and geographies.

Information compiled from all of the affiliate companies is examined and processed in order to analyze, control and identify risks early. This information, which consists of several reports, is presented and explained to the Group's managing director and the RBC Group's Operating and Asset/Liability Committees. The reports include but are not limited to aggregate credit exposure, open currency positions, liquidity ratios and risk profile changes. On a quarterly basis, senior management assesses the appropriateness of the allowance for credit losses.

(a) Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group places its deposits with banks which are in good standing with the Central Bank of The Bahamas and other regulators in jurisdiction in which deposits are placed. Investment securities with credit risk predominately comprise debt securities issued by the Government of the Commonwealth of The Bahamas.

Credit risk rating

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral reviews. Counterparty limits for corporate and commercial counterparties are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. For the retail portfolio, the Group has stringent lending criteria which include conservative debt service coverage, loan to value ratios and stability of earnings. These exposures are continuously monitored to identify any

22. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Risk Measurement and Reporting Systems (continued)

(a) Credit risk (continued)

Credit risk rating (continued)

change in the credit worthiness of the borrower. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

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 to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Business Management Operating Committee.

For debt securities and other instruments, external ratings such as Standard & Poor's ratings or their equivalents are used by the Group's risk management unit for managing credit risk exposure.

Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The principal collateral types for loans and advances to customers are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Expected credit loss (ECL) measurement

IFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition.

A financial instrument that is not credit impaired on initial recognition is classified as stage 1. Stage 1 financial instruments have an ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.

If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to Stage 2, but is not yet determined to be credit impaired. If the financial instrument is impaired, the financial instrument is moved to Stage 3 (Refer to Note 2(c) for how the Group determines when a significant increase in credit risk and default has occurred). Financial instruments in Stage 2 and 3 have their ECL measured based on expected losses on a lifetime basis. Notes 5 and 6 detail the inputs, assumptions and estimation techniques used in measuring the ECL.

Concentrations of financial assets

The Group has a concentration of risk in respect of geographical area, as both customers and assets held as collateral are based in The Bahamas.

The maximum exposure to credit risk before collateral held or other credit enhancements is as follows:

Notes to Consolidated Financial Statements (continued)

22. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

Concentrations of financial assets (continued)

	2022 $	2021 $
On statement of financial position		
Due from banks	28,518,230	14,504,796
Treasury bills	10,983,361	6,511,722
Balance with central banks	37,190,298	35,575,739
Loans and advances to customers	622,161,572	639,069,944
Investment securities	28,075,852	31,791,539
Other assets	1,444,377	3,377,698
	728,373,690	**730,831,438**
Off statement of financial position		
Credit commitments	2,779,656	4,595,946
Total credit risk exposure	**731,153,346**	**735,427,384**

The following table shows the Group's main credit exposure of gross loans and advances categorized by industry sectors:

	2022 $	2021 $
Personal	684,598,683	724,474,323
Tourism	165,937	170,543
Other	2,545,879	5,474,793
	687,310,499	**730,119,659**

Concentration of risk is managed by client/counterparty and by industry sector. The maximum credit exposure to any client or counterparty as at the date of the consolidated statement of financial position was $38,560,374 (2021: $38,551,470) before taking account of collateral or other credit enhancements.

Renegotiated loans and advances that would otherwise be past due but not impaired or impaired totaled $150,834,271 (2021: $147,756,416).

Credit quality by class of financial assets

	Stage 1 $	Stage 2 $	Stage 3 $	Total $
As at October 31, 2022				
Treasury Bills	10,983,361	–	–	10,983,361
	10,983,361	**–**	**–**	**10,983,361**
Loans:				
Personal loans	252,401	437,960	–	690,361
Mortgages	499,489,738	104,222,780	82,907,620	686,620,138
Loans (gross)	**499,742,139**	**104,660,740**	**82,907,620**	**687,310,499**
Securities:				
Government	4,842,364	22,412,436	–	27,254,800
Corporate Bonds	–	2,738,400	–	2,738,400
Securities (gross)	**4,842,364**	**25,150,836**	**–**	**29,993,200**
Total	**515,567,864**	**129,811,576**	**82,907,620**	**728,287,060**

22. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

Credit quality by class of financial assets (continued)

	Stage 1 $	Stage 2 $	Stage 3 $	Total $
As at October 31, 2021				
Treasury Bills	6,511,722	–	–	6,511,722
	6,511,722	**–**	**–**	**6,511,722**
Loans:				
Personal loans	404,409	19,928	627	424,964
Mortgages	559,963,748	75,653,961	94,076,986	729,694,695
Loans (gross)	**560,368,157**	**75,673,889**	**94,077,613**	**730,119,659**
Securities:				
Government	6,799,700	24,892,800	–	31,692,500
Corporate Bonds	–	2,738,400	–	2,738,400
Securities (gross)	**6,799,700**	**27,631,200**	**–**	**34,430,900**
Total	**573,679,579**	**103,305,089**	**94,077,613**	**771,062,281**

For those exposures that are stage 2 the majority are rated between standard (good) to excellent which is high grade.

Repossessed collateral

Repossessed collateral is sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Collateral is repossessed when the Group enforces its rights of the sale agreements over the collateral as a result of the counter-parties failure to honor their obligations to the Group. The Group's sales agreements enables the Group to commence Power of Sale proceedings where sale of the collateral is attempted first by public auction, and if unsuccessful, then through private treaty as a second option. At the beginning of the Power of Sale proceedings the Group obtains an appraisal of the collateral to certify the updated market value.

The following table represents the nature and value of repossessed collateral for overdue debts written off, as at the date of the consolidated financial statements:

Repossessed Collateral

	2022 $	2021 $
Land	13,544,359	13,995,859
Building	126,905,333	93,672,909
	140,449,692	**107,668,768**

(b) Liquidity risk

Liquidity and funding risk (Liquidity risk) is the risk that the Group may be unable to generate sufficient cash or its equivalents in a timely and cost effective manner to meet our commitments as they come due. Liquidity risk arises from mismatches in the timing and value of cash flows. The Group's liquidity profile is structured to ensure that we have sufficient liquidity to satisfy current and prospective commitments in both normal and stressed conditions. To achieve this goal, the Group operates under a comprehensive Liquidity Risk Management Framework (LRMF) that includes Liquidity Risk Policy (LRP), Pledging Policy (PP) and Contingency Plan. The LRMF, LRP and PP are all addendums

22. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Liquidity risk (continued)

to the Enterprise and will identify changes within the Caribbean. The Liquidity Contingency Plan is intended to provide communication protocols and forums to give consideration to and support implementation of a predetermined suite of liquidity & funding options to effectively manage, anticipate and address increasing funding risks generated by stress events. These policies are supported by management limits and authorities that govern the measurement and management of liquidity.

The Group's liquidity management process is carried out by the Treasury department and monitored by Caribbean Treasury and Group ALCO. Liquidity risk is measured monthly via internally defined Net Cash Flow. For example, within the time buckets over 30 and 60 days assets and liabilities are accounted for as follows: assets are haircut as per enterprise haircut grid whilst liabilities are run off within the specific time bucket. Liabilities are assigned run-off rates based on the results of the core assumptions methodology. For example, government bonds generally can be quickly and easily converted to cash without significant loss of value regardless of their contractual maturity. Similarly, while relationship-based deposits contractually can be withdrawn immediately, in practice, these balances can be relatively stable sources of funding depending on several factors, such as the nature of the client and their intended use. Risk methodologies and underlying assumptions are periodically reviewed and validated to ensure their alignment with the Group's operating environment, expected economic and market conditions, regulatory requirements and generally accepted industry practices. To manage liquidity risk within the Group's liquidity risk appetite, limits are set in addition to monthly stress under idiosyncratic, systemic and combined scenarios.

Stress tests, which include scenario analysis, measure the Group's prospective exposure to idiosyncratic, systemic and combined stress events over a period of several weeks. The contingency liquidity risk planning process identifies contingent funding needs and sources, and as a result, informs requirements for the Group's pool of unencumbered liquid asset portfolios. The Group's unencumbered liquid asset portfolios consist of diversified, highly rated and liquid marketable securities and unencumbered cash held at central bank's and deposits held with other financial institutions. These portfolios are subject to minimum asset quality levels and, as appropriate, other eligibility guidelines (e.g., maturity, and eligibility for central bank advances) to maximize ready access to additional cash should it be required, when added to other unencumbered liquid assets that the Group holds contribute to our liquidity reserve.

The Group's liquidity risk measurement and control activities are divided into three categories as follows:

Structural (longer-term) liquidity risk
To guide the Group's secured and unsecured wholesale term funding activities, it employs an Internal Liquidity Metric (ILM) to manage and control the structural alignment between long-term assets and longer-term funding sources from core deposits.

Tactical (shorter-term) liquidity risk
To address potential immediate cash flows risks in times of stress, the Group uses short-term net cash flow limits to control risk of material units, subsidiaries and currencies and perform stress testing assessments. Net cash flow positions are determined by applying results of core assumptions methodology i.e. internally-derived risk assumptions and parameters to known and anticipated cash flows for all material unencumbered assets, liabilities and off-balance sheet activities. Encumbered assets are not considered a source of available liquidity.

Contingency liquidity risk
Contingency liquidity risk planning assesses the impact of sudden stress events, and the Group's planned responses. The Group's Liquidity Contingency Plan (LCP) maintained and administered by Caribbean Treasury, has been developed to guide its potential responses to liquidity crises. The contingency liquidity risk planning process identifies contingent funding needs and sources under various stress scenarios, and as result informs requirements for our earmarked unencumbered liquid asset portfolios.

22. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (continued)

The amounts disclosed in the following table are the contractual undiscounted cash flows of all non-derivative financial assets and financial liabilities and excludes any projected interest on loans, securities or deposits.

	Up to 3 months $	Over 3 to 6 months $	Over 6 to 12 months $	Over 1 to 5 years $	Over 5 years $	Total $
At October 31, 2022						
Assets:						
Cash and cash equivalents	39,501,591	–	–	–	–	39,501,591
Balance with central banks	37,190,298	–	–	–	–	37,190,298
Loans and advances to customers	21,378,024	15,703,721	29,965,444	204,023,528	351,090,855	622,161,572
Investment securities	(1,852,548)	4,854,500	1,965,200	10,229,600	12,879,100	28,075,852
Other assets	1,444,377	–	–	–	–	1,444,377
Total financial assets	**97,661,742**	**20,558,221**	**31,930,64**	**214,253,128**	**363,969,955**	**728,373,690**
Liabilities:						
Customers' deposits	187,396,621	27,725,241	64,904,645	2,000	–	280,028,507
Due to affiliated companies	3,983,594	40,000,000	80,000,000	48,000,000	–	171,983,594
Other liabilities	3,287,896	–	–	–	–	3,287,896
Total financial liabilities	**194,668,111**	**67,725,241**	**144,904,645**	**48,002,000**	**–**	**455,299,997**
Liquidity gap	**(97,006,369)**	**(47,167,020)**	**(112,974,001)**	**166,251,128**	**363,969,955**	
Cumulative gap	**(97,006,369)**	**(144,173,389)**	**(257,147,390)**	**(90,896,262)**	**273,073,693**	

	Up to 3 months $	Over 3 to 6 months $	Over 6 to 12 months $	Over 1 to 5 years $	Over 5 years $	Total $
At October 31, 2021						
Assets:						
Cash and cash equivalents	21,016,518	–	–	–	–	21,016,518
Balance with central banks	35,575,739	–	–	–	–	35,575,739
Loans and advances to customers	6,799,006	1,017,475	1,996,139	18,573,663	610,683,661	639,069,944
Investment securities	(1,987,561)	6,799,700	1,840,700	10,599,500	14,539,200	31,791,539
Other assets	3,377,698	–	–	–	–	3,377,698
Total financial assets	**64,781,400**	**7,817,175**	**3,836,839**	**29,173,163**	**625,222,861**	**730,831,438**
Liabilities:						
Customers' deposits	233,397,813	29,766,448	61,284,735	17,647	–	324,466,643
Due to affiliated companies	2,802,366	–	65,000,000	88,000,000	–	155,802,366
Other liabilities	3,012,721	–	–	–	–	3,012,721
Total financial liabilities	**239,212,900**	**29,766,448**	**126,284,735**	**88,017,647**	**–**	**483,281,730**
Liquidity gap	**(174,431,500)**	**(21,949,273)**	**(122,447,896)**	**(58,844,484)**	**625,222,861**	
Cumulative gap	**(174,431,500)**	**(196,380,773)**	**(318,828,669)**	**(377,673,153)**	**247,549,708**	

22. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (continued)

Contingent liabilities and commitments

The following table presents the Group's cash flows from contingent liabilities and commitments by remaining period to contractual maturity from the date of the Consolidated statement of financial position:

	Up to 3 months $	Over 3 to 6 months $	Over 6 to 12 months $	Over 1 to 5 years $	Over 5 years $	Total $
At October 31, 2022						
Credit commitments	1,084,930	97,948	1,586,237	–	10,541	2,779,656
Total	**1,084,930**	**97,948**	**1,586,237**	**–**	**10,541**	**2,779,656**
At October 31, 2021						
Credit commitments	889,052	286,601	3,420,293	–	–	4,595,946
Total	**889,052**	**286,601**	**3,420,293**	**–**	**–**	**4,595,946**

(c) Currency risk

The Group's exposure to currency risk is negligible as its functional and presentation currency is the currency of the economic environment in which it operates, and assets and liabilities denominated in a currency other than Bahamian dollars form a very small part of its consolidated statement of financial position.

(d) Interest rate risk

To monitor and control interest rate risk in the banking book (IRRBB), the Group assesses two primary metrics, Net Interest Income (NII) risk and Economic Value of Equity (EVE) risk, under a range of market shocks, scenarios, and time horizons. Market scenarios include currency-specific parallel and non-parallel yield curve changes and interest rate volatility shocks.

IRRBB – as defined by the Basel Committee – is the "current or prospective risk to a bank's capital and earnings, arising from adverse movements in interest rates that affect the bank's banking book positions." Insufficient management, measurement and control of IRRBB can pose a significant threat to the Bank's capital base and/or its future earnings.

In measuring NII risk, detailed structural balance sheets are stressed to determine the impact of changes in interest rates on accrual or projected earnings. In accordance with generally accepted practice, NII risk is measured as the risk to net interest income over a 1 year-time horizon.

Value risk management focuses on managing the exposure of the institution's economic value of equity (EVE) to interest rate changes. EVE is measured as the difference in net present value of assets minus liabilities plus the net value of off-balance sheet items. In measuring EVE risk, scenario valuation techniques are applied to detailed spot position data.

A number of assumptions affecting cash flows, product re-pricing and the administration of rates underlie the models used to measure NII and EVE risk. All assumptions are derived empirically based on historical client behaviour and product pricing. All models and assumptions used to measure IRRBB are subject to independent oversight by Group Risk Management. The Board approves the risk appetite for IRRBB, and the Asset-Liability Committee (ALCO), along with GRM, provides ongoing governance of IRRBB measurement and management through risk policies, limits, operating standards and other controls. IRRBB reports are reviewed monthly by GRM, ALCO, and quarterly by the Board.

The following table reflects the results of an immediate and sustained 100 bps increase or decrease in interest rates on projected 12-month NII and EVE, assuming no subsequent hedging. Rate floors are applied within the declining rates scenarios which prevent EVE valuation and NII simulation rate levels from falling below a minimum average level of negative 25 bps for hard currencies and 0 bps for local currencies.

22. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Interest rate risk (continued)

	EVE Risk		NII Risk	
	Bahamian Dollar $'000s	Foreign Currency $'000s	Bahamian Dollar $'000s	Foreign Currency $'000s
At October 31, 2022				
100 bps increases in rates	1,349	Nil	1,275	Nil
100 bps decreases in rates	(1,377)	Nil	(1,275)	Nil

	EVE Risk		NII Risk	
	Bahamian Dollar $'000s	Foreign Currency $'000s	Bahamian Dollar $'000s	Foreign Currency $'000s
At October 31, 2021				
100 bps increases in rates	3,909	Nil	1,322	Nil
100 bps decreases in rates	(4,139)	Nil	(1,322)	Nil

The following table summarizes the Group's exposure to interest rate repricing risk. It includes the Group's interest rate sensitive financial instruments at carrying amounts categorized by the earlier of contractual repricing or maturity dates.

	Immediately rate-sensitive $	Up to 3 Months $	Over 3–6 Months $	Over 6–12 Months $	Over 1–5 Years $	Non-interest rate sensitive $	Total $
At October 31, 2022							
Assets							
Cash and cash equivalents	–	–	–	–	–	39,501,591	39,501,591
Balance with central banks	–	–	–	–	–	37,190,298	37,190,298
Loans and advances to customers	–	584,888,853	–	–	–	37,272,719	622,161,572
Investment securities	28,075,852	–	–	–	–	–	28,075,852
Other assets	–	–	–	–	–	1,444,377	1,444,377
Total financial assets	**28,075,852**	**584,888,853**	**–**	**–**	**–**	**115,408,985**	**728,373,690**
Liabilities							
Customer deposits	–	187,396,621	27,725,241	64,904,645	2,000	–	280,028,507
Due to affiliated companies	–	–	40,000,000	80,000,000	48,000,000	3,983,594	171,983,594
Other liabilities	–	–	–	–	–	3,287,896	3,287,896
Total financial liabilities	**–**	**187,396,621**	**67,725,241**	**144,904,645**	**48,002,000**	**7,271,490**	**455,299,997**
Net repricing gap	**28,075,852**	**397,492,232**	**(67,725,241)**	**(144,904,645)**	**(48,002,000)**		

Notes to Consolidated Financial Statements (continued)

22. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Interest rate risk (continued)

	Immediately rate-sensitive $	Up to 3 Months $	Over 3–6 Months $	Over 6–12 Months $	Over 1–5 Years $	Non-interest rate sensitive $	Total $
At October 31, 2021							
Assets							
Cash and cash equivalents	–	–	–	–	–	21,016,518	21,016,518
Balance with central banks	–	–	–	–	–	35,575,739	35,575,739
Loans and advances to customers	–	630,567,253	–	–	–	8,502,691	639,069,944
Investment securities	31,791,539	–	–	–	–	–	31,791,539
Other assets	–	–	–	–	–	3,377,698	3,377,698
Total financial assets	**31,791,539**	**630,567,253**	**–**	**–**	**–**	**68,472,646**	**730,831,438**
Liabilities							
Customer deposits	–	263,074,719	33,311,864	28,080,060	–	–	324,466,643
Due to affiliated companies	–	–	–	65,000,000	88,000,000	2,802,366	155,802,366
Other liabilities	–	–	–	–	–	3,012,721	3,012,721
Total financial liabilities	**–**	**263,074,719**	**33,311,864**	**93,080,060**	**88,000,000**	**5,815,087**	**483,281,730**
Net repricing gap	**31,791,539**	**367,492,534**	**(33,311,864)**	**(93,080,060)**	**(88,000,000)**		

(e) Price risk

Price risk is the risk that the fair values and/or amounts realized on sales of financial instruments may fluctuate significantly as a result of a change in market prices. This risk is considered to be minimal, as the Group's investment securities are represented in the vast majority by Government debt securities, which have limited trading and where trading is observed the prices continue to be at face value.

(f) Capital management

Capital management is a proactive process that ensures that the Group has and remains able to generate or raise sufficient capital on a timely and cost-effective basis to underpin its risks and ultimately protect depositors and other creditors from unexpected losses.

Capital adequacy is viewed in terms of both regulatory requirements: Tier 1 ratio, total capital ratio and single name credit exposure limits; as well as projected subsidiary capital levels based on anticipated business growth and earnings forecast and internal assessment of risk using a stress testing model. RBC Group Treasury prepares the annual capital plan incorporating the financial goals including the capital ratio targets in alignment with the operating business plan.

The Group is committed to maintaining a sound and prudent capital structure that:

- Exceeds, with an appropriate cushion, the minimum capital requirements for the level and quality of capital set by the regulator;
- Safeguards the Group's ability to continue as a going concern by maintaining capital levels that are sufficient to support all material risks and also to support potential unexpected increases in risk;
- Promotes an integrated and streamlined approach to managing regulatory capital that is both reflective of the Group's risk appetite and risk management practices and strongly supportive of growth strategies and performance management; and
- Reflects alignment with the Group's risk management frameworks and policies.

22. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Capital management (continued)

Capital adequacy and the use of regulatory capital are monitored by the Group's management, based on an internal risk assessment approach employing techniques based on the guidelines developed by the Basel Committee on Grouping Supervision as implemented by the Central Bank of The Bahamas. The required information is filed with the Central Bank on a monthly basis as prescribed. The Central Bank requires the Group to maintain a minimum total capital ratio of 17%. As of the date of the consolidated statement of financial position, the Group's total capital ratio was 63.38% (2021: 54.01%).

23. OPERATING SEGMENTS

As disclosed in Note 1, the Group's business activities include the acceptance of deposits, buying and selling foreign currencies and mortgage lending in The Bahamas. Through its subsidiary, the Group provides insurance agency services solely to its mortgage customers. The following table includes a summary of financial information for these entities.

	2022		
	Banking $	Insurance Brokerage Services $	Consolidated $
Assets	**714,789,155**	**14,309,891**	**729,099,046**
Liabilities	**455,268,405**	**31,592**	**455,299,997**
Income:			
Net interest income	34,787,947	–	34,787,947
Non-interest income	737,486	939,633	1,677,119
Total income	35,525,433	939,633	36,465,066
Non-interest expense	(12,931,925)	(351,442)	(13,283,367)
Provision for credit losses	16,913,679	–	16,913,679
Net income	**39,507,187**	**588,191**	**40,095,378**

	2021		
	Banking $	Insurance Brokerage Services $	Consolidated $
Assets	**717,935,912**	**13,679,054**	**731,614,966**
Liabilities	**483,260,119**	**21,611**	**483,281,730**
Income:			
Net interest income	35,930,420	–	35,930,420
Non-interest income	860,834	963,921	1,824,755
Total income	36,791,254	963,921	37,755,175
Non-interest expense	(13,611,277)	(360,880)	(13,972,157)
Provision for credit losses	15,452,569	–	15,452,569
Net income	**38,632,546**	**603,041**	**39,235,587**

Notes to Consolidated Financial Statements (continued)

24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following fair value hierarchy table presents fair values of financial assets and liabilities that are carried at amortized cost, and therefore excludes financial instruments that are measured and disclosed at fair value on a recurring basis. The carrying amounts of certain financial instruments approximate their fair values due to the short-term nature and generally insignificant credit risk of the instruments:

				Fair Value Hierarchy		
	Fair Value Always Approximate Carrying Value	Fair Value May Not Approximate Carrying Value	Total Fair Value	Level 1	Level 2	Level 3
	$	$	$	$	$	$
October 31, 2022						
Financial Assets						
Cash and cash equivalents	39,501,591	–	39,501,591	–	39,501,591	–
Balance with central bank	37,190,298	–	37,190,298	–	37,190,298	–
Loans and advances to customers	–	670,129,469	670,129,469	–	670,129,469	–
Investment securities	–	29,837,980	29,837,980	–	29,837,980	–
Other assets	1,444,377	–	1,444,377	–	1,444,377	–
Financial Liabilities						
Customer deposits	280,028,507	–	280,028,507	–	280,028,507	–
Due to affiliated companies	171,983,594	–	171,983,594	–	171,983,594	–
Other Liabilities	3,287,896	–	3,287,896	–	3,287,896	–

				Fair Value Hierarchy		
	Fair Value Always Approximate Carrying Value	Fair Value May Not Approximate Carrying Value	Total Fair Value	Level 1	Level 2	Level 3
	$	$	$	$	$	$
October 31, 2021						
Financial Assets						
Cash and cash equivalents	21,016,518	–	21,016,518	–	21,016,518	–
Balance with central bank	35,575,739	–	35,575,739	–	35,575,739	–
Loans and advances to customers	–	712,979,294	712,979,294	–	712,979,294	–
Investment securities	–	34,546,807	34,546,807	–	34,546,807	–
Other assets	3,377,698	–	3,377,698	–	3,377,698	
Financial Liabilities						
Customer deposits	324,466,643	–	324,466,643	–	324,466,643	–
Due to affiliated companies	155,802,366	–	155,802,366	–	155,802,366	–
Other Liabilities	3,012,721	–	3,012,721	–	3,012,721	–

24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Valuation techniques and assumptions applied for the purposes of measuring fair value

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

- **Level 1 fair value measurements** are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2 fair value measurements** are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3 fair value measurements** are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table provides an analysis investment securities grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

	Level 1 $	Level 2 $	Level 3 $	Total $
As at October 31, 2022				
Bahamas Government debt securities	–	27,254,800	–	27,254,800
Locally issued corporate bonds	–	2,738,400	–	2,738,400
	–	**29,993,200**	**–**	**29,993,200**

	Level 1 $	Level 2 $	Level 3 $	Total $
As at October 31, 2021				
Bahamas Government debt securities	–	31,692,500	–	31,692,500
Locally issued corporate bonds	–	2,738,400	–	2,738,400
	–	**34,430,900**	**–**	**34,430,900**

25. SUBSEQUENT EVENT

Subsequent to year-end, the directors approved a dividend on ordinary shares in the amount of $0.79 per share to all shareholders of record as at January 27, 2023 payable on February 3, 2023.

SHAREHOLDERS' INFORMATION

CORPORATE HEADQUARTERS
Finance Corporation of Bahamas Limited
Royal Bank House
101 East Hill Street
P. O. Box N 3038
Nassau, The Bahamas
Tel: (242) 356 8500
Fax: (242) 328 8848

TRANSFER AGENT AND REGISTRAR SERVICE
Bahamas Central Securities Depository
#310 Cotton Tree Plaza
East Bay Street
P. O. Box EE 15672
Nassau, The Bahamas
Tel: (242) 322 5522/3

SHAREHOLDERS' CONTACT
For information about stock transfers, change of address, lost stock certificate and estate transfers, contact the Bank's Transfer Agent, Bahamas Central Securities Depository at their mailing address or call the Transfer Agent at (242) 322 5573/5.

Other shareholder enquiries may be directed by writing to The Corporate Secretary:

Finance Corporation of Bahamas Limited
Royal Bank House
101 East Hill Street
P. O. Box N 3038
Nassau, The Bahamas
Tel: (242) 356 8500
Fax: (242) 328 8848
Email: shevette.seymour@rbc.com

DIRECT DEPOSIT
Shareholders may have their dividends deposited directly to an account at any financial institution. To arrange this, please write to Bahamas Central Securities Depository at their mailing address.

DIVIDEND DATES
Subject to approval by the Board of Directors.

STOCK EXCHANGE LISTING
Bahamas International Securities Exchange (BISX) (Symbol: FINCO)

ANNUAL REPORT CREDITS

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tel: (242) 698 6019
em: hello@smith-benjamin.com

PRINTING
Printmasters
tel: (242) 302 2362
em: printmasters242@gmail.com

RBC FinCo

STORE LOCATIONS

CORPORATE HEADQUARTERS

Finance Corporation of Bahamas Limited
Royal Bank House
101 East Hill Street
P. O. Box N 3038
Nassau, The Bahamas
T: (242) 356 8500
F: (242) 328 8848

MAIN BRANCH
Shared location with:

RBC Royal Bank
323 Bay Street
P. O. Box N 3038
Nassau, The Bahamas
T: (242) 502 7700
F: (242) 328 8848

CARMICHAEL ROAD BRANCH
Shared location with:

RBC Royal Bank
Southwest Plaza
Carmichael Road
P. O. Box N 3038
Nassau, The Bahamas
T: (242) 676 7500
F: (242) 676 7792

FREEPORT BRANCH
Shared location with:

RBC Royal Bank
East Mall Drive & Explorer's Way
P. O. Box F 40029
Freeport, Grand Bahama
The Bahamas
T: (242) 352 8896
F: (242) 352 3022

PALMDALE BRANCH
Shared location with:

RBC Royal Bank
Palmdale Shopping Plaza
Madeira Street
P. O. Box N 3038
Nassau, The Bahamas
T: (242) 302 2500
F: (242) 325 2061

SAFEGUARD INSURANCE BROKERS LTD.
P. O. Box N 3038
Nassau, The Bahamas
T: (242) 676 7521
F: (242) 676 7563

SHAREHOLDERS' CONTACT

Finance Corporation of Bahamas Limited
P. O. Box N 3038
Nassau, The Bahamas
T: (242) 356 8500
F: (242) 328 8848