RBC FINCO

2015 Annual Report

It's All About You

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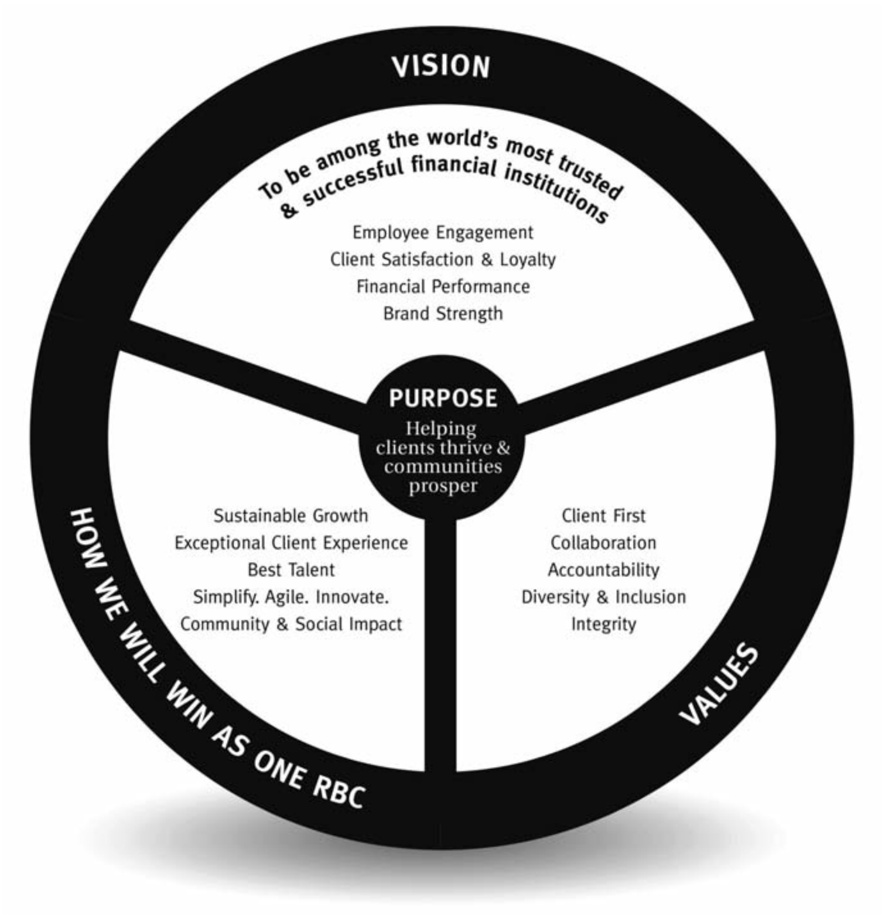
CORPORATE PROFILE & COLLECTIVE AMBITION

Finance Corporation of Bahamas Limited was incorporated on July 24, 1953. As of April 1, 1982, the company 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 in the Company to R.B.C. Royal Bank Holdings (Bahamas) Limited, a Barbadian holding company. The Company employs 63 people who serve more than 50,000 clients through offices in Nassau and Freeport, and has more than 4,000 shareholders.

The Corporation'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.



MAJORITY SHAREHOLDER'S PROFILE

Royal Bank of Canada (RY on TSX and NYSE) is Canada's largest bank, and one of the largest banks in the world, based on market capitalisation. We are one of North America's leading diversified financial services companies, and provide personal and commercial banking, wealth management, insurance, investor services and capital markets products and services on a global basis. We have over 80,000 full- and part-time employees who serve more than 16 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 37 other countries. Our business segments are described below.

Personal & Commercial Banking is comprised of our personal and business banking operations, and our auto financing and retail investment businesses, including our online discount brokerage channel, and operates through two businesses: Canadian Banking, and Caribbean & U.S. Banking. We provide services to more than 13.5 million individual, business and institutional clients across Canada, the Caribbean and the U.S. In Canada, we provide a broad suite of financial products and services through our extensive branch, automated teller machine (ATM), online, mobile and telephone banking networks, as well as through a large number of proprietary sales professionals. We maintain top (#1 or #2) rankings in market share in this competitive environment for all key retail and business financial product categories, and have the largest branch network, the most ATMs and the largest sales force across Canada. In the Caribbean, we offer a broad range of financial products and services to individuals and business clients, and public institutions in various markets. We continue to be the second largest bank as measured by assets in the English Caribbean, with 79 branches in 17 countries and territories. In the U.S., we serve the cross-border banking needs of Canadian clients within the U.S. through online channels. In 2015, we received a number of accolades including Best Global Retail Bank (Retail Banker International) for the second consecutive year, Best Trade Finance Bank in Canada (Global Finance Magazine) for the third consecutive year, Best Private Banking Services Overall in Canada (Euromoney Magazine) for the eighth consecutive year, and Bank of the Year in Canada (The Banker).

Wealth Management comprises Canadian Wealth Management, U.S. International Wealth Management, and Global Asset Management. Wealth Management serves individual and institutional clients in target markets around the world. From our offices in key financial centres mainly in Canada, the U.S., the U.K., Channel Islands, and Asia, Wealth Management offers a comprehensive suite of investment, trust, banking, credit and other wealth management solutions to affluent, high net worth, and ultra-high net worth clients. Our asset management group, Global Asset Management, which includes BlueBay Asset Management, is an established global leader in investment management services, providing investment strategies and fund solutions directly to institutional investors and also to individual clients through our distribution channels and third-party distributors. On November 2, 2015, we completed the acquisition of City National Corporation, which will enhance and complement our existing U.S. businesses and product offerings. In 2015, we were ranked the 5th largest global wealth manager by client assets (Scorpio Partnership's 2015 Global Private Banking KPI Benchmark). We were also named Best Private Banking services overall in Canada and Jersey (Euromoney Magazine), a top 50 Global Asset Manager (Pensions & Investments/ Towers Watson), Best Bank-owned Brokerage Firm in Canada (International Executive Brokerage Report Card), and Trust Company of the Year (Society of Trust and Estate Practitioners). The RBC Wealth Management© and RBC Asset Management© brand was recognised as the eighth best banking brand globally (Brand and Finance Banking 500).

Insurance comprises of our operations in Canada and globally and operates under two business lines: Canadian Insurance and International Insurance, providing a wide range of life, health, home, auto, travel, wealth, group and reinsurance products and solutions. In Canada, we offer our products and services through our proprietary distribution channels, comprised of the field sales force which includes retail insurance stores, our field sales representatives, advice centres and online, as well as through independent insurance advisors and affinity relationships. Outside Canada, we operate in reinsurance markets globally offering life, accident and annuity reinsurance products. In 2015, we were ranked as the #1 Banking-based Insurance brand globally (2015 Brand Finance Banking 500).

Investor & Treasury Services is a specialist provider of asset and treasury services, custody, payments, and transaction banking for financial institutions and other institutional investors worldwide. We deliver custodial, fund accounting, financing and other services to safeguard client assets, maximise liquidity, and manage risk across multiple jurisdictions. We also provide short-term funding and liquidity management for RBC. We are a global custodian with a network of offices across North America, Europe, and Asia-Pacific. In 2015, we were rated by our clients the #1 global custodian (Global Custody Survey, Global Investor ISF) and rated UCITS Fund Administrator of the Year (Custody Risk, European Awards, 2015). We were also recognised as Canada's leading asset management provider with number one ratings across client service, custody, fund administration and Canadian dollar transactions (Global Custody Survey, Global Investor ISF, 2015).

Capital Markets provides public and private companies, institutional investors, governments and central banks globally with a wide range of capital markets products and services across our two main business lines, Corporate and Investment Banking and Global Markets. Our legacy portfolio is grouped under Other. In North America, we offer a full suite of products and services which include corporate and investment banking, equity and debt origination and distribution, and structuring and trading. In the U.S., we have full industry sector coverage and investment banking product range and compete with large U.S. and global investment banks as well as smaller regional firms. Outside North America, we have a select presence in the U.K. and Europe, and Other international, where we offer a diversified set of capabilities in our key sectors of expertise such as energy, mining and infrastructure and we have expanded into industrial, consumer and healthcare in Europe. In 2015, we were named or ranked Best Investment Bank in Canada (Euromoney Magazine), the largest investment bank in Canada by fees for the first nine months of 2015 (Dealogic), and the 10th largest investment bank globally and in the Americas by fees for the first nine months of 2015 (Thomson Reuters).

Our business segments are supported by Corporate Support. Corporate Support comprises Technology & Operations which provide the technological and operational foundation required to effectively deliver products and services to our clients, and Functions which includes our Finance, Human Resources, Risk Management, Internal Audit and other functional groups. Corporate Support also includes our Corporate Treasury function.

FINANCIAL HIGHLIGHTS

(Expressed in Bahamian Dollars)

	Change 2015/2014	2015	2014	2013	2012	2011
EARNINGS						
Net interest income	0.9%	$49,248,037	$48,785,890	$45,514,907	$39,956,957	$37,122,980
Non-interest income	2.8%	4,304,264	4,188,923	3,835,574	3,743,181	3,725,817
Total Revenues	1.1%	53,552,301	52,974,813	49,350,481	43,700,138	40,848,797
Impairment losses on loans and advances	-55.1%	15,967,272	35,595,209	7,468,260	19,597,777	9,124,734
Non-interest expense	-18.9%	11,979,359	14,776,249	11,523,581	13,120,538	12,958,473
Net Income	883.6%	25,605,670	2,603,355	30,358,640	10,981,823	18,765,590
Efficiency Ratio	-552 bps	22.4%	27.9%	23.4%	30.0%	31.7%
Return on equity	1404 bps	15.8%	1.7%	21.4%	8.8%	17.1%
BALANCE SHEET DATA						
Loans (Net)	-2.0%	$831,073,644	$847,753,868	$865,233,609	$845,337,679	$842,331,063
Assets	0.9%	992,433,577	983,217,444	997,220,310	973,694,362	972,650,768
Deposits	-10.6%	703,164,129	786,740,410	759,176,935	784,561,511	799,516,718
Equity	17.1%	175,307,414	149,701,744	153,765,056	130,073,084	119,091,261
COMMON SHARE INFORMATION						
Earnings per share	$0.86	$0.96	$0.10	$1.14	$0.41	$0.70
Dividend per share	(0.25)	–	0.25	0.25	–	–
Book value per share-year-end	0.96	6.57	5.61	5.77	4.88	4.47
NUMBER OF:						
Employees		63	63	95	97	105
Automated banking machines		5	5	5	5	5
Service delivery units		5	5	6	6	6

Net Interest Income
Net interest income is comprised of interest earned on mortgages and securities, less interest paid on deposits from customers and other financial institutions. Net interest income increased by 0.9% during the year. This marginal increase in net interest income is the result of savings on interest paid on deposits which was slightly higher than the fall off in interest revenue. Interest revenue is challenged by low mortgage growth and downward pressure on mortgage interest rates.

Non-Interest Income
Non-interest income consists of all income not classified as interest income such as bank fees, commissions and service charges. Revisions to the bank's fee schedule for various services resulted in a 2.8% increase in non-interest revenue.

Impairment Losses on Loans and Advances
The impairment charge for credit losses was $16.0 million (2014: $35.6 million). The lower impairment charge is due to a $15.1 million decrease in non-performing loans from $117.6 million to $102.5 million during the year. The decrease in non-performing loans was driven in part by larger loan write-offs during the year. Additionally, the impairment charge in 2014 was higher due to the change in the estimates used to assess the impairment. The change in estimate caused a $22.8 million charge against the 2014 profit. The total allowance for impairment losses is 6.4% of the total loan portfolio and 55.8% of non-performing loans, compared to 7.6% and 59.7%, respectively at the end of fiscal 2014.

Non-Interest Expenses
Non-interest expenses decreased by 18.9% during fiscal 2015. This decrease is primarily due to lower professional fees and occupancy costs. These efficiencies gained were offset marginally by an increase in business taxes with the introduction of value added tax. The bank actively manages its costs with a view to increase efficiency.

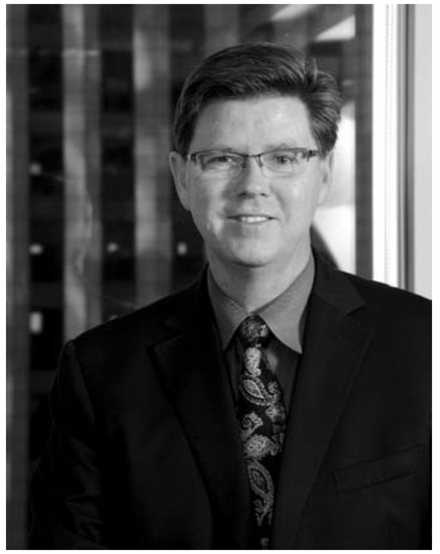
Net Income
The bank's net income increased to $25.6 million compared to $2.6 million in the previous year. This increase is attributed mainly to the lower impairment charge and lower operating costs as explained earlier.

Loans-net
The net loan portfolio contracted to $831.1 million (decrease of $16.7 million or 2.0%) compared to $847.8 million for fiscal year 2014. This decrease is primarily a result of write offs of non-performing loans. Mortgage growth continues to be a challenge in the current economic environment.

Earnings Per Share (EPS)
Earnings per share increased to $0.96 compared to $0.10 in the previous year as a result of the higher net income.

Dividend Per Share (DPS)
No dividends were declared during the fiscal year ended 2015. At each quarterly meeting, the Board of Directors give careful consideration about whether to pay a dividend after considering the bank's mortgage performance, liquidity and profitability.

CHAIRMAN'S REPORT



Dear Shareholders,

RBC FINCO has been serving clients in The Bahamas for 62 years and we are pleased to acknowledge our 31st year as a public company. Our employees are committed to providing the highest level of service, and providing sound financial advice to help our clients find the right solutions to meet their financial goals and needs. As an organisation we are committed to helping our clients thrive and our communities prosper.

For the fiscal year ended October 31st 2015, Finance Corporation of Bahamas Limited (RBC FINCO) recorded $25.6 million in net income. This compares to $2.6 million in net income recorded the previous year. The increase in net income is primarily attributed to lower provisions and lower operating cost. However, our core earnings continue to be volatile and under pressure from lower mortgage growth, lower mortgage interest rates and unacceptably high levels of delinquent and non-performing mortgages.

Non-performing mortgages of $102.5 million (2014: $117.6 million) as a percentage of the portfolio was 11.5% at the end of the fiscal year compared to 12.8% in 2014 and compared to the industry at 17.7% as of October 2015.

With the slow recovery in the economy and high unemployment rate, the bank would continue to be challenged with allowances for credit losses as a result of the stubbornly high level of non-performing mortgages.

Taking these factors into consideration, the Board of Directors has made the decision not to declare a dividend in respect of the profit for the 4th quarter ended October 31, 2015. The Board reviews payment of dividends on a quarterly basis and will continue to carefully monitor the economy, the company's mortgage portfolio, and overall performance to ensure prudent management of the company's financial performance.

Our majority Shareholder, Royal Bank of Canada continues to be a strong and stable international financial services institution. Our ability to leverage the strength of the majority shareholder 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 staff for their commitment, and thank them for their significant contributions to RBC FINCO in 2015. We are grateful to our Board of Directors for their service and acknowledge their dedication to the highest standards of corporate governance.

Robert G. Johnston
Chairman
Finance Corporation of Bahamas Limited

MANAGING DIRECTOR'S REPORT

During the 2015 financial year, RBC FINCO maintained its focused approach to executing our strategic priorities in a mortgage market that continues to be competitive. According to The Central Bank of The Bahamas, industry statistics, residential mortgages continue to experience negative net growth. Overall, while RBC FINCO's gross loans remained relatively flat, net growth declined by $17 million or 1.97% to $831 million year over year. Our mortgage market share is consistent, we continue to operate in an economic environment that is stable, but recovering slowly and the bank's overall financial performance is consistent with market conditions.

This year our strategic priorities were modified to help drive all of our activities. These are:

1) Focus on key markets, client segments and growth opportunities;
2) Reduce structural cost and build greater efficiency;
3) Improve credit quality;
4) Improve governance, safety and soundness; and
5) Strengthen our team and culture.

Focus on key markets, client segments and growth opportunities

In 2015 we modified our Client Satisfaction Survey moving it from annually to daily and changing the name to RBC Listens. This was done to ensure we receive regular feedback from our clients to position us to better serve them and become more responsive to their changing needs.

To further enhance the client experience creating convenience and one-stop banking, we consolidated RBC FINCO Palmdale branch into RBC Royal Bank Palmdale branch. Additionally, RBC FINCO customers can now receive over the counter service at all of RBC Royal Bank branches in New Providence and Freeport, and all of RBC FINCO's branches are now located in shared locations with RBC Royal Bank except RBC FINCO Robinson Road branch.

Our clients have told us that there remains opportunity to improve our level of service. We are executing a number of initiatives to improve the client experience and will continue to refine our strategies to close service gaps.

Reduce structural cost and build greater efficiency

We continue to leverage the capabilities of RBC Royal Bank to streamline processes and align with RBC global standards.

To further reduce structural cost and build greater efficiency, we continue to look for opportunities to consolidate branches, as previously mentioned.

The bank also engaged the services of The LAB which is an external consultancy firm responsible for reviewing the bank's various processes in an effort to improve efficiency while strengthening customer service. We are in the process of implementing initial changes from this work effort.

Improve credit quality

In fiscal year 2015, we enhanced our credit underwriting policies and procedures to improve the quality of credit applications. We also implemented new credit training programmes and increased the frequency of credit training for employees. Further, we implemented a new tracking system to better monitor the quality of credit applications, which will result in early and effective coaching to strengthen the lender's credit knowledge.

We have seen a decrease in our non-performing mortgages in fiscal 2015 when compared to 2014. Delinquent and non-performing loan ratios as a percentage of total loans remain elevated, but below the industry averages. However, management is actively following up and is taking the necessary steps to reduce the level of delinquent and non-performing loans.

Further, provision for credit losses is reviewed regularly to ensure adequate provisions are maintained for loan losses. The provisioning policy is adequate and is consistent with international best practices.

Improve governance, safety and soundness

Internal and external audits and control reviews during the fiscal year identified no material or significant control deficiencies in our operations. Compliance and Know Your Client tests are done on a consistent basis, as well as other Operational Risk reviews are completed to ensure adherence to policy guidelines. The results of all testings and reviews are submitted to Management, the parent RBC and quarterly reporting to the Board of Directors as part of corporate governance oversight. Any gaps or deficiencies are monitored and tracked to resolution.

The bank satisfactorily met all regulatory requirements and the bank's operations are considered safe and sound in its operations.

Strengthen our team and culture

The 2015 Employee Opinion Survey confirmed that RBC FINCO employees remained engaged. This success was achieved through setting clear objectives, building employee capability and a robust reward and recognition programme. And our key priorities of collaboration, open communication and working together were executed well during the year.

The bank continues to focus on building a strong sales and service culture and has been leveraging the parent company to provide the training tools and sales and service routines to achieve this objective. Management remains committed to the professional development and career advancement of our employees.

One of RBC's Reward and Recognition Programmes, RBC Performance, provides multiple levels of recognition with top employees from around the world being invited to the RBC Performance Conference which takes place on a cruise. This year RBC FINCO was represented by Mrs. Shantell Grey, Manager of Client Care and Operations at RBC FINCO Freeport Branch and Mr. Eugene Goodman who is a Mortgage Specialist at RBC FINCO Palmdale Branch. We wish to congratulate them both for being among the best of the best achieving the highest award offered by the bank.

Outlook

The bank will continue to be challenged to grow its mortgage book in a very competitive mortgage environment, and in an economy that is showing mild growth with high unemployment at 14%. We are also concerned about the persistently high levels of delinquent and non-performing loans and the recovery of these loans despite best collection efforts by our Loans Collection Center. Notwithstanding, we are cautiously optimistic that our 2016 business plan is achievable.

Michael A. Munnings
Managing Director
RBC FINCO

BOARD OF DIRECTORS

Robert Johnston
CHAIRMAN OF THE BOARD
Head, RBC Caribbean Banking

Nathaniel Beneby, Jr.
DIRECTOR
Managing Director
RBC Royal Bank (Bahamas) Limited

Michael A. Munnings
DIRECTOR
Managing Director
RBC FINCO

Nick Tomovski
DIRECTOR
Senior Vice President, P&CB
Royal Bank of Canada

Teresa Butler
NON-EXECUTIVE DIRECTOR
Retired Civil Servant

Ross A. McDonald
NON-EXECUTIVE DIRECTOR
Former Head of Caribbean Banking
RBC Royal Bank

Anthony A. Robinson
NON-EXECUTIVE DIRECTOR
President & CEO
FOCOL Holdings Ltd.

RBC FINCO'S 2015 CONSOLIDATED FINANCIAL STATEMENTS

FINANCE CORPORATION OF BAHAMAS LIMITED

STATEMENT OF MANAGEMENT RESPONSIBILITIES

The accompanying consolidated financial statements of Finance Corporation of Bahamas Limited (the "Company") were prepared by management and presents fairly, in all material respects, the state of affairs of the Company as at the end of the financial year and of the operating results of the Company for the year. Management is responsible to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Management accepts responsibility for the annual consolidated financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards. Management is of the opinion that the consolidated financial statements presents fairly, in all material respects, the state of the financial affairs of the Company and of its operating results. Management further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of Management to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

Michael A. Munnings
Director
December 16, 2015

Larry Wilson
Head of Finance, Northern Caribbean
December 16, 2015

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Finance Corporation of Bahamas Limited:

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of Finance Corporation of Bahamas Limited (the Company) which comprise the consolidated statement of financial position as at 31 October 2015 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and the fair presentation of these 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.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 October 2015 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

January 29, 2016

A member firm of
Deloitte Touche Tohmatsu

FINANCE CORPORATION OF BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT OCTOBER 31, 2015

(Expressed in Bahamian Dollars)

	Notes		2015		2014
ASSETS					
Cash and cash equivalents	5	$	72,809,826	$	51,479,021
Balance with central banks	6		50,268,339		41,886,036
Loans and advances to customers	7		831,073,644		847,753,868
Investment securities	8		36,895,254		40,357,511
Premises and equipment	9		658,356		716,361
Other assets			728,158		1,024,647
Total Assets		$	992,433,577	$	983,217,444
LIABILITIES					
Customer deposits	10	$	703,164,129	$	786,740,410
Due to affiliated companies	20		108,631,629		40,972,367
Other liabilities			5,330,405		5,802,923
Total Liabilities			817,126,163		833,515,700
EQUITY					
Share capital	12		5,333,334		5,333,334
Share premium			2,552,258		2,552,258
Reserve	12		500,000		500,000
Retained earnings			166,921,822		141,316,152
Total Equity			175,307,414		149,701,744
Total Equity and Liabilities		$	992,433,577	$	983,217,444

The notes on pages 18 to 42 form an integral part of these consolidated financial statements.

On December 16, 2015, the Board of Directors of Finance Corporation of Bahamas Limited authorised these consolidated financial statements for issue.

Michael A. Munnings
Director

Nathaniel Beneby
Director

FINANCE CORPORATION OF BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED OCTOBER 31, 2015

(Expressed in Bahamian Dollars)

	Notes		2015		2014
INCOME					
Interest income	13	$	64,827,310	$	68,082,135
Interest expense	14		(15,579,273)		(19,296,245)
Net interest income			49,248,037		48,785,890
Non-interest income	15		4,304,264		4,188,923
Total income			53,552,301		52,974,813
Non-interest expenses	16		(11,979,359)		(14,776,249)
Impairment losses on loans and advances	7		(15,967,272)		(35,595,209)
Net and total comprehensive income for the year		$	25,605,670		2,603,355
Earnings per share (basic and diluted)		$	0.96		0.10

The notes on pages 18 to 42 form an integral part of these consolidated financial statements.

FINANCE CORPORATION OF BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Expressed in Bahamian Dollars)

	Notes	Share Capital	Share Premium	Reserves	Retained Earnings	Total
YEAR ENDED OCTOBER 31, 2014						
Balance at beginning of year		$ 5,333,334	$ 2,552,258	$ 500,000	$ 145,379,464	$ 153,765,056
Comprehensive income		–	–	–	2,603,355	2,603,355
Dividends	17	$ –	$ –	$ –	$ (6,666,667)	$ (6,666,667)
Balance at end of year		$ 5,333,334	$ 2,552,258	$ 500,000	$ 141,316,152	$ 149,701,744
YEAR ENDED OCTOBER 31, 2015						
Balance at beginning of year		$ 5,333,334	$ 2,552,258	$ 500,000	$ 141,316,152	$ 149,701,744
Comprehensive income		–	–	–	25,605,670	25,605,670
Balance at end of year		$ 5,333,334	$ 2,552,258	$ 500,000	$ 166,921,822	$ 175,307,414

The notes on pages 18 to 42 form an integral part of these consolidated financial statements.

FINANCE CORPORATION OF BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED OCTOBER 31, 2015

(Expressed in Bahamian Dollars)

	2015	2014
OPERATING ACTIVITIES		
Comprehensive income	$ 25,605,670	$ 2,603,355
ADJUSTMENTS FOR:		
Impairment losses on loans and advances	15,967,272	35,595,209
Depreciation and amortisation tangible assets	229,929	239,176
Loss on disposal of premises and equipment	–	52,830
	41,802,871	38,490,570
(INCREASE) DECREASE IN OPERATING ASSETS		
Balance with central banks	(8,382,303)	495,376
Loans and advances to customers	712,952	(18,115,468)
Other assets	296,489	(518,493)
INCREASE (DECREASE) IN OPERATING LIABILITIES		
Customer deposits	(83,576,281)	27,563,475
Due to affiliated companies	67,659,262	(36,246,334)
Other liabilities	(472,518)	(1,256,695)
Net cash from (used in) operating activities	18,040,472	10,412,431
INVESTING ACTIVITIES		
Purchase of premises and equipment	(172,531)	–
Proceeds from sale of premises and equipment	607	15,293
Purchase of investments	(20,961,543)	(27,999,845)
Proceeds from sale/maturity of investments	24,423,800	28,025,900
Net cash from investing activities	3,290,333	41,348
FINANCING ACTIVITIES		
Dividends paid	–	(6,666,667)
Net cash used in financing activities	–	(6,666,667)
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,330,805	3,787,112
BALANCE AT BEGINNING OF YEAR	51,479,021	47,691,909
BALANCE AT END OF YEAR	$ 72,809,826	$ 51,479,021
Interest received	$ 64,547,867	$ 68,594,463
Interest paid	$ (17,225,430)	$ (19,437,235)

The notes on pages 18 to 42 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2015

1. INCORPORATION AND BUSINESS ACTIVITIES

Finance Corporation of Bahamas Limited (the "Company") is incorporated in The Commonwealth of The Bahamas and is licensed under the provisions of the Banks and Trust Companies Regulations Act, 2000 and is also licensed as an Authorised Dealer, pursuant to the Exchange Control Regulations Act.

The Company is 75% owned by RBC Royal Bank Holdings (Bahamas) Limited, a wholly-owned subsidiary of the ultimate parent company Royal Bank of Canada. The remaining 25% ownership of the Company's shares are publicly traded and listed on The Bahamas International Securities Exchange.

The Company's principal place of business include its Head Office located at Royal Bank House, East Hill Street, Nassau, The Bahamas along with 4 branch locations in New Providence and one 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 The Commonwealth of The Bahamas.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

During the year, the following new accounting pronouncements were adopted:

- **IAS 32 Financial Instruments: Presentation (IAS 32)**
  Amendments to IAS 32 clarify the existing requirements for offsetting financial assets and financial liabilities. The standard provides clarifications on the legal right to offset transactions, and when transactions settled through a gross settlement system would meet the simultaneous settlement criteria. The adoption of these amendments did not have an impact on these financial statements.
- **International Financial Reporting Standards (IFRS) Interpretations Committee IFRIC Interpretation 21 Levies (IFRIC 21)**
  IFRIC 21 provides guidance on when to recognise a liability to pay a levy that is accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The adoption of this interpretation did not have a material impact on these financial statements.
- **Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities (annual periods beginning on or after January 1, 2014)**
  The amendments to IFRS 10 defines an investment entity and requires a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

  Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities. The adoption of these amendments did not have an impact on these financial statements.
- **IAS 36 Impairment of assets: Disclosure. Amendments enhancing recoverable amounts and disclosures for non-financial assets (annual periods beginning on or after January 1, 2014)**
  The amendments clarify the scope of the disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The adoption of these amendments did not have an impact on these financial statements.

Management is currently assessing the impact of adopting the following standards on these financial statements:

- **IFRS 15 Revenue from Contracts with Customers (IFRS 15)**
  In May 2014, the IASB issued IFRS 15 which establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles based five-step model for revenue recognition to be applied to all contracts with customers. In September 2015, the IASB amended IFRS 15 by deferring its effective date by one year. IFRS 15 will be effective for us on November 1, 2018.
- **IFRS 9 Financial Instruments (IFRS 9)**
  In July 2014, the IASB issued the complete version of IFRS 9, first issued in November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39.

  IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at FVTPL, fair value through OCI or amortised cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39.

  IFRS 9 also introduces an expected loss impairment model for all financial assets not as at FVTPL. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognised in profit or loss and a loss allowance is established; (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognised; and (3) when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount.

  Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities. IFRS 9 will be effective for us no later than November 1, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

Statement of compliance – The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis of measurement – These consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities.

The preparation of these consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. 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 Note 4. Accordingly, actual results may differ from these and other estimates thereby impacting future financial statements.

b. Basis of consolidation

These consolidated financial statements include the financial position and financial performance of the Company and its wholly-owned subsidiary, Safeguard Insurance Brokers Limited (formerly, FINCO Insurance agency Limited) ("Safeguard"), after elimination of all inter-company balances and transactions. Safeguard provides insurance brokerage services to mortgage customers of the Company and is incorporated in the Commonwealth of The Bahamas. Its registered office is located at Royal Bank House, East Hill Street, Nassau Bahamas.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

c) Foreign currency translation

These consolidated financial statements are measured using the currency of the primary economic environment in which the Company operates. The consolidated financial statements are presented in Bahamian dollars, which is the Company's functional and presentation currency.

In preparing the consolidated financial statements transactions in currencies other than the functional currency (foreign currencies) are recognised 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 items 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 recognised in profit or loss in the period in which they arise.

d) Financial assets

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and advances to customers, held-to-maturity investments; and available-for-sale (AFS) financial assets. Management determines the classification of its investments at initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

i. Financial assets at FVTPL

This category has two sub-categories: financial assets held for trading, and those designated at FVTPL from inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial assets and liabilities are designated at FVTPL when:

- The designation significantly reduces measurement inconsistencies that would arise from measuring the assets or liabilities or recognising gains or loss on them on a different basis.
- Assets and liabilities that are part of a group of financial assets, financial liabilities or both which are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at "fair value through profit or loss"; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit or loss.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in net trading income.

ii. Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as AFS; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

iii. Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable

Notes to Consolidated Financial Statements (continued)

payments and fixed maturities that the Company's management has the positive intention and the ability to hold to maturity. If the Company were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as AFS.

iv. AFS financial assets

AFS investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of financial assets at FVTPL, held-to-maturity and AFS are recognised on the settlement date – the date on which there is a cash outflow or inflow.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at FVTPL. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed when incurred.

AFS financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and advances to customers and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the consolidated statement of comprehensive income in the period in which they arise. Gains and losses arising from changes in the fair value of AFS financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the consolidated statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of profit or loss when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Company establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Interest calculated using the effective interest method and foreign currency gain and loss on monetary assets classified as available for sale are recognised in the consolidated statement of profit or loss.

Dividends on AFS equity instruments are recognised in the consolidated statement of profit or loss when the Company's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Company establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

v. Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it has transferred the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred financial asset, the Company recognises its retained interest in the financial asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

e. Impairment of financial assets

i. Financial assets carried at amortised cost

The Company assesses at each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

i) Delinquency in contractual payments of principal or interest;
ii) Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
iii) Breach of loan covenants or conditions;
iv) Initiation of bankruptcy proceedings;
v) Deterioration of the borrower's competitive position
vi) Deterioration in the value of collateral; and
vii) Downgrading of the asset.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Generally, loans are considered impaired whenever a payment is 90 days past due. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of profit or loss. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped together on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

If in the subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account.

When a financial asset is uncollectible, it is written off against the related provision for impairment loss. Such financial assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

ii) Financial assets classified as AFS

At the end of the reporting period the Company assesses whether there is objective evidence that a financial asset or a group of financial assets classified as AFS is impaired. A financial asset or a group of financial assets classified as AFS is impaired if its carrying amount is greater than its estimated recoverable amount based on the present value of expected future cash flows discounted at the current market rate of interest.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

At the end of the reporting period if any such evidence exists for financial assets AFS, the cumulative loss in the other comprehensive income measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the other comprehensive income is removed and recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For AFS equity investments, reversal of impairment loss previously recognised in income is recognised in other comprehensive income.

iii) Renegotiated loans

Where possible, the Company seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

f. Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

i. Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; and
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in income. The net gain or loss recognised in income incorporates any interest paid on the financial liability.

ii. Other financial liabilities

Other financial liabilities includes borrowings, accounts payable and accrued liabilities. Borrowings are initially measured at fair value net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

iii. Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

g) Revenue recognition

i) Interest income and expense

Interest income and interest expense are recognised in the consolidated statement of profit or loss for all interest bearing instruments on an accrual basis using the effective interest method.

The effective interest method is a method of calculating the amortised 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 exactly 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 Company estimates cash flows considering all contractual terms of the financial instrument 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, transactions costs and all other premiums or discounts.

ii) Fees and commissions

The Company earns fees and commissions from its range of services and products provided to its customers.

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Company has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party—such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses —are recognised on completion of the underlying transaction.

Notes to Consolidated Financial Statements (continued)

iii) Dividend income

Dividend income is recognised when the right to receive dividend is established.

h) Impairment of tangible assets

At the end of each reporting date, the Company 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 recognised immediately in profit or loss, unless the relevant assets is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in a prior period. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

i) Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation, amortisation and impairment losses. Depreciation and amortisation is calculated principally on the straight-line method to write off the depreciable amounts over their estimated useful lives as follows:

Freehold land	Not depreciated
Building and improvements	Straight line – 20 to 40 years
Leasehold premises	Straight line lease term plus 1 renewal term
Furniture and equipment	Straight line 5 yrs and declining balance – 20%
Computer equipment and software	Straight line – 3 to 7 years
Motor vehicles	Straight line – 3 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.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amounts and are included in profit or loss in the period. Costs of repairs and renewals are charged to income when the expenditure is incurred.

j) 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.

k) Leases

(i) The Company is the lessee

The leases entered into by the Company, which do not transfer substantially all the risk and benefits of ownership, are classified as operating leases. The total payments made under operating leases are charged to profit on a straight-line basis over the lease period.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) The Company is the lessor

Leases where the Company does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Rental payments received under operating leases are recognised in profit on a straight-line basis over the lease period.

l) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be immaterial.

m) Share capital

Shares issued for cash are accounted for at the issue price less any transaction costs of the issue.

n) 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 date are not shown as a liability on the consolidated statement of financial position but are disclosed as a note to the consolidated financial statements.

o) Employee benefits

i) Defined benefit plan

The Company's employees participate in a defined benefit pension plan and a defined contribution pension plan of Royal Bank of Canada (RBC). 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 Company recognises its proportionate share of pension costs as an expense during the period.

ii) Defined contribution plan

Under the defined contribution plan, an employee may contribute up to 10% of their salary and the Company 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 Company 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 recognised as an expense during the period.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments 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.

Notes to Consolidated Financial Statements (continued)

The following are the critical accounting estimates and judgments that have been made in applying the Company's accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements:

a) Impairment of financial assets

The Company reviews its loan and investment portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment should be recorded in the consolidated statement of comprehensive income, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of assets before the decrease can be identified with an individual asset in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

c) Depreciation and amortisation

Depreciation and amortisation are based on management estimates of the future useful lives of premises and equipment. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the amortisation or depreciation charges.

The Company reviews the future useful life of premises and equipment periodically taking into consideration the factors mentioned above and all other important factors. Estimated useful life for similar type of assets may vary due to factors such as growth rate, maturity of the market, history and expectations for replacements or transfer of assets, climate, etc. In case of significant changes in the estimated useful lives, depreciation and amortisation charges are adjusted prospectively.

d) Legal proceedings, claims and regulatory discussions

The Company is subject to various legal proceedings, claims and regulatory discussions, the outcomes of which are subject to significant uncertainty. The Company evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Unanticipated events or changes in these factors may require the Company to increase or decrease the amount accrued for any matter or accrue for a matter that has not been previously accrued for because it was not considered probable, or a reasonable estimate could not be made.

5. CASH AND CASH EQUIVALENTS

	2015	2014
Cash on hand	$ 268,386	$ 593,600
Treasury bills	7,000,000	7,000,000
Due from banks	65,541,440	43,885,421
	$ 72,809,826	$ 51,479,021

Cash on hand represents cash held in vaults and cash dispensing machines. 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.

6. 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 of $50,268,339 (2014: $41,886,036) which is based on a ratio to customers' deposits.

7. LOANS AND ADVANCES TO CUSTOMERS

	2015	2014
Retail	$ 3,461,397	$ 4,722,798
Home equity and other mortgages	259,460,754	285,592,315
Residential mortgages	626,227,206	631,126,029
Government insured mortgages	886,328	1,112,281
	890,035,685	922,553,423
Accrued interest receivable	3,626,661	3,308,761
Allowance for impairment loss	(57,145,555)	(70,160,490)
Unearned income	(5,443,147)	(7,947,826)
	$ 831,073,644	$ 847,753,868

Loans categorised by performance are as follows:

	2015	2014
Neither past due nor impaired	$ 731,374,123	$ 747,360,772
Past due but not impaired	56,151,160	57,601,766
Impaired	102,510,402	117,590,885
	$ 890,035,685	$ 922,553,423

Loans categorised by period are as follows:

	2015	2014
Current (due within one year)	$ 19,635,967	$ 22,082,043
Non-current (due after one year)	870,399,718	900,471,380
	$ 890,035,685	$ 922,553,423

Loans and advances classified as impaired represent 11.52% (2014: 12.75%) of the total loans and advances portfolio. The allowance for impairment losses represents 6.42% (2014: 7.61%) of the total loans and advances portfolio and 55.75% (2014: 59.66%) of the total impaired loans.

Allowance for impairment losses consists of the following:

	2015	2014
Balance, beginning of year	$ 70,160,490	$ 42,345,664
Loans and advances written-off	(33,739,145)	(8,145,808)
Recoveries	9,179,808	6,591,316
Reversal of time value of money component	(4,422,870)	(6,225,891)
Increase in allowance for the year	15,967,272	35,595,209
	$ 57,145,555	$ 70,160,490

Consisting of:

	2015	2014
Specific and collective impairment	$ 47,568,555	$ 59,969,490
General impairment	9,577,000	10,191,000
	$ 57,145,555	$ 70,160,490

8. INVESTMENT SECURITIES

Investment securities are all classified as available for sale and is comprised as follows:

	2015	2014
Bahamas Government Debt Securities	$ 33,449,100	$ 36,872,900
Locally Issued Corporate Bonds	3,011,400	3,011,400
	36,460,500	39,884,300
Accrued interest receivable	434,754	473,211
	$ 36,895,254	$ 40,357,511

Investment categorised by period are as follows:

	2015	2014
Current (due within one year)	$ 1,668,500	$ 3,423,800
Non-current (due after one year)	34,792,000	36,460,500
	$ 36,460,500	$ 39,884,300

The movement in available-for-sale securities during the year is as follows:

	2015	2014
Balance, beginning of year	$ 39,884,300	$ 39,910,200
Sales / Maturity	(3,423,800)	(25,900)
	$ 36,460,500	$ 39,884,300

9. PREMISES AND EQUIPMENT

	Land	Buildings & Improvements	Leasehold Improvements	Furniture and Other Equipment	Computer Equipment	Total
Year ended October 31, 2015						
Opening net book value	$ 105,700	$ 233,278	$ 72,368	$ 143,657	$ 161,358	$ 716,361
Transfers	–	–	–	(607)	–	(607)
Additions	–	–	110,669	–	61,862	172,531
Depreciation charge	–	(39,684)	(78,683)	(28,975)	(82,587)	(229,929)
Closing net book value	$ 105,700	$ 193,594	$ 104,354	$ 114,075	$ 140,633	$ 658,356
At October 31, 2015						
Cost	$ 105,700	$ 1,219,104	$1,612,921	$1,144,647	$1,556,042	$5,638,414
Accumulated depreciation	–	(1,025,510)	(1,508,567)	(1,030,572)	(1,415,409)	(4,980,058)
Net book value	$ 105,700	$ 193,594	$ 104,354	$ 114,075	$ 140,633	$ 658,356

	Land	Buildings & Improvements	Leasehold Improvements	Furniture and Other Equipment	Computer Equipment	Total
Year ended October 31, 2014						
Opening net book value	$ 105,700	$ 283,626	$ 100,402	$ 264,372	$ 269,560	$1,023,660
Disposals	–	–	(7,076)	(61,047)	–	(68,123)
Depreciation charge	–	(50,348)	(20,958)	(59,668)	(108,202)	(239,176)
Closing net book value	$ 105,700	$ 233,278	$ 72,368	$ 143,657	$ 161,358	$ 716,361
At October 31, 2014						
Cost	$ 105,700	$ 1,219,104	$1,502,252	$1,171,642	$1,494,180	$5,492,878
Accumulated depreciation	–	(985,826)	(1,429,884)	(1,027,985)	(1,332,822)	(4,776,517)
Net book value	$ 105,700	$ 233,278	$ 72,368	$ 143,657	$ 161,358	$ 716,361

Certain of the Company's leasehold properties have been sublet to an affiliate company. Minimum lease payments in respect of these arrangements are as follows:

	2015	2014
Within one year	$ 75,545	$ 75,545
One to three years	151,090	151,090
Three to five years	56,659	151,090
Over five years	–	377,725
	$ 283,294	$ 755,450

10. CUSTOMERS' DEPOSITS

	2015	2014
Term deposits	$ 546,988,595	$ 625,928,019
Savings deposits	132,379,427	131,953,206
Demand deposits	20,360,038	23,197,895
	699,728,060	781,079,120
Accrued interest payable	3,436,069	5,661,290
	$ 703,164,129	$ 786,740,410

Deposits categorised by customer type are as follows:

	2015	2014
Personal	$ 354,218,401	$ 404,230,810
Non-Personal	345,509,659	376,848,310
	$ 699,728,060	$ 781,079,120

Deposits categorised by period are as follows:

	2015	2014
Current (due within one year)	$ 699,623,413	$ 781,066,317
Non-current (due after one year)	104,647	12,803
	$ 699,728,060	$ 781,079,120

11. PENSION PLANS

Employees of the Company 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 is funded 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, 2015 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:

	2015	2014
Discount rate	5.50%	5.75%
Expected return on plan assets	6.54%	6.70%
Rate of increase in future compensation	1.50% – 9.00%	1.50 – 9.00%

The Company'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 Company 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 Company become vested after the completion of ten years of service.

During the year, the Company's pension expenses arising from the Plan was $761,456 (2014: $790,418) and the defined contribution plan was $24,105 (2014: $34,686).

12. SHARE CAPITAL & RESERVES

Share capital consists of the following:

	2015	2014
Authorised:		
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

The Company also has a general reserve in the amount of $500,000.

13. INTEREST INCOME

	2015	2014
Loans and advances to customers	$ 62,849,198	$ 66,004,103
Investment securities – AFS	1,978,112	2,078,032
	$ 64,827,310	$ 68,082,135

Included in interest income is interest attributable to the time value of money component of non-performing loans of $4,422,870 (2014: $6,225,891).

14. INTEREST EXPENSE

	2015	2014
Customer deposits	$ 12,628,505	$ 17,470,837
Due to affiliated companies	2,922,602	1,825,408
Other interest bearing liabilities	28,166	–
	$ 15,579,273	$ 19,296,245

15. NON-INTEREST INCOME

	2015	2014
Fees and commissions	$ 3,950,283	$ 3,924,995
Foreign exchange earnings	183,188	176,164
Other service charges and fees	170,793	87,764
	$ 4,304,264	$ 4,188,923

16. NON-INTEREST EXPENSES

	2015	2014
Staff costs	$ 4,050,352	$ 4,111,439
Other operating expenses	5,860,209	8,187,780
Operating lease rentals	633,085	1,002,187
Premises and equipment expenses, excluding depreciation and operating lease rentals	696,752	772,538
Depreciation and amortisation	229,929	239,176
Deposit insurance premium	358,635	323,730
Professional fees	150,397	139,399
	$ 11,979,359	$ 14,776,249

The Protection of Depositors Act, 1999 requires that the Company pay an annual premium to the Deposit Insurance Fund based on insurable deposit liabilities outstanding. During the year, the Company paid $358,635 (2014: $323,730) into the fund.

17. DIVIDENDS

There were no dividends declared to shareholders during the fiscal year ended 2015. Dividends of $0.25 per share were declared during the fiscal year ended 2014.

18. CONTINGENT LIABILITIES

Various legal proceedings are pending that challenge certain practices or actions of the Company. Many of these proceedings are loan-related and are in reaction to steps taken by the Company 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.

19. COMMITMENTS

a) Credit commitments

As of the date of the consolidated statement of financial position, mortgage commitments in the normal course of business amounted to $20,796,118 (2014: $20,784,594).

b) Lease commitments

The Company enters into lease agreements for office space and equipment under non-cancellable leases. Minimum lease payments are as follows:

	2015	2014
Within one year	$ 685,688	$ 704,588
One to three years	1,371,376	1,371,376
Three to five years	1,079,034	1,371,377
Over five years	2,264,638	3,458,233
	$ 5,400,736	$ 6,905,574

Operating lease expense recorded in profit and loss amounted to $633,085 (2014: $1,002,187).

20. RELATED PARTY BALANCES AND TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. With the exception of general staff banking privileges of key management personnel, banking transactions entered into with related parties in the normal course of business are carried out on commercial terms and conditions and at market rates.

The Company also has technical service and license agreements with RBC Royal Bank (Bahamas) Limited. During the year $3,757,917 (2014: $2,611,338) was expensed in reference to these agreements and is included in general and administrative expense in the consolidated statement of income. The Company continues to pursue opportunities for outsourcing with related parties to improve operational efficiency.

All clearing accounts are maintained at RBC Royal Bank (Bahamas) Limited, which acts as a clearing bank for the Corporation. The balance as at October 31, 2015 was $64,526,949 (2014: $42,908,804). These deposits are non-interest bearing and are held as a part of the Corporation'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 2.75% and 3.00%.

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

	2015	2014
Consolidated Statement of Financial Position		
Assets		
Loans and advances to customers		
Directors and key management personnel	$ 900,438	$ 956,251
Liabilities		
Customers' deposits		
Directors and key management personnel	$ 172,190	$ 163,627

	2015	2014
Consolidated Statement of Comprehensive Income		
Interest income		
Directors and key management personnel	$ 47,641	$ 37,347
Interest expense		
Directors and key management personnel	$ 4,574	$ 5,655
Staff costs		
Salaries and other short term benefits	$ 123,009	$ 104,477

21. CATEGORISATION OF FINANCIAL ASSETS AND LIABILITIES

Consolidated statement of financial position

	2015	2014
ASSETS		
Financial assets at fair value through equity:		
Investment securities	$ 36,895,254	$ 40,357,511
Financial assets at amortised cost:		
Cash and cash equivalents	72,809,826	51,479,021
Balance with central banks	50,268,339	41,886,036
Loans and advances to customers	831,073,644	847,753,868
Other assets	728,158	1,024,647
	954,879,967	942,143,572
Non-financial assets	658,356	716,361
Total assets	$ 992,433,577	$ 983,217,444
LIABILITIES		
Financial liabilities at amortised cost:		
Customer deposits	$ 703,164,129	$ 786,740,410
Due to affiliated companies	108,631,629	40,972,367
Other liabilities	5,330,405	5,802,923
	817,126,163	833,515,700
Equity	175,307,414	149,701,744
Total Liabilities and Equity	$ 992,433,577	$983,217,444

22. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS

Risk is inherent in the Company'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 Company's continuing profitability. The Company is exposed to credit risk, liquidity risk, operational risk and market risk.

Risk management structure

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

Risk Management Unit

A centralised Risk Management Unit of the Company's parent 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 decentralised 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 decentralised units also ensure the risks are completely captured in the risk measurement and reporting systems.

Internal Audit

The risk management processes throughout the RBC Group are audited by the internal audit function that examines both the adequacy of the procedures and the Company'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 Company's audit committee and the audit committee of the Company's parent.

Risk measurement and reporting systems

The Company'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 analyse, control and identify risks early. This information, which consists of several reports, is presented and explained to the Company's managing director and the 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 Company will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Company 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.

Collateral

The Company 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 Company 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.

Impairment and provisioning policies

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the consolidated statement of financial position date based on objective evidence of impairment. See Note 3(e). The Company's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for portfolios of homogenous assets that are individually below the materiality threshold. An impairment allowance is provided for on all classes of loans based on historical loss ratios in respect of loans not yet identified as impaired.

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

On statement of financial position

	2015	2014
Due from banks	$ 65,541,440	$ 43,885,421
Treasury bills	7,000,000	7,000,000
Balance with central banks	50,268,339	41,886,036
Loans and advances to customers	893,662,346	925,862,184
Investment securities – AFS	36,895,254	40,357,511
Other assets	728,158	1,024,647
	1,054,095,537	1,060,015,799
Off statement of financial position		
Credit commitments	20,796,118	20,784,594
Total credit risk exposure	$ 1,074,891,655	$ 1,080,800,393

Concentration of risk is managed by client or 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 before taking account of collateral or other credit enhancements was $40,883,854 (2014: $44,346,111) in government debt securities.

The following table shows the Company's main credit exposure of loans and advances categorised by industry sectors:

	2015	2014
Distribution	$ 150,793	$ 150,793
Tourism	169,394	178,171
Construction	276,370	294,978
Professional Services	16,092	21,377
Personal	888,748,264	920,544,144
Other	674,772	1,363,960
	$ 890,035,685	$ 922,553,423

The following table is an aged analysis of loans and advances which were past due and impaired as of the date of the consolidated statement of financial position. All other financial assets of the Company are neither past due nor impaired.

	2015	2014
Past due 31–60 days	$ 25,265,370	$ 25,950,939
Past due 61–90 days	30,885,790	31,650,827
Past due over 90 days	102,510,402	117,590,885
	$ 158,661,562	$ 175,192,651

b. **Liquidity risk**

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management manages assets with liquidity in mind and monitors future cash flows and liquidity needs on a daily basis. The Company's liquidity management process is performed by its treasury department and is also monitored by an RBC's Asset and Liability Committee (ALCO) for the region. The Company's liquidity management framework is designed to ensure that there are adequate reserves of cash and other liquid securities to satisfy current and prospective commitments arising from either on-balance sheet or off-balance sheet liabilities. The Company manages liquidity risk by preserving a large and diversified base of

core client deposits, by maintaining ongoing access to wholesale funding and by maintaining a liquid pool of investment securities dedicated to mitigating liquidity risk as a contingency measure.

The following table presents the cash flows payable by the Company under non-derivative financial liabilities by remaining period to contractual maturity from the date of the consolidated statement of financial position:

	Up to 3 Months	Over 3-6 Months	Over 6-12 Months	Over 1-5 Years	Over 5 Years	Total
AT OCTOBER 31, 2015						
Liabilities:						
Customer deposits	$ 436,805,222	$133,447,884	$132,806,376	$ 104,647	$ –	$703,164,129
Due to affiliated companies	1,723,836	2,478,412	–	104,429,381	–	108,631,629
Other liabilities	5,330,405	–	–	–	–	5,330,405
TOTAL	$ 443,859,463	$135,926,296	$132,806,376	$104,534,028	$ –	$817,126,163
AT OCTOBER 31, 2014						
Liabilities:						
Customer deposits	$ 485,002,360	$177,103,083	$124,622,164	$ 12,803	$ –	$786,740,410
Due to affiliated companies	38,560,802	2,411,565	–	–	–	40,972,367
Other liabilities	5,802,923	–	–	–	–	5,802,923
TOTAL	$ 529,366,085	$179,514,648	$124,622,164	$ 12,803	$ –	$833,515,700

The following table presents the Company'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 3-6 Months	Over 6-12 Months	Over 1-5 Years	Over 5 Years	Total
AT OCTOBER 31, 2015						
Credit commitments	$ 7,485,337	$ 1,042,415	$ 9,773,382	$ 157,500	$ 2,337,484	$ 20,796,118
Operating leases	171,422	171,422	342,844	2,450,410	2,264,638	5,400,736
TOTAL	$ 7,656,759	$ 1,213,837	$ 10,116,226	$ 2,607,910	$ 4,602,122	$ 26,196,854
AT OCTOBER 31, 2014						
Credit commitments	$ 6,645,605	$ 2,791,561	$ 10,576,735	$ 770,693	$ –	$ 20,784,594
Operating leases	177,722	177,722	349,144	2,742,753	3,458,233	6,905,574
TOTAL	$ 6,823,327	$ 2,969,283	$ 10,925,879	$ 3,513,446	$ 3,458,233	$ 27,690,168

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

c. **Currency risk**

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

d. Interest rate risk

Interest rate risk arises primarily from differences in the maturity of repricing dates of assets and liabilities. Interest rate risk exposures or "gaps" may produce favorable or unfavorable effects on interest margins depending on the nature of the gap and the direction of interest rate movement and/or expected volatility of those interest rates. When assets have a shorter average maturity or repricing date than liabilities, an increase in interest rates have a positive impact on net interest margins, and conversely if more liabilities than assets mature or are repriced in a period then a negative impact on net interest margins results.

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

	Immediately Rate-Sensitive	Up to 3 Months	Over 3 to 6 Months	Over 6 to 12 Months	Over 1 to 5 Years	Over 5 years	Non-Interest Rate Sensitive	Total
AT OCTOBER 31, 2015								
Assets								
Cash and cash equivalents	$ –	$ –	$ –	$ –	$ –	$ –	$ 72,809,826	$ 72,809,826
Balance with central banks	–	–	–	–	–	–	50,268,339	50,268,339
Loans and advances	–	787,214,292	310,991	–	–	–	43,548,361	831,073,644
Investment securities	36,460,500	–	–	–	–	–	434,754	36,895,254
Other assets	–	–	–	–	–	–	728,158	728,158
TOTAL ASSETS	$ 36,460,500	$ 787,214,292	$ 310,991	$ –	$ –	$ –	$ 167,789,438	$ 991,775,221
Liabilities								
Customer deposits	$ –	$ 433,369,153	$ 133,447,884	$ 132,806,376	$ 104,647	$ –	$ 3,436,069	$ 703,164,129
Due to affiliated companies	–	1,711,653	2,478,412	–	105,000,000	–	(558,436)	108,631,629
Other liabilities	–	–	–	–	–	–	5,330,405	5,330,405
TOTAL LIABILITIES	$ –	$ 435,080,806	$ 135,926,296	$ 132,806,376	$ 105,104,647	$ –	$ 8,208,038	$ 817,126,163
Net Repricing Gap	$ 36,460,500	$ 352,133,486	$ (135,615,305)	$ (132,806,376)	$ (105,104,647)	$ –	$ 159,581,400	$ 174,649,058

	Immediately Rate-Sensitive	Up to 3 Months	Over 3 to 6 Months	Over 6 to 12 Months	Over 1 to 5 Years	Over 5 years	Non-Interest Rate Sensitive	Total
AT OCTOBER 31, 2014								
Assets								
Cash and cash equivalents	$ –	$ –	$ –	$ –	$ –	$ –	$ 51,479,021	$ 51,479,021
Balance with central banks	–	–	–	–	–	–	41,886,036	41,886,036
Loans and advances	–	803,590,145	4,083	–	–	–	44,159,640	847,753,868
Investment securities	39,884,300	–	–	–	–	–	473,211	40,357,511
Other assets	–	–	–	–	–	–	1,024,647	1,024,647
TOTAL ASSETS	$ 39,884,300	$ 803,590,145	$ 4,083	$ –	$ –	$ –	$ 139,022,555	$ 982,501,083
Liabilities								
Customer deposits	$ –	$ 479,338,071	$ 177,103,083	$ 124,622,163	$ 12,803	$ –	$ 5,664,290	$ 786,740,410
Due to affiliated companies	–	38,560,802	2,411,565	–	–	–	–	40,972,367
Other liabilities	–	–	–	–	–	–	5,802,923	5,802,923
TOTAL LIABILITIES	$ –	$ 517,898,873	$ 179,514,648	$ 124,622,163	$ 12,803	$ –	$ 11,467,213	$ 833,515,700
Net Repricing Gap	$ 39,884,300	$ 285,691,272	$ (179,510,565)	$ (124,622,163)	$ (12,803)	$ –	$ 127,555,342	$ 148,985,383

The Company analyses its exposure on interest sensitive assets and liabilities on a periodic bases. Consideration is given to the impact on net income as movements in interest rates occur. Based on these events, simulations are performed to determine the considered impact on pricing of assets and liabilities, including those pegged to prime rates. The following table shows the expected impact on net income:

	Effect on Net Profit 2015	Effect on Net Profit 2014
Change in interest rate		
+ 1%	$ 7,862,039	$ 7,997,000
– 1%	$ (7,862,039)	$ (7,997,000)

23. CAPITAL MANAGEMENT

Capital management is a proactive process that ensures that the Company 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 Company 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 Company'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 Company's risk appetite and risk management practices and strongly supportive of growth strategies and performance management; and
- Reflects alignment with the Company's risk management frameworks and policies.

Capital adequacy and the use of regulatory capital are monitored by the Company's management, based on an internal risk assessment approach employing techniques based on the guidelines developed by the Basel Committee on Banking 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 Company to maintain a minimum total capital ratio of 14%. As of the date of the consolidated statement of financial position, the Company's total capital ratio was 30.54% (2014: 25.42%).

24. OPERATING SEGMENTS

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

		2015	
	Banking	Other	Consolidated
Assets	$ 982,109,121	$10,324,456	$992,433,577
Liabilities	$ 816,468,128	$ 658,035	$817,126,163
Revenue:			
Net interest income	$ 49,248,037	$ –	$ 49,248,037
Fees and commission income	3,196,081	1,108,183	4,304,264
Total income	$ 52,444,118	$ 1,108,183	$ 53,552,301
Total comprehensive income	$ 24,746,417	$ 859,253	$ 25,605,670

		2014	
	Banking	Other	Consolidated
Assets	$ 973,650,492	$ 9,566,952	$983,217,444
Liabilities	$ 832,715,916	$ 799,784	$833,515,700
Revenue:			
Net interest income	$ 48,785,890	$ –	$ 48,785,890
Fees and commission income	2,747,708	1,441,215	4,188,923
Total income	$ 51,533,598	$ 1,441,215	$ 52,974,813
Total comprehensive income	$ 1,390,210	$ 1,213,145	$ 2,603,355

25. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities not carried at fair value include cash and cash equivalents, balances with central banks, loans and advances to customers, due to affiliated companies, customers' deposits, and other assets and liabilities. The following comments are relevant to their fair value.

(a) Assets

Cash and cash equivalents, balances with central banks, other assets
Since these assets are short-term in nature, the values are taken as indicative of realisable value.

Loans and advances to customers
Loans and advances are stated net of an allowance for impairment. These assets result from transactions conducted under typical market conditions and their values are not adversely affected by unusual terms. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received.

(b) Liabilities

Customers' deposits, due to affiliated companies and other liabilities
The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. Deposits with fixed rate characteristics are at rates that are not significantly different from current rates and are assumed to have discounted cash flow values that approximate the carrying value.

The following table provides an analysis of financial instruments that are measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- 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).

	Level 1	Level 2	Level 3	Total
As of October 31, 2015				
Bahamas Government Debt Securities	$ –	$ –	$ 33,449,100	$33,449,100
Locally-issued Corporate Bonds	–	–	3,011,400	3,011,400
	$ –	$ –	$ 36,460,500	$36,460,500

	Level 1	Level 2	Level 3	Total
As of October 31, 2014				
Bahamas Government debt securities	$ –	$ –	$ 36,872,900	$36,872,900
Locally-issued Corporate Bonds	–	–	3,011,400	3,011,400
	$ –	$ –	$ 39,884,300	$39,884,300

Level 3 investments is comprised primarily of debt issued or guaranteed by The Bahamas government. While no secondary market exists for these investments, the Central Bank of The Bahamas has facilitated the sale of the investments at par should an investor wish to dispose of them. Essentially, the carrying amounts are deemed to be their fair values. The movement in the Bank's investments in Level 3 assets during the year was as follows:

	2015	2014
Balance, beginning of year	$ 39,884,300	$ 39,910,200
Maturity	(3,423,800)	(25,900)
Balance at end of year	$ 36,460,500	$ 39,884,300

NOTES

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) 502-7700
Fax: (242) 328-8848

TRANSFER AGENT AND REGISTRAR SERVICE
Bahamas Central Securities Depository
50 Exchange Place
Bay Street
P. O. Box EE 15672
Nassau, The Bahamas
Tel: (242) 322-5573/5
Fax: (242) 356-3613

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 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) 502-7700
Fax: (242) 328-8848
Email: FINCO@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

GRAPHIC DESIGN
Smith & Benjamin Art & Design
Tel: (242) 377.0241

PRINTING
Printmasters
Tel: (242) 302.2361

BRANCH LOCATIONS

CARMICHAEL ROAD BRANCH
Shared Location with:
RBC Royal Bank
Carmichael Road
P. O. Box N 3038
Nassau, The Bahamas
Tel: (242) 676-7500
Fax: (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
Tel: (242) 352-8896
Fax: (242) 352-3022

MAIN BRANCH
Shared Location with:
RBC Royal Bank
323 Bay Street
P. O. Box N 3038
Nassau, The Bahamas
Tel: (242) 502-7700
Fax: (242) 328-8848

PALMDALE BRANCH
Shared Location with:
RBC Royal Bank
Rosetta & Patton Streets
P. O. Box N 3038
Nassau, The Bahamas
Tel: (242) 302-2500
Fax: (242) 325-2061

ROBINSON ROAD BRANCH
Key West Street & Robinson Road
P. O. Box N 3038
Nassau, The Bahamas
Tel: (242) 397-1300
Fax: (242) 326-4508

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

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