FINCO

2017 ANNUAL REPORT

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CORPORATE PROFILE & COLLECTIVE AMBITION

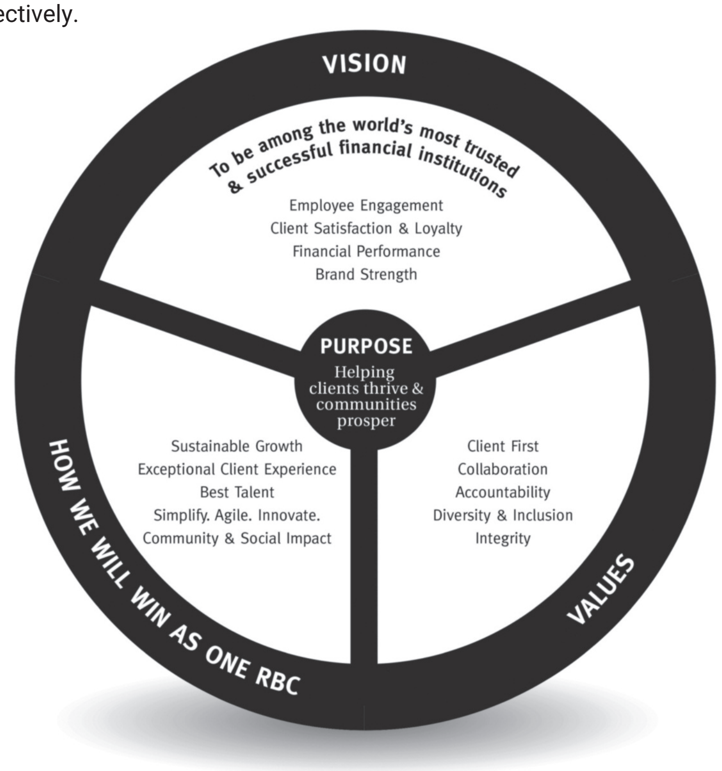
Finance Corporation of Bahamas Limited was incorporated on July 24, 1953. As of April 1, 1982, the company became a wholly owned subsidiary of R.B.C. Holdings (Bahamas) Limited, a wholly-owned subsidiary of Royal Bank of Canada. On March 1, 1984, R.B.C. Holdings (Bahamas) Limited sold 25% of its ownership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

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

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

STRATEGIC PRIORITIES

- Transform our channels to better serve clients.
- Accelerate quality growth in key client segments.
- Deliver solutions efficiently and effectively.
- Embed sustainable controls.
- Build a high performance culture.



MAJORITY SHAREHOLDER'S PROFILE

Royal Bank of Canada is a global financial institution with a purpose-driven, principles-led approach to delivering leading performance. Our success comes from the 81,000+ employees who bring our vision, values and strategy to life so we can help our clients thrive and communities prosper. As Canada's biggest bank, and one of the largest in the world based on market capitalization, we have a diversified business model with a focus on innovation and providing exceptional experiences to our 16 million clients in Canada, the U.S. and 34 other countries.

Personal & Commercial Banking operates in Canada, the Caribbean and the U.S., and comprises our personal and business banking operations, as well as our auto financing and retail investment businesses. We provide services to more than 13 million clients with more than 6 million active digital users. We operate through two businesses – Canadian Banking and Caribbean & U.S. Banking. Canadian Banking serves our home market in Canada, where we maintain top (#1 or #2) rankings in market share for all key retail and business financial product categories. We have the largest branch network, the most ATMs and one of the largest mobile sales network across Canada. In the Caribbean, we offer a comprehensive suite of banking products and services, as well as international financing and trade promotion services through extensive branch, ATM, online and mobile banking networks. Our U.S. cross-border banking business serves the needs of our Canadian clients within the U.S., and offers a broad range of financial products and services to individual and business clients across all 50 states.

Wealth Management serves high net worth (HNW) and ultra-high net worth (UHNW) clients from our offices in key financial centres mainly in Canada, the U.S., the U.K., the Channel Islands and Asia with a comprehensive suite of investment, trust, banking, credit and other wealth management solutions. We also provide asset management products and services directly to institutional and individual clients through our distribution channels and third-party distributors. Our lines of businesses are comprised of Canadian Wealth Management, U.S. Wealth Management (including City National), Global Asset Management (GAM) and International Wealth Management. Canadian Wealth Management is the largest full-service wealth advisory business in Canada as measured by assets under administration (AUA); U.S. Wealth Management (including City National) is among the top 10 full-service brokerage firms in terms of AUA and number of advisors; GAM is the largest retail fund company in Canada as well as a leading institutional asset manager; and International Wealth Management serves HNW and UHNW clients primarily through key financial centres in Europe and Asia.

Insurance provides a wide range of life, health, home, auto, travel, wealth, group and reinsurance products and solutions under two business lines: Canadian Insurance and International Insurance. In Canada, we offer insurance 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.

Investor & Treasury Services serves the needs of institutional investing clients by providing asset services, custodial, advisory, financing and other services to safeguard assets, maximize liquidity and manage risk in multiple jurisdictions around the world. We have one of the widest transfer agency networks in the market, we are a top-ranked international securities lending service, and we provide short-term funding and liquidity management for

Royal Bank of Canada. Our transaction banking business is a leading provider of Canadian dollar cash management, correspondent banking, and trade finance for financial institutions globally.

Capital Markets provides public and private companies, institutional investors, governments and central banks with a wide range of products and services through 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 Canada, we are a premier global investment bank and market leader with a strategic presence in all lines of capital markets businesses. In the U.S., we have full industry sector coverage and investment banking product range. Outside North America, we have a select presence in the U.K. and Europe, and Asia and other international markets, where we offer a diversified set of capabilities in our key sectors of expertise such as energy, mining and infrastructure and we have a growing presence in industrial, consumer, healthcare and technology in Europe.

Our business segments are supported by Corporate Support, which consists of Technology & Operations and Functions. Technology & Operations provides the technological and operational foundation required to effectively deliver products and services to our clients, while Functions includes our finance, human resources, risk management, internal audit and other functional groups.

FINANCIAL HIGHLIGHTS

(Expressed in Bahamian Dollars)

	Change 2017/2016	2017	2016	2015	2014	2013
EARNINGS						
Net interest income	-5.4%	$46,506,424	$49,167,967	$51,182,932	$50,343,105	$47,114,837
Non-interest income	-10.7%	2,272,973	2,545,212	2,352,704	2,631,708	2,235,644
Total Income	-5.7%	48,779,397	51,713,179	53,535,636	52,974,813	49,350,481
Impairment losses on loans and advances	-50.1%	12,476,878	25,017,168	15,967,272	35,595,209	7,468,260
Non-interest expense	-4.9%	14,348,682	15,092,115	11,962,694	14,776,249	11,523,581
Net Income	89.2%	21,953,837	11,603,896	25,605,670	2,603,355	30,358,640
Efficiency Ratio	20 bps	29.4%	29.2%	22.4%	27.9%	23.4%
Return on equity	470 bps	11.1%	6.4%	15.8%	1.7%	21.4%
BALANCE SHEET DATA						
Loans and advances to customers	-3.1%	$758,055,817	$782,615,717	$827,446,983	$844,445,107	$861,412,676
Total Assets	-4.5%	882,988,005	924,978,323	992,433,577	983,217,444	997,220,310
Customer Deposits	-12.1%	572,032,600	650,673,080	699,728,060	781,079,120	761,586,200
Total Equity	11.9%	209,104,232	186,911,310	175,307,414	149,701,744	153,765,056
COMMON SHARE INFORMATION						
Earnings per share	$0.38	$0.82	$0.44	$0.96	$0.10	$1.14
Dividend per share	–	–	–	–	$0.25	$0.25
Book value per share-year-end	$0.83	$7.84	$7.01	$6.57	$5.61	$5.77
NUMBER OF:						
Employees		31	29	63	63	95
Automated banking machines		5	5	5	5	5
Service delivery units		5	5	5	5	6

Net Interest Income
Net interest income is comprised of interest earned on loans, mortgages and securities, less interest paid on deposits from customers and other financial institutions. Net interest income has decreased by 5.4% during the year. Lower loan volumes along with lower yields on mortgages continue to affect the Bank's core revenue. Net interest income has been challenged by downward pressure on mortgage interest rates and sluggish growth in new credit origination.

Non-Interest Income
Non-interest income consists of all income not classified as interest income such as bank fees, commissions and service charges. Non-interest income decreased by 10.7% due mainly to lower service based fees driven by lower levels of savings and demand deposits.

Impairment Losses on Loans and Advances
The impairment charge for credit losses was $12.5 million (2016: $25.0 million). The favourable movement in the impairment charge is mostly attributed to the fairly stagnant level of non-performing loans at $120.9 million compared to previous year's $119.4 million. There were significant impairment charges made in fiscal 2016 as a result of a substantial increase in the Bank's non-performing portfolio, the country's weak economic performance and high unemployment. The total allowance for impairment losses is 8.92% of the total loan portfolio and 61.73% of non-performing loans, compared to 8.01% and 57.39%, respectively for fiscal 2016.

Non-Interest Expenses
Non-interest expenses decreased by 4.9% compared to prior year 2016. This decrease is driven by lower staff and occupancy costs along with savings from various operational expenses as result of outsourcing arrangements with RBC. The Bank actively manages its costs and continues to seek opportunities to improve efficiency.

Net Income
The Bank's net income increased to $22.0 million compared to $11.6 million in the previous year as a result of lower impairment losses and a decrease in operating costs.

Efficiency Ratio
The efficiency ratio is calculated based on the amount of expenses compared to total revenues. The efficiency ratio increased slightly by 20bps and is a result of the decrease in total revenues compare to prior year.

Return on Equity
Return on equity (ROE) is a function of net income compared to the average equity of the current and previous years. The increase in ROE is due to the higher net income and average equity balance when compared to the previous year.

Loans and advances to customers
The loan portfolio shrunk to $758.1 million (decrease of $24.5 million or 3.1%) compared to $782.6 million in 2016. This decrease is primarily a result of loan write-offs and negative growth in the mortgage portfolio. Mortgage growth continues to be challenged in the current economic environment.

Earnings per Share
Earnings per share increased to $0.82 compared to $0.44 in the previous year as a result of the higher net income. The weighted average number of ordinary shares in issue remains unchanged.

Dividend per Share
No dividends were declared during the fiscal year ended 2017. At each quarterly meeting, the Board of Directors give careful consideration whether to pay a dividend after considering the Bank's overall financial performance.

CHAIRMAN'S REPORT

Dear Shareholders,

Finance Corporation of The Bahamas Limited (RBC FINCO) has been serving clients in The Bahamas for 64 years and we are pleased to acknowledge our 33rd year as a public company. Over these many years, we have enabled thousands of Bahamians to own their homes. Our employees work diligently to provide sound financial advice to help our clients find the right solutions to meet their financial goals. As an organization, we are committed to helping our clients thrive and communities prosper.

For the fiscal year ended October 31st 2017, RBC FINCO recorded $22.0 million in net income. This compares to $11.6 million in net income recorded in 2016. The increase in net income is attributed to lower loan provisions in 2017 and higher recoveries of debts written-off. Higher provisions were experienced in 2016 due to increased non-performing loans and an increased adjustment to the general provision. Other operating costs remained flat year over year. 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 $120.9 million (2016: $119.4 million) as a percentage of the portfolio was 14.44% at the end of the fiscal year. This result is compared to 13.95% at the end of fiscal 2016 and compared to the industry at 12.96% as of October 2017.

Operating in a flat to low recovery economy and high unemployment rate, RBC FINCO would continue to be challenged with allowances for credit losses resulting from the stubbornly high level of non-performing mortgages.

Notwithstanding the on-going challenges with non-performing loans, the Bank continues to maintain a strong capital position well above regulatory guidelines; as well as provisions for non-performing loans, we remain profitable and there are no liquidity issues. Taking these factors into consideration, the Board of Directors made the decision to declare a dividend of .05 cents per ordinary share in respect of the profit for the 4th quarter ended October 31, 2017. The Board further approved a one-time special dividend of .10 cents. The Board reviews payment of dividends on a quarterly basis and will continue to carefully monitor the economy, the mortgage portfolio, and overall performance to ensure prudent management of RBC FINCO's financial performance.

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 RBC helps to ensure the continued safety and soundness of RBC FINCO.

On behalf of the Board of Directors, I wish to commend our management and staff for their commitment, and thank them for their significant contributions to RBC FINCO in 2017. I also wish to thank our more than 4,000 shareholders for their continued confidence and support of RBC FINCO. We are grateful to our Board of Directors for their service and acknowledge their dedication to the highest standards of corporate governance.

Robert G. Johnston
Chairman / Finance Corporation of Bahamas Limited

MANAGING DIRECTOR'S REPORT

RBC FINCO's purpose as an organization is to help clients thrive and communities prosper. During the year, the Bank executed well on its strategic priorities, which are underpinned by RBC values of Client First, Collaboration, Accountability, Diversity & Inclusion and Integrity.

As we continue the transformation of our channels to better serve clients and anticipate their needs, we ask for their feedback on an on-going basis. Feedback from our customers indicated there have been improvements in our service when compared to the previous year. We remain committed to enhancing the client experience and will continue to take steps to close service gaps and exceed expectations.

Accelerating quality growth in key client segments is an opportunity for us in 2018. While we have experienced a decline in net mortgage growth in 2017, we are maintaining market share, and are reviewing our mortgage product to ensure we remain competitive. We have recently increased our Mobile Mortgage Professionals Sales Force, and repurposed the Mortgage Specialist positions as Relationship Managers to better retain and grow the mortgage business. Additionally, we have expanded the sales team by adding experienced Senior leadership and depth to our team to accelerate mortgage growth in 2018.

To deliver solutions more efficiently and effectively, and embed sustainable controls, we have standardized the loan appraisal process with higher quality and reliable reports, and created new Mortgage Associate roles to improve efficiency in loan processing. We have also separated the sale of mortgage originated life and homeowners' insurance to improve penetration results and efficiency. We have also streamlined the list of lawyers rendering title opinion on conveyances to improve quality and efficiency.

Building a high performance culture is a process that depends on the knowledge and abilities of our employees and their continuous development. All employees are being held accountable, and when identified, low performers receive on-going coaching for development, upskilling talent, and training to support improved performance.

All outsourced processing arrangements and management/supervision oversight from RBC are working well and meeting expectations. We continue to leverage RBC's international standards, policies and procedures, and best practises to align with expectations of Compliance, Anti-Money Laundering and Operations, allowing for sound risk management and governance practices at RBC FINCO.

In an ongoing low growth economic environment with persistent high unemployment, growing the mortgage business would continue to be challenging. This challenge is compounded with competition from non-financial lending institutions as they increasingly participate in mortgage lending. Additionally, the Home Owners Protection Bill could have unintended negative impact on mortgage growth and the absence of a national Credit Bureau increases the risk of extending credit in the country. We continue to monitor these concerns and have raised them with the appropriate authorities.

Nathaniel Beneby, Jr.
Managing Director / Finance Corporation of Bahamas Limited

BOARD *of* DIRECTORS

Robert G. Johnston
CHAIRMAN OF THE BOARD
Head, RBC Caribbean Banking

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

Lasonya Missick
DIRECTOR
Area Vice President – New Providence

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.

The company's Independent Non-Executive directors are Teresa Butler, Anthony Robinson and Ross McDonald. They continue to meet the requirements of independence as stated in the relevant Corporate Governance Guidelines. There were seven board meetings held during fiscal 2017 and the directors attended an aggregate of 75% of the meetings.

FINANCE CORPORATION OF BAHAMAS LIMITED

STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management is responsible for the following:

- Preparing and fairly presenting the accompanying consolidated financial statements of Finance Corporation of Bahamas Limited (the "Bank"), together with its subsidiary (the "Group") which comprise the consolidated statement of financial position as at October 31, 2017 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information;
- Ensuring that the Group keeps proper accounting records;
- Selecting appropriate accounting policies and applying them in a consistent manner;
- Implementing, monitoring and evaluating the system of internal control that assures security of the Group's assets, detection/prevention of fraud, and the achievement of the Group operational efficiencies;
- Ensuring that the system of internal control operated effectively during the reporting period;
- Producing reliable financial reporting that comply with laws and regulations; and
- Using reasonable and prudent judgment in the determination of estimates.

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

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

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

Managing Director
January 08, 2018

Senior Manager, Finance Northern Caribbean
January 08, 2018

2017

RBC FINCO'S 2017 CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Finance Corporation of Bahamas Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of Finance Corporation of Bahamas Limited (the Bank) and its subsidiary (together 'the Group') as at October 31, 2017, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

Finance Corporation of Bahamas Limited's consolidated financial statements comprise:

- the consolidated statement of financial position as at October 31, 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report.

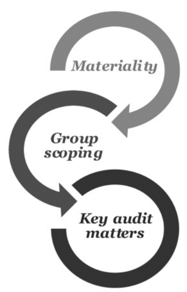
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



- Overall Group materiality: $2,091,000, which represents 1% of net assets.

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

- Impairment losses on loans and advances to customers.

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls,

including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

How we tailored our group audit scope

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

A full scope audit was performed on both parent and subsidiary resulting in 100% coverage. Both entities were audited by PwC Bahamas.

Materiality

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

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

Overall group materiality	$2,091,000
How we determined it	1% of net assets
Rationale for the materiality benchmark applied	We chose net assets as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 1% which is within a range of acceptable benchmark thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $104,500 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment losses on loans and advances to customers *See notes 2 (e), 2 (f), 5 and 21 of the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.*	
As at October 31, 2017, loans and advances to customers, net of allowance for impairment losses, represented $758,055,817 or 86% of total assets of the Group. The allowance for impairment losses totalling $74,614,457 were recognised at the statement of financial position date. We focused on the allowance for impairment losses as the assumptions used for estimating the allowance for loan losses, including the amount and timing of future cash flows are complex and require management to make significant judgements, including:	We evaluated the design and tested the operating effectiveness of relevant controls over the identification of loans and advances to customers past due for more than 90 days, and the associated change in status to 'non-performing'. We determined we could rely on these controls for the purposes of our audit. We tested the calculation of the aging of loans and advances to customers within the loan system by testing a sample of loans and advances to customers and re-calculating the delinquency days based on the repayment history and testing the report used by management to extract

- The classification of loans and advances to customers as impaired, specifically the completeness of the population of loans and advances included in the impairment calculation and the determination of management's threshold for individually assessed and collectively assessed loans.
- The valuation of real estate property pledged as collateral for mortgage loans. For impaired real estate secured loans, this is the most significant repayment source. The collateral values depend on market values, which are determined by management's approved independent appraisers.
- The estimated cost and time to sell the pledged collateral.
- Evaluation of historical loss experience for loans within the general provision as well as collectively assessed loan provision.
- Evaluation of current economic credit conditions for provisions on loans which are not provided for individually nor within the collective provision.

the aging information for financial reporting purposes.

We tested a sample of loans and advances which had not been identified by management as impaired and formed our own judgement over the appropriateness of management's conclusions.

Individually Assessed Provisions
For those loans which are individually assessed, we tested the completeness of those loans included in management's impairment assessment considering management's provisioning policy.

We evaluated the competence and objectivity of management's appointed real estate appraisers, confirming that they are qualified and that there was no affiliation to the Group. For a sample of valuation reports, we compared the key assumptions used by the real estate appraisers to recent comparable sales.

For a sample of impaired loans, we tested the reasonableness of collateral values used by management in their calculation of the provision by agreeing to the valuation appraisal reports obtained. We evaluated the discounts to the collateral value for estimated closing costs and time to sell through testing of historical and current sales made by the Group.

We further considered the accuracy of management's calculation of the individually assessed provisions by performing, on a sample basis, an independent re-calculation of such amounts.

Collectively Assessed Loans
For those loans which are collectively assessed using a model, we tested the inputs into the model against historical loss experience on portfolios with similar characteristics. We also tested the mathematical accuracy of the model.

We assessed management's evaluation of current economic credit conditions by agreeing to published market data where available.

No material adjustments to the carrying value of loans at October 31, 2017 were noted as a result of the procedures we performed.

Other information

Management is responsible for the other information. The other information comprises the information presented in the RBC FINCO 2017 Annual Report (but does not include the consolidated financial statements and our auditors' report thereon), which is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the RBC FINCO 2017 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

INDEPENDENT AUDITORS' REPORT *(continued)*

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

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

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

PricewaterhouseCoopers

Chartered Accountants
Nassau, Bahamas

January 30, 2018

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FINANCE CORPORATION OF BAHAMAS LIMITED

CONSOLIDATED STATEMENT *of* FINANCIAL POSITION

AS AT OCTOBER 31, 2017

(Expressed in Bahamian Dollars)

	Notes	2017 $	2016 $
ASSETS			
Cash and cash equivalents	3	38,245,212	49,153,632
Balance with central banks	4	48,176,387	52,745,888
Loans and advances to customers	5	758,055,817	782,615,717
Investment securities	6	34,389,485	34,792,000
Premises and equipment	7	345,584	471,510
Other assets		3,775,520	5,199,576
Total Assets		**882,988,005**	**924,978,323**
LIABILITIES			
Customer deposits	8	572,032,600	650,673,080
Due to affiliated companies	19	96,385,242	79,981,988
Other liabilities		5,465,931	7,411,945
Total Liabilities		**673,883,773**	**738,067,013**
EQUITY			
Share capital	10	5,333,334	5,333,334
Share premium		2,552,258	2,552,258
Retained earnings		200,979,555	179,025,718
Other components of equity		239,085	–
Total Equity		**209,104,232**	**186,911,310**
Total Equity and Liabilities		**882,988,005**	**924,978,323**

The Board of Directors of Finance Corporation of Bahamas Limited authorized these consolidated financial statements for issue.

Director **Director**

January 08, 2018

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

FINANCE CORPORATION OF BAHAMAS LIMITED

CONSOLIDATED STATEMENT *of* COMPREHENSIVE INCOME

YEAR ENDED OCTOBER 31, 2017

(Expressed in Bahamian Dollars)

	Notes	2017 $	2016 $
Income			
Interest income	12	58,551,809	63,523,575
Interest expense	13	(12,045,385)	(14,355,608)
Net interest income		**46,506,424**	**49,167,967**
Non-interest income	14	2,272,973	2,545,212
Total income		**48,779,397**	**51,713,179**
Non-interest expenses	15	(14,348,682)	(15,092,115)
Impairment losses on loans and advances	5	(12,476,878)	(25,017,168)
Net income		21,953,837	11,603,896
Other comprehensive income:			
Items that may be reclassified to net income			
Net change in the fair value of available for sale investments		239,085	–
Total comprehensive income for the year		**22,192,922**	**11,603,896**
Earnings per share (basic and diluted)	11	**0.82**	**0.44**

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

FINANCE CORPORATION OF BAHAMAS LIMITED

CONSOLIDATED STATEMENT *of* CHANGES IN EQUITY

YEAR ENDED OCTOBER 31, 2017

(Expressed in Bahamian Dollars)

	Share Capital $	Share Premium $	Other Components of Equity $	Retained Earnings $	Total $
As at November 1, 2015	5,333,334	2,552,258	500,000	166,921,822	175,307,414
Transfer to retained earnings	–	–	(500,000)	500,000	–
Comprehensive income					
Net income	–	–	–	11,603,896	11,603,896
Total Comprehensive Income	–	–	–	11,603,896	11,603,896
As at October 31, 2016	**5,333,334**	**2,552,258**	**–**	**179,025,718**	**186,911,310**
As at November 1, 2016	5,333,334	2,552,258	–	179,025,718	186,911,310
Comprehensive income					
Net income	–	–	–	21,953,837	21,953,837
Other comprehensive income	–	–	239,085	–	239,085
Total Comprehensive Income	–	–	239,085	21,953,837	22,192,922
As at October 31, 2017	**5,333,334**	**2,552,258**	**239,085**	**200,979,555**	**209,104,232**

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

CONSOLIDATED STATEMENT *of* CASH FLOWS

FOR THE YEAR ENDED OCTOBER 31, 2017
(Expressed in Bahamian Dollars)

	Notes	2017 $	2016 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		21,953,837	11,603,896
ADJUSTMENTS FOR:			
Impairment losses on loans and advances	5	12,476,878	25,017,168
Depreciation and amortization tangible assets	7	125,926	128,876
Loss on disposal of premises and equipment		–	57,970
Realized (gain)/loss on available for sale investments		(18,900)	–
		34,537,741	36,807,910
(INCREASE) / DECREASE IN OPERATING ASSETS:			
Balance with central banks		4,569,501	(2,477,549)
Loans and advances to customers		12,083,022	19,814,098
Other assets		1,424,056	(410,003)
INCREASE / (DECREASE) IN OPERATING LIABILITIES:			
Customer deposits		(78,640,480)	(49,054,980)
Due to affiliated companies		16,403,254	(28,649,641)
Other liabilities		(1,946,014)	(1,354,529)
Net cash used in operating activities		(11,568,920)	(25,324,694)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of investments		660,500	1,668,500
Net cash from investing activities		660,500	1,668,500
NET DECREASE IN CASH AND CASH EQUIVALENTS		(10,908,420)	(23,656,194)
BALANCE AT BEGINNING OF YEAR		49,153,632	72,809,826
BALANCE AT END OF YEAR	3	**38,245,212**	**49,153,632**
SUPPLEMENTAL INFORMATION:			
Interest received		59,862,567	63,244,520
Interest paid		(12,689,981)	(15,119,125)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2017

1. INCORPORATION AND BUSINESS ACTIVITIES

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

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

The Bank has four 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 Bahamas.

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

The Group's registered office is located at Royal Bank House, East Hill Street, Nassau, The Bahamas.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

a. Basis of preparation

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

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

New standards, amendments and interpretations adopted by the Group

Standards and amendments and interpretations to published standards that became effective for the Group's financial year beginning on November 1, 2016 were either not relevant or not significant to the Group's operations and accordingly did not have a material impact on the Group's accounting policies or consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Basis of preparation (continued)

New standards, amendments and interpretations not yet adopted by the Group

With the exception of IFRS 9 *Financial Instruments* (IFRS 9), IFRS 15 *Revenue from Contracts* with Customers (IFRS 15) and IFRS 16 *Leases* (IFRS 16), the application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Group's accounting policies or consolidated financial statements in the financial period of initial application.

In July 2014, the International Accounting Standards Board issued the complete version of IFRS 9, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (IAS 39).

IFRS 9 introduces a principles-based approach to the classification of financial assets. Debt instruments, including hybrid contacts, are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost based on an entity's business model and the nature of the cash flows of the assets. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification of gains or losses to net income. For financial liabilities, IFRS 9 largely carried forward the classification and measurement requirements previously included in IAS 39.

IFRS 9 also introduces an expected credit loss impairment model for all financial assets not measured as FVTPL. The model has three stages: (1) on initial recognition, a loss allowance is recognized to cover credit losses arising from defaults expected to occur over the next 12 months; (2) if credit risk increases significantly relative to initial recognition, a loss allowance equal to full lifetime expected credit losses is recognized; and (3) when a financial asset is considered credit-impaired, a loss allowance equal to lifetime expected credit losses is recognized and interest revenue is calculated based on the carrying amount of asset, net of the loss allowance, rather than its gross carrying amount. Changes in the required loss allowance, including the impact of movement between 12 months and lifetime expected credit losses, will be recorded in net income.

The mandatory effective date of IFRS 9 is November 1, 2018; however the Group will early adopt IFRS 9 with an effective date of November 1, 2017, consistent with the adoption date of its ultimate parent company, the Royal Bank of Canada (RBC). The new impairment and classification and measurement requirements will be applied using the modified retrospective method adjusting opening retained earnings on the date of initial application with no restatement of the comparative periods.

The Group's implementation of IFRS 9 is primarily part of a comprehensive enterprise-wide program led by RBC. The initial focus of the enterprise-wide program was the design and implementation of systems, models, policies and controls to support RBC's consolidated financial statements. Work is ongoing to adapt the enterprise-wide policies and practices to the unique portfolio and environment attributes of each individual subsidiary of RBC, including key areas of judgement such as the determination of significant increases in credit risk and the application of forward looking macroeconomic scenarios. For the Caribbean region, separate expected credit loss models have been developed which reflect the available credit risk data, information systems and risk management practices of the Group. While significant progress has been made to date, work is still ongoing to refine this approach, including the supporting processes and controls. Accordingly, we are not yet in a position to make a reliable estimate of the expected impact of the adoption of IFRS 9 on the consolidated financial statements of the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Basis of preparation (continued)

New standards, amendments and interpretations not yet adopted by the Group (continued)

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with its customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard is effective for annual periods beginning on or after January 1, 2018, and replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and related interpretations. The Group is assessing the full impact of adopting IFRS 15.

IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 *Leases* (IAS 17). Lessees will recognize a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortized over the length of the lease and the financial liability measured at amortized cost. Lessor accounting remains substantially the same as in IAS 17. The Group is assessing the full impact of adopting IFRS 16, which is effective for financial periods beginning on or after January 1, 2019.

b. Basis of consolidation

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

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

c. Foreign currency translation

Functional and presentation currency

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

Transactions and balances

In preparing the consolidated financial statements transactions in currencies other than the functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary 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 recognized in net income in the consolidated statement of comprehensive income in the period in which they arise.

d. Financial assets

The Group classifies its financial assets into the following categories: loans and receivables and available-for-sale (AFS) financial assets. Management determines the classification of its financial assets at initial recognition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Financial assets (continued)

i. Loans and receivables

Loans and receivables include cash and cash equivalents, balance with central banks, loans and advances to customers and other assets which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money to a debtor with no intention of trading the receivable.

ii. AFS financial assets

AFS investments are those which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Regular-way purchases and sales of financial assets are recognized on the settlement date – the date on which there is a cash outflow or inflow. Financial assets are initially recognized at fair value plus transaction costs.

AFS financial assets are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of AFS financial assets are recognized in other comprehensive income, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognized in other comprehensive income is recognized in income. Interest calculated using the effective interest method and foreign currency gains and losses on monetary securities classified as AFS are recognized in the consolidated statement of comprehensive income.

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 Group 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 securities classified as available for sale are recognized in the consolidated statement of comprehensive income.

iii. Derecognition of financial assets

The Group derecognizes 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.

e. Non-performing financial assets

All loans and advances to customers on which principal or interest payments are overdue in excess of ninety days are classified by management as non-performing, and are considered for impairment.

f. Impairment of financial assets

Financial assets carried at amortized cost

Allowance for impairment losses represent management's best estimates of losses incurred in the loan portfolio at the statement of financial position date. Management's judgement is required in making assumptions and estimations when calculating allowances on both individually and collectively assessed loans. The underlying assumptions and estimates used for both individually and collectively assessed loans can change from period to period and may significantly affect the results of operations.

The Group 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Impairment of financial assets (continued)

Financial assets carried at amortized cost (continued)

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Granting of concessions which would otherwise not be considered;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading of the asset.

The Group 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 recognized are not included in a collective assessment of impairment.

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 including the cash flows from the realization of collateral held (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 recognized as a part of net income in the consolidated statement of comprehensive income. 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 Group 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 collateralized financial asset reflects the cash flows that may result from foreclosures 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 recognized (such as an improved credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Impairment of financial assets (continued)

Financial assets carried at amortized cost (continued)

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. Recoveries of accounts previously written off are recognized directly in the consolidated statement of comprehensive income as a part of net income.

Financial assets classified as AFS

At the end of the reporting period the Group assesses whether there is objective evidence that a financial asset or a group of financial assets classified as AFS is impaired.

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 recognized in the other comprehensive income is removed and recognized in income.

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 recognized, the previously recognized impairment loss is reversed through income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Renegotiated loans

Where possible, the Group 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.

g. Financial liabilities

Financial liabilities are any liabilities that are contractual obligations to deliver cash or another financial asset to another entity or to exchange financial assets or liabilities.

Financial liabilities are classified as financial liabilities at amortized cost.

Financial liabilities includes customer deposits, borrowings, accounts payable and accrued liabilities. Borrowings are initially measured at fair value net of transaction costs and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

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

h. Customer deposits

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

i. Income and expense recognition

Interest income and expense

Interest income and interest expense are recognized in the consolidated statement of comprehensive income for all financial instruments measured at amortized cost using the effective interest method. Loan origination fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loans.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Income and expense recognition (continued)

Interest income and expense (continued)

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that 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 Group estimates cash flows considering all contractual terms of the financial instrument (e.g. prepayment options) but does not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Non-interest income

The Group earns non-interest income from its range of services and products provided to its customers. Non-interest income is generally recognized on an accrual basis when the service has been provided.

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

Other income and expenses

Other income and expenses are recognized on the accrual basis.

j. Premises and equipment

Premises and equipment are carried at historical cost less accumulated depreciation, amortization and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of an item. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to the consolidated statement of comprehensive income as part of net income during the financial period in which they are incurred.

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

Land	Not depreciated
Buildings and improvements	Straight line – 20 to 40 years
Leasehold improvements	Straight line lease term plus 1 renewal term
Furniture and other equipment	Straight line 5 years and declining balance – 20%
Computer equipment	Straight line – 3 to 7 years

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Impairment of tangible assets

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

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

l. 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.

m. Leases

The Group is the lessee

The leases entered into by the Group, 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 the consolidated statement of comprehensive income as part of net income 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 recognized as an expense in the period in which termination takes place.

The Group is the lessor

Leases where the Group 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 recognized in income on a straight-line basis over the lease period.

n. Provisions

Provisions are recognized when the Group 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 recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. 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 recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be immaterial.

o. Share capital

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

p. Guarantees, indemnities and letters of credit

Financial guarantees are financial contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts issued by the Group are treated as contingent liabilities and not recognized in the consolidated statement of financial position until a payment under the guarantee has been made.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q. Dividends

Dividends that are proposed and declared during the period are accounted for as an appropriation of retained earnings in the consolidated statement of changes in equity.

Dividends that are proposed and declared after the consolidated statement of financial position are disclosed in the subsequent events note to the consolidated financial statements.

r. Employee benefits

The Group'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 Group recognizes its proportionate share of pension costs as an expense during the period, after which the Group has no further obligations to the Plan.

Defined contribution plan

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

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

s. Taxation

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

t. Segment reporting

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

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

u. Corresponding figures

Corresponding figures have been adjusted to conform with changes in presentation adopted in the current year as follows:

Segment Reporting

Non-interest expense and impairment losses on loans and advances have been disclosed by segment.

3. CASH AND CASH EQUIVALENTS

	2017 $	2016 $
Treasury bills	7,981,100	8,000,000
Due from banks	30,264,112	41,153,632
	38,245,212	**49,153,632**

Due from banks are deposits held with other banks on demand or for fixed periods up to three months. Treasury bills have original maturities up to three months. Due from banks are non-interest bearing. Treasury bills earn interest at a rate of 1.72% (2016: 0.68% to 2.19%).

4. BALANCES WITH CENTRAL BANKS

The balance with The Central Bank of The Bahamas is non-interest bearing and includes a mandatory daily average reserve deposit of $48,176,387 (2016: $52,745,888) which is based on a ratio to customers' deposits.

5. LOANS AND ADVANCES TO CUSTOMERS

	2017 $	2016 $
Retail	1,599,354	2,215,897
Home equity and other mortgages	227,125,162	236,187,371
Residential mortgages	607,442,554	616,638,082
Government insured mortgages	754,748	799,998
	836,921,818	855,841,348
Allowance for impairment losses	(74,614,457)	(68,536,519)
Loan origination fees and costs (net)	(4,251,544)	(4,689,112)
	758,055,817	**782,615,717**

Loans categorized by performance are as follows:

	2017 $	2016 $
Neither past due nor impaired	631,394,963	669,480,702
Past due but not impaired	84,656,736	66,946,193
Impaired	120,870,119	119,414,453
	836,921,818	**855,841,348**

Loans categorized by maturity are as follows:

	2017 $	2016 $
Current (due within one year)	18,771,811	18,757,476
Non-current (due after one year)	818,150,007	837,083,872
	836,921,818	**855,841,348**

Loans and advances classified as impaired represent 14.44% (2016: 13.95%) of the total loans and advances portfolio. The allowance for impairment losses represents 8.92% (2016: 8.01%) of the total loans and advances portfolio and 61.73% (2016: 57.39%) of the total impaired loans.

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Allowance for impairment losses consists of the following:

	2017 $	2016 $
Balance, beginning of year	68,536,519	57,145,555
Loans and advances written-off	(11,721,510)	(16,283,084)
Recoveries	10,198,514	7,125,653
Reversal of time value of money component	(4,875,944)	(4,468,773)
Increase in allowance for the year	12,476,878	25,017,168
	74,614,457	**68,536,519**

Allowance for impairment losses consisting of:

	2017	2016
Individually and collectively assessed impaired loans	59,451,705	55,351,360
Collective allowance – Incurred but not yet identified	15,162,752	13,185,159
	74,614,457	**68,536,519**

6. INVESTMENT SECURITIES

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

	2017 $	2016 $
Bahamas Government Debt Securities	31,251,634	31,780,600
Locally Issued Corporate Bonds	3,137,851	3,011,400
	34,389,485	**34,792,000**

Investments categorized by maturity are as follows:

	2017	2016
Current (due within one year)	1,314,424	660,500
Non-current (due after one year)	33,075,061	34,131,500
	34,389,485	**34,792,000**

	2017	2016
Balance, beginning of year	34,792,000	36,460,500
Maturities	(660,500)	(1,668,500)
Gain/(loss) from change in fair value	257,985	–
	34,389,485	**34,792,000**

Investment securities have maturities ranging from 2018 to 2037 (2016: 2017 to 2037) and with floating interest rates ranging from 0.125% to 1.625% (2016: 0.125% to 2.125%) above the B$ Prime rate of 4.25% (2016: 4.75%).

As of October 31, 2017, the cost of investment securities totaled $34,131,500 (2016: $34,792,000), all of which is comprised of level 3 securities.

7. PREMISES AND EQUIPMENT

	Land $	Buildings & Improvements $	Leasehold Improvements $	Furniture & Other Equipment $	Computer Equipment $	Total $
Year ended October 31, 2017						
Opening net book value	105,700	154,679	65,691	63,916	81,524	471,510
Depreciation charge	–	(30,772)	(40,488)	(12,352)	(42,314)	(125,926)
Closing net book value	**105,700**	**123,907**	**25,203**	**51,564**	**39,210**	**345,584**
At October 31, 2017						
Cost	105,700	1,219,104	420,108	759,869	1,376,805	3,881,586
Accumulated depreciation	–	(1,095,197)	(394,905)	(708,305)	(1,337,595)	(3,536,002)
Net book value	**105,700**	**123,907**	**25,203**	**51,564**	**39,210**	**345,584**
Year ended October 31, 2016						
Opening net book value	105,700	193,594	104,354	114,075	140,633	658,356
Disposals	–	–	(21,637)	(33,327)	(3,006)	(57,970)
Depreciation charge	–	(38,915)	(17,026)	(16,832)	(56,103)	(128,876)
Closing net book value	**105,700**	**154,679**	**65,691**	**63,916**	**81,524**	**471,510**
At October 31, 2016						
Cost	105,700	1,219,104	420,108	759,869	1,376,805	3,881,586
Accumulated depreciation	–	(1,064,425)	(354,417)	(695,953)	(1,295,281)	(3,410,076)
Net book value	**105,700**	**154,679**	**65,691**	**63,916**	**81,524**	**471,510**

There were no write-offs during the fiscal year ended 2017, (2016: $1,171,176), (2016: $351,451) and (2016: $176,231) of leasehold improvements, furniture & other equipment and computer equipment respectively.

Certain of the Group's buildings have been subleased to an affiliate company. Minimum lease payments in respect of these arrangements are as follows:

	2017 $	2016 $
Within one year	66,520	66,520
One to three years	66,520	133,040
Three to five years	133,040	133,040
Over five years	–	332,600
	266,080	**665,200**

8. CUSTOMER DEPOSITS

	2017 $	2016 $
Term deposits	427,177,397	500,003,623
Savings deposits	123,387,407	130,469,424
Demand deposits	21,467,796	20,200,033
	572,032,600	**650,673,080**
Deposits categorized by customer type are as follows:		
Personal	300,048,299	326,965,940
Non-Personal	271,984,301	323,707,140
	572,032,600	**650,673,080**
Deposits categorized by maturity are as follows:		
Current (due within one year)	571,927,953	650,660,201
Non-current (due after one year)	104,647	12,879
	572,032,600	**650,673,080**

Deposits carry interest rates ranging from 0.05% to 1.25% (2016: 0.10% to 1.25%) per annum, interest rates are determined based on variable market rates and can be adjusted based on changes in market rates.

9. PENSION PLANS

Employees of the Group participate in a defined benefit pension plan of Royal Bank of Canada (the Plan). Employees become eligible for membership after completing a probationary period on a contributory or non-contributory basis. The Plan provides pensions based on years of service, contribution to the Plan and average earnings at retirement. The Plan also covers a portion of the current medical insurance premiums for retirees. RBC funds the Plan in accordance with actuarially determined amounts required to satisfy employee benefit entitlements under current pension regulations. The most recent actuarial valuation performed was completed on January 1, 2017 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:

	2017	2016
Discount rate	5.25%	5.25%
Expected return on plan assets	6.30%	6.14%
Rate of increase in future compensation	1.50% – 9.00%	1.50% – 9.00%

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

The Royal Bank of Canada charges the Group for its share of the amount of funding required in the Plan. This cost is recognized in the consolidated statement of comprehensive income after which no further obligation is required of the Group. During the year, the Group's pension expenses arising from the Plan was $ 633,833 (2016: $444,990) and the defined contribution plan was $18,197 (2016: $19,658).

10. SHARE CAPITAL & RESERVES

Share capital consists of the following:

	2017 $	2016 $
Authorized:		
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

There were no transfers during the fiscal year ended 2017, (2016: the Group transferred the general reserve in the amount of $500,000 to retained earnings).

11. EARNINGS PER SHARE

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

	2017 $	2016 $
Total earnings for the year attributable to the equity shareholders	21,953,837	11,603,896
Weighted average number of ordinary shares in issue	26,666,670	26,666,670
Basic and diluted earnings per share	**0.82**	**0.44**

12. INTEREST INCOME

	2017 $	2016 $
Loans and advances to customers	56,785,258	61,622,027
Investment securities – AFS	1,766,551	1,901,548
	58,551,809	**63,523,575**

Included in interest income is interest attributable to the time value of money component of non-performing loans of $4,875,944 (2016: $4,468,773).

13. INTEREST EXPENSE

	2017 $	2016 $
Customer deposits	7,329,102	10,729,106
Due to affiliated companies	4,703,555	3,625,971
Other interest bearing liabilities	12,728	531
	12,045,385	**14,355,608**

14. NON-INTEREST INCOME

	2017 $	2016 $
Fees and commissions	2,054,882	2,371,154
Foreign exchange earnings	59,345	42,054
Other service charges and fees	158,746	132,004
	2,272,973	**2,545,212**

15. NON-INTEREST EXPENSES

	2017 $	2016 $
Staff costs	1,690,871	2,579,918
Operating lease rentals	362,397	1,067,910
Premises and equipment expenses, excluding depreciation and operating lease rentals	400,334	626,149
Depreciation and amortization	125,926	128,876
Business and miscellaneous taxes	3,248,533	3,375,178
Deposit insurance premium	322,929	325,900
Professional fees	145,474	94,787
Other operating expense	8,052,218	6,893,397
	14,348,682	**15,092,115**

The Protection of Depositors Act, 1999 requires that the Group pay an annual premium to the Deposit Insurance Fund based on insurable deposit liabilities outstanding. During the year, the Group paid $322,929 (2016: $325,900) into the fund.

16. DIVIDENDS

There were no dividends declared to shareholders during the fiscal year ended 2017 (2016: $Nil).

17. CONTINGENT LIABILITIES

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

18. 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 $18,571,797 (2016: $16,616,879).

b. Operating lease commitments

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

18. COMMITMENTS (CONTINUED)

b. Operating lease commitments (continued)

	2017 $	2016 $
Within one year	99,962	352,655
One to three years	323,109	558,329
Three to five years	599,019	39,000
Over five years	–	40,000
	1,022,090	**$989,984**

Operating lease expense recorded in the consolidated statement of comprehensive income amounted to $362,397 (2016: $1,067,910).

19. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties include: i) key management personnel, including directors; ii) entities that have the ability to control or exercise significant influence over the Group in making financial or operational decisions; and iii) entities that are controlled, jointly controlled or significantly influenced by parties described in i) and ii). These consolidated financial statements include the following balances and transactions with related parties not otherwise disclosed in these consolidated financial statements:

The Group also has technical service and license agreements with RBC Royal Bank (Bahamas) Limited. During the year $7,141,724 (2016: $6,011,654) was expensed in reference to these agreements and is included in general and administrative expense in the consolidated statement of comprehensive income. The Group 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 Group. The balance as at October 31, 2017 was $29,527,966 (2016: $40,556,187). These deposits are non-interest bearing and are held as a part of the Group's liquidity reserve requirement.

Included in due to affiliate are balances that are medium term lending arrangements with terms up to three years and bearing interest at effective rates of 2.25% and 2.50% (2016: 2.75% and 3.00%).

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

	2017 $	2016 $
Consolidated Statement of Financial Position		
ASSETS		
Cash and cash equivalents		
Other related parties	29,527,966	40,556,187
Loans and advances to customers:		
Directors and key management personnel	544,910	525,324
LIABILITIES		
Customer deposits		
Directors and key management personnel	2,755,845	2,720,358
Due to affiliated companies	96,385,242	79,981,988
Other liabilities	1,460,217	712,210

19. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

	2017 $	2016 $
Consolidated Statement of Comprehensive Income		
Interest income		
Directors and key management personnel	28,808	28,236
Non-interest expense		
Other related parties	7,878,370	6,011,654
interest expense		
Directors and key management personnel	34,079	40,375
Staff costs		
Salaries and other short term benefits	142,361	145,009

20. CATEGORIZATION OF FINANCIAL ASSETS AND LIABILITIES

Consolidated Statement of Financial Position:

	2017 $	2016 $
ASSETS		
Financial assets available-for-sale at fair value:		
Investment securities	34,389,485	34,792,000
Financial assets at amortized cost:		
Cash and cash equivalents	38,245,212	49,153,632
Balance with central banks	48,176,387	52,745,888
Loans and advances to customers	758,055,817	782,615,717
Other assets	3,158,510	5,199,576
Total financial assets	**882,025,411**	**924,506,813**
LIABILITIES		
Financial liabilities at amortized cost:		
Customer deposits	572,032,600	650,673,080
Due to affiliated companies	96,385,242	79,981,988
Other liabilities	5,465,931	7,411,945
Total financial liabilities	**673,883,773**	**738,067,013**

21. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS

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

Risk Management Structure

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

21. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Risk Management Unit

A centralized Risk Management Unit of the Group'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 decentralized units which are responsible for the independent control of risks, including monitoring the risk or exposures against limits and the assessment of risks of new products and structured transactions. These decentralized units also ensure the risks are completely captured in the risk measurement and reporting systems.

Internal Audit

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

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

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

Information compiled from all of the affiliate companies is examined and processed in order to analyze, control and identify risks early. This information, which consists of several reports, is presented and explained to the Group's managing director and the 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 impairment losses.

(a) Credit risk

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

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

Collateral

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

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

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

21. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

Impairment and provisioning policies

Impairment provisions are recognized for losses that have been incurred at the consolidated statement of financial position date based on objective evidence of impairment. See Note 2(f). The Group's policy requires the review of individual financial assets are individually significant 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 reconfirmation 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.

Geographical concentrations of financial assets

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

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

	2017 $	2016 $
On Balance Sheet		
Due from banks	30,264,112	41,153,632
Treasury bills	7,981,100	8,000,000
Balance with central banks	48,176,387	52,745,888
Loans and advances to customers	836,921,818	855,841,348
Investment securities – AFS	34,389,485	34,792,000
Other assets	3,158,510	5,199,576
	960,891,412	**997,732,444**
Off Balance Sheet		
Credit commitments	18,571,797	16,616,879
Total credit risk exposure	**979,463,209**	**1,014,349,323**

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 was $39,481,572 (2016: $40,187,869) before taking account of collateral or other credit enhancements.

21. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

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

	2017	2016
	$	$
Personal	835,525,519	854,281,861
Construction	218,259	273,949
Distribution	–	156,955
Tourism	119,749	150,894
Professional Services	16,934	16,166
Other	1,041,357	961,523
	836,921,818	**855,841,348**

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 Group are neither past due nor impaired.

	2017	2016
	$	$
Neither past due or impaired	631,394,963	669,480,702
Past due but not impaired:		
Past due 31 – 60 days	63,649,028	43,955,043
Past due 61 – 90 days	21,007,708	22,991,150
Past due and impaired:		
Past due over 90 days	120,870,119	119,414,453
	836,921,818	**855,841,348**

Renegotiated loans and advances that would otherwise be past due or impaired totaled $86,795,743 (2016: $88,786,608).

(b) Liquidity risk

Liquidity risk is the risk that the Group 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 Group'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 Group'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 Group 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 Group under non-derivative financial liabilities by remaining period to contractual maturity from the date of the consolidated statement of financial position. The amounts disclosed in the table below equal their carrying amounts as the impact of discounting is not significant.

21. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (continued)

	Up to 3 months $	Over 3 to 6 months $	Over 6 to 12 months $	Over 1 to 5 years $	Over 5 years $	Total $
At October 31, 2017						
Liabilities						
Customers' deposits	373,262,903	57,315,121	141,349,929	104,647	–	572,032,600
Due to affiliated companies	425,025	960,217	55,000,000	40,000,000	–	96,385,242
Other liabilities	5,465,931	–	–	–	–	5,465,931
Total	**379,153,859**	**58,275,338**	**196,349,929**	**40,104,647**	**–**	**673,883,773**
At October 31, 2016						
Liabilities						
Customers' deposits	320,640,034	89,009,002	241,011,165	12,879	–	650,673,080
Due to affiliated companies	–	–	25,112,500	54,869,488	–	79,981,988
Other liabilities	7,411,945	–	–	–	–	7,411,945
Total	**328,051,979**	**89,009,002**	**266,123,665**	**54,882,367**	**–**	**738,067,013**

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

	Up to 3 months $	Over 3 to 6 months $	Over 6 to 12 months $	Over 1 to 5 years $	Over 5 years $	Total $
At October 31, 2017						
Credit commitments	7,423,434	1,086,137	7,492,392	78,023	2,491,811	18,571,797
Operating leases	33,321	166,604	199,924	922,128	–	1,321,977
Total	**7,456,755**	**1,252,741**	**7,692,316**	**1,000,151**	**2,491,811**	**19,893,774**
At October 31, 2016						
Credit commitments	7,459,115	1,334,285	5,572,850	–	2,250,629	16,616,879
Operating leases	88,164	88,164	176,328	597,329	40,000	989,895
Total	**7,547,249**	**1,422,449**	**5,749,178**	**597,329**	**2,290,629**	**17,606,774**

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

21. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	Immediately rate-sensitive $	Up to 3 Months $	Over 3–6 Months $	Over 6–12 Months $	Over 1–5 Years $	Over Over 5 Years $	Non-interest rate-sensitive $	Total $
At October 31, 2017								
Assets								
Cash and cash equivalents	–	7,981,100	–	–	–	–	30,264,112	38,245,212
Balance with central banks	–	–	–	–	–	–	48,176,387	48,176,387
Loans and advances	–	715,013,405	–	–	–	–	43,042,412	758,055,817
Investment securities	34,131,500	–	–	–	–	–	257,985	34,389,485
Other assets	–	–	–	–	–	–	3,158,510	3,158,510
Total assets	**34,131,500**	**722,994,505**	**–**	**–**	**–**	**–**	**124,899,406**	**882,025,411**
Liabilities								
Customer deposits	–	373,262,903	2,315,121	196,349,929	104,647	–	–	572,032,600
Due to affiliated companies	–	–	55,000,000	–	40,000,000	–	1,385,242	96,385,242
Other liabilities	–	–	–	–	–	–	5,465,931	5,465,931
Total liabilities	**–**	**373,262,903**	**57,315,121**	**196,349,929**	**40,104,647**	**–**	**6,851,173**	**673,883,773**
Net repricing gap	**34,131,500**	**349,731,602**	**(57,315,121)**	**(196,329,929)**	**(40,104,647)**	**–**		

21. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Interest rate risk (continued)

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

	Immediately rate-sensitive $	Up to 3 Months $	Over 3–6 Months $	Over 6–12 Months $	Over 1–5 Years $	Over Over 5 Years $	Non-interest rate-sensitive $	Total $
At October 31, 2016								
Assets								
Cash and cash equivalents	–	8,000,000	–	–	–	–	41,153,632	49,153,632
Balance with central banks	–	–	–	–	–	–	52,745,888	52,745,888
Loans and advances	–	735,465,371	–	–	–	–	47,150,346	782,615,717
Investment securities	34,792,000	–	–	–	–	–	–	34,792,000
Other assets	–	–	–	–	–	–	5,199,576	5,199,576
Total assets	**34,792,000**	**743,465,371**	**–**	**–**	**–**	**–**	**146,249,442**	**924,506,813**
Liabilities								
Customer deposits	–	409,649,036	117,254,584	123,756,581	12,879	–	–	650,673,080
Due to affiliated companies	–	–	–	25,000,000	55,000,000	–	(18,012)	79,981,988
Other liabilities	–	–	–	–	–	–	7,411,945	7,411,945
Total liabilities	**–**	**409,649,036**	**117,254,584**	**148,756,581**	**55,012,879**	**–**	**7,393,933**	**738,067,013**
Net repricing gap	**34,792,000**	**333,816,335**	**(117,254,584)**	**(148,756,581)**	**(55,012,879)**	**–**		

The Group analyses its exposure on interest sensitive assets and liabilities on a periodic basis. 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 Income 2017 $	2016 $
Change in interest rate		
+ 1%	5,691,715	5,895,974
− 1%	(5,691,715)	(5,895,974)

(e) Price risk

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

22. CAPITAL MANAGEMENT

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

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

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

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

Capital adequacy and the use of regulatory capital are monitored by the Group's management, based on an internal risk assessment approach employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision as implemented by the Central Bank of The Bahamas (the Central Bank). The required information is filed with the Central Bank on a monthly basis as prescribed. The Central Bank requires the Group to maintain a minimum total capital ratio of 14%. As of the date of the consolidated statement of financial position, the Group's total capital ratio was 38.32% (2016: 34.08%).

23. OPERATING SEGMENTS

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

	2017		
	Banking $	Insurance Services $	Consolidated $
Assets	871,408,121	11,579,884	882,988,005
Liabilities	673,166,952	716,821	673,883,773
Revenue:			
Net interest income	46,506,424	–	46,506,424
Non–interest income	1,542,326	730,647	2,272,973
Total income	48,048,750	730,647	48,779,397
Non-interest expense	(14,134,465)	(214,217)	(14,348,682)
Impairment losses on loans and advances	(12,476,878)	–	(12,476,878)
Net income	**21,437,407**	**516,430**	**21,953,837**

23. OPERATING SEGMENTS (CONTINUED)

	2016		
	Banking $	Insurance Services $	Consolidated $
Assets	913,961,661	11,016,662	924,978,323
Liabilities	737,396,984	670,029	738,067,013
Revenue:			
Net interest income	49,167,967	–	49,167,967
Non–interest income	1,688,125	857,087	2,545,212
Total income	50,856,092	857,087	51,713,179
Non-interest expense	(14,915,240)	(176,875)	(15,092,115)
Impairment losses on loans and advances	(25,017,168)	–	(25,017,168)
Net income	**10,923,684**	**680,212**	**11,603,896**

24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

				Fair Value Hierarchy		
	Fair Value Always Approximate Carrrying Value $	Fair Value May Not Approximate Carrrying Value $	Total Fair Value $	Level 1 $	Level 2 $	Level 3 $
October 31, 2017						
Financial Assets						
Cash and cash equivalents	38,245,212	–	38,245,212	–	38,245,212	–
Balance with Central Bank	48,176,387	–	48,176,387	–	48,176,387	–
Loans and advances	–	843,086,614	843,086,614	–	–	843,086,614
Other assets	3,158,510	–	3,158,510	–	3,158,510	–
Financial Liabilities						
Customer deposits	572,032,600	–	572,032,600	–	572,032,600	–
Due to affiliated companies	96,385,242	–	96,385,242	–	96,385,242	–
Other Liabilities	5,465,931	–	5,465,931	–	5,465,931	–

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

	Fair Value Always Approximate Carrrying Value	Fair Value May Not Approximate Carrrying Value	Total Fair Value	Fair Value Hierarchy		
				Level 1	Level 2	Level 3
	$	$	$	$	$	$
October 31, 2016						
Financial Assets						
Cash and cash equivalents	49,153,632	–	49,153,632	–	49,153,632	–
Balance with Central Bank	52,745,888	–	52,745,888	–	52,745,888	–
Loans and advances	–	799,359,925	799,359,925	–	–	799,359,925
Other assets	5,199,576	–	5,199,576	–	5,199,576	–
Financial Liabilities						
Customer deposits	650,673,080	–	650,673,080	–	650,673,080	–
Due to affiliated companies	79,981,988	–	79,981,988	–	79,981,988	–
Other Liabilities	7,411,945	–	7,411,945	–	7,411,945	–

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

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments. Loans and advances to customers are similarly valued taking into account credit portfolio experience.

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).

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

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

	Level 1	Level 2	Level 3	Total
	$	$	$	$
As at October 31, 2017				
Bahamas Government Debt Securities	–	–	31,251,634	31,251,634
Locally Issued Corporate Bonds	–	–	3,137,851	3,137,851
	–	**–**	**34,389,485**	**34,389,485**
As at October 31, 2016				
Bahamas Government Debt Securities	–	–	31,780,600	31,780,600
Locally Issued Corporate Bonds	–	–	3,011,400	3,011,400
	–	**–**	**34,792,000**	**34,792,000**

Level 3 investments is comprised primarily of debt issued or guaranteed by The Bahamas government. The Central Bank of The Bahamas introduced a pricing model for The Bahamas Government Registered Stock (BGRS) in March 2017. The model introduces a market based pricing formula for Bahamian dollar denominated BGRS which are traded in the secondary market. Under this model new bonds or initial public offerings will continue to be priced at par, with liquidity and other market conditions determining the fixed coupon rates at which the bonds will be offered to the market. The Group adopted this pricing model during the fiscal year 2017. The movement in the Group's investments in Level 3 assets during the year was as follows:

	2017	2016
	$	$
Balance, beginning of year	34,792,000	36,460,500
Maturities	(660,500)	(1,668,500)
Gain from change in fair value	257,985	–
Balance at end of year	**34,389,485**	**34,792,000**

If the discount rate were to increase or decrease 25 bps in the yield curve, the fair value would increase $83,000 or decrease $87,000, all other factors remaining constant.

There were no transfers between levels for the year ended October 31, 2017 or 2016.

25. SUBSEQUENT EVENTS

On January 8, 2018, the Board of Directors approved a dividend payment of $0.05 per ordinary share and a special dividend payment of $0.10 per ordinary share to all shareholders of record as at January 22, 2018 payable on January 29, 2018.

SHAREHOLDERS' INFORMATION

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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:

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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
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PRINTING
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