RBC FINCO

2020

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

The Bank employs 26 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.

OUR BUSINESS MODEL OF CHOICE

Premier Digitally-Enabled Relationship Bank

CARIBBEAN BANKING'S STRATEGY

Accelerating growth of Commercial, HNW and Affluent clients while transforming the client experience to drive profitability.

OUR STRATEGIC PRIORITIES

Open for Business	Transform Client Experience	First Time Right
6% Premium Volume Growth	**5% Growth in Credit-Worthy Targets Clients**	**67% Efficiency Ratio**
• Grow in Commercial, HNW and Affluent *• Innovate New Opportunities* *• Know Your Clients*	*• Accelerate Digital Transformation* *• Enhance Distribution Network* *• Increase Sales Capacity through Proactive and Proficient Sales Force*	*• Build Capability & High Performance Culture* *• Reduce Rework* *• Technology Modernization*

RBC VALUES

Client First | **Collaboration** | **Accountability** | **Diversity & Inclusion** | **Integrity**

MAJORITY SHAREHOLDER'S PROFILE

Royal Bank of Canada (RBC) is a global financial institution with a purpose-driven, principles-led approach to delivering leading performance. RBC's success comes from the 86,000+ employees who leverage their imaginations and insights to bring its vision, values and strategy to life so it can help its clients thrive and communities prosper. As Canada's biggest bank, and one of the largest in the world based on market capitalization, RBC has a diversified business model with a focus on innovation and providing exceptional experiences to its 17 million clients in Canada, the U.S. and 34 other countries.

Personal & Commercial Banking provides a broad suite of financial products and services in Canada, the Caribbean and the U.S. RBC's commitment to building and maintaining meaningful relationships with its clients is underscored by the breadth of its products, its depth of expertise, and the features of its digital solutions. Personal & Commercial Banking operates through two businesses – Canadian Banking and Caribbean & U.S. Banking. Canadian Banking serves RBC's home market in Canada, where it maintains top (#1 or #2) rankings in market share for all key retail and business products. It has the largest branch network, the most ATMs and one of the largest mobile sales forces across Canada. In Caribbean & U.S. Banking, it offers a broad range of financial products and services in targeted markets.

Wealth Management serves affluent, high net worth (HNW) and ultra-high net worth (UHNW) clients from its offices in key financial centres mainly in Canada, the U.S., the United Kingdom (U.K.), Europe, and Asia. It offers a comprehensive suite of investment, trust, banking, credit and other wealth management solutions. Wealth Management also provides asset management products to institutional and individual clients through its distribution channels and third-party distributors. Its lines of businesses include Canadian Wealth Management, U.S. Wealth Management (including City National), Global Asset Management (GAM) and International Wealth Management. Canadian Wealth Management is the largest full-service wealth advisory business in Canada, as measured by assets under administration, serving HNW and UHNW clients. U.S. Wealth Management (including City National) also encompasses its private client group (PCG) and clearing and custody business. PCG is the 7th largest full-service wealth advisory firm in the U.S., as measured by number of advisors, and City National is a premier U.S. private and commercial bank serving HNW, UHNW and commercial clients. GAM is the largest retail fund company in Canada, as measured by Assets under Management[1], as well as a leading institutional asset manager. International Wealth Management serves HNW and UHNW clients, primarily through key financial centres in the U.K., Channel Islands and Asia.

Insurance offers a wide range of life, health, home, auto, travel, wealth, annuities, and reinsurance advice and solutions, as well as creditor services and business insurance solutions, to individual, business and group clients. RBC Insurance® is among the largest Canadian bank-owned insurance organizations and operates under two business lines: Canadian Insurance and International Insurance. In Canada, it offers life, health, travel, home, and auto insurance products, wealth accumulation solutions, annuities, advice, and services through a wide variety of channels: advice centers, RBC Insurance® stores, mobile advisors, digital, mobile and social platforms, independent brokers, and travel partners. Outside Canada, it operates globally in the reinsurance and retrocession markets offering life, disability and longevity reinsurance products.

(1) Source: Investment Funds Institute of Canada, September 30, 2020, reported on a quarterly basis.

Investor & Treasury Services acts as a specialist provider of asset services, a leader in Canadian cash management and transaction banking services, and a provider of treasury services to institutional clients worldwide. It delivers asset, transaction banking, treasury, and other services to safeguard client assets, maximize liquidity, and manage risk across multiple jurisdictions. It remains focused on providing best-in-class asset services to sophisticated investors. It competes against the world's largest global custodians in selected countries in North America, Europe, the U.K., and Asia-Pacific. It delivers digitally-enabled products and services which continue to be enhanced and evolved in line with its clients' changing needs. It has top-rated global custody, transfer agency, fund accounting and administration services. Investor & Treasury Services is a leading provider of Canadian dollar cash management, correspondent banking and trade finance for financial institutions globally, and provides short-term funding and liquidity management for the Bank.

Capital Markets provides expertise in banking, finance and capital markets to corporations, institutional investors, asset managers, governments and central banks around the world. It serves clients from 58 offices in 14 countries across North America, the U.K. & Europe, and Australia, Asia & other regions. Capital Markets operates two main business lines, Corporate and Investment Banking and Global Markets. In North America, it offers a full suite of products and services which include corporate and investment banking, equity and debt origination and distribution, as well as sales and trading. In Canada, it is a market leader with a strategic presence in all lines of capital markets businesses. In the U.S., it has a full industry sector coverage and investment banking product range and competes with large U.S. and global investment banks as well as smaller regional firms. Capital Markets has leading capabilities in credit, secured lending, municipal finance, fixed income, currencies & commodities, equities and advisory. Outside North America, it has a select presence in the U.K. & Europe, Australia, Asia & other markets. In the U.K. & Europe, it offers a diversified set of capabilities in key sectors of expertise such as energy, mining, infrastructure, industrial, consumer, healthcare, technology and financial services. In Australia and Asia, it competes with global and regional investment banks in targeted areas aligned to its global expertise, including fixed income distribution and currencies trading, secured finance and corporate and investment banking.

Corporate Support consists of Technology & Operations, which provides the technological and operational foundation required to effectively deliver products and services to its clients, Functions, which includes finance, human resources, risk management, internal audit and other functional groups, as well as the corporate treasury function.

2020 FINANCIAL HIGHLIGHTS

(Expressed in Bahamian Dollars)

	Change 2020/2019	2020	2019	2018	2017	2016
EARNINGS						
Net interest income	–3.7%	$37,670,095	$39,101,626	$42,593,747	$46,506,424	$49,167,967
Non-interest income	–33.6%	1,965,510	2,958,202	2,237,225	2,272,973	2,545,212
Total Income	–5.8%	39,635,605	42,059,828	44,830,972	48,779,397	51,713,179
Provision for credit losses	138.1%	16,248,789	6,825,373	5,606,942	12,476,878	25,017,168
Non-interest expense	–1.5%	14,185,276	14,408,302	13,905,748	14,348,682	15,092,115
Net Income	–55.8%	9,201,540	20,826,153	25,318,282	21,953,837	11,603,896
Efficiency Ratio	153 bps	35.8%	34.3%	31.0%	29.4%	29.2%
Return on equity	–571 bps	4.2%	9.9%	12.3%	11.1%	6.4%
BALANCE SHEET DATA						
Loans and advances to customers	–4.3%	$656,142,377	$685,328,230	$704,779,674	$758,055,817	$782,615,717
Total Assets	–5.4%	756,759,812	800,049,625	817,354,531	882,988,005	924,978,323
Customer Deposits	–18.3%	379,571,167	464,509,564	502,913,724	572,032,600	650,673,080
Total Equity	0.6%	218,307,664	217,111,723	201,585,473	209,104,232	186,911,310
COMMON SHARE INFORMATION						
Earnings per share	$(0.43)	$0.35	$0.78	$0.95	$0.82	$0.44
Dividend per share	0.10	0.30	0.20	0.30	–	–
Book value per share-year-end	0.05	8.19	8.14	7.56	$7.84	$7.01
NUMBER OF:						
Employees		26	25	27	31	29
Automated banking machines		5	5	5	5	5
Service delivery units		4	4	4	5	5

Net Interest Income

Net interest income is comprised of interest earned on loans, mortgages and securities, less interest paid on deposits from customers and other financial institutions. Net interest income decreased by 3.7% compared to the previous year. Lower loan volumes along with the reduction in economic activity brought on by the COVID-19 pandemic are major factors impacting the Bank's core revenue. The Bank continues to manage the challenges brought on by the pandemic and the 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. While service fees declined slightly due to lower levels of customer deposits, non-interest income is 33.6% less than the previous year due mainly to a gain from the sale of the Robinson Road property realized in 2019.

Provision for Credit Losses

The provision for credit losses was $16.2 million (2019: $6.8 million). The provision for credit losses increased given the potential impact that the COVID-19 pandemic may have on the Bank's loan portfolio. Non-performing loans stood at $83 million compared to $102 million in the previous year. The total allowance for loan losses is 13.9% of the total loan portfolio and stage 3 allowance represents 59.9% of non-performing loans, compared to 11.9% and 63.9%, respectively for the previous year.

Non-Interest Expenses

Non-interest expenses decreased by 1.5% compared to fiscal 2019. This favourable movement is mostly due to a reduction in outsourcing costs offset by increases in regulatory fees and other operating costs. The Bank continues to actively manage its costs and seek opportunities to improve efficiency.

Net Income

The Bank's net income ended at $9.2 million compared to $20.8 million in the previous year. The decrease in net income is due first and primarily to the increase in provision for credit losses and to a lesser extent, lower revenue.

Efficiency Ratio

The efficiency ratio is calculated based on the amount of expenses compared to total revenues. The efficiency increased by 153bps as a result of the decrease in total revenue when compared to previous 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. During the year ROE decreased by 571bps due to the reduction in net income and a higher average equity balance.

Loans and Advances to Customers

Loans and advances was $656.1 million, a decrease of 4.3% or $29.2 million when compared to the $685.3 million in 2019. This decrease was evident given the challenge with new credit originations in the current environment and the increase in the allowance for credit losses.

Earnings per Share

Earnings per share decreased to $0.35 compared to $0.78 in the previous year from lower net income. The weighted average number of ordinary shares in issue remained unchanged during the year.

Dividend per Share

At each quarterly meeting, the Board of Directors give careful consideration on delivering a return on the investments of shareholders after considering the Bank's overall financial performance and regulatory requirements. Shareholders received dividend payments during the year totaling $0.30 (2019: $0.20) per share.

CHAIRMAN'S REPORT

Dear Shareholders,

Finance Corporation of Bahamas Limited (RBC FINCO) has been serving clients in The Bahamas for 67 years, 37 years as a public company. We are proud to assist thousands of Bahamians to own their homes and help build their financial futures. Our employees work diligently every day to provide expert financial advice to help our clients find the right solutions to achieve their financial goals and dreams. As an organization, we are committed to helping our clients thrive and communities prosper.

For the fiscal year ended October 31, 2020, RBC FINCO recorded $9.2 million in net income. This compares to $20.8 million in net income recorded in FY2019. This decrease is attributed primarily to higher loan provisions charged during the year brought on by the economic effects from the COVID-19 pandemic. Other operating costs remained relatively flat year over year with a 2% reduction. Our core earnings underperformed and were under pressure due to low growth and lower interest rates.

Non-performing mortgages of $83.4 million (2019: $101.8 million) as a percentage of the portfolio was 10.9% at the end of the fiscal year. This result is compared to 13% at the end of FY2019 and compared to the industry at 10.7% as of October 2020. Operating in a low growth economy overcoming the major financial impacts of COVID-19, RBC FINCO will continue to be challenged with mortgage growth and credit losses resulting from higher levels of non-performing mortgages.

Notwithstanding the growth and non-performing loans challenges, the Bank continues to maintain a strong capital position well above regulatory guidelines; as well as adequate provisions for non-performing loans, we remain profitable and there are no liquidity issues. Taking these factors into consideration, the Board of Directors declared quarterly dividends throughout 2020. 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 (RBC), remains a strong international financial services institution. Our ability to leverage the strength of RBC helps to ensure the continued safety and soundness of RBC FINCO.

On behalf of the Board of Directors, I wish to commend our management and staff for their commitment, and thank them for their significant contributions to RBC FINCO in 2020 despite the challenges posed by COVID-19. I also wish to thank our more than 4,000 shareholders for their on-going confidence and support of RBC FINCO. We are grateful to our Board of Directors for their service and acknowledge their dedication to the highest standards of corporate governance.

Robert G. Johnston
Chairman
Finance Corporation of Bahamas Limited

MANAGING DIRECTOR'S REPORT

The Financial Corporation of Bahamas (RBC FINCO) continues to be a leading provider in financing owner-occupied residential homes for Bahamians. The Bank's core values of Client First, Collaboration, Accountability, Diversity and Inclusion, and Integrity are the foundation of everything we do.

Accelerating quality growth in key client segments continues to be an opportunity for us in 2021, despite the impacts of the global Covid-19 pandemic. While we have experienced a decline in net mortgage volumes in 2020, we remain competitive. Our Mobile Mortgage Professionals Sales Force, and Mortgage Relationship Managers are working effectively in collaborating with our partners at RBC to grow the mortgage business.

Supporting our clients

RBC FINCO was proud to be among the first financial institutions in The Bahamas to step up and offer proactive relief to clients in the earliest days of the global pandemic. In March, we immediately implemented automatic payment deferrals on mortgages across the board. We continued that relief by providing additional deferral options to clients until September 30, 2020. This allowed more clients to free up their cash flows when many were facing the severe economic impacts that the pandemic was causing on our economy.

Our employees demonstrated that they remained highly-engaged and dedicated to helping our clients through what may very well be one of the most challenging economic times they have faced—all while transitioning to a work-from-home environment and dealing with the added pressures this pandemic placed on them.

I want to thank our employees for their hard work, dedication, and commitment through this challenging time. As a company, we remain steadfast in our commitment to deliver service excellence and to help our clients thrive and communities prosper, even through the most difficult circumstances.

Building a better experience for our clients

To deliver solutions more efficiently and effectively, we continue to assess the end-to-end credit application process for simpler, faster and better service to our clients. We were able to capitalize on new processes which were put in place, yielding positive outcomes. Risk and monitoring controls have also been enhanced to mitigate losses. Reports are provided regularly to senior management, and quarterly to the Board of Directors, on the effectiveness of these controls.

RBC FINCO is also in the process of leveraging a new operating platform to bring more solutions, more convenience, and more flexibility to our clients. This new platform will eventually allow RBC FINCO to "Go Digital" and take advantage of the leading-edge online and mobile capabilities of the broader RBC network. This exciting work is underway and will continue into 2021.

As always, we continue to leverage RBC's international standards, policies and procedures, and best practices through various outsourced agreements to align with expectations of our compliance, anti-money laundering and operations divisions. This relationship and RBC's management oversight allows for sound risk management and governance practices at RBC FINCO.

Looking further in 2021

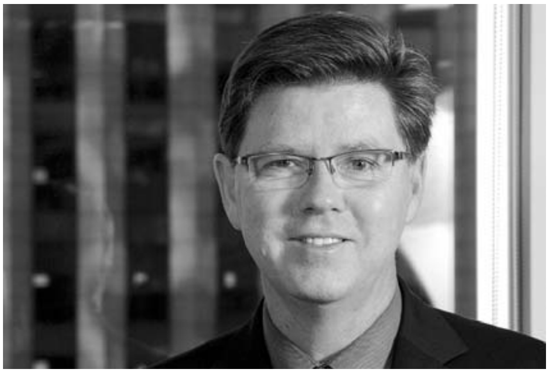
The Covid-19 pandemic has compounded existing economic challenges. While vaccines and the gradual return of tourism are positive developments, growth continues to be a challenge in The Bahamas with higher levels of unemployment exacerbated by the pandemic. In addition, prior to the pandemic Bahamians were already leveraged with higher amounts of consumer debt.

Despite these macroeconomic challenges, we continue to monitor changes in the Financial Services Industry and make adjustments appropriately to achieve sustainable long-term growth and profitability.

On behalf of the Board of Directors and executives of RBC FINCO, I would like to thank our clients for the confidence they continue to show in us as we continue to strengthen our business. I am pleased to report that our Likelihood-to-Recommend scores remained consistently high throughout the last fiscal year. Feedback from our clients demonstrates that they are seeing overall year-over-year improvements and that they remain confident in the strength and direction of RBC FINCO.

Ericka D. Rolle
Managing Director
Finance Corporation of Bahamas Limited

BOARD OF DIRECTORS



Robert G. Johnston
NON-EXECUTIVE DIRECTOR AND
CHAIRMAN OF THE BOARD
Head, RBC Caribbean Banking

Robert Johnston is Head, Caribbean Banking RBC (Financial) Caribbean Limited. He joined RBC's Caribbean Banking leadership team in July of 2014 and was appointed Head, Caribbean Banking in February 2015.

In his capacity as Head, Caribbean Banking, Johnston is responsible for the overall management of Caribbean Banking. He is responsible for the governance and regulatory management of RBC (Financial) Caribbean Limited and for interfacing with regulators throughout the Caribbean. In addition, he is also responsible for the operations and drives the strategic growth of the organization providing guidance, counsel and strategic direction to senior management within RBC's three key markets in the Caribbean and is chair of RBC Caribbean Banking's Governance Committee.

Johnston joined RBC in 1981 as a management trainee and has worked in the financial services sector for over 30 years and has held a variety of senior management and executive positions across RBC, including head of strategic planning and development for human resources, vice-president of service delivery & operations, vice-president diverse markets, head, sales strategy and support and regional president for Manitoba, Saskatchewan and Northern Ontario.

Johnston is a business administration graduate, and certified by the Gestalt Institute of Cleveland in organization and systems development. He is currently the Chairman of Finance Corporation of Bahamas Limited (FINCO) and RBC Royal Bank (Trinidad and Tobago) Limited. He is a Director of RBC Financial (Caribbean) Limited, RBC Royal Bank (Bahamas) Limited and RBC Investment Management (Caribbean) Limited, RBC CMA LLC.

Ericka D. Rolle
EXECUTIVE DIRECTOR
Managing Director
Finance Corporation of Bahamas Limited

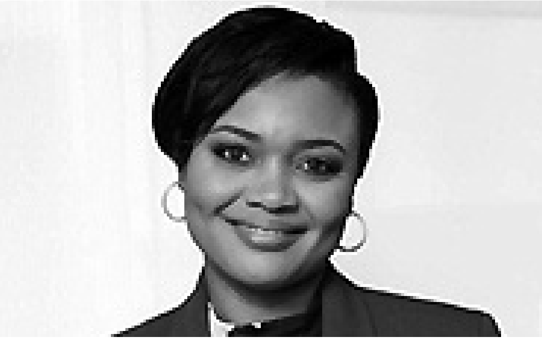
Ericka Rolle is the Managing Director for RBC FINCO. She also holds the position of Area Vice President, Specialized Sales Force, and has responsibility for this in The Bahamas and in the Turks and Caicos Islands.

Rolle has over 30 years of experience working in the financial sector. She has extensive banking expertise and has spent her career in The Bahamas and the United States.

Rolle rejoined RBC Royal Bank (Bahamas) Limited in 2017. Prior to that she served as District Manager for CIBC FirstCaribbean International Bank (Bahamas) Limited. Ericka had previously worked for RBC in a variety of roles from 2011 to 2016. During that time she held positions such as Branch Manager (Freeport), Assistant Branch

Manager (Palmdale), and Manager, Credit Support Services. From 1990 to 2011, Ericka held several roles with CIBC and Bank of America.

Rolle is an MBA candidate at Edinburgh Napier University in Edinburgh, Scotland, and is focusing her studies on leadership and innovation. She studied at Miami Lakes Technical College in Miami, Florida, and is a proud graduate of the Nassau Christian Academy. She has trained with the Canadian Securities Institute and has won several awards over the course of her career including the prestigious RBC Leo Award for exceptional performance.



LaSonya Missick
NON-EXECUTIVE DIRECTOR
Managing Director & Head of Personal Banking, The Bahamas & TCI

LaSonya Missick is the Managing Director and Head of Personal Banking for RBC Royal Bank (Bahamas) Limited. The Managing Director is the face of the Bank and the leader responsible for all governance and regulatory matters. In her dual role as Head of Personal Banking, she is responsible for leading the thirteen RBC branches in The Bahamas. Missick has led this group of retail branches over the past three years focusing on delivering an excellent banking experience to clients while also helping to achieve the Bank's business performance goals. She is also the former Chair of the Clearing Banks Association.

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

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

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

BOARD OF DIRECTORS *(continued)*

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

Nick Tomovski is Senior Vice President of Finance covering Personal & Commercial Banking, Technology and Operations and Functions at Royal Bank of Canada. He is responsible for providing financial advisory services to enable and support the Canadian Banking, Caribbean and U.S. Banking businesses, T&O and Functional groups in achieving their strategic initiatives and priorities.

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

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

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

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

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

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

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

Maria-Teresa G. S. Butler
INDEPENDENT NON-EXECUTIVE DIRECTOR
Retired Civil Servant

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

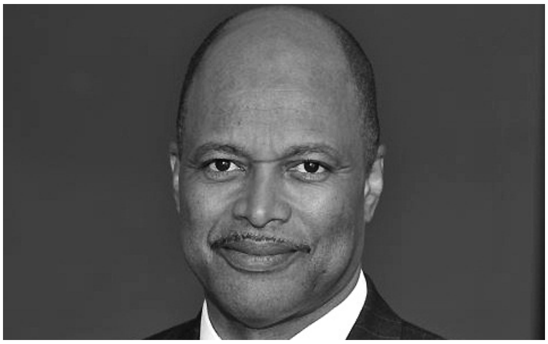
Butler served in the Bahamas Public Service between 1974 and 2002. She transferred to the Ministry of External Affairs in 1979 and was appointed to the Foreign Service in the Bahamas Embassy/Permanent Mission of The Bahamas to the Organisation of American States in Washington, D.C. in 1983.

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

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

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

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



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

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

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

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

The Bank's Independent Non-Executive Directors are Ross McDonald, Teresa Butler, and Anthony Robinson. They continue to meet the requirements of independence as stated in the relevant Corporate Governance Guidelines. There were 6 board meetings held during fiscal 2020 and the Directors attended an aggregate of 75% of the meetings.

CORPORATE GOVERNANCE REPORT

Introduction

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

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

Board Appointment / Training Process

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

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

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

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

Board Responsibilities

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

Directors' Independence

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

Director Compensation

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

Committee of the Board of Directors

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

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

Summary of Board Evaluation Results

The Directors conduct a periodic evaluation of the performance and effectiveness of the Board in light of its mandate. In this process, Directors provide their views on whether the Board is functioning effectively, as well as matters as specific as key strategic, operational and risk issues and the effectiveness of the director orientation and education programme. The results of the evaluation are reviewed by the full Board who consider whether any changes to the Board's processes, composition or committee structure appropriate. Based on the 2019 survey results, the Board is operating effectively and in accordance with its mandate.

Major Shareholdings and Voting Rights

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

Code of Conduct

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

Enterprise Risk Management

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

Risk Governance

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

BOARD OF DIRECTORS

The Board of Directors establishes the tone from the top, approves the Bank's risk appetite, provides oversight and carries out its risk management mandate primarily through its Audit Committee, which is charged with reviewing and approving the Bank's credit risk and operational risk reports. The Audit Committee also meets with management to discuss the effectiveness of steps taken by management to implement adequate controls to mitigate the risk of fraud.

The Board ensures that appropriate systems are in place, and that the Bank respects and complies with applicable regulatory, corporate, securities and other legal requirements, while remaining current with new/increasing risks applicable to the Bank's business environment. From an operational risk perspective the Board monitors the integrity and effectiveness of the Bank's internal controls and management information systems.

RBC CARIBBEAN BANKING SENIOR EXECUTIVES AND SENIOR MANAGEMENT OF THE BANK

- Actively shape RBC Caribbean Banking's risk appetite;
- Establish the tone from the top and visibly support and communicate enterprise risk appetite, ensuring that sufficient resources and expertise are in place to help provide effective oversight of adherence to the enterprise risk appetite;
- Ensure alignment of strategic planning, financial planning, capital planning, and risk appetite.

1ST LINE OF DEFENCE

Risk Owners

- Business and Support Functions embedded in the business;
- Accountable for: identification, assessment, mitigation, monitoring and reporting of risk against approved policies and appetite.

2ND LINE OF DEFENCE

Risk Oversight

- Establishes risk management practices and provides risk guidance;
- Provides oversight of the effectiveness of First Line risk management practices;
- Monitors and independently reports on the level of risk against established appetite.

3RD LINE OF DEFENCE

Independent Assurance

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

Risk Appetite

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

Internal Audit

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

Compliance

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

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

Global Compliance does this through:

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

FINANCE CORPORATION OF BAHAMAS LIMITED

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

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

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

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

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

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

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

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

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

i. The value of all material benefits and compensation paid to directors collectively did not exceed $2.1 million dollars for the calendar year;

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

This Certificate is in respect of the calendar year 2020.

ERICKA ROLLE

ROBERT JOHNSTON

ANTHONY ROBINSON

LASONYA MISSICK

ROSS MCDONALD

NICK TOMOVSKI

TERESA BUTLER

Dated this 21st day of January 2021

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 "Group") which comprise the consolidated statement of financial position as at October 31, 2020 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 judgement in the determination of estimates.

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

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

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

Managing Director
January 21, 2021

Senior Manager, Finance Northern Caribbean
January 21, 2021

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, 2020, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at October 31, 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

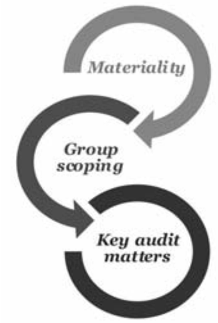
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



- Overall group materiality: $2,200,000, which represents approximately 1% of net assets.

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

- Inputs into stage 1 and stage 2 expected credit loss calculations for loans and advances to customers
- Qualitative & quantitative adjustments to allowance for credit losses

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

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

A full scope audit was performed on both the Bank and its subsidiary resulting in 100% coverage. Both entities were audited by PwC Bahamas. In respect of the Bank, we were assisted by our component team, PwC Canada who were instructed by the Group engagement team to perform specified procedures over certain financial information. The Group engagement team determined the level of involvement required and reviewed all reports with regards to the approach and findings of the component auditor in detail. This together with additional procedures performed at the Group level, provided us with the evidence we needed for our opinion on the Group's consolidated financial statements as a whole.

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

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

Overall Group materiality	$2,200,000
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 $110,000, 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
Inputs into the stage 1 and stage 2 expected credit loss calculations for loans and advances to customers. *Refer to notes 2(c) and 5 to the consolidated financial statements for disclosures of related accounting policies and balances.*	
Included in the allowance for credit losses for loans and advances to customers are provisions in the amount of $56,583,642 for loans classified in stage 1 and stage 2 as at October 31, 2020.	We evaluated the design and tested the operating effectiveness of the relevant controls relating to the review of historical data applied in the model.

The key assumption used in the Group's expected credit loss model for loans and advances to customers for the following parameter assumptions – Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) – is the number of days past due observed for the Group over a set horizon. Using this data, the Group develops a transition matrix for each parameter.

The days past due inputs into the model were a key area of focus due to the significance of the days past due assumptions within the Group's expected credit loss model and because inaccuracies in the historical number of days past due could have a pervasive impact on all risk parameters.

We tested the significant inputs surrounding days past due within the parameter estimation assumptions and performed the following:

- Reperformed the automatic calculation of days past due in the Group's banking system on a sample basis.
- Tested, on a sample basis, the accuracy of the historical days past due information used in the development of the individual model parameters (PD, LGD, EAD) by agreeing the details of the loan delinquency and customer payment profile to source documents.

No material adjustments were noted as a result of the procedures performed.

Qualitative & quantitative adjustments to allowance for credit losses

Refer to note 5 to the consolidated financial statements for disclosures of related accounting policies and balances.

Management's determination of the allowance for credit losses (ACL) was significantly impacted by the effect the Covid-19 global pandemic may have on the Group's customers' ability to service their loans as well as by the Group's implementation of a client relief programme to allow customers to defer loan payments over a moratorium period. As a result, the expected credit loss has a higher than usual degree of uncertainty and the inputs used are inherently subjective, which may materially impact the estimate of the stage 1 and stage 2 ACL in future periods.

To address the uncertainties inherent in the current and future economic environment, and to estimate the impact of staging on the mortgage portfolio due to the client relief programmes implemented, the Group made a qualitative and quantitative adjustment to its ACL model to estimate the resulting impact of the pandemic on its stage 1 and stage 2 ACL.

In addition to the adjustment for Covid-19, the Group made a further qualitative adjustment to its ACL to estimate the resulting impact of Hurricane Dorian which affected the northern islands of The Bahamas in September 2019. Management of the Group performed an assessment of the total exposure on the impacted islands. Using historical experience from past hurricanes, the Group adjusted its PD and LGD upwards considering all relevant available information. The Group considered alternative loss scenarios for reasonable possible changes to the assumptions considering macroeconomic conditions.

Due to the significant level of judgement required by management and the lack of available data, there is a high degree of estimation uncertainty surrounding the impact Covid-19 and the hurricane had on the ACL, which resulted in this being a key area of focus.

We obtained an understanding of management's process for the adjustments to the expected credit loss model.

We further performed the following, amongst other procedures:

- we evaluated management's process for estimating the stage 1 and stage 2 ACL, including their consideration of the economic disruption caused by Covid-19;
- we evaluated the appropriateness of the significant inputs and assumptions used in the design of the future macroeconomic scenarios and the forecasted macroeconomic variables including the consistency of these assumptions with external market and industry data;
- we tested management's assumptions by comparing to data from previous comparable hurricane events in the Caribbean region. Specifically, using external data, we evaluated the reasonableness of management's judgmental loss scenario assumptions by assessing the severity and impact of the hurricane on Grand Bahama against previous hurricane events in the Caribbean;
- we evaluated the assumptions used by management to increase the PD and LGD inputs for its adjustment made due to the hurricane and assessed them against increases for similar past events;
- we performed a recalculation of the overlay calculations.

Based on the procedures performed, the qualitative and quantitative adjustments to the ACL were not unreasonable.

Other information

Management is responsible for the other information. The other information comprises the RBC FINCO Annual Report 2020 (but does not include the consolidated financial statements and our auditors' report thereon), which is expected to be made available to us after the date of this auditors' report.

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

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

When we read the RBC FINCO Annual Report 2020, 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 skepticism throughout the audit. We also:

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers

Chartered Accountants
Nassau, Bahamas

January 29, 2021

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT OCTOBER 31, 2020
(Expressed in Bahamian Dollars)

	Notes	2020 $	2019 $
ASSETS			
Cash and cash equivalents	3	22,913,487	36,766,118
Balance with central banks	4	42,106,650	43,857,068
Loans and advances to customers	5	656,142,377	685,328,230
Investment securities	6	27,539,257	29,565,031
Premises and equipment	7	126,733	29,547
Other assets		7,931,308	4,503,631
Total Assets		**756,759,812**	**800,049,625**
LIABILITIES			
Customer deposits	8	379,571,167	464,509,564
Due to affiliated companies	21	155,656,581	111,987,957
Other liabilities	9	3,224,400	6,440,381
Total Liabilities		**538,452,148**	**582,937,902**
EQUITY			
Share capital	11	5,333,334	5,333,334
Share premium		2,552,258	2,552,258
Other components of equity	11	12,093	17,691
Retained earnings		210,409,979	209,208,440
Total Equity		**218,307,664**	**217,111,723**
Total Liabilities and Equity		**756,759,812**	**800,049,625**

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

Ericka Rolle, Director
January 21, 2021

LaSonya Missick, Director
January 21, 2021

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

FINANCE CORPORATION OF BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED OCTOBER 31, 2020

(Expressed in Bahamian Dollars)

	Notes	2020 $	2019 $
INCOME			
Interest income	13	45,297,448	47,752,784
Interest expense	14	(7,627,353)	(8,651,158)
Net interest income		**37,670,095**	**39,101,626**
Non-interest income	15	1,965,510	2,958,202
Total Income		**39,635,605**	**42,059,828**
Non-interest expenses	16	(14,185,276)	(14,408,302)
Provision for credit losses	17	(16,248,789)	(6,825,373)
Net Income		**9,201,540**	**20,826,153**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to net income			
Net gain on investments in debt instruments measured at FVOCI		3,598	31,365
Expected credit (recoveries)/losses on FVOCI investments		(9,196)	2,066
Total Comprehensive Income		**9,195,942**	**20,859,584**
Earnings per share (basic and diluted)	12	**0.35**	**0.78**

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

FINANCE CORPORATION OF BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED OCTOBER 31, 2020

(Expressed in Bahamian Dollars)

	Share Capital $	Share Premium $	Other Components of Equity $	Retained Earnings $	Total $
As at November 1, 2018	5,333,334	2,552,258	(15,740)	193,715,621	201,585,473
Comprehensive income					
Net income	–	–	–	20,826,153	20,826,153
Other comprehensive income	–	–	33,431	–	33,431
Total Comprehensive Income	–	–	33,431	20,826,153	20,859,584
Transactions with owners					
Dividends (Note 18)	–	–	–	(5,333,334)	(5,333,334)
Total transactions with owners	–	–	–	(5,333,334)	(5,333,334)
As at October 31, 2019	**5,333,334**	**2,552,258**	**17,691**	**209,208,440**	**217,111,723**
As at November 1, 2019	5,333,334	2,552,258	17,691	209,208,440	217,111,723
Comprehensive income					
Net income	–	–	–	9,201,540	9,201,540
Other comprehensive income	–	–	(5,598)	–	(5,598)
Total comprehensive income	–	–	(5,598)	9,201,540	9,195,942
Transactions with owners					
Dividends (Note 18)	–	–	–	(8,000,001)	(8,000,001)
Total transactions with owners	–	–	–	(8,000,001)	(8,000,001)
As at October 31, 2020	**5,333,334**	**2,552,258**	**12,093**	**210,409,979**	**218,307,664**

Dividends per share (Note 18) $0.30 (2019: $0.20)

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

FINANCE CORPORATION OF BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED OCTOBER 31, 2020

(Expressed in Bahamian Dollars)

	Notes	2020 $	2019 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		9,201,540	20,826,153
ADJUSTMENTS FOR:			
Provision for credit losses	17	16,248,789	6,825,373
Depreciation and amortization	7	86,886	46,503
Gain on disposal of premises and equipment		–	(922,553)
		25,537,215	26,775,476
(INCREASE) / DECREASE IN OPERATING ASSETS:			
Balance with central banks		1,750,418	15,911,238
Loans and advances to customers		13,302,497	11,773,015
Other assets		(3,427,932)	462,308
INCREASE / (DECREASE) IN OPERATING LIABILITIES:			
Customer deposits		(84,938,397)	(38,404,160)
Due to affiliated companies		43,668,624	3,902,638
Other liabilities		(3,215,981)	1,670,366
Net cash (used in)/from operating activities		**(7,323,556)**	**22,090,881**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of premises and equipment		–	1,106,043
Purchase of premises and equipment	7	(184,072)	–
Proceeds from maturity of investments	6	1,651,400	1,238,100
Net cash from investing activities		**1,467,328**	**2,344,143**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	18	(8,000,001)	(5,333,334)
Net cash used in financing activities		**(8,000,001)**	**(5,333,334)**
NET (DECREASE)/INCREASE IN CASH & CASH EQUIVALENTS		**(13,856,229)**	**19,101,690**
Effects of fair value changes on cash and cash equivalents		3,598	31,365
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		36,766,118	17,633,063
CASH AND CASH EQUIVALENTS, END OF YEAR		**22,913,487**	**36,766,118**
SUPPLEMENTAL INFORMATION:			
Interest received		41,953,810	47,262,816
Interest paid		(8,473,582)	(8,917,737)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2020

1. INCORPORATION AND BUSINESS ACTIVITIES

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

The Bank's 75% majority ownership was previously held by RBC Royal Bank Holdings (Bahamas) Limited, a company incorporated in Barbados. On April 29, 2019 the Bank's majority interest was sold to the current Immediate Parent.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Notes 2(c), 2(k) and 25.

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, 2019 were either not relevant or not significant to the Group's operations and accordingly did not have a material impact on the Group's accounting policies or consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Basis of preparation (continued)

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

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.

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 subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

c. Financial instruments

Classification and measurement of financial assets

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

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

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

All other debt instruments are measured at FVTPL.

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

Business model assessment

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

- How the economic activities of the business generate benefits, for example through trading revenue, enhancing yields or other costs and how such economic activities are evaluated and reported to key management personnel;
- The significant risks affecting the performance of the business, for example, market risk, credit risk, or other risks as described in the Risk Management Note 23, and the activities taken to manage those risks;

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Classification and measurement of financial assets (continued)

Business model assessment (continued)

- Historical and future expectations of sales of the instruments managed as part of a business model; and
- The compensation structures for managers of the businesses within the Group, to the extent that these are directly linked to the economic performance of the business model.

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

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

SPPI assessment

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

Investment Securities

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Classification and measurement of financial assets *(continued)*

Investment Securities (continued)

Equity securities carried at FVOCI are measured at fair value. Unrealized gains and losses arising from changes in fair value are recorded in other components of equity and are not subsequently reclassified to net income when realized. Dividends from FVOCI securities are recognized in interest income.

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

Loans and advances to customers

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

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

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

Allowance for credit losses

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Allowance for credit losses (continued)

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

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

Performing financial assets:

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

Impaired financial assets:

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

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

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

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

Measurement of expected credit losses

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

An expected credit loss estimate is produced for each portfolio segment. Relevant parameters are modeled on a collective basis using portfolio segmentation that allows for appropriate

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Allowance for credit losses (continued)

Measurement of expected credit losses (continued)

incorporation of forward-looking information. To reflect other characteristics that are not already considered through modeling, expert credit judgment is exercised in determining the final expected credit losses using a range of possible outcomes.

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

Expected life

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

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

Assessment of significant increase in credit risk

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

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

1) The instrument is 30 days past due.
2) The account is included in the watch-list reporting process. The watch-list process is considered fundamental in identifying early signs of deterioration on existing accounts.
3) The account is managed by the Regional Special Loan Unit (RSLU). The RSLU portfolio is a mix of accounts which are in default and accounts with minimal or no delinquency. The latter remains within the purview of the specialized management team due to circumstances other than delinquency which marks the account as having a higher risk component.

To support the Group's clients during the COVID-19 pandemic, the Group launched a hardship relief program. Utilization of a payment deferral program does not, all else being equal, automatically trigger a significant increase in credit risk. The Group's assessment of significant increases in credit risk is primarily based on the approach described above and projections of an increase in probability of default (PD) in the portfolio.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Allowance for credit losses (continued)

Use of forward-looking information

The PD and LGD inputs used to estimate the Stage 1 and Stage 2 credit loss allowances under the IFRS 9 model are modeled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in the Group's expected credit loss calculation includes a projection of all relevant macroeconomic variables used in the models for a five year period. Macroeconomic variables used in the expected credit loss models include, but are not limited to, unemployment rate, GDP and inflation rate.

The emergence of the COVID-19 global pandemic significantly impacted the Group's economic outlook. The Group closely tracked economic growth projections and set an allowance that reflected the underlying economic conditions. The Group's analysis also considered tourism projections, vulnerable sectors affected by COVID-19, levels of multilateral support and the effects of bank and government led payment support programs.

The environment, including government support measures introduced, were rapidly evolving and as a result, the macroeconomic outlook had a higher than usual degree of uncertainty and was inherently subject to change, which materially changed the Group's credit loss allowance. The Group closely monitored changes in conditions and its impact on expected credit losses, and updated its macroeconomic variables as the impact of COVID-19 progressed.

Further details on the Group forward looking assumptions and scenarios as at October 31, 2020 are provided in Note 5.

Scenario Design

The Group's estimation of expected credit losses in Stage 1 and Stage 2 is a discounted probability weighted estimate that considers a minimum of three future macroeconomic scenarios. Scenarios and scenario weights are set at the RBC Group level; considering the RBC baseline forecast and reasonable downside and upside assumptions. Scenarios are global in nature and include predictions of macroeconomic conditions in North America, Europe and the Caribbean. Having scenarios and scenario weights set at the enterprise level allows RBC to have a consistent view of macroeconomic scenarios across business lines and legal entities.

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

Definition of default

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Allowance for credit losses (continued)

Credit-impaired financial assets (Stage 3)

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

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

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

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

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

Individually assessed loans (Stage 3)

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

Individually-assessed allowances are established in consideration of a range of possible outcomes, to the extent relevant to the circumstances of the specific borrower being assessed. Assumptions used in estimating expected future cash flows reflect current and expected future economic conditions and are generally consistent with those used in Stage 1 and Stage 2 measurement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Allowance for credit losses (continued)

Individually assessed loans (Stage 3) (continued)

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

Collectively assessed loans (Stage 3)

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

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

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

Write-off of loans

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

Modifications

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

A modified financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment, as described above.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Allowance for credit losses (continued)

Modifications (continued)

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

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

Determination of fair value

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

The Group has established policies, procedures and controls for valuation methodologies and techniques to ensure fair value is reasonably estimated. Major valuation processes and controls include, but are not limited to, profit and loss decomposition, independent price verification (IPV) and model validation standards. These control processes are managed by either Finance or Group Risk Management and are independent of the relevant businesses and their trading functions. All fair value instruments are subject to IPV, a process whereby trading function valuations are verified against external market prices and other relevant market data. Market data sources include traded prices, brokers and price vendors. The Group gives priority to those third-party pricing services and prices having the highest and most consistent accuracy. The level of accuracy is determined over time by comparing third-party price values to traders' or system values, to other pricing service values and, when available, to actual trade data. Other valuation techniques are used when a price or quote is not available. Some valuation processes use models to determine fair value. The Group has a systematic and consistent approach to control model use. Valuation models are approved for use within the Group's model risk management framework. The framework addresses, among other things, model development standards, validation processes and procedures, and approval authorities. Model validation ensures that a model is suitable for its intended use and sets parameters for its use. All models are revalidated regularly.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Determination of fair value (continued)

Level 3 inputs are inputs that are unobservable. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available at the measurement date. The availability of inputs for valuation may affect the selection of valuation techniques. The classification of a financial instrument in the hierarchy for disclosure purposes is based upon the lowest level of input that is significant to the measurement of fair value. Where observable prices or inputs are not available, management judgement is required to determine fair values by assessing other relevant sources of information such as historical data, proxy information from similar transactions, and through extrapolation and interpolation techniques. For more complex or illiquid instruments, significant judgement is required in the determination of the model used, the selection of model inputs, and in some cases, the application of valuation adjustments to the model value or quoted price for inactively traded financial instruments, as the selection of model inputs may be subjective and the inputs may be unobservable. Unobservable inputs are inherently uncertain as there is little or no market data available from which to determine the level at which the transaction would occur under normal business circumstances. Appropriate parameter uncertainty and market-risk valuation adjustments for such inputs and other model-risk valuation adjustments are assessed in all such instances.

Transaction costs

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

Offsetting financial assets and financial liabilities

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

Derecognition of financial assets

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

Management's judgement is applied in determining whether the contractual rights to the cash flows from the transferred assets have expired or whether the Group retains the rights to receive cash flows on the assets but assume an obligation to pay for those cash flows. The Group derecognizes transferred financial assets if it transfers substantially all the risk and rewards of the ownership in the assets. When assessing whether the Group has transferred substantially all of the risk and rewards of the transferred assets, management considers the entity exposure before and after the transfer with the variability in the amount and timing of the net cash flows of the transferred assets.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Derecognition of financial assets (continued)

In transfers that the Group retains the servicing rights, management has applied judgement in assessing the benefits of servicing against market expectations. When the benefits of servicing are greater than fair market value, a servicing asset is recognized in other assets in the consolidated statement of financial position. When the benefits of servicing are less than fair market value, a servicing liability is recognized in other liabilities in the consolidated statement of financial position.

Derecognition of financial liabilities

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

d. Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

e. Customer deposits

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

f. Income and expense recognition

Interest income and expense

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

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or where appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Income and expense recognition (continued)

Interest income and expense (continued)

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.

Commissions and fees

Commission and fees primarily relate to transactions service fees and commissions and are recognized based on the applicable service contracts with customers.

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

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

Expenses are recognized on the accrual basis.

g. Premises and equipment

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

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

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 costs 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Impairment of tangible assets

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

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

i. Cash and cash equivalents

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

j. Leases

Until October 31, 2019, leases of premises and equipment were classified as either finance leases or operating leases. From November 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

k. Provisions

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

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

l. Share capital

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

m. Dividends

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Employee benefits

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

Defined benefit plan

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

Defined contribution plan

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

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

o. Taxation

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

p. Segment reporting

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

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

q. Corresponding figures

Corresponding figures were amended in Note 5 to align the presentation of other and net write-offs with the current year.

3. CASH AND CASH EQUIVALENTS

	2020 $	2019 $
Treasury bills	7,945,819	7,977,800
Due from banks	14,967,668	28,788,318
	22,913,487	**36,766,118**

Cash on hand represents cash held in vaults and cash dispensing machines. Due from banks are deposits held with other banks on demand or for fixed periods up to three months. Treasury bills have original maturities up to three months. Due from banks are non-interest bearing. Treasury bills earn interest rates ranging from 1.70% to 2.18% (2019: 1.60% to 1.68%).

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 $19,273,950 (2019: $24,619,388) which is based on a ratio to customers' deposits. Fluctuations in balances with central banks are generally due to movement in investment securities and customer deposits denominated in Bahamian dollars.

5. LOANS AND ADVANCES TO CUSTOMERS

	2020	2019
	$	$
Retail	528,574	697,580
Home equity and other mortgages	183,979,228	196,380,011
Residential mortgages	580,660,719	584,663,862
Government insured mortgages	486,580	610,116
	765,655,101	782,351,569
Allowance for credit losses	(106,571,233)	(93,476,011)
Loan origination fees and costs (net)	(2,941,491)	(3,547,328)
	656,142,377	**685,328,230**

Loans categorized by performance are as follows:

	2020	2019
	$	$
Stage 1	584,906,582	636,044,072
Stage 2	97,300,325	44,486,041
Stage 3	83,448,194	101,821,456
	765,655,101	**782,351,569**

Loans categorized by maturity are as follows:

	2020	2019
	$	$
Current (due within one year)	11,926,859	15,155,466
Non-current (due after one year)	753,728,242	767,196,103
	765,655,101	**782,351,569**

Loans and advances classified as stage 3 represent 10.90% (2019: 13.01%) of the total loans and advances portfolio. The allowance for impairment losses represents 13.92% (2019: 11.95%) of the total loans and advances portfolio and the stage 3 allowance represents 59.90% (2019: 63.91%) of the total stage 3 loans.

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Allowance for credit losses

Allowance for credit losses consists of the following:

	For the year ended October 31, 2020				
	Balance at beginning of year	Provision for credit losses	Net write-offs	Other	Balance at end of year
	$	$	$	$	$
Retail	5,519	76,010	(69,231)	(988)	11,310
Mortgages	93,470,492	15,807,346	(4,513,792)	1,795,877	106,559,923
	93,476,011	**15,883,356**	**(4,583,023)**	**1,794,889**	**106,571,233**
The above includes:					
Undrawn loan commitments	303,811	220,610	–	–	524,421

	For the year ended October 31, 2019				
	Balance at beginning of year	Provision for credit losses	Net write-offs	Other	Balance at end of year
	$	$	$	$	$
Retail	1,014	461,802	(454,054)	(3,243)	5,519
Mortgages	94,900,880	7,216,627	(7,642,181)	(1,004,834)	93,470,492
	94,901,894	**7,678,429**	**(8,096,235)**	**(1,008,077)**	**93,476,011**
The above includes:					
Undrawn loan commitments	287,000	12,955	–	3,856	303,811

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

- Transfers between stages, which are presumed to occur before any corresponding remeasurements.
- Purchases and originations, which reflect the newly recognized assets and the related allowance during the period.
- Derecognitions and maturities, which reflect the assets and related allowance derecognized during the period without a credit loss being incurred.
- Remeasurements for allowances, which comprise of the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in the measurement following a transfer between stages; and unwinding of the time value discount due to the passage of time. For gross carrying amounts, this represents additional draws, repayments, and the accrual of interest under the effective interest method.

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Allowance for credit losses (continued)

	For the year ended October 31, 2020			
	Allowance for Credit Losses			
	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Balance at beginning of year	13,813,669	14,590,538	65,071,804	93,476,011
Provision for credit losses				
Model changes	–	–	–	–
Transfers in/(out) to Stage 1	19,051,410	(6,724,783)	(12,326,627)	–
Transfers in/(out) to Stage 2	(1,560,260)	4,495,455	(2,935,195)	–
Transfers in/(out) to Stage 3	(279,307)	(2,874,989)	3,154,296	–
Purchases and originations	889,158	–	–	889,158
Derecognitions and maturities	(484,175)	(339,359)	–	(823,534)
Remeasurements	(17,890,208)	33,896,493	(188,553)	15,817,732
Write-offs	–	–	(9,283,137)	(9,283,137)
Recoveries	–	–	4,700,114	4,700,114
Other	–	–	1,794,889	1,794,889
Balance at end of year	**13,540,287**	**43,043,355**	**49,987,591**	**106,571,233**

	For the year ended October 31, 2019			
	Allowance for Credit Losses			
	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Balance at beginning of year	15,268,263	12,351,670	67,281,961	94,901,894
Provision for credit losses				
Model changes	–	–	–	–
Transfers in/(out) to Stage 1	16,311,383	(6,035,155)	(10,276,228)	–
Transfers in/(out) to Stage 2	(1,098,956)	2,760,359	(1,661,403)	–
Transfers in/(out) to Stage 3	(358,820)	(3,439,109)	3,797,929	–
Purchases and originations	1,167,761	–	–	1,167,761
Derecognitions and maturities	(586,789)	(680,943)	–	(1,267,732)
Remeasurements	(16,889,173)	9,633,716	15,033,857	7,778,400
Write–offs	–	–	(11,962,672)	(11,962,672)
Recoveries	–	–	3,866,437	3,866,437
Other	–	–	(1,008,077)	(1,008,077)
Balance at end of year	**13,813,669**	**14,590,538**	**65,071,804**	**93,476,011**

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

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Allowance for credit losses (continued)

Key inputs and assumptions:

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

Further details on the key inputs and assumptions used as at October 31, 2020 are provided in Note 2(c).

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

ACL on performing loans (1)	2020 $	2019 $
Carrying value	56,583,642	28,404,207
Base scenario	56,170,760	28,359,749

(1) Represents Stage 1 and Stage 2 ACL on loans, acceptances, and commitments.

Transfers between stages

Transfers between Stage 1 and Stage 2 is based on the assessment of significant increases in credit risk relative to initial recognition. Refer to Note 2(c) for further details on the Group's policy for assessing for significant increase in credit risk. The impact of moving from 12 months expected losses to lifetime credit losses, or vice versa, varies by product and is dependent on the expected remaining life at the date of the transfer. Stage transfers may result in significant fluctuations in expected credit losses.

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

	Performing Loans (1)	
	2019 $	$
ACL – all performing loans in Stage 1	15,779,195	15,015,534
Impact of staging	40,804,447	13,388,673
Stage 1 and 2 ACL	**56,583,642**	**28,404,207**

(1) Represents Stage 1 and Stage 2 ACL on loans, acceptances, and commitments.

Hurricane disclosure

In September 2019, Hurricane Dorian made landfall over Abaco and Grand Bahama as a Category 5 storm on the Saffir-Simpson hurricane wind scale, bringing sustained winds of approximately 180 miles per hour, heavy rains and storm surge. Grand Bahama took on massive flooding in some areas, affecting houses, the international airport, roads and bridges. Abaco, the most severely affected island, suffered significant damage in its private and public infrastructure; including thousands of flattened homes, downed power lines and damaged roads and water wells.

The Group does not have exposures in Abaco but approximately 11% of the portfolio corresponds to Grand Bahama. The hurricane was a significant event for the legal entity.

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Allowance for credit losses (continued)

Key inputs and assumptions: (continued)

Hurricane disclosure (continued)

An assessment was conducted of the Grand Bahama portfolio to estimate expected credit losses arising from the destruction caused by the hurricane. As a result of this assessment, the allowance for credit losses as of October 31, 2020 was increased to reflect our continued estimate of expected losses as a result of the hurricane. This allowance was determined based on reports of damage across Grand Bahama and taking into account historical experience from prior hurricanes. The historical events considered include includes St Maarten (hurricane Irma, 2017), Dominica (hurricane Maria, 2017), Puerto Rico (hurricane Maria, 2017) and Bahamas (hurricane Matthew, 2016).

To quantify estimate, the Group relied upon two significant assumptions: Probability of Default (PD) and Loss Given Default (LGD). The Group adjusted both assumptions upward taking into account all relevant available information. The PD of the portfolio was assumed to increase 10% in absolute terms as a result of the hurricane impact. This assumption is aligned with the historical experience of St Maarten, Dominica and Puerto Rico. The LGD parameters were set taking into account historical loss severities of the legal entity, reports on proportion of houses severely damaged and our internal historical experience on prior hurricanes.

The key assumptions used in the estimation of the allowance were reviewed internally by credit experts and tested for sensitivity by applying reasonable possible change to the assumptions, considering potential alternative loss scenarios resulting from macroeconomic conditions, government support and levels of property damage, which may vary materially from the Group initial expectations. Due to the high degree of subjectivity inherent in the assumptions, the Group has quantified the impact of alternative, but reasonably possible scenarios considered on the allowance as of October 31, 2020.

COVID-19 Pandemic – Loans and Advances

The COVID-19 global pandemic significantly impacted the Group's determination of allowance for credit losses and required the application of heightened judgement. Following the announcement of COVID-19 as a global pandemic on March 11, 2020 by the World Health Organization (WHO), there was a significant downturn in the level of economic activity across the globe. The significant decline in economic activity has been accompanied by unprecedented levels of government support and central bank policies that resulted in low interest rates and the roll out or strengthening of programs that supported companies, payroll and the unemployed.

In the case of the Caribbean, the level of economic contraction has been severe as a result of the reduction of tourist inflows to the region. The adverse impact on the Group's retail and mortgage clients has been partially mitigated through government support programs, multilateral and other external support (including the IMF, WB, IDB and the CDB) and the rollout of payment deferral programs by the banking sector.

The recent resurgence of virus spread and re-imposition of containment measures to varying degrees, along with the announcement of effective vaccines, has raised further uncertainty with regards to the timing and extent of the economic recovery and resulting expected credit losses. As there is uncertainty on how tourism, economic activity and the portfolio will react to these conditions, the Group's allowances have a higher than usual degree of uncertainty. The inputs used in the calculation of the allowance are inherently subject to change, which may materially impact the Group's estimate of the allowance for expected credit losses.

The Group's allowance for credit losses on the loan portfolios as at October 31, 2020 reflect a significant increase year over year as a result of the COVID-19 pandemic. The pre-existing IFRS 9 model could not solely be used to determine expected credit losses on the portfolio as it was not originally designed with events of this magnitude in mind. As a consequence, a model overlay was used to account for incremental expected losses not solely captured by the IFRS 9 model.

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Allowance for credit losses (continued)

Key inputs and assumptions: (continued)

COVID-19 Pandemic – Loans and Advances (continued)

To address the uncertainties inherent in the current environment and to reflect all relevant risk factors not captured in the model, the Group applied expert credit judgement in the design of the overlay and the determination of inputs used in the calculation of the allowance. In light of the significant uncertainty, the impact of expert credit judgement on the Group's allowances increased as compared to the previous year. The Group applied qualitative adjustments to macroeconomic projections, the assumed credit response of the portfolio to the macroeconomic conditions, levels of loss severity and the determination of significant increase in credit risk.

Key inputs and assumptions:

The measurement of expected credit losses is a complex calculation that involves a large number of inputs and assumptions. The key drivers of changes in expected losses include the following:

- Forward looking macroeconomic projections;
- Internal assessment on the level of resilience of large wholesale clients to the COVID-19 pandemic;
- Scenario design and the weights associated with each scenario; and
- Transfers between stages, which can result from changes in any of the above inputs.

Forward looking macroeconomic projections

The PD and LGD inputs used to predict expected credit losses are primarily based on GDP growth projections. The assumed level of response of the PD to the level of economic contraction was informed by historical events and expert judgement. The LGDs used in the calculation of the Group's allowance were qualitatively adjusted upwards to reflect higher expected time to resolution for future defaults secured with real estate collateral. The Group's allowance for credit losses reflect the Group's economic outlook as at October 31, 2020. Subsequent changes to this forecast and related estimates will be reflected in the Group's allowance for credit losses in future periods.

The Group's base scenario assumes the current low levels of economic activity and tourist inflows remain throughout the winter with a recovery that starts gradually around the spring of 2021. The Group's downside scenario considers a higher than expected level of economic contraction in the Caribbean as a result of global and local measures to contain the pandemic. The Group's upside scenario considers a marginal improvement on base conditions resulting from a higher and faster than expected economic recovery. The forecasts of GDP growth rates were informed by external benchmarks and the Group's own internal views which reflect the opinion and feedback from the Group's economist, management and the business.

Changes in scenario design and the weights associated to each scenario

The Group's approach to set scenarios and scenario weights was described in Note 2. All scenarios considered in the Group's analysis include the impact of the pandemic as at October 31, 2020; reflective of current economic conditions. In determining the Group's IFRS 9 allowance for credit losses, we reassessed the Group's scenario weights to more heavily weigh the best case scenario relative to October 31, 2019. Since the onset of the global spread of the COVID-19 pandemic, we have reflected continued uncertainty and downside risk of a prolonged recovery by shifting additional weighting to the Group's pessimistic scenarios. The possibility of a more prolonged recovery period has been reflected in the Group's scenario design and weights.

The impact of weighting multiple scenarios on the Group's final allowance was illustrated above; where we compare the final allowance versus expected credit loss predictions under the base scenario.

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Allowance for credit losses (continued)

Key inputs and assumptions: (continued)

COVID-19 Pandemic – Loans and Advances (continued)

Transfers between stages
Further to the Group's current policy for transfers between stages as described in Note 2, as part of the Group's overlay, we qualitatively increased the transfers from stage 1 to stage 2 to reflect the current challenging economic environment. This qualitative adjustment was informed by economic projections, scenario weights and historical behaviour of the Group's portfolio. The impact of staging on the Group's allowance was illustrated above; where we compared the final allowance versus an expected credit loss calculated under the assumption that all loans are in stage 1.

6. INVESTMENT SECURITIES

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

	2020	2019
	$	$
Bahamas Government debt securities	27,189,400	28,840,800
Locally issued corporate bonds	2,738,400	2,738,400
	29,927,800	31,579,200
Allowance for expected credit losses	(2,388,543)	(2,014,169)
	27,539,257	**29,565,031**

Investments categorized by maturity are as follows:

Current (due within one year)	2,296,600	1,651,400
Non-current (due after one year)	27,631,200	29,927,800
	29,927,800	**31,579,200**

Investment securities have maturities ranging from 2020 to 2037 (2019: 2020 to 2037) and with floating interest rates ranging from 0.125% to 1.625% (2019: 0.125% to 1.625%) above the B$ Prime rate of 4.25% (2019: 4.25%). As at October 31, 2020, the cost of investment securities totaled $29,927,800 (2019: $31,579,200), all of which is comprised of level 2 securities in the fair value hierarchy (Note 25).

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

	2020	2019
	$	$
Balance, beginning of year	29,565,031	29,948,060
Maturities	(1,651,400)	(1,238,100)
(Increase)/decrease in allowance for credit losses	(374,374)	855,071
Balance, end of year	**27,539,257**	**29,565,031**

6. INVESTMENT SECURITIES (CONTINUED)

Allowance for credit losses on investment securities

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

- Transfers between stages, which are presumed to occur before any corresponding remeasurement of the allowance.
- Purchases and originations, which reflect the allowance related to assets newly recognized during the period.
- Derecognitions and maturities, which reflect the allowance related to assets derecognized during the period without a credit loss being incurred.
- Remeasurements, which comprise the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; partial repayments and changes in the measurement following a transfer between stages.
- During the twelve months ended October 31, 2020, there were no significant changes to the models used to estimate expected credit losses.

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

Amortized Cost

	For the year ended October 31, 2020				For the year ended October 31, 2019			
	Performing		Impaired		Performing		Impaired	
	Stage 1 $	Stage 2 $	Stage 3 $	Total $	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Balance at beginning of year	–	2,014,169	–	2,014,169	1,339	2,867,901	–	2,869,240
Provision for credit losses								
Model changes	–	–	–	–	–	–	–	
Transfers in/(out) to Stage 1	–	–	–	–	–	–	–	–
Transfers in/(out) to Stage 2	–	–	–	–	–	–	–	–
Transfers in/(out) to Stage 3	–	–	–	–	–	–	–	–
Purchases and originations	–	–	–	–	–	–	–	–
Derecognitions and maturities	–	(1,383)	–	(1,383)	–	(387)	–	(387)
Remeasurements	–	375,757	–	375,757	(1,339)	(853,345)	–	(854,684)
Write–offs	–	–	–	–	–	–	–	–
Recoveries	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
Balance at end of year	**–**	**2,388,543**	**–**	**2,388,543**	**–**	**2,014,169**	**–**	**2,014,169**

Allowance for credit losses for securities at FVOCI was $10,220 (2019: 19,416).

COVID-19 Pandemic – Investment Securities

The Group's allowance for credit losses on the investment securities portfolios as at October 31, 2020 included significant expected credit losses related to the impact of the COVID-19 global pandemic. The pre-existing IFRS 9 model could not solely be used to determine expected credit losses on the portfolio because it was not designed with events of this magnitude in mind; which include a very severe economic contraction and support programs from governments, multilateral institutions and the banking sector. As a consequence, a model overlay was recorded to account for the impact on expected credit losses not captured by the IFRS 9 model.

In determining the Group's IFRS 9 allowance for credit losses, we reassessed the Group's scenario weights to more heavily weight the base case scenario relative to October 31, 2019. The possibility of a more prolonged recovery period, including the potential of subsequent waves has been reflected in the Group's

6. INVESTMENT SECURITIES (CONTINUED)

Allowance for credit losses on investment securities (continued)

COVID-19 Pandemic – Investment Securities (continued)

scenarios and scenario weights, and expert credit judgement has been applied to the weighted modeled results.

The use of management overlays requires the application of significant judgment that impacts the amount of ECL allowances recognized. Actual credit losses could differ materially from those reflected in the Group's estimates.

7. PREMISES AND EQUIPMENT

	Land $	Buildings & Improvements $	Leasehold Improvements $	Furniture & Other Equipment $	Computer Equipment $	Total $
Year ended October 31, 2020						
Opening net book value	–	–	844	28,069	634	29,547
Additions	–	–	–	–	184,072	184,072
Disposal	–	–	–	–	–	–
Depreciation charge	–	–	(54)	(5,559)	(81,273)	(86,886)
Closing net book value	**–**	**–**	**790**	**22,510**	**103,433**	**126,733**
At October 31, 2020						
Cost	–	–	414,446	759,869	1,560,877	2,735,192
Accumulated depreciation	–	–	(413,656)	(737,359)	(1,457,444)	(2,608,459)
Net book value	**–**	**–**	**790**	**22,510**	**103,433**	**126,733**

	Land $	Buildings & Improvements $	Leasehold Improvements $	Furniture & Other Equipment $	Computer Equipment $	Total $
Year ended October 31, 2019						
Opening net book value	105,700	97,468	10,519	35,074	10,779	259,540
Disposal	(105,700)	(77,790)	–	–	–	(183,490)
Depreciation charge	–	(19,678)	(9,675)	(7,005)	(10,145)	(46,503)
Closing net book value	**–**	**–**	**844**	**28,069**	**634**	**29,547**
At October 31, 2019						
Cost	–	–	414,446	759,869	1,376,805	2,551,120
Accumulated depreciation	–	–	(413,602)	(731,800)	(1,376,171)	(2,521,573)
Net book value	**–**	**–**	**844**	**28,069**	**634**	**29,547**

Computer equipment and software includes computer software with a net book value of $103,433 (2019: $634) which is an intangible asset. During the year, the Group capitalized computer software $130,812 (2019: $Nil) and computer equipment $53,260 (2019: $Nil).

8. CUSTOMER DEPOSITS

	2020 $	2019 $
Term deposits	259,825,661	342,137,031
Savings deposits	103,419,570	104,522,750
Demand deposits	16,325,936	17,849,783
	379,571,167	**464,509,564**
Deposits categorized by customer type are as follows:		
Personal	263,438,362	275,534,629
Non-Personal	116,132,805	188,974,935
	379,571,167	**464,509,564**
Deposits categorized by maturity are as follows:		
Current (due within one year)	379,533,834	464,381,174
Non-current (due after one year)	37,333	128,390
	379,571,167	**464,509,564**

Deposits carry fixed interest rates ranging from 0.03% to 2.50% (2019: 0.03% to 2.50%) per annum, but the fixed interest rates are determined based on variable market rates and can be adjusted based on changes in market rates.

9. OTHER LIABILITIES

	2020 $	2019 $
Accrued liabilities	1,110,183	1,984,710
Staff related liabilities	121,227	135,006
Clearing and other liabilities	1,992,990	4,320,665
	3,224,400	**6,440,381**

10. PENSION PLANS

Employees of the Group participate in a defined benefit pension plan of Royal Bank of Canada (the Plan). Employees become eligible for membership after completing a probationary period on a contributory or non-contributory basis. The Plan provides pensions based on years of service, contribution to the Plan and average earnings at retirement. The Plan also covers a portion of the current medical insurance premiums for retirees. RBC funds the Plan in accordance with actuarially determined amounts required to satisfy employee benefit entitlements under current pension regulations. The most recent actuarial valuation performed was completed on January 1, 2020 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:

	2020	2019
Discount rate	4.70%	5.35%
Expected return on plan assets	5.26%	6.12%
Rate of increase in future compensation	1.00% – 9.00%	1.00% – 9.00%

The Group's employees also participate in a defined contribution plan of Royal Bank of Canada. Under the defined contribution plan, an employee may contribute up to 10% of their salary and the Group

10. PENSION PLANS (CONTINUED)

matches half of the employee's contribution up to 3% of the employee's salary. Contributions made by the employee are immediately vested and contributions made by the Group become vested after the completion of ten years of service.

Royal Bank of Canada charges the Group for its share of the amount of funding required in the Plan. This cost is recognized as an expense in the consolidated statement of comprehensive income after which no further obligation is required of the Group. During the year, the Group's pension expenses arising from the Plan was $736,386 (2019: $744,279) and the defined contribution plan was $16,867 (2019: $17,186).

11. SHARE CAPITAL & RESERVES

Share capital consists of the following:

	2020 $	2019 $
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

Other components of equity comprise:

	Revaluation Reserve $	Expected Credit Losses (FVOCI) $	Total $
Year Ended October 31, 2020			
Balance at beginning of year	(1,725)	19,416	17,691
Allowance for credit losses FVOCI	–	(9,196)	(9,196)
Net change in fair value	3,598	–	3,598
Balance at end of year	**1,873**	**10,220**	**12,093**

	Revaluation Reserve $	Expected Credit Losses (FVOCI) $	Total $
Year Ended October 31, 2019			
Balance at beginning of year	(33,090)	17,350	(15,740)
Allowance for credit losses FVOCI	–	2,066	2,066
Net change in fair value	31,365	–	31,365
Balance at end of year	**(1,725)**	**19,416**	**17,691**

12. EARNINGS PER SHARE

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

	2020 $	2019 $
Total earnings for the year attributable to the equity shareholders	9,201,540	20,826,153
Weighted average number of ordinary shares in issue	26,666,670	26,666,670
Basic and diluted earnings per share	**0.35**	**0.78**

13. INTEREST INCOME

	2020 $	2019 $
Loans and advances to customers	43,729,472	46,140,433
Investment securities	1,567,976	1,612,351
	45,297,448	**47,752,784**

Included in interest income is interest attributable to the time value of money component of non-performing loans of $2,261,638 (2019: $3,267,792).

14. INTEREST EXPENSE

	2020 $	2019 $
Customer deposits	3,204,979	5,314,480
Due to affiliated companies	4,422,374	3,332,034
Other interest bearing liabilities	–	4,644
	7,627,353	**8,651,158**

15. NON-INTEREST INCOME

	2020 $	2019 $
Fees and commissions	1,796,691	1,913,711
Foreign exchange earnings	1,433	2,836
Other service charges and fees	117,386	119,102
Gain on sale of premises and equipment	50,000	922,553
	1,965,510	**2,958,202**

16. NON-INTEREST EXPENSES

	2020 $	2019 $
Staff costs	1,667,917	1,608,967
Rentals	389,849	389,849
Premises and equipment expenses, excluding depreciation and operating lease rentals	494,428	419,039
Depreciation and amortization	86,886	46,503
Business and miscellaneous taxes	4,091,575	3,676,524
Deposit insurance premium	231,630	257,474
Professional fees	958,849	646,562
Other operating expenses	6,264,142	7,363,384
	14,185,276	**14,408,302**

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 $231,630 (2019: $257,474) into the fund.

17. PROVISION FOR CREDIT LOSSES

	2020 $	2019 $
Cash and cash equivalents (Treasury bills)	(9,196)	2,066
Loans and advances to customers	15,883,356	7,678,429
Investment securities	374,374	(855,071)
Other assets	255	(51)
	16,248,789	**6,825,373**

18. DIVIDENDS

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

Declaration Date	**Cents per share**	**Amount $**
January 16, 2020	15	4,000,000
April 27, 2020	5	1,333,333
July 16, 2020	5	1,333,334
October 26, 2020	5	1,333,334
	30	**8,000,001**

Dividends of $0.20 per share were declared during the fiscal year ended 2019.

19. 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.

20. COMMITMENTS

a. **Credit commitments**
As of the date of the consolidated statement of financial position, the Group is committed to extending credit for mortgages in the normal course of business in the amount of $8,257,429 (2019: $11,076,296).

b. **Operating lease commitments**
Until November 1, 2019, the Group is obligated under a number of non-cancellable operating leases for premises and equipment. These leases have various terms and renewal rights. The minimum future lease payments under non-cancellable operating leases are as follows:

	2020 $	2019 $
Within one year	–	223,481
One to three years	–	205,673
Three to five years	–	373,346
	–	**802,500**

The Group entered into a master sharing arrangement with its Immediate Parent. Refer to Note 21 for amounts paid to the Immediate Parent under this agreement. Operating lease expense recorded in the consolidated statement of comprehensive income as part of net income amounted to $Nil (2019: $389,849).

21. 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 has technical service and license agreements with its Immediate Parent. During the year $5,741,078 (2019: $6,500,452) was expensed in reference to these agreements and is included in general and administrative expense in the consolidated statement of comprehensive income. The Group also paid for various technical and back office services to other affiliated entities $655,426 (2019: $962,825) for services rendered. The Group continues to pursue opportunities for outsourcing with related parties to improve operational efficiency.

Nostro and clearing accounts are maintained with the Immediate Parent, which acts as a clearing account for the Group. These balances are included in cash and cash equivalents and was $14,606,077 (2019: $28,615,434). 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 2.40% and 2.45% (2019: 2.44% and 2.45%).

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

	2020 $	2019 $
Cash and cash equivalents:		
Immediate parent	14,606,077	28,615,434
Loans and advances to customers:		
Directors and key management personnel	208,223	240,372
Customer deposits:		
Directors and key management personnel	2,805,700	2,790,290
Due to affiliated companies:		
Immediate parent	154,112,421	109,116,512
Other related parties	1,544,160	2,871,445
Interest income:		
Directors and key management personnel	10,720	11,191
Non-interest expense:		
Other related parties	6,396,504	7,463,277
interest expense:		
Directors and key management personnel	15,355	15,254
Staff costs:		
Salaries and other short term benefits	164,470	160,257

22. CATEGORIZATION OF FINANCIAL ASSETS AND LIABILITIES

Consolidated Statement of Financial Position:

	2020 $	2019 $
ASSETS		
Financial assets at fair value through other comprehensive income		
Cash and cash equivalents	7,945,819	7,977,800
Financial assets at amortized cost:		
Cash and cash equivalents	14,967,668	28,788,318
Balance with central banks	42,106,650	43,857,068
Loans and advances to customers	656,142,377	685,328,230
Investment securities	27,539,257	29,565,031
Other assets	7,062,938	3,968,905
Total financial assets	**755,764,709**	**799,485,352**
LIABILITIES		
Financial liabilities at amortized cost:		
Customer deposits	379,571,167	464,509,564
Due to affiliated companies	155,656,581	111,987,957
Other liabilities	3,224,400	6,440,381
Total financial liabilities	**538,452,148**	**582,937,902**

23. 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.

Risk Management Unit

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

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

Internal Audit

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

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Risk Measurement and Reporting Systems

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

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

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

(a) Credit risk

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

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

Credit risk rating

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

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

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

Collateral

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

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Risk Measurement and Reporting Systems (continued)

(a) Credit risk (continued)

Collateral ***(continued)***

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

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

Credit-related commitments

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

Expected credit loss (ECL) measurement

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

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

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

Concentrations of financial assets

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

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

	2020 $	2019 $
On statement of financial position		
Due from banks	14,967,668	28,788,318
Treasury bills	7,945,819	7,977,800
Balance with central banks	42,106,650	43,857,068
Loans and advances to customers	656,142,377	685,328,230
Investment securities	29,927,800	29,565,031
Other assets	7,062,938	3,968,905
	758,153,252	799,485,352

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Risk Measurement and Reporting Systems (continued)

(a) Credit risk (continued)

Concentrations of financial assets *(continued)*

	2020 $	2019 $
Off statement of financial position		
Credit commitments	8,257,429	11,076,296
Total credit risk exposure	**766,410,681**	**810,561,648**

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

	2020 $	2019 $
Personal	762,057,813	779,589,533
Construction	118,122	145,121
Tourism	165,266	170,823
Professional services	–	5,465
Other	3,313,900	2,440,627
	765,655,101	**782,351,569**

Concentration of risk is managed by client/counterparty and by industry sector. The maximum credit exposure to any client or counterparty as at the date of the consolidated statement of financial position was $35,476,028 (2019: $37,177,669) before taking account of collateral or other credit enhancements.

The following table is an aged analysis of loans and advances to customers which were past due as of the date of the consolidated statement of financial position.

	2020 $	2019 $
Neither past due or impaired	644,030,713	636,044,072
Past due but not impaired		
Past due 31–60 days	22,202,584	32,399,658
Past due 61–90 days	13,865,890	12,086,383
Past due and impaired		
Past due over 90 days	85,555,914	101,821,456
	765,655,101	**782,351,569**

Renegotiated loans and advances that would otherwise be past due but not impaired or impaired totaled $177,158,733 (2019: $162,092,794).

Repossessed collateral

Repossessed collateral is sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Collateral is repossessed when the Group enforces its rights of the sale agreements over the collateral as a result of the counter-parties failure to honour their obligations to the Group. The Group's sales agreements enables the Group to

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

Repossessed collateral (continued)

commence Power of Sale proceedings where sale of the collateral is attempted first by public auction, and if unsuccessful, then through private treaty as a second option. At the beginning of the Power of Sale proceedings the Group obtains an appraisal of the collateral to certify the updated market value.

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

Repossessed Collateral

	2020 $
Land	8,120,809
Building	62,889,774
	71,010,583

(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 consolidated statement of financial position or off-statement of financial position 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.

	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, 2020						
Liabilities:						
Customer deposits	225,850,508	60,379,331	92,133,420	37,412	–	378,400,671
Due to affiliated companies	2,656,581	86,897,632	64,816,353	–	–	154,370,566
Other liabilities	3,224,400	–	–	–	–	3,224,400
Total	**231,731,489**	**147,276,963**	**156,949,773**	**37,412**	**–**	**535,995,637**

23. 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, 2019						
Liabilities:						
Customer deposits	248,492,846	89,644,970	123,481,399	128,789	–	461,748,004
Due to affiliated companies	3,871,445	116,512	19,998,695	89,004,017	–	112,990,669
Other liabilities	6,440,381	–	–	–	–	6,440,381
Total	**258,804,672**	**89,761,482**	**143,480,094**	**89,132,806**	**–**	**581,179,054**

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, 2020						
Credit commitments	2,527,648	456,400	3,198,994	2,074,387	–	8,257,429
Total	**2,527,648**	**456,400**	**3,198,994**	**2,074,387**	**–**	**8,257,429**
At October 31, 2019						
Credit commitments	2,118,295	921,036	5,992,277	2,044,688	–	11,076,296
Operating leases	69,226	51,418	102,837	579,019	–	802,500
Total	**2,187,521**	**972,454**	**6,095,114**	**2,623,707**	**-**	**11,878,796**

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded. The guarantees, standby letters of credit and contractual commitments to extend credit are payable on demand upon satisfaction of the terms of the agreement.

(c) Currency risk

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

(d) Interest rate risk

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 has 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.

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Interest rate risk (continued)

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

	Immediately rate-sensitive $	Up to 3 Months $	Over 3–6 Months $	Over 6–12 Months $	Over 1–5 Years $	Non-interest rate sensitive $	Total $
At October 31, 2020							
Assets							
Cash and cash equivalents	–	–	–	–	–	22,913,487	22,913,487
Balance with central banks	–	–	–	–	–	42,106,650	42,106,650
Loans and advances to customers	–	680,099,187	–	–	–	(23,956,810)	656,142,377
Investment securities	27,927,800	–	–	–	–	(2,388,543)	27,539,257
Other assets	–	–	–	–	–	7,062,938	7,062,938
Total financial assets	**27,927,800**	**680,099,187**	**–**	**–**	**–**	**45,737,722**	**755,764,709**
Liabilities							
Customer deposits	–	226,241,884	60,745,928	92,546,022	37,333	–	379,571,167
Due to affiliated companies	–	–	88,000,000	65,000,000	–	2,656,581	155,656,581
Other liabilities	–	–	–	–	–	3,224,400	3,224,400
Total financial liabilities	**–**	**226,241,884**	**148,745,928**	**157,546,022**	**37,333**	**5,880,981**	**538,452,148**
Net repricing gap	**27,927,800**	**453,857,303**	**(148,745,928)**	**(157,546,022)**	**(37,333)**		

	Immediately rate-sensitive $	Up to 3 Months $	Over 3–6 Months $	Non-Over 6–12 Months $	Over 1–5 Years $	interest rate sensitive $	Total $
At October 31, 2019							
Assets							
Cash and cash equivalents	–	–	–	–	–	36,766,118	36,766,118
Balance with central banks	–	–	–	–	–	43,857,068	43,857,068
Loans and advances to customers	–	678,079,482	–	–	–	7,248,748	685,328,230
Investment securities	31,579,200	–	–	–	–	(2,014,169)	29,565,031
Other assets	–	–	–	–	–	3,968,905	3,968,905
Total financial assets	**31,579,200**	**678,079,482**	**–**	**–**	**–**	**89,826,670**	**799,485,352**
Liabilities							
Customer deposits	–	249,771,205	90,540,489	124,069,480	128,390	–	464,509,564
Due to affiliated companies	–	–	–	20,000,000	88,000,000	3,987,957	111,987,957
Other liabilities	–	–	–	–	–	6,440,381	6,440,381
Total financial liabilities	**–**	**249,771,205**	**90,540,489**	**144,069,480**	**88,128,390**	**10,428,338**	**582,937,902**
Net repricing gap	**31,579,200**	**428,308,277**	**(90,540,489)**	**(144,069,480)**	**(88,128,390)**		

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Interest rate risk (continued)

The Group analyzes 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 benchmark rates. The following table shows the expected impact on net income:

	Effect on Net Profit Income	
	2020	2019
	$	$
Change in interest rate		
+ 1%	5,366,757	5,388,094
– 1%	(5,366,757)	(5,388,094)

(e) Price risk

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

(f) Capital management

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

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

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

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

Capital adequacy and the use of regulatory capital are monitored by the Group's management, based on an internal risk assessment approach employing techniques based on the guidelines developed by the Basel Committee on Grouping Supervision as implemented by the Central Bank of The Bahamas. The required information is filed with the Central Bank on a monthly basis as prescribed. The Central Bank requires the Group to maintain a minimum total capital ratio of 17%. As of the date of the consolidated statement of financial position, the Group's total capital ratio was 44.95% (2019: 43.96%).

24. 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 Group provides insurance agency services solely to its mortgage customers. The following table includes a summary of financial information for these entities.

	2020		
	Banking $	Insurance Services $	Consolidated $
Assets	**743,554,568**	**13,205,244**	**756,759,812**
Liabilities	**537,701,043**	**751,105**	**538,452,148**
Income:			
Net interest income	37,670,095	–	37,670,095
Non-interest income	1,061,945	903,565	1,965,510
Total income	38,732,040	903,565	39,635,605
Non-interest expense	(13,837,399)	(347,877)	(14,185,276)
Provision for credit losses	(16,248,789)	–	(16,248,789)
Net income	**8,645,852**	**555,688**	**9,201,540**

	2019		
	Banking $	Insurance Services $	Consolidated $
Assets	**787,432,179**	**12,617,446**	**800,049,625**
Liabilities	**582,218,907**	**718,995**	**582,937,902**
Income:			
Net interest income	39,101,626	–	39,101,626
Non-interest income	2,096,414	861,788	2,958,202
Total income	41,198,040	861,788	42,059,828
Non-interest expense	(14,043,439)	(364,863)	(14,408,302)
Provision for credit losses	(6,825,373)	–	(6,825,373)
Net income	**20,329,228**	**496,925**	**20,826,153**

25. 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 Always Approximate Carrying Value	Fair Value May Not Approximate Carrying Value	Total Fair Value	Fair Value Hierarchy		
				Level 1	Level 2	Level 3
	$	$	$	$	$	$
October 31, 2020						
Financial Assets						
Cash and cash equivalents	22,913,487	–	22,913,487	–	22,913,487	–
Balance with central banks	42,106,650	–	42,106,650	–	42,106,650	–
Loans and advances to customers	–	756,367,416	756,367,416	–	756,367,416	–
Investment securities	–	30,068,185	30,068,185	–	30,068,185	–
Other assets	7,062,938	–	7,062,938	–	7,062,938	–
Financial Liabilities						
Customer deposits	379,571,167	–	379,571,167	–	379,571,167	–
Due to affiliated companies	155,656,581	–	155,656,581	–	155,656,581	–
Other liabilities	3,224,400	–	3,224,400	–	3,224,400	–

	Fair Value Always Approximate Carrying Value	Fair Value May Not Approximate Carrying Value	Total Fair Value	Fair Value Hierarchy		
				Level 1	Level 2	Level 3
	$	$	$	$	$	$
October 31, 2019						
Financial Assets						
Cash and cash equivalents	36,766,118	-	36,766,118	-	36,766,118	-
Balance with central banks	43,857,068	-	43,857,068	-	43,857,068	-
Loans and advances to customers	–	771,778,851	771,778,851	–	771,778,851	–
Investment securities	–	31,721,146	31,721,146	–	–	31,721,146
Other assets	3,968,905	–	3,968,905	–	3,968,905	–
Financial Liabilities						
Customer deposits	464,509,564	–	464,509,564	–	464,509,564	–
Due to affiliated companies	111,987,957	–	111,987,957	–	111,987,957	–
Other Liabilities	6,440,381	–	6,440,381	–	6,440,381	–

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

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

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

	Level 1 $	Level 2 $	Level 3 $	Total $
As at October 31, 2020				
Bahamas Government debt securities	–	27,189,400	–	27,189,400
Locally issued corporate bonds	–	2,738,400	–	2,738,400
	–	**29,927,800**	**–**	**29,927,800**

	Level 1 $	Level 2 $	Level 3 $	Total $
As at October 31, 2019				
Bahamas Government debt securities	–	–	28,840,800	28,840,800
Locally issued corporate bonds	–	–	2,738,400	2,738,400
	–	**–**	**31,579,200**	**31,579,200**

During the fiscal year, Bahamas Government Registered Stock (BGRS) were listed on BISX as such the Group has transferred the bonds to level 2. There were no transfers between levels for the year ended 2019.

In 2019, the Level 3 investments was comprised primarily of debt issued or guaranteed by The Bahamas Government. The Central Bank of The Bahamas introduced a pricing model for the BGRS in March 2017. The model introduced a market based pricing formula for Bahamian dollar denominated BGRS which are traded in the secondary market. Under this model, new bonds or IPOs 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 movement in the Group's investments in Level 3 assets during the year was as follows:

	2019 $	$
Balance, beginning of year	29,565,031	29,948,060
Transfers to Level 2	(29,565,031)	–
Maturities	–	(1,238,100)
Decrease in allowance for credit losses	–	855,071
Balance, end of year	**–**	**29,565,031**

26. SUBSEQUENT EVENT

Subsequent to the year-end, the Directors approved a dividend on ordinary shares in the amount of $0.05 per share to all shareholders of record as at February 11, 2021 payable on February 18, 2021.

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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)

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