RBC | FINCO

2018 ANNUAL REPORT

TABLE OF CONTENTS

CORPORATE PROFILE & COLLECTIVE AMBITION

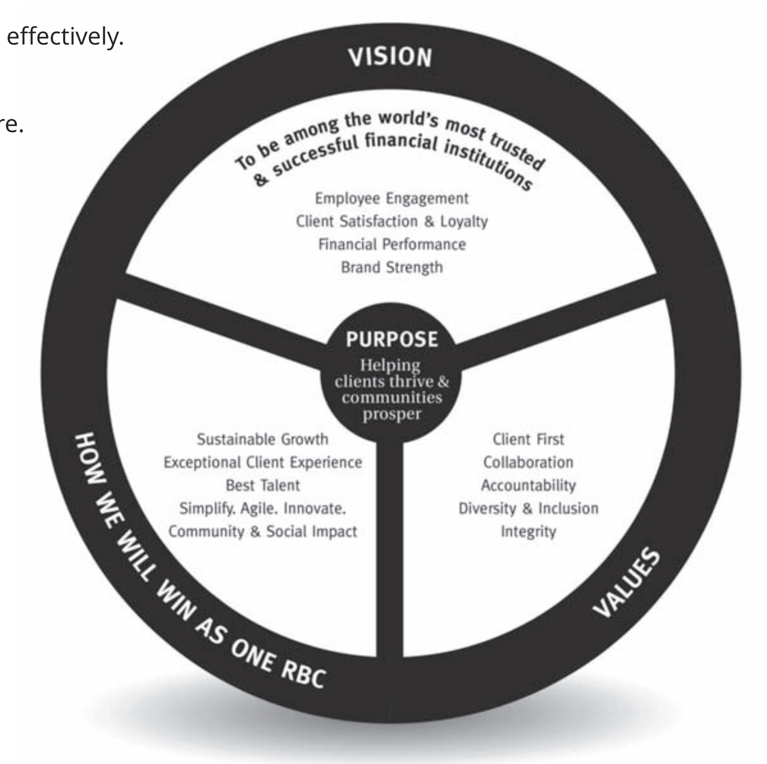
Finance Corporation of Bahamas Limited was incorporated on July 24, 1953. As of April 1, 1982, the company became a wholly-owned subsidiary of R.B.C. Holdings (Bahamas) Limited, a wholly-owned subsidiary of Royal Bank of Canada. On March 1, 1984, R.B.C. Holdings (Bahamas) Limited sold 25% of its ownership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

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

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

STRATEGIC PRIORITIES

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



MAJORITY SHAREHOLDER'S PROFILE

Royal Bank of Canada is a global financial institution with a purpose-driven, principles-led approach to delivering leading performance. Our success comes from the 84,000+ employees who bring our vision, values and strategy to life so we can help our clients thrive and communities prosper. As Canada's biggest bank, and one of the largest in the world based on market capitalization, we have a diversified business model with a focus on innovation and providing exceptional experiences to our 16 million clients in Canada, the U.S. and 34 other countries.

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

Wealth Management serves affluent, high net worth (HNW) and ultra-high net worth (UHNW) clients from our offices in key financial centres mainly in Canada, the U.S., the United Kingdom (U.K.), Europe, and Asia. We offer a comprehensive suite of investment, trust, banking, credit and other wealth management solutions. We also provide asset management products and services directly to institutional and individual clients through our distribution channels and third-party distributors. Our lines of businesses 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) includes our private client group and City National. Our private client group 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 well as a leading institutional asset manager. International Wealth Management serves HNW and UHNW clients primarily through key financial centres in Europe, the U.K., and Asia.

Insurance offers a wide range of life, health, home, auto, travel, wealth, annuities and reinsurance advice and solutions, as well as creditor and business insurance services to individual, business and group clients. Insurance has operations in Canada and globally, operating under two business lines: Canadian Insurance and International Insurance. In Canada, we offer our products and services through our proprietary distribution channels, comprised of the field sales force, advice centres and online, as well as through independent insurance advisors and affinity relationships. Outside Canada, we operate in reinsurance and retrocession markets globally offering life, disability and longevity reinsurance products.

Investor & Treasury Services acts as a specialist provider of asset services, and a provider of cash management, transaction banking, and treasury services to institutional clients worldwide. We compete in selected countries in North America, Europe, the U.K., and Asia-Pacific. We continue to specialize and create digitally-enabled client-centric products and services. We have top-rated global custody, fund accounting and real estate products and one of the widest transfer agency networks in the market. We are also a leading provider of Canadian dollar cash management, correspondent banking and trade finance for financial institutions globally and we provide 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. We serve clients from 70 offices in 15 countries across North America, the U.K. and Europe, and Australia, Asia & other regions. We operate two main business lines, Corporate and Investment Banking and Global Markets. In North America, we offer 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, we are a market leader with a strategic presence in all lines of capital markets businesses. In the U.S., we have full industry sector coverage and investment banking product range and compete with large U.S. and global investment banks as well as smaller regional firms. We also have leading capabilities in lending, repo securities, municipal financing, fixed income, currencies and commodities and equities. Outside North America, we have a select presence in the U.K. and Europe, and Australia, Asia and other markets. We offer a diversified set of capabilities in key sectors of expertise such as energy, mining and infrastructure, industrial, consumer, healthcare and technology in Europe. In the U.K. and Europe, we have continued to grow our senior client coverage teams to compete in our key sectors of expertise with global and regional investment banks. In Australia and Asia, we compete with global and regional investment banks in select products, consisting of fixed income distribution and currencies trading, secured financing, and corporate and investment banking.

Corporate Support consists of Technology & Operations, which provide the technological and operational foundation required to effectively deliver products and services to our clients, and Functions, which includes our finance, human resources, risk management, internal audit and other functional groups.

FINANCIAL HIGHLIGHTS

(Expressed in Bahamian Dollars)

	Change 2018/2017	2018	2017	2016	2015	2014
EARNINGS						
Net interest income	-8.4%	$42,593,747	$46,506,424	$49,167,967	$51,182,932	$50,343,105
Non-interest income	-1.6%	2,237,225	2,272,973	2,545,212	2,352,704	2,631,708
Total Income	-8.1%	44,830,972	48,779,397	51,713,179	53,535,636	52,974,813
Provision for credit losses	-55.1%	5,606,942	12,476,878	25,017,168	15,967,272	35,595,209
Non-interest expense	-3.1%	13,905,748	14,348,682	15,092,115	11,962,694	14,776,249
Net Income	15.3%	25,318,282	21,953,837	11,603,896	25,605,670	2,603,355
Efficiency Ratio	160 bps	31.0%	29.4%	29.2%	22.4%	27.9%
Return on equity	124 bps	12.3%	11.1%	6.4%	15.8%	1.7%
BALANCE SHEET DATA						
Loans and advances to customers	-7.0%	$704,779,674	$758,055,817	$782,615,717	$827,446,983	$844,445,107
Total Assets	-7.4%	817,354,531	882,988,005	924,978,323	992,433,577	983,217,444
Customer Deposits	-12.1%	502,913,724	572,032,600	650,673,080	699,728,060	781,079,120
Total Equity	-3.6%	201,585,473	209,104,232	186,911,310	175,307,414	149,701,744
COMMON SHARE INFORMATION						
Earnings per share	$0.13	$0.95	$0.82	$0.44	$0.96	$0.10
Dividend per share	0.30	0.30	–	–	–	$0.25
Book value per share-year-end	(0.28)	7.56	$7.84	$7.01	$6.57	$5.61
NUMBER OF:						
Employees		27	31	29	63	63
Automated banking machines		5	5	5	5	5
Service delivery units		4	5	5	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 has decreased by 8.4% during the year. Lower loan volumes along with lower yields on mortgages continue to affect the Bank's core revenue. Net interest income has been challenged by downward pressure on mortgage interest rates and sluggish growth in new credit origination.

Non-Interest Income
Non-interest income consists of all income not classified as interest income such as bank fees, commissions and service charges. Non-interest income decreased slightly by 1.6% due mainly to lower service-based fees as the Bank holds lower levels of customer deposits.

Provision for Credit Losses
The charge for credit losses was $5.6 million (2017: $12.5 million). The movement in the provision for credit losses was affected by a small increase in non-performing loans over the previous year and the early adoption of International Financial Reporting Standards 9: *Financial Instruments* (IFRS 9) which allowed for a charge directly to retained earnings for the increase in provisions upon adoption. Non-performing loans stood at $124.3 million compared to previous year's $120.9 million. The total allowance for loan losses is 11.8% of the total loan portfolio and 76.3% of non-performing loans, compared to 8.9% and 61.7%, respectively for the fiscal year 2017.

Non-Interest Expenses
Non-interest expenses decreased by 3.1% compared to the previous year 2017. This decrease is driven by lower occupancy costs along with efficiencies gained from outsourcing arrangements with RBC. The Bank continues to actively manage its costs and seek opportunities to improve efficiency.

Net Income
The Bank's net income increased to $25.3 million compared to $22.0 million in the previous year driven primarily from lower levels of provisions for credit losses, and to a lesser extent, lower operating costs.

Efficiency Ratio
The efficiency ratio is calculated based on the amount of expenses compared to total revenues. The efficiency ratio showed a slight deterioration by 160bps as a result of the decrease in revenue 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. The increase in ROE is due to the 15.3% increase in net income compared to the previous year.

Loans and Advances to Customers
The loan portfolio contracted to $704.8 million (decrease of $53.3 million or 7.0%) compared to $758.1 million in 2017. This decline is a result of loan write-offs and increased provisions for credit losses. During the year, the Bank early adopted IFRS 9, the implementation of which resulted in a $22.2 million increase in provisions. Mortgage growth continues to be a challenge in the current economic environment.

Earnings per Share
Earnings per share increased to $0.95 compared to $0.82 in the previous year as a result of the higher net income. The weighted average number of ordinary shares in issue remained unchanged during the year.

Dividend per Share
Shareholders received dividend payments during the year totaling $0.30 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.

CHAIRMAN'S REPORT

Dear Shareholders,

Finance Corporation of Bahamas Limited (RBC FINCO) has been serving clients in The Bahamas for 65 years; 35 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, 2018, RBC FINCO recorded $25.3 million in net income. This compares to $21.9 million in net income recorded in 2017. This increase is attributed primarily to lower loan provisions in 2018. Other operating costs remained relatively flat year over year with a 3% reduction. Our core earnings underperformed and continue to be under pressure from lower mortgage growth, lower mortgage interest rates and high levels of delinquent and non-performing mortgages.

Non-performing mortgages of $124.3 million (2017: $120.9 million) as a percentage of the portfolio was 15.47% at the end of the fiscal year. This result is compared to 14.44% at the end of fiscal 2017 and compared to the industry at 12.09% as of October 2018.

Operating in a low growth economy with high unemployment, RBC FINCO will continue to be challenged with mortgage growth and credit losses resulting from high 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 a quarterly dividend throughout 2018. 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 2018. 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

Finance 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 & Inclusion and Integrity are the foundation of everything we do.

RBC FINCO clients are able to receive over-the-counter services at all RBC branch locations in New Providence and Freeport, and we co-habit in four shared locations with RBC. This gives our clients added convenience and access to the suite of products and services offered by our majority shareholder, Royal Bank of Canada (RBC). Customer service survey results are showing improvement, and we are working diligently to sustain and improve this upward trend.

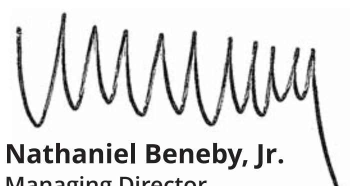
Accelerating quality growth in key client segments is an opportunity for us in 2019. While we have experienced a decline in net mortgage growth in 2018, we remain competitive. Furthermore, we are maintaining market share according to Central Bank of The Bahamas statistics, which showed the overall mortgage industry declined. 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.

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. Over the past year, many new processes were put in place with 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.

Our 2018 Employee Opinion Survey Results showed that our employees remain highly engaged as we build a high performance culture. This success was achieved through setting clear performance expectations, building employee capability and fostering a robust reward and recognition program. Also attributing to this success was collaboration, open communication and the willingness of employees to speak up.

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.

Growth continues to be a challenge in a low-growth economy with high unemployment. Competition not only from our traditional competitors, but from non-financial lending institutions also has an impact on growth. In addition, Bahamians are highly leveraged with consumer debt and when the National Credit Bureau is fully functional, this could further slowdown credit growth in the country. We continue to monitor changes in the Financial Services Industry and make adjustments appropriately to achieve sustainable growth and profitability.



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

BOARD OF DIRECTORS

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

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

Lasonya Missick
DIRECTOR
Area Vice President – New Providence

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

Teresa Butler
NON-EXECUTIVE DIRECTOR
Retired Civil Servant

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

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

The Bank's Independent Non-Executive directors are Teresa Butler, Anthony Robinson and Ross McDonald. They continue to meet the requirements of independence as stated in the relevant Corporate Governance Guidelines. There were four board meetings held during fiscal 2018 and the Directors attended an aggregate of 75% of the meetings.

FINANCE CORPORATION OF BAHAMAS LIMITED

STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management is responsible for the following:

- Preparing and fairly presenting the accompanying consolidated financial statements of Finance Corporation of Bahamas Limited (the "Bank"), together with its subsidiary (the "Group") which comprise the consolidated statement of financial position as at October 31, 2018 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's operational efficiencies;
- Ensuring that the system of internal control operated effectively during the reporting period;
- Producing reliable financial reporting that comply with laws and regulations; and
- Using reasonable and prudent judgment in the determination of estimates.

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

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

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

Managing Director
March 11, 2019

Senior Manager, Finance Northern Caribbean
March 11, 2019

2018

RBC FINCO'S 2018 CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Finance Corporation of Bahamas Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Finance Corporation of Bahamas Limited (the Bank) and its subsidiary (together 'the Group') as at October 31, 2018, 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

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

- the consolidated statement of financial position as at October 31, 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Our audit approach

Overview

- Overall group materiality: $2,013,000 which approximates 1% of net assets.

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

- Implementation of IFRS 9 Financial Instruments.
- Historical inputs into the stage 1 and stage 2 expected credit loss calculations for loans and advances to customers may not be accurate.

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

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 parent and the subsidiary resulting in 100% coverage. Both entities were audited by PwC Bahamas. In determining the level of involvement required, we identified certain balances and classes of transactions, which were audited by our component team, PwC Canada. The Group engagement team reviewed all reports with regards to the audit approach and findings of the component auditor in detail. This together with additional procedures performed at the Group level, provided us 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	$2,013,000
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 $100,650, 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
Implementation of IFRS 9 Financial Instruments *Refer to notes 2(c), 5 and 6 to the consolidated financial statements for disclosures of related accounting policies and balances.*	
The Group early adopted the accounting standard IFRS 9 *Financial Instruments* during the financial year. The standard introduces new requirements for financial instruments, including: classification and measurement, and impairment.	We performed the following audit procedures in response to our assessed risk: Obtained the Group's accounting policies as it relates to IFRS 9 and assessed the appropriateness of those accounting policies with the requirements of the standard.

The standard introduces new classification and measurement requirements for financial assets which are based on the Group's business model for how those financial assets are managed and their underlying cash flow characteristics. The new classification categories for financial assets include:

- Held to Collect – measured at amortised cost.
- Held to Collect and Sell – measured at fair value through other comprehensive income.
- Fair value through profit or loss.

The standard also introduces new impairment rules which prescribe a forward-looking expected credit loss (ECL) impairment model, which takes into account reasonable and supportable forward looking information that will generally result in the earlier recognition of impairment losses.

We have focused on this area because there are a number of significant judgements which management needs to determine as a result of the new requirements of the standard, including:

- The criteria for a significant increase in credit risk;
- The inputs into the expected credit loss model, including the probability of default, loss given default and exposure at default; and
- The probability of multiple, possible future economic scenarios occurring.

This required the Group to build and implement a new credit model to measure the expected credit losses for debt financial instruments measured at amortised cost or fair value through other comprehensive income, which requires a significant amount of historical data and subjective judgements to be applied and increases the risk surrounding the completeness and accuracy of the inputs to the model and reasonableness of the assumptions used.

The impact of adoption of the new standard resulted in a reduction to opening retained earnings of $24,840,200.

Obtained an understanding of the Group's business model assessment and for a sample of instruments, tested the Group's business model assessment. We tested the cash flow characteristics of a sample of the Group's debt instruments to determine if they passed the solely payments of principal and interest (SPPI) test. We compared our results to those of management and noted no exceptions in management's classification of financial assets.

Recalculated the opening equity adjustment for the remeasurement of financial instruments from fair value to amortised cost. No material adjustments were noted from our procedures performed.

Obtained the impairment models used by the Group for the calculation of the expected credit loss as at November 1, 2017 and performed the following:

- Evaluated the design and tested the operating effectiveness of the relevant controls for IFRS 9 including: the model validation, governance and historical data applied in the model. We determined we could rely on these controls for the purposes of our audit.
- We were assisted by credit modelling specialists to evaluate the reasonableness of the ECL methodologies implemented by the Group. We focused on the components pertaining to:
  - Default definition
  - Risk parameters
  - Forward-looking information
  - Staging/significant increase in credit risk
  - Lifetime of financial instruments
  - Discounting
  - Simplified modelling approach for less complex models
- Tested the key data inputs of the Group's impairment model, on a sample basis, to supporting documentation and, where appropriate, external sources.
- Tested management's conclusions on whether there has been a significant increase in credit risk or default on a sample basis for both loans and advances to customers and investment securities based on days past due assumptions. Refer to KAM below for historical inputs testing.
- Evaluated the reasonableness of the application of forward-looking information including the multiple scenarios used by management by testing the completeness and accuracy of the historical macroeconomic data used to external sources. We tested the methodology and mathematical accuracy of the adjustment to the inputs for the forward-looking information factor to the probabilities of default (PDs) and loss given default (LGDs).
- Tested the completeness and accuracy of the opening balances including the off-balance sheet exposures included within the calculation.
- Tested the opening equity adjustment for the expected credit loss arising on the adoption of the new standard.
- For the stage 3 provision, we evaluated the appropriateness of the coverage ratios used by testing the inputs into the model against historical loss experience on portfolios with similar characteristics. We also tested the mathematical accuracy of the model.

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

Historical inputs into the stage 1 and stage 2 expected credit loss calculations for loans and advances to customers may not be accurate

Refer to notes 2(c), 5 and 6 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 $27,619,933 for loans classified in stage 1 and stage 2 as at October 31, 2018.

The expected credit loss model used by management to calculate the stage 1 and stage 2 provision includes the following parameter estimation assumptions:

- Probability of Default ("PD"): PD models are developed based on the Group's specific historical default and performing data for the given facility and product type the PD is adjusted for forward looking information.
- Loss Given Default ("LGD"): LGD models are developed based on RBC specific historical default data for the given product type.
- Exposure at Default ("EAD"): the Group evaluated both term loans and revolving loans. Term loans were evaluated using exposure-weighted transition matrices to determine portfolio outstanding balance changes over time. For revolving loans, specifically overdrafts, the Group estimates the Utilization at Default (UAD) using Utilization at Observation (UAO).

We focused on this area as based on our assessment of management's parameter estimation methodologies and relevant data used, we determined that inaccuracies in the historical number of days credit facilities have been past due can have a pervasive impact across all components of the ECL risk parameters, as the overall estimate shows a high sensitivity to this data element, which could result in a material misstatement in the overall allowance for credit losses, if incorrectly applied.

We evaluated the design and tested the operating effectiveness of the relevant controls for surrounding review of historical data applied in the model. We determined we could rely on these controls for the purposes of our audit.

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

- Tested the automatic calculation of days past due in the Group's banking system on a sample basis by reperforming the system calculation.
- Tested the completeness and accuracy of the historical data used on a sample basis in the opening expected credit loss and 2018 model by agreeing the details of loan delinquency and customer payment profile to source documents.

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

pwc

Other information

Management is responsible for the other information. The other information comprises the RBC FINCO 2018 Annual Report (but does not include the consolidated financial statements and our auditors' report thereon), which is expected to be made available to us after the date of this auditors' report.

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

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

When we read RBC FINCO 2018 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

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

pwc

- 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, related safeguards.

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

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

PricewaterhouseCoopers

Chartered Accountants
Nassau, Bahamas

March 11, 2019

FINANCE CORPORATION OF BAHAMAS LIMITED

(Incorporated under the laws of the Commonwealth of The Bahamas)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT OCTOBER 31, 2018

(Expressed in Bahamian Dollars)

	Notes	2018 $	2017 $
ASSETS			
Cash and cash equivalents	3	17,633,063	38,245,212
Balance with central banks	4	59,768,306	48,176,387
Loans and advances to customers	5	704,779,674	758,055,817
Investment securities	6	29,948,060	34,389,485
Premises and equipment	7	259,540	345,584
Other assets		4,965,888	3,775,520
Total Assets		**817,354,531**	**882,988,005**
LIABILITIES			
Customer deposits	8	502,913,724	572,032,600
Due to affiliated companies	19	108,085,319	96,385,242
Other liabilities		4,770,015	5,465,931
Total Liabilities		**615,769,058**	**673,883,773**
EQUITY			
Share capital	10	5,333,334	5,333,334
Share premium		2,552,258	2,552,258
Other components of equity		(15,740)	239,085
Retained earnings		193,715,621	200,979,555
Total Equity		**201,585,473**	**209,104,232**
Total Liabilities and Equity		**817,354,531**	**882,988,005**

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

Director
March 11, 2019

Director

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

FINANCE CORPORATION OF BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED OCTOBER 31, 2018

(Expressed in Bahamian Dollars)

	Notes	2018 $	2017 $
INCOME			
Interest income	12	51,960,705	58,551,809
Interest expense	13	(9,366,958)	(12,045,385)
Net interest income		**42,593,747**	**46,506,424**
Non-interest income	14	2,237,225	2,272,973
Total Income		**44,830,972**	**48,779,397**
Non-interest expenses	15	(13,905,748)	(14,348,682)
Provision for credit losses		(5,606,942)	(12,476,878)
Net Income		**25,318,282**	**21,953,837**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to net income			
Net change in fair value of available for sale assets		–	239,085
Net losses on investments in debt instruments measured at FVOCI		(14,190)	–
Expected credit losses on FVOCI investments		17,350	–
Total Comprehensive Income		**25,321,442**	**22,192,922**
Earnings per share (basic and diluted)	11	**0.95**	**0.82**

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, 2018

(Expressed in Bahamian Dollars)

	Share Capital $	Share Premium $	Other Components of Equity $	Retained Earnings $	Total $
As at November 1, 2016	5,333,334	2,552,258	–	179,025,718	186,911,310
Comprehensive income					
Net income	–	–	–	21,953,837	21,953,837
Other comprehensive income	–	–	239,085	–	239,085
Total Comprehensive Income	–	–	239,085	21,953,837	22,192,922
As at October 31, 2017	**5,333,334**	**2,552,258**	**239,085**	**200,979,555**	**209,104,232**
As at October 31, 2017	5,333,334	2,552,258	239,085	200,979,555	209,104,232
Transition adjustment (Note 2)	–	–	(257,985)	(24,582,215)	(24,840,200)
Restated balance as at November 1, 2017	5,333,334	2,552,258	(18,900)	176,397,340	184,264,032
Comprehensive income					
Net income	–	–	–	25,318,282	25,318,282
Other comprehensive income	–	–	3,160	–	3,160
Total comprehensive income	–	–	3,160	25,318,282	25,321,442
Transactions with owners					
Dividends (Note 16)	–	–	–	(8,000,001)	(8,000,001)
Total transactions with owners	–	–	–	(8,000,001)	(8,000,001)
As at October 31, 2018	**5,333,334**	**2,552,258**	**(15,740)**	**193,715,621**	**201,585,473**

Dividends per share (Note 16) $0.30 (2017: $Nil)

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, 2018

(Expressed in Bahamian Dollars)

	Notes	2018 $	2017 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		25,318,282	21,953,837
ADJUSTMENTS FOR NON-CASH TRANSACTIONS:			
Provision for credit losses		5,606,942	12,476,878
Depreciation and amortization	7	86,044	125,926
Realized gain on available for sale financial assets		–	(18,900)
		31,011,268	34,537,741
(INCREASE) / DECREASE IN OPERATING ASSETS:			
Balance with central banks		(11,591,919)	4,569,501
Loans and advances to customers		25,973,706	12,083,022
Other assets		(1,190,498)	1,424,056
INCREASE / (DECREASE) IN OPERATING LIABILITIES:			
Customer deposits		(69,118,876)	(78,640,480)
Due to affiliated companies		10,700,077	16,403,254
Other liabilities		(1,029,250)	(1,946,014)
Net cash used in operating activities		(15,245,492)	(11,568,920)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of investments		1,314,200	660,500
Net cash from investing activities		1,314,200	660,500
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(6,666,667)	–
Net cash used in financing activities		(6,666,667)	–
NET DECREASE IN CASH AND CASH EQUIVALENTS		(20,597,959)	(10,908,420)
Effects of fair value changes on cash and cash equivalents		(14,190)	–
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		38,245,212	49,153,632
CASH AND CASH EQUIVALENTS, END OF YEAR		**17,633,063**	**38,245,212**
SUPPLEMENTAL INFORMATION:			
Interest received		51,862,363	59,862,567
Interest paid		(9,395,877)	(12,689,981)

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

FINANCE CORPORATION OF BAHAMAS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2018

1. INCORPORATION AND BUSINESS ACTIVITIES

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

The Bank is 75% owned by RBC Royal Bank Holdings (Bahamas) Limited, a company incorporated in Barbados, 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% being owned by the Bahamian public.

The Bank has three branch locations in New Providence and one in Freeport, Grand Bahama. Its business activities include the acceptance of savings, term and demand deposits, the buying and selling of foreign currency, and mortgage lending in The Bahamas.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (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(d), 2(s) and 24.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Basis of preparation (continued)

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

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

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

b. Basis of consolidation

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

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

c. Changes in accounting policies

During the current year, the Group early adopted IFRS 9 *Financial Instruments* (IFRS 9) as issued by the IASB in July 2014. As a result of the application of IFRS 9, the Group changed the accounting policies outlined below and these new policies were applied from November 1, 2017. As permitted by the transitional provisions of IFRS 9, the Group elected not to restate the comparative period results; accordingly, all comparative information is presented in accordance with the Group's previous accounting policies per Note 2(c). Adjustments to carrying amounts of financial assets and liabilities at the date of initial application (November 1, 2017) were recognized in opening retained earnings and other components of equity in the current year. New or amended disclosures have been provided for the current year, where applicable, and comparative period disclosures are consistent with those made in the prior year.

IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 *Financial Instruments: Disclosures.*

Classification and measurement of financial assets

Financial assets are classified in the following measurement categories: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost. Classification and measurement of debt instruments depend on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the instrument.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Changes in accounting policies (continued)

Classification and measurement of financial assets (continued)

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

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

All other debt instruments are measured at FVTPL.

Equity instruments are measured at FVTPL, unless the asset is not held for trading purposes and the Group makes an irrevocable election to designate the asset as FVOCI. This election is made on an instrument-by-instrument basis, and fair value gains and losses are recognized in OCI and are not subsequently reclassified to net income, including on disposal.

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 Note 21, and the activities taken to manage those risks;
- Historical and future expectations of sales of the instruments managed as part of a business model; and
- 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 an 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Changes in accounting policies *(continued)*

SPPI assessment (continued)

outstanding over a period of time. Interest can also include other basic lending risks and costs (for example, liquidity risk, servicing or administrative costs) associated with holding the financial asset for a period of time, and a profit margin. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss. The Group reclassifies debt instruments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent. No changes occurred during the period.

Investment securities

As at November 1, 2017 the securities represent investment securities classified as amortized cost under IFRS 9. 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 have been classified at amortized cost. All investment securities are initially recorded at fair value and subsequently measured according to the respective classification. Prior to the adoption of IFRS 9, investment securities were comprised of available-for-sale securities.

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 provision for credit losses and correspondingly reduce the accumulated change in fair value included in other components of 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.

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 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 OCI, except for changes in foreign exchange rates on debt securities, which are recorded in non-interest income.

Loans and advances to customers

Loans are debt instruments recognized initially at fair value. All of the Group's loans are carried at amortized cost using the effective interest method, which represents the gross carrying amount less allowance for credit losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Changes in accounting policies *(continued)*

Loans and advances to customers (continued)

Interest on loans is 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.

Impairment losses are 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 impairment assessment. Assets subject to an impairment assessment include loans, debt securities, interest-bearing deposits with banks, accounts and accrued interest receivable. The movement in the ACL on financial assets is recorded in provision for credit losses in the consolidated statement of comprehensive income. ACL on debt securities measured at FVOCI is presented in other components of equity. Financial assets carried at amortized cost are presented net of ACL on the consolidated statement of financial position.

Off-statement of financial position items subject to impairment assessment include financial guarantees and undrawn loan commitments. For these products, ACL is included in the consolidated financial statements.

We measure the ACL on 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 up 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 the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Changes in accounting policies *(continued)*

Allowance for credit losses *(continued)*

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 provision for credit losses. Write-offs and recoveries are recorded against the ACL.

The ACL represents an unbiased estimate of expected credit losses on financial assets as at the 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 incorporation of forward-looking information. To reflect other characteristics that are not already considered through modelling, 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 allowances 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 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. Products in scope of this exemption include credit cards, overdraft balances and certain revolving 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Changes in accounting policies (continued)

Allowance for credit losses (continued)

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. For the purposes of this assessment, credit risk is based on the delinquency status. This assessment is performed at the instrument level.

The Group's assessment of significant increases in credit risk is performed at least quarterly based on two factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument is moved from Stage 1 to Stage 2:

1) Instruments which are 30 days past due are considered to have experienced a significant increase in credit risk.
2) Additional qualitative reviews are performed to assess the staging results and make adjustments, as necessary, to better reflect the positions whose credit risk have increased significantly.

The thresholds for movement between Stage 1 and Stage 2 are symmetrical. After a financial asset has migrated to Stage 2, if its credit risk is no longer considered to have significantly increased relative to its initial recognition, the financial asset will move back to Stage 1.

Use of forward-looking information

The measurement of expected credit losses for each stage and the assessment of a significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable projections of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

The PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled 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 models for a five year period, subsequently reverting to long-run averages. Macroeconomic variables used in the Group's expected credit loss models include, but are not limited to, unemployment rate, gross domestic product, inflation rate, industry average non-performing loans and interest rates.

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. The base case scenario is based on macroeconomic forecasts published by the RBC Group internal economics group. Upside and downside scenarios vary relative to the base case scenario based on reasonably possible alternative macroeconomic conditions. Additional and more severe downside scenarios are designed to capture material non-linearity of potential credit losses in portfolios. Scenario design, including the identification of additional downside scenarios, occurs at least on an annual basis and more frequently if conditions warrant.

Scenarios are designed to capture a wide range of possible outcomes and weighted according to the best estimate of 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Changes in accounting policies (continued)

Allowance for credit losses (continued)

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, default occurs when the borrower is 90 days or more past due on any material obligation, and/or consider the borrower unlikely to make their payments in full without recourse action by the Group, such as taking formal possession of any collateral held. The definition of default used is applied consistently from period to period and to all financial instruments unless it can be demonstrated that circumstances have changed such that another definition of default is more appropriate.

Credit-impaired financial assets (Stage 3)

Financial assets are assessed for credit-impairment at each 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. The discount resulting from the impact of time delays in collecting principal (time value of money) is established and recorded through provision for credit losses.

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

Individually assessed loans (Stage 3)

When individually significant loans are identified as impaired, the carrying value of the loans 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Changes in accounting policies (continued)

Allowance for credit losses (continued)

Individually assessed loans (Stage 3) (continued)

for comparable loans, the fair value of collateral underlying the loans, and other reasonable and supported methods based on management judgment.

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 written off, either partially or in full, when there is no 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, with continued efforts to realize on the underlying collateral held following write off.

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 which are performed for credit reasons, primarily related to troubled debt restructurings, are generally treated as modifications of the original financial asset which can be tracked through the original asset or via establishment of a new financial asset. Modifications which are performed for other than credit reasons are generally considered to be an expiry of the original cash flows; accordingly, such renegotiations are treated as a derecognition of the original financial asset and recognition of a new financial asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Changes in accounting policies (continued)

Allowance for credit losses (continued)

Modifications (continued)

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. 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.

Impact of adoption of IFRS 9

Classification and measurement of financial assets

The application of the classification and measurement requirements of IFRS 9 resulted in the following classification of financial assets on adoption:

	As at November 1, 2017		As at October 31, 2017	
	Measurement category under IFRS 9	Carrying amount under IFRS 9	Measurement category under IAS 39	Carrying amount under IAS 39
Financial assets:		$		$
Cash and cash equivalents	Amortized cost	30,264,212	Loans and receivables	30,264,212
Cash and cash equivalents	FVOCI	7,981,100	Available-for-sale	7,981,100
Balance with central banks	Amortized cost	48,176,387	Loans and receivables	48,176,387
Loans and advances to customers	Amortized cost	735,894,772	Loans and receivables	758,055,817
Investment securities	Amortized cost	31,710,448	Available-for-sale	34,389,485
Other assets	Amortized cost	3,158,392	Loans and receivables	3,158,510

Debt securities managed within an HTC business model were reclassified from available-for-sale to amortized cost. As at October 31, 2018, the fair value of these securities was $33,091,803. For the year ended October 31, 2018, $274,503 of gains would have been recognized in OCI if the securities had not been reclassified.

Allowance for credit losses

The following table is a comparison of impairment losses determined in accordance with IAS 39 and IAS 37 to the corresponding impairment allowance determined in accordance with IFRS 9 as at November 1, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Changes in accounting policies (continued)

Impact of adoption of IFRS 9 (continued)

Allowance for credit losses (continued)

	IAS 39 /IAS 37 as at October 31, 2017				IFRS 9 as at November 1, 2017			
	Collectively assessed	Individually assessed	Total	Transition Adjustments	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$	$	$	$	$
Debt securities at amortised cost	–	–	–	2,421,052	26,700	2,394,352	–	2,421,052
Loans at amortised cost (1)	15,162,752	59,451,705	74,614,457	22,161,045	15,515,900	15,680,413	65,579,189	96,775,502
Other assets at amortised cost	–	–	–	118	118	–	–	118
	15,162,752	**59,451,705**	**74,614,457**	**24,582,215**	**15,542,718**	**18,074,765**	**65,579,189**	**99,196,672**

(1) Loans at amortised cost includes accumulated credit loss for loan commitments.

The table below provides the reconciliations from IAS 39 to IFRS 9 for the Group's consolidated statement of financial position, showing the impacts of adopting the IFRS 9 impairment, and classification and measurement, requirements.

	As at October 31, 2017 IAS 39	Impact of classification and measurement	Impact of impairment	As at November 1, 2017 IFRS 9
	$	$	$	$
Assets				
Cash and cash equivalents	38,245,212	–	–	38,245,212
Balance with central banks	48,176,387	–	–	48,176,387
Loans and advances to customers	758,055,817	–	(22,161,045)	735,894,772
Investment securities	34,389,485	(257,985)	(2,421,052)	31,710,448
Premises and equipment	345,584	–	–	345,584
Other assets	3,775,520	–	(118)	3,775,402
Total Assets	**882,988,005**	**(257,985)**	**(24,582,215)**	**858,147,805**
Liabilities				
Customer deposits	572,032,600	–	–	572,032,600
Due to affiliated companies	96,385,242	–	–	96,385,242
Other liabilities	5,465,931	–	–	5,465,931
Total Liabilities	**673,883,773**	**–**	**–**	**673,883,773**
Equity				
Share capital	5,333,334	–	–	5,333,334
Share premium	2,552,258	–	–	2,552,258
Other components of equity	239,085	(257,985)	–	(18,900)
Retained earnings	200,979,555	–	(24,582,215)	176,397,340
Total Equity	**209,104,232**	**(257,985)**	**(24,582,215)**	**184,264,032**
Total Liabilities and Equity	**882,988,005**	**(257,985)**	**(24,582,215)**	**858,147,805**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following accounting policies are applicable to all periods presented:

d. Financial instruments

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. We determine 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 of RBC 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. We have a systematic and consistent approach to control model use. Valuation models are approved for use within our 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 we have the ability to access at the measurement date. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model inputs that are either observable, or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 inputs are one or more inputs that are unobservable and significant to the fair value of the asset or liability. 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Financial instruments (continued)

Determination of fair value (continued)

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.

Derecognition of financial assets

Financial assets are derecognized when our contractual rights to the cash flows from the assets have expired, when we retain 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 we transfer our contractual rights to receive the cash flows and substantially all of the risk and rewards of the assets have been transferred. When we retain 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 we neither retain nor transfer substantially all risks and rewards of ownership of the assets, we derecognize the assets if control over the assets is relinquished. If we retain control over the transferred assets, we continue to recognize the transferred assets to the extent of our 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 we retain the rights to receive cash flows on the assets but assume an obligation to pay for those cash flows. We derecognize transferred financial assets if we transfer substantially all the risk and rewards of the ownership in the assets.

Derecognition of financial liabilities

We derecognize a financial liability when our obligation specified in the contract expires, or is discharged or cancelled. We recognize the difference between the carrying amount of a financial liability transferred and the consideration paid in our consolidated statement of comprehensive income.

e. Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Bahamian dollars (B$), which is the 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 items that are denominated in foreign currencies and carried at fair value are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items denominated in foreign currencies and carried at historical cost are translated at the rate prevailing at the date of the transaction.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. 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.

g. 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 exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or where appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (e.g. prepayment options) but does not consider future credit losses.

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

Non-interest income

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

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

Other income and expenses

Other income and expenses are recognized on the accrual basis.

h. 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Premises and equipment (continued)

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.

i. 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 asset 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.

j. Cash and cash equivalents

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

k. Leases

The Group is the lessee

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

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

The Group is the lessor

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

l. Provisions

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. Provisions (continued)

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

m. Share capital

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

n. Guarantees, indemnities and letters of credit

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

o. 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.

p. Employee benefits

The Group's employees participate in a defined benefit pension plan and a defined contribution pension plan of Royal Bank of Canada (RBC).

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 actuarially 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.

q. Taxation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r. 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 services.

s. Pre-IFRS 9 accounting policies

Financial assets

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

(i) Loans and receivables

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

(ii) AFS financial assets

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

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

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

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

Interest calculated using the effective interest method and foreign currency gain and loss on monetary securities classified as available for sale are recognized in the consolidated statement of comprehensive income.

(iii) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it has transferred the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s. Pre-IFRS 9 accounting policies (continued)

Non-performing financial assets

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

Impairment of financial assets

Financial assets carried at amortized cost

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

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

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

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows including the cash flows from the realization of collateral held (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized as a part of net income in the consolidated statement of comprehensive income. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s. Pre-IFRS 9 accounting policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortized cost (continued)

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

For the purpose of a collective evaluation of impairment, financial assets are grouped together on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

When a financial asset is uncollectible, it is written off against the related provision for impairment loss. Such financial assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Recoveries of accounts previously written off are recognized directly in the consolidated statement of comprehensive income as a part of net income.

Financial assets classified as AFS

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

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

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

Renegotiated loans

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s. Pre-IFRS 9 accounting policies (continued)

Financial liabilities

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

Financial liabilities are classified as financial liabilities at amortized cost.

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

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

3. CASH AND CASH EQUIVALENTS

	2018 $	2017 $
Treasury bills	7,947,300	7,981,100
Due from banks	9,685,763	30,264,112
	17,633,063	**38,245,212**

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 at rates ranging from 1.52% to 1.76% (2017: 1.72%).

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 $27,081,275 (2017: $48,176,387) which is based on a ratio to customer deposits.

5. LOANS AND ADVANCES TO CUSTOMERS

	2018 $	2017 $
Retail	951,699	1,599,354
Home equity and other mortgages	213,409,286	227,125,162
Residential mortgages	588,613,802	607,442,554
Government insured mortgages	666,944	754,748
	803,641,731	836,921,818
Allowance for credit losses	(94,901,894)	(74,614,457)
Loan origination fees and costs (net)	(3,960,163)	(4,251,544)
	704,779,674	**758,055,817**

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Loans categorized by performance are as follows:

	2018 $	2017 $
Neither past due nor impaired	611,056,979	631,394,963
Past due but not impaired	68,260,896	84,656,736
Impaired	124,323,856	120,870,119
	803,641,731	**836,921,818**

Loans categorized by maturity are as follows:

Current (due within one year)	13,314,145	18,771,811
Non-current (due after one year)	790,327,586	818,150,007
	803,641,731	**836,921,818**

Loans and advances classified as impaired represent 15.47% (2017: 14.44%) of the total loans and advances portfolio. The allowance for impairment losses represents 11.81% (2017: 8.92%) of the total loans and advances portfolio and 76.33% (2017: 61.73%) of the total impaired loans.

Allowance for credit losses consists of the following:

	IFRS 9				
	For the year ended October 31, 2018				
	Balance at beginning of period $	Provision for credit losses $	Net write-offs $	Other $	Balance at end of period $
Retail	652	1,226,866	(1,226,180)	(324)	1,014
Mortgages	96,774,850	3,914,525	(915,887)	(4,872,608)	94,900,880
	96,775,502	**5,141,391**	**(2,142,067)**	**(4,872,932)**	**94,901,894**
The above includes:					
Undrawn loan commitments	484,000	(197,000)	–	–	287,000

The following tables reconcile the opening and closing allowance for credit losses and gross carrying amounts for loans and commitments, by stage, for each major product category.

Reconciling items include the following:

- Model changes, which comprise the impact of significant changes to the quantitative models used to estimate expected credit losses.
- 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

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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.

	IFRS 9			
	For the year ended October 31, 2018			
	Allowance for Credit Losses			
	Performing		Impaired	
	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Balance at beginning of period	15,515,900	15,680,413	65,579,189	96,775,502
Provision for credit losses				
Model changes	–	–	–	–
Transfers in/(out) to Stage 1	1,404,011	(829,103)	(574,908)	–
Transfers in/(out) to Stage 2	(773,482)	1,565,086	(791,604)	–
Transfers in/(out) to Stage 3	(502,913)	(7,119,170)	7,622,083	–
Purchases and originations	1,193,341	110,108	–	1,303,449
Derecognitions and maturities	(742,553)	(702,822)	–	(1,445,375)
Remeasurements	(826,041)	3,647,158	2,462,200	5,283,317
Write-offs	–	–	(11,603,567)	(11,603,567)
Recoveries	–	–	9,461,500	9,461,500
Other	–	–	(4,872,932)	(4,872,932)
Balance at end of period	**15,268,263**	**12,351,670**	**67,281,961**	**94,901,894**

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

Key inputs and assumptions:
The measurement of expected credit losses is a complex calculation that involves a large number of interrelated inputs and assumptions. The key drivers of changes in expected credit losses include our internal historical default rates, transition matrices, unemployment rate, GDP, inflation rate, industry non-performing loans and interest rates.

Further details on the key inputs and assumptions used as at October 31, 2018 are provided below.

Forward-looking macroeconomic variables

The PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled 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 our expected credit loss calculation includes a projections of all relevant macroeconomic variables used in our models for a five year period, subsequently reverting to long-run averages. Depending on their usage in the models, macroeconomic variables are projected at a more granular level.

Scenario design
Our estimation of expected credit losses in Stage 1 and Stage 2 considers distinct future macroeconomic scenarios. Scenarios are designed to capture a range of possible outcomes and weighted according to our best estimate of 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. The base case scenario is based on forecasts of the expected rate, value or yield for each of the macroeconomic variables identified above. The upside and downside scenarios are set by adjusting our base projections to construct reasonably possible scenarios that are more optimistic

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

and pessimistic, respectively. Two additional downside scenarios were designed for the real estate and energy sectors to capture the non-linear nature of potential credit losses in these portfolios.

The following table compares our probability-weighted estimate of expected credit losses for performing loans to expected credit losses estimated in our base case scenario. Results reflect the Stage 1 and Stage 2 ACL if 100% scenario weight was applied to the individual scenario presented. Staging is consistent across all scenarios presented and reflects the assets determined to have experienced a significant increase in credit risk as at October 31, 2018. The downside scenario does not include the impact of our additional alternative scenarios designed to capture non-linear credit losses. In all cases, if the forecast scenario were to occur, it is unlikely that the resulting ACL would be exactly as presented.

	As at October 31, 2018	
	IFRS 9	Base Scenario
	$	$
ACL on performing loans [(1)]	27,619,933	27,594,560

[(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 our policy for assessing for significant increase in credit risk. The impact of moving from 12-month 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 our ACL by comparing our allowance if all performing loans were in Stage 1 to the actual ACL recorded on these assets.

	As at October 31, 2018
	Performing loans[(1)]
	$
ACL – All performing loans in Stage 1	16,461,710
Impact of staging	11,158,223
Stage 1 and 2 ACL	**27,619,933**

[(1)] Represents loans, acceptances and commitments in Stage 1 and Stage 2.

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	IAS 39				
	For the year ended October 31, 2017				
	Balance at beginning of period	**Provision for credit losses**	**Net write-offs**	**Other**	**Balance at end of period**
	$	**$**	**$**	**$**	**$**
Retail	97,164	315,116	(399,715)	(6,392)	6,173
Mortgages	68,439,355	12,161,762	(1,123,281)	(4,869,552)	74,608,284
Total allowance for credit losses	**68,536,519**	**12,476,878**	**(1,522,996)**	**(4,875,944)**	**74,614,457**
Individually assessed	55,351,360	5,623,341	(1,522,996)	–	59,451,705
Collectively assessed	13,185,159	6,853,537	–	(4,875,944)	15,162,752
Total allowance for credit losses	**68,536,519**	**12,476,878**	**(1,522,996)**	**(4,875,944)**	**74,614,457**

6. INVESTMENT SECURITIES

The following table presents the carrying value of securities at the end of the period. Effective November 1, 2017 the Group adopted IFRS 9 and classified all of its investments at amortized cost net of allowance for credit losses. Amounts from periods prior to November 1, 2017 are classified as available for sale investments in accordance with IAS 39 and are carried at fair value.

	2018	**2017**
	$	**$**
Bahamas Government Debt Securities	29,805,900	31,251,634
Locally Issued Corporate Bonds	3,011,400	3,137,851
	32,817,300	34,389,485
Allowance for credit losses	(2,869,240)	–
	29,948,060	**34,389,485**

Investments categorized by maturity are as follows:

Current (due within one year)	1,238,100	1,314,424
Non-current (due after one year)	31,579,200	33,075,061
	32,817,300	**34,389,485**

6. INVESTMENT SECURITIES (CONTINUED)

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

	2018 $	2017 $
Balance, beginning of year	34,389,485	34,792,000
Transition adjustment on adoption of IFRS 9	(2,679,037)	–
Maturities	(1,314,200)	(660,500)
Net gain from change in fair value	–	257,985
Increase in allowance for credit losses	(448,188)	–
Balance, end of year	**29,948,060**	**34,389,485**

Allowance for credit losses on investment securities

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

- Transfers between stages, which are presumed to occur before any corresponding remeasurement of the allowance.
- Purchases 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; and unwinding of the time value discount due to the passage of time.
- During the twelve months ended October 31, 2018, 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 that contributed to changes in the allowance include the following:

Allowance for credit losses – securities at amortized cost

	IFRS 9 For the year ended October 31, 2018			
	Performing Stage 1 $	Stage 2 $	Impaired Stage 3 $	Total $
Balance at beginning of period	26,700	2,394,352	–	2,421,052
Provision for credit losses				
Model changes				
Transfers in/(out) to Stage 1	–	–	–	–
Transfers in/(out) to Stage 2	(1,000)	1,000	–	–
Transfers in/(out) to Stage 3	–	–	–	–
Purchases and originations	–	–	–	–
Derecognitions and maturities	(2,000)	(1,000)	–	(3,000)
Remeasurements	(22,361)	473,549	–	451,188
Write-offs	–	–	–	–
Recoveries	–	–	–	–
Other	–	–	–	–
	1,339	**2,867,901**	**–**	**2,869,240**

Allowance for credit losses for securities at FVOCI was $17,350 as of October 31, 2018.

6. INVESTMENT SECURITIES (CONTINUED)

Impairment of AFS securities (IAS 39)

Available-for-sale securities were assessed for objective evidence of impairment at each reporting date and more frequently when conditions warrant. Depending on the nature of the securities under review, we applied specific methodologies to assess whether the cost/amortized cost of the security would be recovered. As at October 31, 2017 our gross unrealized gain on available-for-sale securities was $257,985. There was no objective evidence of impairment on our available-for-sale securities that were in an unrealized loss position as at October 31, 2017.

Investment securities have maturities ranging from 2019 to 2037 (2017: 2018 to 2037) and with floating interest rates ranging from 0.125% to 1.625% (2017: 0.125% to 1.625%) above the B$ Prime rate of 4.25% (2017: 4.25%).

As at October 31, 2018, the cost of investment securities totaled $32,817,300 (2017: $34,131,500), all of which is comprised of level 3 securities in the fair value hierarchy (Note 24).

7. PREMISES AND EQUIPMENT

	Land $	Buildings & Improvements $	Leasehold Improvements $	Furniture & Other Equipment $	Computer Equipment $	Total $
Year ended October 31, 2018						
Opening net book value	105,700	123,907	25,203	51,564	39,210	345,584
Depreciation charge	–	(26,439)	(14,684)	(16,490)	(28,431)	(86,044)
Closing net book value	**105,700**	**97,468**	**10,519**	**35,074**	**10,779**	**259,540**
At October 31, 2018						
Cost	105,700	1,219,104	414,446	759,869	1,376,805	3,875,924
Accumulated depreciation	–	(1,121,636)	(403,927)	(724,795)	(1,366,026)	(3,616,384)
Net book value	**105,700**	**97,468**	**10,519**	**35,074**	**10,779**	**259,540**
Year ended October 31, 2017						
Opening net book value	105,700	154,679	65,691	63,916	81,524	471,510
Depreciation charge	–	(30,772)	(40,488)	(12,352)	(42,314)	(125,926)
Closing net book value	**105,700**	**123,907**	**25,203**	**51,564**	**39,210**	**345,584**
At October 31, 2017						
Cost	105,700	1,219,104	420,108	759,869	1,376,805	3,881,586
Accumulated depreciation	–	(1,095,197)	(394,905)	(708,305)	(1,337,595)	(3,536,002)
Net book value	**105,700**	**123,907**	**25,203**	**51,564**	**39,210**	**345,584**

During the year, the Group disposed of leasehold improvements of $5,662 (2017: $Nil) which was fully depreciated.

7. PREMISES AND EQUIPMENT (CONTINUED)

As of October 31, 2018 there were no buildings subleased to an affiliate company. In the prior year office space was leased to an affiliate company. Minimum lease payments in respect of these arrangements are as follows:

	2018 $	2017 $
Within one year	–	66,520
One to three years	–	66,520
Three to five years	–	133,040
	–	**266,080**

8. CUSTOMER DEPOSITS

	2018 $	2017 $
Term deposits	377,493,888	427,177,397
Savings deposits	103,202,848	123,387,407
Demand deposits	22,216,988	21,467,796
	502,913,724	**572,032,600**
Deposits categorized by customer type are as follows:		
Personal	251,751,113	300,048,299
Non-Personal	251,162,611	271,984,301
	502,913,724	**572,032,600**
Deposits categorized by maturity are as follows:		
Current (due within one year)	502,909,509	571,927,953
Non-current (due after one year)	4,215	104,647
	502,913,724	**572,032,600**

Deposits carry fixed interest rates ranging from 0.05% to 4.00% (2017: 0.05% to 1.25%) 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. 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, 2018 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:

9. PENSION PLANS (CONTINUED)

	2018	2017
Discount rate	5.20%	5.25%
Expected return on plan assets	5.96%	6.30%
Rate of increase in future compensation	1.50% – 9.00%	1.50% – 9.00%

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

The Royal Bank of Canada charges the Group for its share of the amount of funding required in the Plan. This cost is recognized in the consolidated statement of comprehensive income after which no further obligation is required of the Group. During the year, the Group's pension expenses arising from the Plan was $658,461 (2017: $633,833) and the defined contribution plan was $17,586 (2017: $18,197).

10. SHARE CAPITAL

Share capital consists of the following:

	2018 $	2017 $
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

11. EARNINGS PER SHARE

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

	2018 $	2017 $
Total earnings for the year attributable to the equity shareholders	25,318,282	21,953,837
Weighted average number of ordinary shares in issue	26,666,670	26,666,670
Basic and diluted earnings per share	**0.95**	**0.82**

12. INTEREST INCOME

	2018 $	2017 $
Loans and advances to customers	50,285,418	56,785,258
Investment securities	1,675,287	1,766,551
	51,960,705	**58,551,809**

Included in interest income is interest attributable to the time value of money component of non-performing loans of $4,872,932 (2017: $4,875,944).

13. INTEREST EXPENSE

	2018 $	2017 $
Customer deposits	5,911,558	7,329,102
Due to affiliated companies	3,450,138	4,703,555
Other interest bearing liabilities	5,262	12,728
	9,366,958	**12,045,385**

14. NON-INTEREST INCOME

	2018 $	2017 $
Fees and commissions	2,091,854	2,054,882
Foreign exchange earnings	16,324	59,345
Other service charges and fees	129,047	158,746
	2,237,225	**2,272,973**

15. NON-INTEREST EXPENSES

	2018 $	2017 $
Staff costs	1,691,375	1,690,871
Operating lease rentals	372,663	362,397
Premises and equipment expenses, excluding depreciation and operating lease rentals	428,118	400,334
Depreciation and amortization	86,044	125,926
Business and miscellaneous taxes	3,333,437	3,248,533
Deposit insurance premium	263,876	322,929
Professional fees	545,562	145,474
Other operating expenses	7,184,673	8,052,218
	13,905,748	**14,348,682**

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 $263,876 (2017: $322,929) into this fund.

16. DIVIDENDS

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

	Cents per share	Amount $
Declaration Date		
January 8, 2018	15	3,999,999
April 17, 2018	5	1,333,334
June 19, 2018	5	1,333,334
October 10, 2018	5	1,333,334
	30	**8,000,001**

There were no dividends declared to shareholders during the fiscal year ended 2017.

17. CONTINGENT LIABILITIES

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

18. COMMITMENTS

a. Credit commitments

As of the date of the consolidated statement of financial position, mortgage commitments in the normal course of business amounted to $11,668,164 (2017: $18,571,797).

b. Operating lease commitments

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

	2018 $	2017 $
Within one year	313,512	99,962
One to three years	392,346	323,109
Three to five years	186,673	599,019
	892,531	**1,022,090**

Operating lease expense recorded in the consolidated statement of comprehensive income amounted to $372,663 (2017: $362,397).

19. RELATED PARTY BALANCES AND TRANSACTIONS

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

The Group also has technical service and license agreements with RBC Royal Bank (Bahamas) Limited. During the year $6,703,821 (2017: $7,141,724) was expensed in reference to these agreements and is included in general and administrative expense in the consolidated statement of comprehensive income. The Group continues to pursue opportunities for outsourcing with related parties to improve operational efficiency.

All clearing accounts are maintained at RBC Royal Bank (Bahamas) Limited, which acts as a clearing bank for the Group. The balance as at October 31, 2018 was $9,407,317 (2017: $29,527,966). These deposits are non-interest bearing and are held as a part of the Group's liquidity reserve requirement.

Included in due to affiliate are balances that are medium term lending arrangements with terms up to three years and bearing interest at effective rates of 2.25% and 2.50% (2017: 2.25% and 2.50%).

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

19. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

	2018 $	2017 $
Cash and cash equivalents:		
Other related parties	9,407,317	29,527,966
Loans and advances to customers:		
Directors and key management personnel	25,052	544,910
Customer deposits:		
Directors and key management personnel	2,770,008	2,755,845
Due to affiliated companies:		
Other related parties	108,085,319	96,385,242
Other liabilities:		
Other related parties	2,980,123	1,460,217
Interest income:		
Directors and key management personnel	1,821	28,808
Non-interest expense:		
Other related parties	7,390,607	7,878,370
interest expense:		
Directors and key management personnel	18,386	34,079
Staff costs:		
Salaries and other short term benefits	120,700	142,361

20. CATEGORIZATION OF FINANCIAL ASSETS AND LIABILITIES

Consolidated Statement of Financial Position:

	2018 $	2017 $
ASSETS		
Financial assets at fair value through other comprehensive income		
Cash and cash equivalents	7,947,300	7,981,100
Investment securities	–	34,389,485
Financial assets at amortized cost:		
Cash and cash equivalents	9,685,763	30,264,112
Balance with central banks	59,768,306	48,176,387
Loans and advances to customers	704,779,674	758,055,817
Investments	29,948,060	–
Other assets	4,366,131	3,158,510
Total financial assets	**816,495,234**	**882,025,411**
LIABILITIES		
Financial liabilities at amortized cost:		
Customer deposits	502,913,724	572,032,600
Due to affiliated companies	108,085,319	96,385,242
Other liabilities	4,770,015	5,465,931
Total financial liabilities	**615,769,058**	**673,883,773**

21. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS

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

Risk Management Structure

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

Risk Management Unit

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

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

Internal Audit

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

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 Group's Operating and Asset/Liability Committees. The reports include but are not limited to aggregate credit exposure, open currency positions, liquidity ratios and risk profile changes. On a quarterly basis, senior management assesses the appropriateness of the allowance for impairment losses.

(a) Credit risk

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

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

21. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

Collateral

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

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

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

Credit risk grading

The Bank 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 Bank 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 Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The Bank 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.

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 Bank on behalf of a customer authorizing a third party to draw drafts on the Bank 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

21. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

Expected credit loss (ECL) measurement (continued)

basis. Notes 5 and 6 detail the inputs, assumptions and estimation techniques used in measuring the ECL.

Concentrations of credit risk

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

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

	2018 $	2017 $
On statement of financial position		
Due from banks	9,685,763	30,264,112
Treasury bills	7,947,300	7,981,100
Balance with central banks	59,768,306	48,176,387
Loans and advances to customers	803,641,731	836,921,818
Investment securities	32,817,300	34,389,485
Other assets	4,366,131	3,158,510
	918,226,531	960,891,412
Off statement of financial position		
Credit commitments	11,668,164	18,571,797
Total credit risk exposure	**929,894,695**	**979,463,209**

Concentration of risk is managed by client or counterparty and by industry sector. The maximum credit exposure to any client or counterparty as at the date of the consolidated statement of financial position was $38,152,430 (2017: $39,481,572) before taking account of collateral or other credit enhancements.

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

	2018 $	2017 $
Personal	801,308,865	835,525,519
Construction	184,637	218,259
Tourism	168,090	119,749
Professional Services	9,990	16,934
Other	1,970,149	1,041,357
	803,641,731	**836,921,818**

21. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

	2018 $	2017 $
Neither past due or impaired	611,056,979	631,394,963
Past due but not impaired:		
Past due 31 – 60 days	47,507,424	63,649,028
Past due 61 – 90 days	20,753,472	21,007,708
Past due and impaired:		
Past due over 90 days	124,323,856	120,870,119
	803,641,731	**836,921,818**

Renegotiated loans and advances that would otherwise be in Stage 2 or 3 totaled $80,302,883 (2017: $86,795,743).

(b) Liquidity risk

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

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

	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, 2018						
Liabilities:						
Customer deposits	284,520,207	86,635,930	131,753,372	4,215	–	502,913,724
Due to affiliated companies	541,863	2,543,456	40,000,000	65,000,000	–	108,085,319
Other liabilities	4,770,015	–	–	–	–	4,770,015
Total	**289,832,085**	**89,179,386**	**171,753,372**	**65,004,215**	**–**	**615,769,058**
At October 31, 2017						
Liabilities:						
Customer deposits	373,262,903	57,315,121	141,349,929	104,647	–	572,032,600
Due to affiliated companies	425,025	960,217	55,000,000	40,000,000	–	96,385,242
Other liabilities	5,465,931	–	–	–	–	5,465,931
Total	**379,153,859**	**58,275,338**	**196,349,929**	**40,104,647**	**–**	**673,883,773**

21. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (continued)

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

	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, 2018						
Credit commitments	2,391,767	1,305,504	5,834,804	41,371	2,094,718	11,668,164
Operating leases	97,463	97,463	118,586	579,019	–	892,531
Total	**2,489,230**	**1,402,967**	**5,953,390**	**620,390**	**2,094,718**	**12,560,695**
At October 31, 2017						
Credit commitments	7,423,434	1,086,137	7,492,392	78,023	2,491,811	18,571,797
Operating leases	33,321	166,604	199,924	922,128	–	1,321,977
Total	**7,456,755**	**1,252,741**	**7,692,316**	**1,000,151**	**2,491,811**	**19,893,774**

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

(c) Currency risk

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

(d) Interest rate risk

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

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

21. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Interest rate risk (continued)

	Immediately rate-sensitive $	Up to 3 Months $	Over 3–6 Months $	Over 6–12 Months $	Over 1–5 Years $	Over Over 5 Years $	Non-interest rate sensitive $	Total $
At October 31, 2018								
Assets								
Cash and cash equivalents	–	–	–	–	–	–	17,633,063	17,633,063
Balance with central banks	–	–	–	–	–	–	59,768,306	59,768,306
Loans and advances to customers	–	677,437,914	–	–	–	–	27,341,760	704,779,674
Investment securities	32,817,300	–	–	–	–	–	(2,869,240)	29,948,060
Other assets	–	–	–	–	–	–	4,366,131	4,366,131
Total financial assets	**32,817,300**	**677,437,914**	**–**	**–**	**–**	**–**	**106,240,020**	**816,495,234**
Liabilities								
Customer deposits	–	284,520,207	86,635,930	131,753,372	4,215	–	–	502,913,724
Due to affiliated companies	–	–	40,000,000	–	65,000,000	–	3,085,319	108,085,319
Other liabilities	–	–	–	–	–	–	4,770,015	4,770,015
Total financial liabilities	**–**	**284,520,207**	**126,635,930**	**131,753,372**	**65,004,215**	**–**	**7,855,334**	**615,769,058**
Net repricing gap	**32,817,300**	**392,917,707**	**(126,635,930)**	**(131,753,372)**	**(65,004,215)**	**–**		

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

	Immediately rate-sensitive $	Up to 3 Months $	Over 3–6 Months $	Over 6–12 Months $	Over 1–5 Years $	Over Over 5 Years $	Non-interest rate-sensitive $	Total $
At October 31, 2017								
Assets								
Cash and cash equivalents	–	7,981,100	–	–	–	–	30,264,112	38,245,212
Balance with central banks	–	–	–	–	–	–	48,176,387	48,176,387
Loans and advances to customers	–	715,013,405	–	–	–	–	43,042,412	758,055,817
Investment securities	34,131,500	–	–	–	–	–	257,985	34,389,485
Other assets	–	–	–	–	–	–	3,158,510	3,158,510
Total financial assets	**34,131,500**	**722,994,505**	**–**	**–**	**–**	**–**	**124,899,406**	**882,025,411**

21. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Interest rate risk (continued)

	Immediately rate-sensitive $	Up to 3 Months $	Over 3–6 Months $	Over 6–12 Months $	Over 1–5 Years $	Over Over 5 Years $	Non-interest rate-sensitive $	Total $
At October 31, 2017								
Liabilities								
Customer deposits	–	373,262,903	2,315,121	196,349,929	104,647	–	–	572,032,600
Due to affiliated companies	–	–	55,000,000	–	40,000,000	–	1,385,242	96,385,242
Other liabilities	–	–	–	–	–	–	5,465,931	5,465,931
Total financial liabilities	**–**	**373,262,903**	**57,315,121**	**196,349,929**	**40,104,647**	**–**	**6,851,173**	**673,883,773**
Net repricing gap	**34,131,500**	**349,731,602**	**(57,315,121)**	**(196,349,929)**	**(40,104,647)**	**–**		

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

	Effect on Net Profit Income 2018 $	2017 $
Change in interest rate		
+ 1%	5,417,094	5,691,715
– 1%	(5,417,094)	(5,691,715)

(e) Price risk

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

22. CAPITAL MANAGEMENT

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

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

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

- Exceeds, with an appropriate cushion, the minimum capital requirements for the level and quality of capital set by the regulator;
- Safeguards the Group's ability to continue as a going concern by maintaining capital levels that are sufficient to support all material risks and also to support potential unexpected increases in risk;

22. CAPITAL MANAGEMENT (CONTINUED)

- Promotes an integrated and streamlined approach to managing regulatory capital that is both reflective of the Group's risk appetite and risk management practices and strongly supportive of growth strategies and performance management; and
- Reflects alignment with the Group's risk management frameworks and policies.

Capital adequacy and the use of regulatory capital are monitored by the Group's management, based on an internal risk assessment approach employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision as implemented by the Central Bank of The Bahamas (the Central Bank). The required information is filed with the Central Bank on a monthly basis as prescribed. The Central Bank requires the Group to maintain a minimum total capital ratio of 17%. As of the date of the consolidated statement of financial position, the Group's total capital ratio was 39.21% (2017: 38.32%).

23. OPERATING SEGMENTS

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

	2018			
	Banking	Insurance Services	Eliminated at Consolidation	Consolidated
	$	$	$	$
Assets	817,354,531	12,114,011	(12,114,011)	817,354,531
Liabilities	627,170,584	712,485	(12,114,011)	615,769,058
Revenue:				
Net interest income	42,593,747	–	–	42,593,747
Non-interest income	1,377,101	860,124	–	2,237,225
Total income	43,970,848	860,124	–	44,830,972
Non-interest expense	(13,584,087)	(321,661)	–	(13,905,748)
Provision for credit losses	(5,606,942)	–	–	(5,606,942)
Net income	24,779,819	538,463	–	25,318,282

	2017			
	Banking	Insurance Services	Eliminated at Consolidation	Consolidated
	$	$	$	$
Assets	882,988,005	11,579,884	(11,579,884)	882,988,005
Liabilities	684,746,836	716,821	(11,579,884)	673,883,773
Revenue:				
Net interest income	46,506,424	–	–	46,506,424
Non-interest income	1,542,326	730,647	–	2,272,973
Total income	48,048,750	730,647	–	48,779,397
Non-interest expense	(14,134,465)	(214,217)	–	(14,348,682)
Provision for credit losses	(12,476,878)	–	–	(12,476,878)
Net income	21,437,407	516,430	–	21,953,837

24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

				Fair Value Hierarchy		
	Fair Value Always Approximate Carrying Value	Fair Value May Not Approximate Carrying Value	Total Fair Value	Level 1	Level 2	Level 3
	$	$	$	$	$	$
October 31, 2018						
Financial Assets						
Cash and cash equivalents	17,633,063	–	17,633,063	–	17,633,063	–
Balance with central banks	59,768,306	–	59,768,306	–	59,768,306	–
Loans and advances to customers	–	819,745,694	819,745,694	–	–	819,745,694
Investment securities	–	33,091,803	33,091,803	–	–	33,091,803
Other assets	4,366,131	–	4,366,131	–	4,366,131	–
Financial Liabilities						
Customer deposits	125,419,836	377,493,888	502,913,724	–	502,913,724	–
Due to affiliated companies	108,085,319	–	108,085,319	–	108,085,319	–
Other Liabilities	4,770,015	–	4,770,015	–	4,770,015	–

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

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

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

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

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

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

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

There were no transfers between levels for the year ended October 31, 2018 or 2017.

Level 3 investments is comprised primarily of debt issued or guaranteed by the Bahamas Government. The Central Bank of The Bahamas introduced a pricing model for Bahamas Government Registered Stock (BGRS) in March 2017. The model introduces a market based pricing formula for Bahamian dollar denominated BGRS which are traded in the secondary market. Under this model new bonds or 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:

	2018 $	2017 $
Balance, beginning of year	34,389,485	34,792,000
Transition adjustment on adoption of IFRS 9	(1,104,813)	–
Maturities	(1,314,200)	(660,500)
Net gain from change in fair value	–	257,985
Increase in allowance for credit losses	(2,022,412)	–
Balance, end of year	**29,948,060**	**34,389,485**

25. SUBSEQUENT EVENT

Subsequent to year end, the Directors approved a dividend on ordinary shares in the amount of $0.05 per share in respect of the fourth quarter 2018 results to all shareholders of record as at March 14, 2019 payable on March 21, 2019.

NOTES

SHAREHOLDERS' INFORMATION

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

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

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

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

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

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

DIVIDEND DATES
Subject to approval by the Board of Directors.

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

ANNUAL REPORT CREDITS

GRAPHIC DESIGN
Smith & Benjamin Art & Design
Tel: (242) 377-0241

PRINTING
Printmasters
Tel: (242) 302-2362

STORE LOCATIONS

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

MAIN BRANCH
Shared Location with:

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

CARMICHAEL ROAD BRANCH
Shared Location with:

RBC Royal Bank
Carmichael Road
P. O. Box N 3038
Nassau, The Bahamas
Tel: (242) 676-7500
Fax: (242) 676-7792

FREEPORT BRANCH
Shared Location with:

RBC Royal Bank
East Mall Drive & Explorer's Way
P. O. Box F 40029
Freeport, Grand Bahama
The Bahamas
Tel: (242) 352-8896
Fax: (242) 352-3022

PALMDALE BRANCH
Shared Location with:

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

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

SHAREHOLDER'S CONTACT
Finance Corporation of
The Bahamas Limited
P. O. Box N 3038
Nassau, The Bahamas
Tel: (242) 356-8500
Fax: (242) 328-8848