RBC FINCO

2016 ANNUAL REPORT

It's All About You

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CORPORATE PROFILE & COLLECTIVE **AMBITION**

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

The Company employs 29 people who serve more than 50,000 clients through offices in Nassau and Freeport, and has more than 4,000 shareholders.

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

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 (RY on TSX and NYSE) is Canada's largest bank, and one of the largest banks in the world, based on market capitalization. We are one of North America's leading diversified financial services companies, and provide personal and commercial banking, wealth management, insurance, investor services and capital markets products and services on a global basis. We employ over 80,000 full- and part-time employees who serve more than 16 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 35 other countries. Our business segments are described below.

Operating through two lines of business – Canadian Banking and Caribbean & U.S. Banking, Personal & Commercial Banking is comprised of our personal and business banking operations, and our auto financing and retail investment businesses, including our online discount brokerage channel. We provide services to more than 13.5 million individual, business and institutional clients across Canada, the Caribbean and the U.S. In Canada, we provide a broad suite of financial products and services through our extensive branch, automated teller machine (ATM), online, mobile and telephone banking networks, as well as through a large number of proprietary sales professionals. We maintain top (#1 or #2) rankings in market share for all key retail and business financial product categories, and have the largest branch network, the most ATMs and the largest mobile sales network across Canada. In the Caribbean, we offer a broad range of financial products and services to individuals and business clients, and public institutions in targeted markets. We continue to be the second-largest bank as measured by assets in the English Caribbean, with 77 branches in 17 countries and territories. In the U.S., we serve the cross-border banking needs of Canadian clients within the U.S. through online channels. As a result of our successes in 2016, we received external recognition as an industry leader and were named or ranked: Highest in Customer Satisfaction among the Big Five Retail Banks in Canada 2016 (J.D. Power); World's Best Global Bank for Consumer Banking; Best Trade Finance Bank in Canada four years in a row (Global Finance); Best Payment Innovation and Best Use of Data Analytics for 2016 (Retail Banker International); and #1 Bank in the Caribbean for the second year in a row (The Banker).

Wealth Management comprises Canadian Wealth Management, U.S. Wealth Management (including City National), International Wealth Management and Global Asset Management (GAM). Wealth Management serves individual and institutional clients in target markets around the world. From our offices in key financial centres mainly in Canada, the U.S., the U.K., the Channel Islands and Asia, Wealth Management offers a comprehensive suite of investment, trust, banking, credit and other wealth management solutions to affluent, high net worth (HNW) and ultrahigh net worth (UHNW) clients. Our asset management group, Global Asset Management, which includes BlueBay Asset Management (BlueBay), is an established global leader in investment management services, providing investment strategies and fund solutions directly to institutional investors and also to individual clients through our distribution channels and third-party distributors. On November 2, 2015, we completed the acquisition of City National, which has enhanced and complemented our existing U.S. businesses and product offerings. In 2015, we were ranked the 5th largest global wealth manager by client assets (Scorpio Partnership's 2016 Global Private Banking KPI Benchmark) for the third year in a row. We were also named Best Private Bank in Canada (PWM/The Banker Global Private Banking Awards, 2016) for the fifth consecutive year and Best Canadian Private Bank (Family Wealth Report Awards, 2016).

Insurance comprises our operations in Canada and globally and operates under two business lines: Canadian Insurance and International Insurance, providing a wide range of life, health, home, auto, travel, wealth, group and reinsurance products and solutions. In Canada, we offer our products and services through our proprietary distribution channels, comprised of the field sales force which includes retail insurance stores, our field sales representatives, advice centres and online, as well as through independent insurance advisors and affinity relationships. Outside Canada, we operate in reinsurance markets globally offering life, accident and annuity reinsurance products. On July 1, 2016, we completed the sale of RBC General Insurance Company to Aviva Canada Inc. (Aviva). The transaction involved the sale of our home and auto insurance manufacturing business and included a 15-year strategic distribution agreement between RBC Insurance and Aviva.

Investor & Treasury Services is a specialist provider of asset services, custody, payments and treasury services for financial and other institutional investors worldwide. We deliver custodial, advisory, financing and other services to safeguard client assets, maximize liquidity, and manage risk across multiple jurisdictions. We also provide short-term funding and liquidity management for RBC. We are a global custodian with a network of offices across North America, Europe and Asia-Pacific. While we compete against the world's largest global custodians, we remain a specialist provider with a focus on asset managers offering offshore fund structures in Luxembourg and Ireland, and alternative asset managers of real estate and private equity funds. Our transaction banking business is a leading provider of Canadian dollar cash management, correspondent banking, and trade finance for financial institutions globally. In 2016, we were rated by our clients the #1 global custodian for the sixth consecutive year (Global Investor/ISF Global Custody Survey, 2016); rated #1 custodian overall in Canada and Europe (excl. Switzerland and the U.K.) (R&M Investor Services Survey, 2016); named #1 Canadian sub-custodian (Global Custodian Agent Banks in Major Markets Survey, 2016); maintained global position as the #1 fund administrator overall for the fourth consecutive year (R&M Fund Accounting and Administration Survey, 2016); and named Best Trade Finance Bank in Canada for the fourth consecutive year (Global Finance, 2016).

Capital Markets provides public and private companies, institutional investors, governments and central banks globally with a wide range of capital markets products and services across our two main business lines, Corporate and Investment Banking, and Global Markets. Our legacy portfolio is grouped under Other. In North America, we offer a full suite of products and services which include corporate and investment banking, equity and debt origination and distribution, and structuring and trading. In Canada, we are a premier global investment bank and market leader with a strategic presence in all lines of capital markets businesses. In the U.S., we have full industry sector coverage and investment banking product range. Outside North America, we have a select presence in the U.K. and Europe, and Other international, where we offer a diversified set of capabilities in our key sectors of expertise such as energy, mining and infrastructure and we have a growing presence in industrial, consumer and healthcare in Europe. In 2016, as a result of our successes in each of our regions, we received external recognition as an industry leader and were named or ranked: Best Investment Bank in Canada (Euromoney Magazine) for the ninth consecutive year; Best Bank for Markets in North America (Euromoney Magazine); World's Best Developed Markets Banks (Canada) (Global Finance); the largest investment bank in Canada by fees for the first nine months of 2016 (Dealogic); and the 10th largest investment bank globally and in the Americas by fees for the first nine months of 2016 (Thomson Reuters).

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

FINANCIAL HIGHLIGHTS

(Expressed in Bahamian Dollars)

	Change 2016/2015	2016	REVISED 2015	2014	2013	2012
EARNINGS*						
Net interest income	-3.9%	$49,167,967	$51,182,932	$50,343,105	$47,114,837	$41,531,583
Non-interest income	8.2%	2,545,212	2,352,704	2,631,708	2,235,644	2,168,555
Total Income	-3.4%	51,713,179	53,535,636	52,974,813	49,350,481	43,700,138
Impairment losses on loans and advances	56.7%	25,017,168	15,967,272	35,595,209	7,468,260	19,597,777
Non-interest expense	26.2%	15,092,115	11,962,694	14,776,249	11,523,581	13,120,538
Net Income	-54.7%	11,603,896	25,605,670	2,603,355	30,358,640	10,981,823
Efficiency Ratio	678 bps	29.2%	22.4%	27.9%	23.4%	30.0%
Return on equity	-946 bps	6.4%	15.8%	1.7%	21.4%	8.8%
BALANCE SHEET DATA**						
Loans and advances to customers	-5.4%	$782,615,717	$827,446,983	$844,445,107	$861,412,676	$843,613,277
Total Assets	-6.8%	924,978,323	992,433,577	983,217,444	997,220,310	973,694,362
Customer Deposits	-7.0%	650,673,080	699,728,060	781,079,120	761,586,200	771,387,050
Total Equity	6.6%	186,911,310	175,307,414	149,701,744	153,765,056	130,073,084
COMMON SHARE INFORMATION						
Earnings per share	$(0.52)	$0.44	$0.96	$0.10	$1.14	$0.41
Dividend per share	–	–	–	0.25	0.25	–
Book value per share-year-end	0.44	7.01	6.57	5.61	5.77	4.88
NUMBER OF:						
Employees		29	63	63	95	97
Automated banking machines		5	5	5	5	5
Service delivery units		5	5	5	6	6

* The comparative figures for net interest income and non-interest income have been amended to include loan origination fees with interest income.
** The comparative figures for Loans and Advances to Customers and Customer Deposits have been amended to include accrued interest in other assets and other liabilities respectively.

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 3.9% during the year. This decrease is mainly due to lower yields on mortgages along with lower volumes. Net interest income has been challenged due to 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 increased by 8.2% primarily from fee schedule revisions for various services.

Impairment Losses on Loans and Advances
The impairment charge for credit losses was $25.0 million (2015: $16.0 million). The significant

increase in impairment charge is due to a $16.9 million increase in non-performing loans from $102.5 million to $119.4 million during the year. The increase is a result of the aging non-performing portfolio beyond five years attracting an additional provision and an increase in general provision made to recognize the continued weak economic performance and high unemployment in the country. The total allowance for impairment losses is 8.0% of the total loan portfolio and 57.4% of non-performing loans, compared to 6.4% and 55.8%, respectively at the end of fiscal 2015.

Non-Interest Expenses
Non-interest expenses have increased by 26.2% during fiscal 2016. This increase is due primarily to higher professional fees in fiscal 2016 compared to 2015 and revisions to the bank's outsourcing arrangements in the current year. During the year, the fees associated with outsourcing arrangements with RBC were adjusted to better align with the level of service being provided to the bank after an independent third party comprehensive study on the bank's outsourcing pricing matrix was completed. The bank actively manages its costs with a view to improving efficiency.

Net Income
The bank's net income decreased to $11.6 million compared to $25.6 million in the previous year. This decrease is a result of competitive pressure on mortgage yields, a higher mortgage impairment charge and an increase in operating costs.

Efficiency Ratio
The efficiency ratio is calculated based on the amount of expenses compared to total revenues. The increase in the efficiency ratio is a result of higher non-interest expenses and a decrease in total revenues.

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 reduction in ROE is due to the lower net income and a higher average equity balance when compared to the previous year.

Loans and advances to customers
The loan portfolio contracted to $782.6 million (decrease of $44.8 million or 5.4%) compared to $827.4 million for fiscal year 2015. This decrease is primarily a result of loan write-offs and negative growth in the mortgage portfolio. Mortgage growth continues to be a challenge in the current economic environment.

Earnings Per Share (EPS)
Earnings per share decreased to $0.44 compared to $0.96 in the previous year as a result of the lower net income.

Dividend Per Share (EPS)
No dividends were declared during the fiscal year ended 2016. At each quarterly meeting, the Board of Directors give careful consideration whether to pay a dividend after considering the bank's overall financial performance.

Number of Employees
The significant decrease in the number of employees year over year was attributed to RBC FINCO continuing to leverage the relationship of the majority shareholder RBC Royal Bank. All of RBC FINCO's branches are shared locations with RBC and its customers can now do all their over the counter banking transactions at any RBC branch. Additionally, all of the background operational functions have been outsourced to RBC. Where there have been job losses, staff were treated fairly, with dignity and utmost respect, and there are no issues in this regard.

CHAIRMAN'S REPORT

Dear Shareholders,

Finance Corporation of The Bahamas Limited (RBC FINCO) has been serving clients in The Bahamas for 63 years and we are pleased to acknowledge our 32nd year as a public company. Our employees are committed to providing the highest level of service, and providing sound financial advice to help our clients find the right solutions to meet their financial goals and needs. As an organization, we are committed to helping our clients thrive and our communities prosper.

For the fiscal year ended October 31st 2016, RBC FINCO recorded $11.6 million in net income. This compares to $25.6 million in net income recorded the previous year. The decrease in net income is attributed to lower interest income, increased provisions, and higher operating costs. Our core earnings continue to be volatile and under pressure from lower mortgage growth, lower mortgage interest rates and unacceptably high levels of delinquent and non-performing mortgages.

Non-performing mortgages of $119.4 million (2015: $102.5 million) as a percentage of the portfolio was 13.95% at the end of the fiscal year. This result is compared to 11.52% at the end of fiscal 2015 and compared to the industry at 13.29% as of October 2016.

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

Taking these factors into consideration, the Board of Directors has made the decision not to declare a dividend in respect of the profit for the 4th quarter ended October 31, 2016. The Board reviews payment of dividends on a quarterly basis and will continue to carefully monitor the economy, the mortgage portfolio, and overall performance to ensure prudent management of RBC FINCO's financial performance.

Our majority shareholder, Royal Bank of Canada, continues to be a strong and stable international financial services institution. Our ability to leverage the strength of RBC helps to ensure the continued safety and soundness of RBC FINCO.

On behalf of the Board of Directors, I wish to commend our management and staff for their commitment, and thank them for their significant contributions to RBC FINCO in 2016. 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

In 2016, RBC FINCO continued its commitment to helping clients attain their financial goals of home ownership, which is underpinned by a clear purpose to help clients thrive and communities prosper.

Our mortgage lending business in the Bahamas continues to be challenged by deteriorating economic conditions, strong competitive pressures, the impact of Hurricane Matthew, higher level of household indebtedness, the absence of a credit bureau and potential uncertainty associated with the proposed Home Ownership Protection Bill.

In order to address these challenges, RBC FINCO has taken deliberate steps to maintain a leading market share while ensuring strong credit quality and competitiveness.

In 2016, we improved our mortgage management processes, centralized insurance claims and centralized our customer inquiry process to increase efficiency and improve overall client experience. In addition, we were able to more effectively target our high-value clients by executing on a more focused retention strategy, leveraging referrals, campaigns and by strengthening key partnerships. RBC FINCO remains committed to sound credit practices, which is founded on ongoing credit coaching and regular credit skills training for our sales professionals.

During fiscal 2016, RBC FINCO merged its Palmdale branch with RBC Palmdale and converted its Robinson Road branch to an RBC shared location. These strategic initiatives allow RBC FINCO clients easier access and convenience to RBC's full suite of products and services creating a 'one stop' shop banking opportunity. Furthermore, no operational risk or control deficiencies were recorded during the year, a testament to our sound risk management and governance practices. All of these efforts position us well to continue to be the bank of choice for mortgage lending in the Bahamas.

On behalf of the Board of Directors and executives of RBC, I would like to thank our clients for the confidence you show in RBC FINCO as we continue to strengthen our business. I would also like to thank our employees, who continue to be the driving force behind our achievements. As a company, we remain steadfast in our commitment to deliver service excellence and help our clients thrive and our communities prosper.

Fanchon G. Braynen
Managing Director, RBC FINCO

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

Fanchon G. Braynen
DIRECTOR
Managing Director
RBC FINCO

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

Teresa Butler
NON-EXECUTIVE DIRECTOR
Retired Civil Servant

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

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

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, 2016 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information;
- Ensuring that the Group keeps proper accounting records;
- Selecting appropriate accounting policies and applying them in a consistent manner;
- Implementing, monitoring and evaluating the system of internal control that assures security of the Group's assets, detection/prevention of fraud, and the achievement of the Group operational efficiencies;
- Ensuring that the system of internal control operated effectively during the reporting period;
- Producing reliable financial reporting that comply with laws and regulations; and
- Using reasonable and prudent judgement in the determination of estimates.

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

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

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

Managing Director
January 26, 2017

Senior Manager, Finance Northern Caribbean
January 26, 2017

RBC FINCO'S 2016 CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Finance Corporation of Bahamas Limited:

We have audited the accompanying consolidated financial statements of Finance Corporation of Bahamas Limited and its subsidiary, which comprise the consolidated statement of financial position as of October 31, 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Finance Corporation of Bahamas Limited and its subsidiary as at October 31, 2016, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter
The consolidated financial statements of Finance Corporation of Bahamas Limited and its subsidiary for the year ended October 31, 2015 were audited by another firm of auditors whose report, dated January 29, 2016, expressed an unmodified opinion on those statements. Our opinion is not qualified in respect of this matter.

PricewaterhouseCoopers

Chartered Accountants
Nassau, Bahamas

February 20, 2017

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

CONSOLIDATED STATEMENT *of* FINANCIAL POSITION

AS OF OCTOBER 31, 2016

(Expressed in Bahamian Dollars)

	Notes	2016 $	2015 $ Revised (Note 25)
ASSETS			
Cash and cash equivalents	3	49,153,632	72,809,826
Balance with central banks	4	52,745,888	50,268,339
Loans and advances to customers	5	782,615,717	827,446,983
Investment securities	6	34,792,000	36,460,500
Premises and equipment	7	471,510	658,356
Other assets		5,199,576	4,789,573
Total Assets		**924,978,323**	**992,433,577**
LIABILITIES			
Customer deposits	8	650,673,080	699,728,060
Due to affiliated companies	19	79,981,988	108,631,629
Other liabilities		7,411,945	8,766,474
Total Liabilities		**738,067,013**	**817,126,163**
EQUITY			
Share capital	10	5,333,334	5,333,334
Share premium		2,552,258	2,552,258
Reserve	10	–	500,000
Retained earnings		179,025,718	166,921,822
Total Equity		**186,911,310**	**175,307,414**
Total Equity and Liabilities		**924,978,323**	**992,433,577**

On January 26, 2017, the Board of Directors of Finance Corporation of Bahamas Limited authorized these consolidated financial statements for issue.

Director

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, 2016

(Expressed in Bahamian Dollars)

	Notes	2016 $	2015 $ Revised (Note 25)
Income			
Interest income	12	63,523,575	66,762,205
Interest expense	13	(14,355,608)	(15,579,273)
Net interest income		**49,167,967**	**51,182,932**
Non-interest income	14	2,545,212	2,352,704
Total income		**51,713,179**	**53,535,636**
Non-interest expenses	15	(15,092,115)	(11,962,694)
Impairment losses on loans and advances	5	(25,017,168)	(15,967,272)
Net income and total comprehensive income for the year		**11,603,896**	**25,605,670**
Earnings per share (basic and diluted)	**11**	**0.44**	**0.96**

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, 2016

(Expressed in Bahamian Dollars)

	Share Capital	Share Premium	Reserves	Retained Earnings	Total
As of November 1, 2014	5,333,334	2,552,258	500,000	141,316,152	149,701,744
Comprehensive income					
Net income	–	–	–	25,605,670	25,605,670
Total Comprehensive Income	–	–	–	25,605,670	25,605,670
As of October 31, 2015	**5,333,334**	**2,552,258**	**500,000**	**166,921,822**	**175,307,414**
As of November 1, 2015	5,333,334	2,552,258	500,000	166,921,822	175,307,414
Transfer to retained earnings (Note 10)	–	–	(500,000)	500,000	–
Comprehensive income					
Net income	–	–	–	11,603,896	11,603,896
Total Comprehensive Income	–	–	–	11,603,896	11,603,896
As of October 31, 2016	**5,333,334**	**2,552,258**	**–**	**179,025,718**	**186,911,310**

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

CONSOLIDATED STATEMENT *of* CASH FLOWS

FOR THE YEAR ENDED OCTOBER 31, 2016

(Expressed in Bahamian Dollars)	2016 $	2015 $ Revised (Note 25)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	11,603,896	25,605,670
ADJUSTMENTS FOR:		
Impairment losses on loans and advances	25,017,168	15,967,272
Depreciation	128,876	229,929
Loss on disposals of premises and equipment	57,970	–
	36,807,910	41,802,871
(INCREASE) / DECREASE IN OPERATING ASSETS:		
Balance with central banks	(2,477,549)	(8,382,303)
Loans and advances to customers	19,814,098	1,030,852
Other assets	(410,003)	17,046
INCREASE / (DECREASE) IN OPERATING LIABILITIES:		
Customer deposits	(49,054,980)	(81,351,060)
Due to affiliated companies	(28,649,641)	67,659,262
Other liabilities	(1,354,529)	(2,697,739)
Net cash (used in) / from operating activities	(25,324,694)	18,078,929
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of premises and equipment	–	(172,531)
Proceeds from sale of premises and equipment	–	607
Purchase of investments	–	(21,000,000)
Proceeds from maturity of investments	1,668,500	24,423,800
Net cash from investing activities	1,668,500	3,251,876
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(23,656,194)	21,330,805
BALANCE AT BEGINNING OF YEAR	72,809,826	51,479,021
BALANCE AT END OF YEAR	**49,153,632**	**72,809,826**
SUPPLEMENTAL INFORMATION:		
Interest received	63,244,520	66,482,762
Interest paid	(15,119,125)	(17,804,494)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2016

1. INCORPORATION AND BUSINESS ACTIVITIES

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of preparation

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

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

New standards, amendments and interpretations adopted by the Group

Standards and amendments and interpretations to published standards that became effective for the Group's financial year beginning on November 1, 2015 were either not relevant or not significant to the Group's operations and accordingly did not have a material impact on the Group's accounting policies or consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Basis of preparation (continued)

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

With the exception of IFRS 9 *Financial Instruments* (IFRS 9), IFRS 15 *Revenue from Contracts with Customers* (IFRS 15), IFRS 16 *Leases* (IFRS 16) and International Accounting Standards (IAS) 7 *Statement of Cash Flows* (IAS 7), 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.

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, and replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss and fair value through other comprehensive income. The determination is made at initial recognition, and the basis of classification depends on the Group's business model for managing its financial assets and the contractual cash flow characteristics of the financial asset. In addition, IFRS 9 will require the impairment of financial assets to be calculated using an expected credit loss model that replaces the incurred loss impairment model required by IAS 39. For financial liabilities, there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for financial liabilities designated at fair value through profit or loss. The Group is assessing the full impact of adopting IFRS 9, which is effective for financial periods beginning on or after January 1, 2018.

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

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

In January 2016, the IASB issued amendments to IAS 7, which will require specific disclosures for movements in certain liabilities on the statement of cash flow. These amendments are effective for financial periods beginning on or after January 1, 2017.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Basis of consolidation (continued)

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. Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

d. Financial assets

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Financial assets (continued)

ii. AFS financial assets (continued)

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

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

iii. Derecognition of financial assets

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

e. Non-performing financial assets

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

f. Impairment of financial assets

Financial assets carried at amortized cost

Allowance for impairment losses represent management's best estimates of losses incurred in 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Impairment of financial assets (continued)

Financial assets carried at amortized cost (continued)

for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

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

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

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

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

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 im

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Impairment of financial assets (continued)

Financial assets classified as AFS (continued)

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

Renegotiated loans

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

g. Financial liabilities

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

Financial liabilities are classified as financial liabilities at amortized cost.

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

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

h. Customer deposits

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

i. Income and expense recognition

Interest income and expense

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Income and expense recognition (continued)

Non-interest income (continued)

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

Other income and expenses

Other income and expenses are recognized on the accrual basis.

j. Premises and equipment

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

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

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

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

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

k. Impairment of tangible assets

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

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

l. Cash and cash equivalents

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. Leases

The Group is the lessee

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

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

The Group is the lessor

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

n. Provisions

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

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

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

o. Share capital

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

p. Guarantees, indemnities and letters of credit

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

q. Dividends

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

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

r. Employee benefits

The Group's employees participate in a defined benefit pension plan and a defined contribution pension plan of Royal Bank of Canada (RBC). Employees become eligible for membership in the defined benefit pension plan (the Plan) after completing a probationary period and receive their benefits after retirement. The Plan's benefits are determined based on years of service, contributions and average earnings at retirement. Due to the long-term nature of the Plan, the calculation of benefit expenses and obligations depends on various assumptions such as discount rates, expected rates

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r. Employee benefits (continued)

of return on assets, projected salary increases, retirement age, mortality and termination rates. The accrued pension obligation is retained by and recorded in the books of RBC. The Group recognizes its proportionate share of pension costs as an expense during the period, after which the Group has no further obligations to the Plan.

Defined contribution plan

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

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

s. Taxation

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

t. Segment reporting

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

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

3. CASH AND CASH EQUIVALENTS

	2016 $	2015 $
Cash on hand	–	268,386
Treasury bills	8,000,000	7,000,000
Due from banks	41,153,632	65,541,440
	49,153,632	**72,809,826**

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 0.68% to 2.19% (2015: 0.56% to 0.68%).

4. BALANCES WITH CENTRAL BANKS

The balance with The Central Bank of The Bahamas is non-interest bearing and includes a mandatory daily average reserve deposit of $52,745,888 (2015: $50,268,339) which is based on a ratio to customers' deposits.

5. LOANS AND ADVANCES TO CUSTOMERS

	2016 $	2015 $ Revised (Note 25)
Retail	2,215,897	3,461,397
Home equity and other mortgages	236,187,371	259,460,754
Residential mortgages	616,638,082	626,227,206
Government insured mortgages	799,998	886,328
	855,841,348	890,035,685
Allowance for impairment losses	(68,536,519)	(57,145,555)
Loan origination fees and costs (net)	(4,689,112)	(5,443,147)
	782,615,717	**827,446,983**

Loans categorized by performance are as follows:

	2016 $	2015 $
Neither past due nor impaired	669,480,702	731,374,123
Past due but not impaired	66,946,193	56,151,160
Impaired	119,414,453	102,510,402
	855,841,348	**890,035,685**

Loans categorized by maturity are as follows:

	2016 $	2015 $
Current (due within one year)	18,757,476	19,635,967
Non-current (due after one year)	837,083,872	870,399,718
	855,841,348	**890,035,685**

Loans and advances classified as impaired represent 13.95% (2015: 11.52%) of the total loans and advances portfolio. The allowance for impairment losses represents 8.01% (2015: 6.42%) of the total loans and advances portfolio and 57.39% (2015: 55.75%) of the total impaired loans.

Allowance for impairment losses consists of the following:

	2016 $	2015 $
Balance, beginning of year	57,145,555	70,160,490
Loans and advances written-off	(16,283,084)	(33,739,145)
Recoveries	7,125,653	9,179,808
Reversal of time value of money component	(4,468,773)	(4,422,870)
Increase in allowance for the year	25,017,168	15,967,272
	68,536,519	**57,145,555**

Allowance for impairment losses consisting of:

	2016 $	2015 $
Collectively assessed impaired loans	55,351,360	47,568,555
Collective allowance – Incurred but not yet identified	13,185,159	9,577,000
	68,536,519	**57,145,555**

Notes to Consolidated Financial Statements (continued)

6. INVESTMENT SECURITIES

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

	2016 $	2015 $ Revised (Note 25)
Bahamas Government Debt Securities	31,780,600	33,449,100
Locally Issued Corporate Bonds	3,011,400	3,011,400
	34,792,000	**36,460,500**

Investments categorized by maturity are as follows:

	2016 $	2015 $
Current (due within one year)	660,500	1,668,500
Non-current (due after one year)	34,131,500	34,792,000
	34,792,000	**36,460,500**

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

	2016 $	2015 $
Balance, beginning of year	36,460,500	39,884,300
Maturities	(1,668,500)	(3,423,800)
	34,792,000	**36,460,500**

Investment securities have maturities ranging from 2017 to 2037 (2015: 2016 to 2037) and with floating interest rates ranging from 0.125% to 1.625% (2015: 0.0625% to 1.625%) above the B$ Prime rate of 4.75% (2015: 4.75%).

As of October 31, 2016, the cost of investment securities totaled $34,792,000 (2015: $36,460,500), all of which is comprised of level 3 securities.

7. PREMISES AND EQUIPMENT

	Land $	Buildings & Improvements $	Leasehold Improvements $	Furniture & Other Equipment $	Computer Equipment $	Total $
Year ended October 31, 2016						
Opening net book value	105,700	193,594	104,354	114,075	140,633	658,356
Disposals	–	–	(21,637)	(33,327)	(3,006)	(57,970)
Depreciation charge	–	(38,915)	(17,026)	(16,832)	(56,103)	(128,876)
Closing net book value	**105,700**	**154,679**	**65,691**	**63,916**	**81,524**	**471,510**
At October 31, 2016						
Cost	105,700	1,219,104	420,108	759,869	1,376,805	3,881,586
Accumulated depreciation	–	(1,064,425)	(354,417)	(695,953)	(1,295,281)	(3,410,076)
Net book value	**105,700**	**154,679**	**65,691**	**63,916**	**81,524**	**471,510**

7. PREMISES AND EQUIPMENT (CONTINUED)

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

During the year, the Group wrote-off $1,171,176 (2015: $Nil), $351,451 (2015: $26,388) and $176,231 (2015: $Nil) of leasehold improvements, furniture & other equipment and computer equipment.

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

	2016 $	2015 $
Within one year	66,520	75,545
One to three years	133,040	151,090
Three to five years	133,040	56,659
Over five years	332,600	–
	665,200	**283,294**

8. CUSTOMER DEPOSITS

	2016 $	2015 $ Revised (Note 25)
Term deposits	500,003,623	546,988,595
Savings deposits	130,469,424	132,379,427
Demand deposits	20,200,033	20,360,038
	650,673,080	**699,728,060**
Deposits categorized by customer type are as follows:		
Personal	326,965,940	354,218,401
Non-Personal	323,707,140	345,509,659
	650,673,080	**699,728,060**

8. CUSTOMER DEPOSITS (CONTINUED)

Deposits categorized by maturity are as follows:		
Current (due within one year)	650,660,201	699,623,413
Non-current (due after one year)	12,879	104,647
	650,673,080	**699,728,060**

Deposits carry fixed interest rates ranging from 0.10% to 1.25% (2015: 0.20% 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 fund's 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, 2016 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:

	2016	2015
Discount rate	5.25%	5.50%
Expected return on plan assets	6.14%	6.54%
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 $444,990 (2015: $761,546) and the defined contribution plan was $19,658 (2015: $24,105).

10. SHARE CAPITAL & RESERVES

Share capital consists of the following:

	2016 $	2015 $
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

During the year the Group transferred the general reserve in the amount of $500,000 to retained earnings.

11. EARNINGS PER SHARE

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

	2016 $	2015 $
Total earnings for the year attributable to the equity shareholders	11,603,896	25,605,670
Weighted average number of ordinary shares in issue	26,666,670	26,666,670
Basic and diluted earnings per share	**0.44**	**0.96**

12. INTEREST INCOME

	2016 $	2015 $ Revised (Note 25)
Loans and advances to customers	61,622,027	64,784,093
Investment securities – AFS	1,901,548	1,978,112
	63,523,575	**66,762,205**

Included in interest income is interest attributable to the time value of money component of non-performing loans of $4,468,773 (2015: $4,422,870).

13. INTEREST EXPENSE

	2016 $	2015 $
Customer deposits	10,729,106	12,628,505
Due to affiliated companies	3,625,971	2,922,602
Other interest bearing liabilities	531	28,166
	14,355,608	**15,579,273**

14. NON-INTEREST INCOME

	2016 $	2015 $ Revised (Note 25)
Fees and commissions	2,371,154	2,043,972
Foreign exchange earnings	42,054	183,188
Other service charges and fees	132,004	125,544
	2,545,212	**2,352,704**

15. NON-INTEREST EXPENSES

	2016 $	2015 $ Revised (Note 25)
Staff costs	2,579,918	2,910,889
Operating lease rentals	1,067,910	633,085
Premises and equipment expenses, excluding depreciation and operating lease rentals	626,149	696,752
Depreciation and amortization	128,876	229,929
Business and miscellaneous taxes	3,375,178	3,568,902
Deposit insurance premium	325,900	358,635
Professional fees	94,787	150,397
Other operating expense	6,893,397	3,414,105
	15,092,115	**11,962,694**

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 $325,900 (2015: $358,635) into the fund.

16. DIVIDENDS

There were no dividends declared to shareholders during the fiscal year ended 2016 (2015: $Nil).

17. CONTINGENT LIABILITIES

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

18. COMMITMENTS

a. Credit commitments

As of the date of the consolidated statement of financial position, mortgage commitments in the normal course of business amounted to $16,616,879 (2015: $20,796,118).

b. Operating lease commitments

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

	2016 $	2015 $
Within one year	352,655	685,688
One to three years	558,329	1,371,376
Three to five years	39,000	1,079,034
Over five years	40,000	2,264,638
	989,985	**5,400,736**

Operating lease expense recorded in the consolidated statement of comprehensive income amounted to $1,067,910 (2015: $633,085).

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 $6,011,654 (2015: $3,757,917) 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, 2016 was $40,556,187 (2015: $64,526,949). 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 2.75% and 3.00% (2015: 2.75% and 3.00%).

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

	2016 $	2015 $
Consolidated Statement of Financial Position		
Assets		
Cash and cash equivalents		
Other related parties	40,556,187	64,526,949
Loans and advances to customers:		
Directors and key management personnel	525,324	900,438
Liabilities		
Customers' deposits:		
Directors and key management personnel	2,720,358	172,190
Due to affiliated companies	79,981,988	108,631,629
Consolidated Statement of Comprehensive Income		
Interest income		
Directors and key management personnel	28,236	47,641
Non-interest expense		
Other related parties	6,011,654	3,757,917
interest expense		
Directors and key management personnel	40,375	4,574
Staff costs		
Salaries and other short term benefits	145,009	123,009

20. CATEGORIZATION OF FINANCIAL ASSETS AND LIABILITIES

Consolidated Statement of Financial Position:

	2016 $	2015 $ Revised (Note 25)
ASSETS		
Financial assets available-for-sale at fair value:		
Investment securities	34,792,000	36,460,500
Financial assets at amortized costs		
Cash and cash equivalents	49,153,632	72,809,826
Balance with central banks	52,745,888	50,268,339
Loans and advances to customers	782,615,717	827,446,983
Other assets	5,199,576	4,789,573
Total financial assets	**924,506,813**	**991,775,221**
LIABILITIES		
Financial liabilities at amortized cost		
Customer deposits	650,673,080	699,728,060
Due to affiliated companies	79,981,988	108,631,629
Other liabilities	7,411,945	8,766,474
Total financial liabilities	**738,067,013**	**817,126,163**

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.

21. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

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.

Impairment and provisioning policies

Impairment provisions are recognized for losses that have been incurred at the consolidated statement of financial position date based on objective evidence of impairment. See Note 2(f). The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

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

21. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Risk Measurement and Reporting Systems (continued)

(a) Credit risk (continued)

Geographical concentrations of financial assets

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

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

	2016 $	2015 $
On Balance Sheet		
Due from banks	41,153,632	65,541,440
Treasury bills	8,000,000	7,000,000
Balance with central banks	52,745,888	50,268,339
Loans and advances to customers	855,841,348	890,035,685
Investment securities – AFS	34,792,000	36,460,500
Other assets	5,199,576	4,789,573
	997,732,444	**1,054,095,537**
Off Balance Sheet		
Credit commitments	16,616,879	20,796,118
Total credit risk exposure	**1,014,349,323**	**1,074,891,655**

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 $40,187,869 (2015: $40,883,854) 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:

	2016 $	2015 $
Personal	854,281,861	888,748,264
Construction	273,949	276,370
Distribution	156,955	150,793
Tourism	150,894	169,394
Professional Services	16,166	16,092
Other	961,523	674,772
	855,841,348	**890,035,685**

21. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Risk Measurement and Reporting Systems (continued)

(a) Credit risk (continued)

The following table is an aged analysis of loans and advances as of the date of the consolidated statement of financial position.

	2016 $	2015 $
Neither past due or impaired	**669,480,702**	**731,374,123**
Past due but not impaired:		
Past due 31 – 60 days	43,955,043	25,265,370
Past due 61 – 90 days	22,991,150	30,885,790
Past due and impaired:		
Past due over 90 days	119,414,453	102,510,402
	855,841,348	**890,035,685**

Renegotiated loans and advances that would otherwise be past due or impaired totaled $88,786,608 (2015: $84,997,754).

(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:

	Up to 3 months $	3 to 6 months $	6 to 12 months $	1 to 5 years $	5 years $	Total $
At October 31, 2016						
Liabilities						
Customer deposits	320,640,034	89,009,002	241,011,165	12,879	–	650,673,080
Due to affiliated companies	–	–	25,112,500	54,869,488	–	79,981,988
Other liabilities	7,411,945	–	–	–	–	7,411,945
Total financial liabilities	**328,051,979**	**89,009,002**	**266,123,665**	**54,882,367**	**–**	**738,067,013**
At October 31, 2015						
Liabilities						
Customer deposits	433,369,153	133,447,884	132,806,376	104,647	–	699,728,060
Due to affiliated companies	1,723,836	2,478,412	–	104,429,381	–	108,631,629
Other liabilities	8,766,474	–	–	–	–	8,766,474
Total financial liabilities	**443,859,463**	**135,926,296**	**132,806,376**	**104,534,028**	**–**	**817,126,163**

21. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Risk Measurement and Reporting Systems (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 $	3 to 6 months $	6 to 12 months $	1 to 5 years $	5 years $	Total $
At October 31, 2016						
Credit commitments	7,459,115	1,334,285	5,572,850	–	2,250,629	16,616,879
Operating leases	88,164	88,164	176,328	597,329	40,000	989,895
Total	**7,547,249**	**1,422,449**	**5,749,178**	**597,329**	**2,290,629**	**17,606,774**
At October 31, 2015						
Credit commitments	7,485,337	1,042,415	9,773,382	157,500	2,337,484	20,796,118
Operating leases	171,422	171,422	342,844	2,450,410	2,264,638	5,400,736
Total	**7,656,759**	**1,213,837**	**10,116,226**	**2,607,910**	**4,602,122**	**26,196,854**

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 $	3–6 Months $	6–12 Months $	1–5 Years $	Over 5 Years $	Non-interest rate-sensitive $	Total $
At October 31, 2016								
Assets								
Cash and cash equivalents	–	–	–	–	–	–	49,153,632	49,153,632
Balance with central banks	–	–	–	–	–	–	52,745,888	52,745,888
Loans and advances to customers	–	735,465,371	–	–	–	–	47,150,346	782,615,717
Investment securities	34,792,000	–	–	–	–	–	–	34,792,000
Other assets	–	–	–	–	–	–	5,199,576	5,199,576
Total financial assets	**34,792,000**	**735,465,371**	**–**	**–**	**–**	**–**	**154,249,442**	**924,506,813**

	Immediately rate-sensitive $	Up to 3 Months $	3–6 Months $	6–12 Months $	1–5 Years $	Over 5 Years $	Non-interest rate-sensitive $	Total $
At October 31, 2016								
Liabilities								
Customer deposits	–	409,649,036	117,254,584	123,756,581	12,879	–	–	650,673,080
Due to affiliated companies	–	–	–	25,000,000	55,000,000	–	(18,012)	79,981,988
Other liabilities	–	–	–	–	–	–	7,411,945	7,411,945
Total financial liabilities	**–**	**409,649,036**	**117,254,584**	**148,756,581**	**55,012,879**	**–**	**7,393,933**	**738,067,013**
Net repricing gap	**34,792,000**	**325,816,335**	**(117,254,584)**	**(148,756,581)**	**(55,012,879)**	**–**		

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 $	3–6 Months $	6–12 Months $	1–5 Years $	Over 5 Years $	Non-interest rate-sensitive $	Total $
At October 31, 2015								
Assets								
Cash and cash equivalents	–	–	–	–	–	–	72,809,826	72,809,826
Balance with central banks	–	–	–	–	–	–	50,268,339	50,268,339
Loans and advances to customers	–	787,214,292	310,991	–	–	–	43,548,361	831,073,644
Investment securities	36,460,500	–	–	–	–	–	434,754	36,895,254
Other assets	–	–	–	–	–	–	728,158	728,158
Total financial assets	**36,460,500**	**787,214,292**	**310,991**	**–**	**–**	**–**	**167,789,438**	**991,775,221**

21. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Interest rate risk (continued)

	Immediately rate-sensitive $	Up to 3 Months $	3–6 Months $	6–12 Months $	1–5 Years $	Over 5 Years $	Non-interest rate-sensitive $	Total $
At October 31, 2015								
Liabilities								
Customer deposits	–	433,369,153	133,447,884	132,806,376	104,647	–	3,436,069	703,164,129
Due to affiliated companies	–	1,711,653	2,478,412	–	105,000,000	–	(558,436)	108,631,629
Other liabilities	–	–	–	–	–	–	5,330,405	5,330,405
Total financial liabilities	**–**	**435,080,806**	**135,926,296**	**132,806,376**	**105,104,647**	**–**	**8,208,038**	**817,126,163**
Net repricing gap	**36,460,500**	**352,133,486**	**(135,615,305)**	**(132,806,376)**	**(105,104,647)**	**–**		

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	
	2016	**2015**
	$	**$**
Change in interest rate		
+ 1%	5,895,974	6,261,134
− 1%	(5,895,974)	(6,261,134)

(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 have limited trading and where trading is observed the prices continues to be 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:

22. CAPITAL MANAGEMENT (CONTINUED)

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

Capital adequacy and the use of regulatory capital are monitored by the Group's management, based on an internal risk assessment approach employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision as implemented by the Central Bank of The Bahamas (the Central Bank). The required information is filed with the Central Bank on a monthly basis as prescribed. The Central Bank requires the Group to maintain a minimum total capital ratio of 14%. As of the date of the consolidated statement of financial position, the Group's total capital ratio was 34.08% (2015: 30.54%).

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.

	2016		
	Banking $	Insurance Services $	Consolidated $
Assets	913,961,661	11,016,662	924,978,323
Liabilities	737,396,984	670,029	738,067,013
Revenue:			
Net interest income	49,167,967	–	49,167,967
Non–interest income	50,856,092	857,087	51,713,179
Total income	100,024,059	857,087	100,881,146
Total comprehensive income	10,923,684	680,212	11,603,896

23. OPERATING SEGMENTS (CONTINUED)

	2015		
	Banking $	Insurance Services $	Consolidated $
Assets	982,109,121	10,324,456	992,433,577
Liabilities	816,468,128	658,035	817,126,163
Revenue:			
Net interest income	51,182,932	–	51,182,932
Non–interest income	1,244,521	1,108,183	2,352,704
Total income	52,427,453	1,108,183	53,535,636
Total comprehensive income	24,746,417	859,253	25,605,670

24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

				Fair Value Hierarchy		
	Fair Value Always Approximate Carrrying Value	Fair Value May Not Approximate Carrrying Value	Total Fair Value	Level 1	Level 2	Level 3
October 31, 2016						
Financial Assets						
Cash and cash equivalents	49,153,632	–	49,153,632	–	49,153,632	–
Balance with Central Bank	52,745,888	–	52,745,888	–	52,745,888	–
Loans and advances to customers	–	799,359,925	799,359,925	–	–	799,359,925
Other assets	5,199,576	–	5,199,576	–	5,199,576	–
Financial Liabilities						
Customer deposits	650,673,080	–	650,673,080	–	650,673,080	–
Due to affiliated companies	79,981,988	–	79,981,988	–	79,981,988	–
Other Liabilities	7,411,945	–	7,411,945	–	7,411,945	–
October 31, 2015						
Financial Assets						
Cash and cash equivalents	72,809,826	–	72,809,826	–	72,809,826	–
Balance with Central Bank	50,268,339	–	50,268,339	–	50,268,339	–
Loans and advances to customers	–	776,942,752	776,942,752	–	–	776,942,752
Other assets	4,789,573	–	4,789,573	–	4,789,573	–

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

	Fair Value Always Approximate Carrrying Value	Fair Value May Not Approximate Carrrying Value	Total Fair Value	Fair Value Hierarchy Level 1	Level 2	Level 3
October 31, 2015						
Financial Liabilities						
Customer deposits	699,728,060	–	699,728,060	–	699,728,060	–
Due to affiliated companies	108,631,629	–	108,631,629	–	108,631,629	–
Other Liabilities	8,766,474	–	8,766,474	–	8,766,474	–

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

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

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

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

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

	Level 1 $	Level 2 $	Level 3 $	Total $
As of October 31, 2016				
Bahamas Government Debt Securities	–	–	31,780,600	31,780,600
Locally Issued Corporate Bonds	–	–	3,011,400	3,011,400
	–	**–**	**34,792,000**	**34,792,000**
As of October 31, 2015				
Bahamas Government Debt Securities	–	–	33,449,100	33,449,100
Locally Issued Corporate Bonds	–	–	3,011,400	3,011,400
	–	**–**	**36,460,500**	**36,460,500**

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

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

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

	2016 $	2015 $
Balance, beginning of year	36,460,500	39,884,300
Maturities	(1,668,500)	(3,423,800)
Balance at end of year	**34,792,000**	**36,460,500**

There were no transfers between levels for the year ended October 31, 2016 or 2015.

25. RECLASSIFICATION

Certain of the accrued interest on investment securities, loans and advances and customer deposits have been reclassified and included in other assets and other liabilities on the consolidated statement of financial position to align with the accounting policies of the RBC Group. The following table illustrates the reclassifications made:

	Year ended October 31 2015 $ As previously stated	Adjustment	2015 $ Revised
Statement of Financial Position			
Assets			
Loans and advances to customers	831,073,644	(3,626,661)	827,446,983
Investment securities	36,895,254	(434,754)	36,460,500
Other assets	728,158	4,061,415	4,789,573
Liabilities			
Customer deposits	703,164,129	(3,436,069)	699,728,060
Other liabilities	5,330,405	3,436,069	8,766,474
Statement of Comprehensive Income			
Income			
Interest income	64,827,310	1,934,895	66,762,205
Non–interest income	4,304,264	(1,951,560)	2,352,704
Non–interest expense	11,979,359	(16,665)	11,962,694
Statement of Cash Flows			
Loans and advances to customers	712,952	317,900	1,030,852
Other assets	296,489	(279,443)	17,046
Customer deposits	83,576,281	(2,225,221)	81,351,060
Other liabilities	472,518	2,225,221	2,697,739

SHAREHOLDERS' INFORMATION

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Bahamas Central Securities Depository
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Bay Street
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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:

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

DIVIDEND DATES
Subject to approval by the Board of Directors.

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

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Tel: (242) 377-0241

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