

Finance Corporation of Bahamas Limited

**Consolidated Financial Statements
October 31, 2013**

Finance Corporation of Bahamas Limited

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Finance Corporation of Bahamas Limited

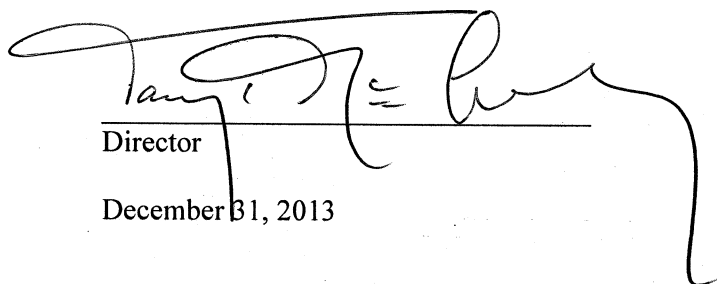
Statement of management responsibilities

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

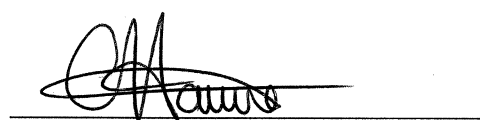
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation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

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

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



Director
December 31, 2013



Manager, Financial Control & Planning
December 31, 2013

Independent auditors' report

To the Shareholders of
Finance Corporation of Bahamas Limited:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Finance Corporation of Bahamas Limited (the "Company") which comprise the consolidated statement of financial position as at October 31, 2013, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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.

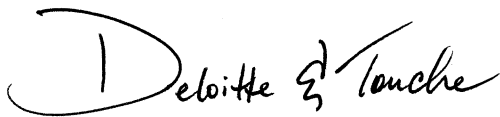
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Finance Corporation of Bahamas Limited as at October 31, 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 3b to the consolidated financial statements which indicate that the renewal application of the Finance Corporation of Bahamas Limited subsidiary for its agency licence as required by the Insurance Act 2009 is pending with the Insurance Commission of The Bahamas (the "Commission"). The Company's subsidiary has been permitted by the Commission to continue business as an insurance intermediary for mortgage clients of the Company in the interim as the deadline for registration of foreign intermediaries was extended to September 30, 2014. Our opinion is not qualified in respect to this matter.

A handwritten signature in cursive script that reads "Deloitte & Touche". The signature is written in dark ink and is positioned to the right of a large, stylized capital letter 'D' that serves as a logo or initial.

December 31, 2013

Finance Corporation of Bahamas Limited

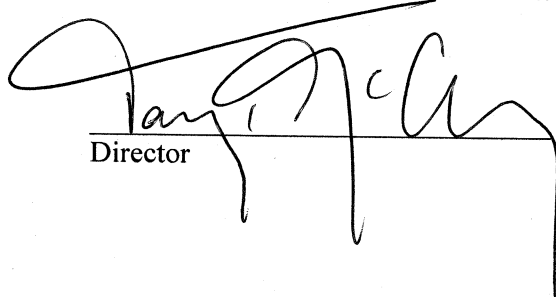
Consolidated statement of financial position

Expressed in Bahamian Dollars

		As at October 31	
	Notes	2013	2012
ASSETS			
Cash and cash equivalents	5	\$ 47,691,909	\$ 44,577,094
Balance with The Central Bank of The Bahamas	6	42,381,412	41,418,985
Loans and advances to customers	7	865,233,609	845,337,679
Investment securities	8	40,383,566	40,382,273
Premises and equipment	9	1,023,660	1,319,438
Other assets		506,154	658,893
Total assets		<u>\$ 997,220,310</u>	<u>\$ 973,694,362</u>
LIABILITIES AND EQUITY			
LIABILITIES:			
Customers' deposits	10	\$ 759,176,935	\$ 784,561,511
Other borrowed funds	11	-	27,300,000
Due to affiliated companies	11	77,218,701	28,142,059
Other liabilities		7,059,618	3,617,708
Total liabilities		<u>843,455,254</u>	<u>843,621,278</u>
EQUITY:			
Share capital	13	5,333,334	5,333,334
Share premium		2,552,258	2,552,258
Reserve	13	500,000	500,000
Retained earnings		145,379,464	121,687,492
Total equity		<u>153,765,056</u>	<u>130,073,084</u>
Total liabilities and equity		<u>\$ 997,220,310</u>	<u>\$ 973,694,362</u>

The notes on pages 9 to 42 form an integral part of these consolidated financial statements.

On December 31, 2013 the Board of Directors of Finance Corporation of Bahamas Limited authorized these consolidated financial statements for issue.


Director


Director

Finance Corporation of Bahamas Limited

Consolidated statement of profit or loss and other comprehensive income

Expressed in Bahamian Dollars

		Year Ended October 31	
	Notes	2013	2012
Interest income	14	\$ 66,740,388	\$ 65,878,465
Interest expense	15	<u>(21,225,481)</u>	<u>(25,921,508)</u>
Net interest income		45,514,907	39,956,957
Non-interest income	16	<u>3,835,574</u>	<u>3,743,181</u>
Total income		49,350,481	43,700,138
Non-interest expenses	17	(11,523,581)	(13,120,538)
Impairment loss on loans and advances	7	<u>(7,468,260)</u>	<u>(19,597,777)</u>
Net and total comprehensive income for the year		<u>\$ 30,358,640</u>	<u>\$ 10,981,823</u>
Earnings per share (basic and diluted)		<u>\$ 1.14</u>	<u>\$ 0.41</u>

The notes on pages 9 to 42 form an integral part of these consolidated financial statements.

Finance Corporation of Bahamas Limited

Consolidated statement of changes in equity

Expressed in Bahamian Dollars

	Notes	<u>Share Capital</u>	<u>Share Premium</u>	<u>General Reserve</u>	<u>Retained Earnings</u>	<u>Total</u>
Year Ended						
October 31, 2012						
Balance at beginning of year		\$ 5,333,334	\$ 2,552,258	\$ 500,000	\$ 110,705,669	\$ 119,091,261
Comprehensive income		-	-	-	10,981,823	10,981,823
Balance at end of year		<u>\$ 5,333,334</u>	<u>\$ 2,552,258</u>	<u>\$ 500,000</u>	<u>\$ 121,687,492</u>	<u>\$ 130,073,084</u>
Year Ended						
October 31, 2013						
Balance at beginning of year		\$ 5,333,334	\$ 2,552,258	\$ 500,000	\$ 121,687,492	\$ 130,073,084
Comprehensive income		-	-	-	30,358,640	30,358,640
Dividends	18	-	-	-	(6,666,668)	(6,666,668)
Balance at end of year		<u>\$ 5,333,334</u>	<u>\$ 2,552,258</u>	<u>\$ 500,000</u>	<u>\$ 145,379,464</u>	<u>\$ 153,765,056</u>

The notes on pages 9 to 42 form an integral part of these consolidated financial statements.

Finance Corporation of Bahamas Limited

Consolidated statement of cash flows

Expressed in Bahamian Dollars

	Year Ended October 31	
	2013	2012
Operating activities		
Net income	\$ 30,358,640	\$ 10,981,823
Adjustments for:		
Impairment loss on loans and advances to customers	7,468,260	19,597,777
Amortization of deferred fee income	(28,134)	(159,391)
Depreciation and amortization of tangible assets	295,778	400,483
Loss on disposal of premises and equipment	-	121,616
	<u>38,094,544</u>	<u>30,942,308</u>
(Increase) decrease in operating assets		
Balances with The Central Bank of The Bahamas	(962,427)	(2,046,700)
Loans and advances to customers	(27,336,056)	(22,316,480)
Other assets	152,739	154,838
Increase (decrease) in operating liabilities		
Customers' deposits	(25,384,576)	(14,955,207)
Due to affiliated companies	49,076,642	14,088,411
Other liabilities	<u>3,441,910</u>	<u>928,567</u>
Net cash provided by operating activities	<u>37,082,776</u>	<u>6,795,737</u>
Investing activities		
Purchase of investment securities	(28,001,293)	(27,969,700)
Proceeds from sale and redemption of investment securities	28,000,000	42,469,700
Additions to premises and equipment	-	(64,476)
Net cash (used in) provided by investing activities	<u>(1,293)</u>	<u>14,435,524</u>

The notes on pages 9 to 42 form an integral part of these consolidated financial statements.

Finance Corporation of Bahamas Limited

Consolidated statement of cash flows

Expressed in Bahamian Dollars

	Year Ended October 31	
	2013	2012
Financing activities		
Payments on other borrowed funds	\$ (27,300,000)	\$ (10,000,000)
Dividends paid	<u>(6,666,668)</u>	<u>-</u>
Net cash used in financing activities	<u>(33,966,668)</u>	<u>(10,000,000)</u>
Net increase in cash and cash equivalents	3,114,815	11,231,261
Cash and cash equivalents as at beginning of year	<u>44,577,094</u>	<u>33,345,833</u>
Cash and cash equivalents as at end of year	<u>\$ 47,691,909</u>	<u>\$ 44,577,094</u>
Supplemental Cash Flow Information:		
Interest received	<u>\$ 66,592,960</u>	<u>\$ 66,533,452</u>
Interest paid	<u>\$ 22,149,384</u>	<u>\$ 27,636,469</u>

The notes on pages 9 to 42 form an integral part of these consolidated financial statements.

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

Expressed in Bahamian Dollars

1. Incorporation and business activities

Finance Corporation of Bahamas Limited (the "Company") is incorporated in The Commonwealth of The Bahamas and is licensed under the provisions of the Banks and Trust Companies Regulations Act, 2000 and is also licensed as an Authorized Dealer, pursuant to the Exchange Control Regulations Act. The Company is 75% owned by RBC Royal Bank Holdings (Bahamas) Limited.

On May 10, 2011 R.B.C. Holdings (Bahamas) Limited transferred its ownership in the Company to RBC Royal Bank Holdings (Bahamas) Limited, also a wholly-owned subsidiary of the ultimate parent company Royal Bank of Canada. The remaining 25% of the Company's shares are publicly traded and listed on The Bahamas International Securities Exchange.

The Company's registered office is located at Bahamas Financial Centre, Charlotte and Shirley Streets, Nassau, Bahamas. Previously its registered office was located at Royal Bank House, East Hill Street, Nassau, Bahamas and its business activities include the acceptance of savings, term and demand deposits, the buying and selling of foreign currency, electronic banking, and mortgage lending in The Commonwealth of The Bahamas.

2. Adoption of new and revised International Financial Reporting Standards (IFRSs)

Standards and interpretations adopted with no effect on financial statements

- IAS 1, Presentation of Financial Statements. Amendments to revise the way other comprehensive income is presented (annual periods beginning on or after July 1, 2012).

Standards and interpretations in issue not yet adopted

- IFRS 9, Financial Instruments. Classification and Measurement (annual periods beginning on or after January 1, 2015).

IFRS 9 introduced new requirements for the classification and measurement of financial assets, financial liabilities and for derecognition.

All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically debt investments that are held within a business model whose objective is to collect contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at their fair value. Entities may also make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

Expressed in Bahamian Dollars

2. Adoption of new and revised International Financial Reporting Standards (IFRSs)

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in fair value that is attributable to changes in the credit risk of the liability to be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

- **New and revised Standards on consolidation, joint arrangements, associates and disclosures.**

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*.

IFRS 10, Consolidated Financial Statements (annual periods beginning on or after January 1, 2013)

IFRS 10 replaces the part of IAS 27 *Consolidated and Separate Financial Statements* that deals with consolidated financial statements and SIC12 *Consolidation – Special Purpose Entities*. It prescribes one basis for consolidation based on the presence of all three elements of control at the date of initial application. This means that some entities that were previously consolidated may not have to be consolidated under IFRS 10. Conversely, entities that were not previously consolidated may need to be consolidated under IFRS 10.

IFRS 11, Joint Arrangements (annual periods beginning on or after January 1, 2013)

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. IFRS 11 prescribes the accounting for a joint arrangement based on parties' rights and obligations under the arrangements. Joint arrangements whereby joint venturers have rights to the net assets of the arrangement would qualify as a joint venture requiring the use of the equity method of accounting. Proportionate consolidation is no longer allowed. If joint operators have rights to the assets and obligations for the liabilities of the arrangements, the arrangement qualifies as a joint operation whereby each operator recognizes its assets, liabilities, revenue and expenses relating to its interest in the joint operation.

IFRS 12, Disclosure in Interests in Other Entities (annual periods beginning on or after January 1, 2013)

IFRS 12 is a new disclosure standard which is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. The application of IFRS results in more extensive disclosures in the consolidated financial statements.

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

Expressed in Bahamian Dollars

2. Adoption of new and revised International Financial Reporting Standards (IFRSs)

IAS 27, Consolidated and Separate Financial Statements. Re-issued as *IAS 27 Separate Financial Statements* (as amended in 2011), (annual periods beginning on or after January 1, 2013)

The revised Standard sets out the requirements regarding separate financial statements only. Most of the requirements in the revised Standard are carried forward unchanged from the previous Standard.

IAS 28, Investments in Associates. Re-issued as *IAS 28 Investments in Associates and Joint Ventures* (as amended in 2011), (annual periods beginning on or after January 1, 2013)

Similar to the previous standard, the revised Standard deals with how to apply the equity method of accounting. However, the scope of the revised Standard has been changed to include investments in joint ventures as well because IFRS 11 requires investments in joint ventures to be accounted for using the equity method.

- **IFRS 13, Fair Value Measurement** (annual periods beginning on or after January 1, 2013)

IFRS 13 established a single source of guidance for fair value measurements and disclosures about fair value measurements. The fair value measurement requirements of IFRS 13 apply to both financial instruments items and non-financial instrument items for which other IFRS require or permit fair value measurements and related disclosures, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date under current market conditions. IFRS 13 requires prospective application for financial years beginning on or after January 1, 2013.

- **IAS 19, Employee Benefits.** Amended standard resulting from the post-employment benefits and termination benefits project (annual periods beginning on or after January 1, 2013)

IAS 19 changes the accounting for defined benefit plans and termination benefits. The most significant changes relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gain and loss are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated financial statement of financial position to reflect the full value of the plan deficit or surplus.

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

Expressed in Bahamian Dollars

2. Adoption of new and revised International Financial Reporting Standards (IFRSs)

- **IAS 32, Financial Instruments: Presentation. Amendments to Offsetting financial assets and financial liabilities (annual periods beginning on or after January 1, 2014)**

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities specifically the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

- **IFRS 7 Financial Instruments: Disclosure amendments on offsetting financial assets & financial liabilities (annual periods beginning on or after January 1, 2013).**

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

- **IAS 1, Presentation of Financial Statements. Clarification of the requirements for comparative information (annual periods beginning on or after January 1, 2013)**

The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

- **IAS 36 Impairment of assets: Disclosure. Amendments enhancing recoverable amounts and disclosures for non - financial assets (annual periods beginning on or after January 1, 2014)**

The amendments clarify the scope of the disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal

Management is assessing the potential impact of the adoption of the new standards and interpretations.

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

Expressed in Bahamian Dollars

3. Significant accounting policies

a) Basis of preparation

Statement of compliance

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

Basis of measurement

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

The preparation of these consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

b) Basis of consolidation

These consolidated financial statements include the financial position and financial performance of the Company and its wholly-owned subsidiary, FINCO Insurance Agency Limited ("FIAL"), after elimination of all inter-company balances and transactions. FIAL commenced operations on May 1, 2007 providing insurance agency services to mortgage customers of the Company. These services were previously provided by the Company. FIAL is incorporated in the Commonwealth of The Bahamas and its registered office is located at Bahamas Financial Centre, Shirley & Charlotte Streets, Nassau, Bahamas.

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

As of the consolidated statement of financial position date, FIAL has not received its licence from the Office of Registrar of Insurance Companies. FIAL has been permitted to continue business as an insurance intermediary for mortgage clients of the Company in the interim as the deadline was extended to September 30, 2014 for foreign intermediaries to be registered.

c) Foreign currency translation

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

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

Expressed in Bahamian Dollars

3. Significant accounting policies (continued)

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 assets and liabilities denominated in foreign currencies are translated at the rates prevailing at that date.

Exchange differences are recognized in profit or loss in the period in which they arise.

d) Financial assets

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

i) Financial assets at FVTPL

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

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

Financial assets and liabilities are designated at FVTPL when:

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

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

Expressed in Bahamian Dollars

3. Significant accounting policies (continued)

ii) Loans and advances to customers

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

iii) Held-to-maturity financial assets

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

iv) AFS financial assets

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

Purchases and sales of financial assets at FVTPL, held-to-maturity and AFS are 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 for all financial assets not carried at FVTPL. Financial assets carried at fair value through profit and loss are initially recognized at fair value, and transaction costs are expensed when incurred.

v) Gain and loss

AFS financial assets and financial assets at FVTPL are subsequently carried at fair value. Loans and advances to customers and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Gain and loss arising from changes in the fair value of the financial assets at FVTPL category are included in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise. Gain and loss 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 profit or loss. Interest calculated using the effective interest method and foreign currency gain and loss on monetary assets classified as available for sale are recognized in the consolidated statement of profit or loss.

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

Expressed in Bahamian Dollars

3. Significant accounting policies (continued)

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

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

vi) Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

vii) Derecognition of financial assets

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

e) **Impairment of financial assets**

i) Financial assets carried at amortized cost

The Company assesses at each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment loss 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(s) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated.

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

Expressed in Bahamian Dollars

3. Significant accounting policies (continued)

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

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

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and is collectively assessed 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.

Generally, loans are considered impaired whenever a payment is 90 days past due. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset carrying amount and the present value of estimated future cash flows (excluding future credit loss 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 in the consolidated statement of profit or loss and other 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 Company may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

Expressed in Bahamian Dollars

3. Significant accounting policies (continued)

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. The amount of the reversal is recognized in income.

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

ii) Financial assets classified as AFS

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

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

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

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

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

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3. Significant accounting policies (continued)

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

iii) Renegotiated loans

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

iv) Change in accounting estimate

During the previous year, the Company amended its discount rate and realization period in respect of future cash flows on non-performing loans. This change in estimate is treated prospectively in these financial statements and resulted in an \$11.6 million increase in the allowance for impairment loss. The Company's policy with respect to impairment loss is further explained in Note 3(e)(i). There was no change in estimates in the current year.

f) **Financial liabilities**

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

i) Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

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3. Significant accounting policies (continued)

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

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

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

ii) Other financial liabilities

Other financial liabilities, including 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.

iii) Derecognition of financial liabilities

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

g) Revenue recognition

i) Interest income and expense

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

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 periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or where appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit loss.

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

Expressed in Bahamian Dollars

3. Significant accounting policies (continued)

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

ii) Fees and commissions

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

Fees and commissions are generally recognized on an accrual basis or when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan.

h) **Premises and equipment**

Premises and equipment are stated at cost less accumulated depreciation, amortization and impairment loss. Depreciation and amortization is calculated to write off the depreciable amounts of assets over their estimated useful lives as follows:

Building and improvements	20 to 40 years straight line
Leasehold premises	Straight line over lease term plus one renewal option period to a maximum of 10 years
Furniture and Equipment	Varying from 3 to 7 years straight line or 20% declining balance

Freehold land is not depreciated.

Management reviews the estimated useful lives, residual values and method of depreciation at each year-end. Any changes are accounted for prospectively as a change in accounting estimate.

Gain and loss on disposal of premises and equipment are determined by reference to their carrying amounts and are taken into account in determining profit/(loss). Costs of repairs and renewals are charged to income when the expenditure is incurred.

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

Expressed in Bahamian Dollars

3. Significant accounting policies (continued)

i) Impairment of tangible assets

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

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

j) Cash and cash equivalents

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

k) Leases

i) The Company is the lessee

The leases entered into by the Company which does 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 non-interest expense in income on a straight-line basis over the period of the lease.

ii) The Company is the lessor

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

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

Expressed in Bahamian Dollars

3. Significant accounting policies (continued)

l) Provisions

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

m) Share capital

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

n) Dividends

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

Dividends that are proposed and declared after the consolidated statement of financial position date are not shown as a liability on the consolidated statement of financial position but are disclosed as a note to the consolidated financial statements.

o) Earnings Per Share

Earnings per share are based on the weighted average number of shares outstanding during the period.

p) Employee benefits

i) Defined benefit plan

The Company participates in a defined benefit pension plan and a defined contribution pension plan of Royal Bank of Canada (RBC). Employees become eligible for membership in the defined benefit pension plan (the Plan) after completing a probationary period and receive their benefits after retirement. The Plan's benefits are determined based on years of service, contributions and average earnings at retirement. Due to the long-term nature of the Plan, the calculation of benefit expenses and obligations depends on various assumptions such as discount rates, expected rates of return on assets, projected salary increase, retirement age, mortality and termination rates. The Company recognizes as an expense its proportionate share of the pension costs and remits the amount to RBC. RBC also retains the pension liability.

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

Expressed in Bahamian Dollars

3. Significant accounting policies (continued)

ii) Defined contribution plan

Under the defined contribution plan, an employee may contribute up to 10% of their salary and the Company matches half of the employee's contribution up to 3% of the employee's salary. Contributions made by the employee are immediately vested and contributions made by the Company become vested after the completion of ten years of service. Expenses for services rendered by the employees and related to the defined contribution plan are recognized during the period.

q) **Offsetting**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

r) **Comparative information**

Comparative figures have been adjusted to conform to changes in presentation in the current year where necessary. These changes have no effect on the net income of the Company for the previous year.

4. Critical accounting estimates and judgments in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

a) **Impairment of financial assets**

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

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements

October 31, 2013

Expressed in Bahamian Dollars

4. Critical accounting estimates and judgments in applying accounting policies (continued)

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) Fair value of financial instruments including derivatives

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

c) Depreciation and amortization

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

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

d) Legal proceedings, claims and regulatory discussions

The Company is subject to various legal proceedings, claims and regulatory discussions, the outcomes of which are subject to significant uncertainty. The Company evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss.

Unanticipated events or changes in these factors may require the Company to increase or decrease the amount the Company has accrued for any matter or accrue for a matter that has not been previously accrued for because it was not considered probable, or a reasonable estimate could not be made.

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

Expressed in Bahamian Dollars

5. Cash and cash equivalents

	2013	2012
Cash on hand	\$ 1,304,024	\$ 1,084,453
Treasury bills	7,000,000	7,000,000
Due from banks	<u>39,387,885</u>	<u>36,492,641</u>
	<u>\$ 47,691,909</u>	<u>\$ 44,577,094</u>

Cash on hand represents cash held in tellers' tills, vaults and cash dispensing machines. Due from banks are deposits held with other banks on demand or for fixed periods up to three months. Treasury bills have original maturities up to three months.

6. Balances with The Central Bank of The Bahamas

The Company's statutory reserve account with The Central Bank of The Bahamas is non-interest bearing and includes a mandatory reserve deposit of \$37,209,675 (2012: \$38,985,625) which is based on a ratio to customers' deposits. The total balance held with The Central Bank of The Bahamas was \$42,381,412 (2012: \$41,418,985).

7. Loans and advances to customers

	2013	2012
Retail	\$ 6,060,582	\$ 7,672,737
Home equity and other mortgages	293,723,261	260,605,137
Residential mortgages	610,607,900	621,709,509
Government insured mortgages	<u>1,272,213</u>	<u>1,384,331</u>
	911,663,956	891,371,714
Deferred fee income	<u>(7,905,616)</u>	<u>(7,933,750)</u>
	903,758,340	883,437,964
Interest receivable	3,820,933	3,674,799
Allowance for impairment loss	<u>(42,345,664)</u>	<u>(41,775,084)</u>
Total loans - net	<u>\$865,233,609</u>	<u>\$845,337,679</u>

Loans categorized by performance are as follows:

Neither past due nor impaired loans and advances	\$764,876,880	\$743,117,730
Past due but not impaired loans and advances	42,455,392	44,350,111
Impaired loans and advances	<u>104,331,684</u>	<u>103,903,873</u>
Gross loans and advances	<u>\$911,663,956</u>	<u>\$891,371,714</u>

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

Expressed in Bahamian Dollars

7. Loans and advances to customers (continued)

Loans classified as impaired represent 11.45% (2012: 11.66%) of the total loan portfolio. Allowance for impairment loss represents 4.65% (2012: 4.69%) of the total loan portfolio and 40.59% (2012: 40.21%) of total impaired loans.

Allowance for impairment loss:

	2013	2012
Balance at beginning of year	\$ 41,775,084	\$ 28,332,979
Loan and advances written off	(7,917,056)	(9,463,686)
Recoveries	6,829,971	8,901,175
Reversal of time value of money component	(5,810,595)	(5,593,161)
Provision for credit loss	<u>7,468,260</u>	<u>19,597,777</u>
Balance at end of year	<u>\$ 42,345,664</u>	<u>\$ 41,775,084</u>
Specific and collective impairment	\$ 33,034,664	\$ 32,441,084
General impairment	<u>9,311,000</u>	<u>9,334,000</u>
	<u>\$ 42,345,664</u>	<u>\$ 41,775,084</u>

8. Investment securities

Securities available-for-sale at fair value:

	2013	2012
Securities issued or guaranteed by The Bahamas Government:		
Registered stocks	\$ 36,872,900	\$ 36,872,900
Corporate bonds	<u>3,037,300</u>	<u>3,037,300</u>
	39,910,200	39,910,200
Interest receivable	<u>473,366</u>	<u>472,073</u>
	<u>\$ 40,383,566</u>	<u>\$ 40,382,273</u>

Financial instruments that are measured at fair value subsequent to initial recognition are grouped based on the degree to which the fair value is observable and into Levels 1 to 3 as follows:

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

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

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8. Investment securities (continued)

Level 2 - Fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of the Company's available for sale investments have all been determined based on Level 3 valuation techniques.

There were no movements in available for sale securities during the year.

9. Premises and equipment

	Land	Buildings & Improvements	Leasehold premises	Furniture & Equipment	Computer Equipment & Software	Total
Year ended						
October 31, 2013						
Opening net book value	\$ 105,700	\$ 334,303	\$ 112,572	\$ 347,337	\$ 419,526	\$1,319,438
Reclassification adjustment	-	-	9,197	(9,197)	-	-
Adjustment opening net value	105,700	334,303	121,769	338,140	419,526	1,319,438
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Depreciation charge	-	(50,677)	(21,367)	(73,768)	(149,966)	(295,778)
Closing net book value	<u>\$ 105,700</u>	<u>\$ 283,626</u>	<u>\$ 100,402</u>	<u>\$ 264,372</u>	<u>\$ 269,560</u>	<u>\$1,023,660</u>
As at October 31, 2013						
Total cost	\$ 105,700	\$ 1,219,104	\$ 1,985,952	\$ 1,741,059	\$ 1,504,457	\$6,556,272
Accumulated depreciation	-	(935,478)	(1,885,550)	(1,476,687)	(1,234,897)	(5,532,612)
Net book value	<u>\$ 105,700</u>	<u>\$ 283,626</u>	<u>\$ 100,402</u>	<u>\$ 264,372</u>	<u>\$ 269,560</u>	<u>\$1,023,660</u>

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

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9. Premises and equipment (continued)

Year ended	Land	Buildings & Improvements	Leasehold premises	Furniture & Equipment	Computer Equipment & Software	Total
October 31, 2012						
Opening net book value	\$ 105,700	\$ 380,590	\$ 297,184	\$ 420,767	\$ 695,495	\$1,899,736
Additions	-	19,547	-	16,302	28,627	64,476
Disposals	-	(11,985)	(109,631)	-	(122,675)	(244,291)
Depreciation charge	-	(53,849)	(74,981)	(89,732)	(181,921)	(400,483)
Closing net book value	<u>\$ 105,700</u>	<u>\$ 334,303</u>	<u>\$ 112,572</u>	<u>\$ 347,337</u>	<u>\$ 419,526</u>	<u>\$1,319,438</u>
As at October 31, 2012						
Total cost	\$ 105,700	\$ 1,219,104	\$ 1,848,613	\$ 1,878,398	\$ 1,504,457	\$6,556,272
Accumulated depreciation	-	(884,801)	(1,736,041)	(1,531,061)	(1,084,931)	(5,236,834)
Net book value	<u>\$ 105,700</u>	<u>\$ 334,303</u>	<u>\$ 112,572</u>	<u>\$ 347,337</u>	<u>\$ 419,526</u>	<u>\$1,319,438</u>

Included in premises and equipment is floor space leased to an affiliate company. Minimum lease payments in respect of these arrangements are as follows:

	2013	2012
Not later than one year	\$ 75,545	\$ 75,545
Later than one year and no later than five years	<u>302,180</u>	<u>302,180</u>
	<u>\$ 377,725</u>	<u>\$ 377,725</u>

10. Customers' deposits

	2013	2012
Savings deposits	\$128,778,376	\$132,433,276
Term deposits	603,723,999	615,782,775
Demand deposits	<u>20,872,280</u>	<u>29,619,277</u>
	753,374,655	777,835,328
Accrued interest payable	<u>5,802,280</u>	<u>6,726,183</u>
	<u>\$759,176,935</u>	<u>\$784,561,511</u>

Finance Corporation of Bahamas Limited

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11. Other borrowed funds and affiliated companies

Other borrowed funds is comprised of a promissory note issued to R.B.C Holdings (Bahamas) Limited. R.B.C. Holdings (Bahamas) Limited was the Company's parent company until May 10, 2011 as disclosed in Note 1. By agreement dated May 14, 2012 the final maturity date of the promissory note was extended to August 1, 2013 at an interest rate of 4.00% (2012: 4.00%). The Company repaid \$14 million on September 17, 2013 and the balance of \$13.3 million on October 31, 2013. The amounts payable to affiliated companies are for terms up to 90 days and bear interest at 3.50%.

12. Pension plans

Employees of the Company participate in a defined benefit group pension plan and a defined contribution plan of Royal Bank of Canada. 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 defined benefit group pension plan is funded in accordance with actuarially determined amounts required to satisfy employee benefit entitlements under current pension regulations. The most recent actuarial valuation performed was completed in January 1, 2013 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:

	2013	2012
Discount rate	<u>5.25%</u>	<u>5.25%</u>
Expected return on plan assets	<u>6.38%</u>	<u>6.38%</u>
Rate of increase in future compensation	<u>1.50% - 9.00%</u>	<u>1.50% - 9.00%</u>

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

During the year, the Company's pension expenses arising from the defined benefit plan was \$556,716 (2012: \$457,452) and the defined contribution plan was \$37,810 (2012: \$36,672).

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13. Share capital & reserves

Share capital consists of the following:

	2013	2012
<i>Authorized:</i>		
27,500,000 common shares at par value B\$0.20		
Issued and fully paid: 26,666,670 common shares	<u>\$ 5,333,334</u>	<u>\$ 5,333,334</u>

The bank has a general reserve in the amount of \$500,000.

14. Interest income

	2013	2012
Loans and advances to customers	\$ 64,684,182	\$ 63,822,292
Investment securities	<u>2,056,206</u>	<u>2,056,173</u>
	<u>\$ 66,740,388</u>	<u>\$ 65,878,465</u>

Included in interest income is interest attributable to the time value of money on non-performing loans of \$5,810,595 (2012: \$5,593,161).

15. Interest expense

	2013	2012
Customers' deposits	\$ 18,625,239	\$ 24,070,372
Due to affiliated companies	1,579,239	258,948
Other interest bearing liabilities	<u>1,021,003</u>	<u>1,592,188</u>
	<u>\$ 21,225,481</u>	<u>\$ 25,921,508</u>

16. Non-interest income

	2013	2012
Fees and commissions	\$ 3,533,284	\$ 3,530,820
Foreign exchange earnings	231,696	124,151
Sundry income	<u>70,594</u>	<u>88,210</u>
	<u>\$ 3,835,574</u>	<u>\$ 3,743,181</u>

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Notes to the consolidated financial statements October 31, 2013

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17. Non-interest expenses

	2013	2012
Staff cost	\$ 3,468,562	\$ 5,529,407
Other operating expenses	5,015,245	4,528,554
Operating lease rentals	1,344,181	1,331,738
Premises and equipment expenses, excluding depreciation and operating lease rentals	815,459	692,587
Depreciation and amortization of tangible assests	295,778	400,483
Deposit insurance premium	350,861	350,972
Advertising	110,210	137,672
Auditors' fees	97,760	95,500
Directors' fees	25,525	53,625
	<u>\$ 11,523,581</u>	<u>\$ 13,120,538</u>

The Protection of Depositors Act, 1999 requires that the Company pay an annual premium to the Deposit Insurance Fund based on insurable deposit liabilities outstanding. During the year the Company paid \$350,861 (2012: \$350,972) into the fund.

18. Dividends

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

Dates	Cents per Share	Amount
December 27, 2012	10	\$ 2,666,666
March 21, 2013	5	1,333,334
June 20, 2013	5	1,333,334
October 8, 2013	5	1,333,334
	<u>25</u>	<u>\$ 6,666,668</u>

On December 6, 2012 the Board of Directors declared dividend of \$0.10 per share to shareholders of record for the fiscal year 2012 which is included in the schedule.

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19. Contingent liabilities

The Company has been named as defendant in various legal actions and lawsuits relating primarily to the collection of bad debts. Although the ultimate outcome of these actions cannot be ascertained at this time, it is the opinion of management, after consultation with its legal counsel, that the resolution of such actions will not have a material adverse effect on the consolidated financial statements.

20. Commitments

a) Credit commitments

Mortgage commitments at year end in the normal course of business amounting to \$24,093,711 (2012: \$36,852,665).

b) Lease commitments

The Company is obligated under non-cancelable leases on premises, all of which are operating leases and on which the annual rentals are approximately as follows:

	2013	2012
Within one year	\$ 1,404,579	\$ 1,396,079
One to five years	5,736,587	5,737,085
Over five years	<u>1,443,954</u>	<u>1,477,677</u>
	<u>\$ 8,585,120</u>	<u>\$ 8,610,841</u>

21. Related party transactions

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

The Company also has technical service and license agreements with RBC Royal Bank (Bahamas) Limited. During the year, \$2,674,704 (2012: \$2,136,668) was expensed in reference to these agreements and is included in general and administrative expense in the consolidated statement of profit or loss and other comprehensive income. The Company continues to pursue opportunities for outsourcing with related parties to improve operational efficiency.

All clearing accounts are maintained at RBC Royal Bank (Bahamas) Limited, which acts as a clearing bank for the Company. The balance as at October 31, 2013 was \$39,089,518 (2012: \$36,245,018). These deposits are non-interest bearing and are held as a part of the Company's Statutory Reserve Requirement.

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Expressed in Bahamian Dollars

21. Related party transactions (continued)

Balances and transactions with related parties not disclosed elsewhere in these consolidated financial statements are as follows:

	2013	2012
<u>Consolidated statement of financial position</u>		
Assets		
Loans and advances to customers		
Directors and key management personnel	\$ 125,442	\$ 14,293
Liabilities		
Customers' deposits		
Directors and key management personnel	\$ 255,526	\$ 140,504
Other related parties	77,218,701	28,142,059
	<u>\$ 77,474,227</u>	<u>\$ 28,282,563</u>
<u>Consolidated statement of profit or loss and other comprehensive income</u>		
	2013	2012
Interest income		
Directors and key management personnel	\$ 8,308	\$ 211
Interest expense		
Directors and key management personnel	\$ 5,845	\$ 8,884
Due to affiliated companies	1,331,458	92,898
Other related parties	247,781	166,051
Other borrowed funds	1,021,003	1,592,188
	<u>\$ 2,606,087</u>	<u>\$ 1,860,021</u>
	2013	2012
Key management compensation		
Salaries and other short term benefits	\$ 147,193	\$ 153,522

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22. Categorization of financial assets and liabilities

Consolidated statement of financial position

	2013	2012
<u>Assets</u>		
Financial assets at fair value through other comprehensive income		
Investment securities	\$ 40,383,566	\$ 47,382,273
Financial assets at amortized cost		
Cash and cash equivalents	47,691,909	37,577,094
Balance with The Central Bank of The Bahamas	42,381,412	41,418,985
Loans and advances to customers	865,233,609	845,337,679
Other assets	506,154	658,893
	<u>955,813,084</u>	<u>924,992,651</u>
Total financial assets	996,196,650	972,374,924
Total non-financial assets	<u>1,023,660</u>	<u>1,319,438</u>
Total assets	<u>\$997,220,310</u>	<u>\$973,694,362</u>
<u>Liabilities</u>		
Financial liabilities at amortized cost		
Customers' deposits	\$759,176,935	\$784,561,511
Other borrowed funds	-	27,300,000
Due to affiliated companies	77,218,701	28,142,059
Other liabilities	<u>7,059,618</u>	<u>3,617,708</u>
Total liabilities	843,455,254	843,621,278
Total equity	<u>153,765,056</u>	<u>130,073,084</u>
Total equity and liabilities	<u>\$997,220,310</u>	<u>\$973,694,362</u>

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23. Financial risk management

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

a) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis.

The table below presents the cash flows due to or payable by the Company under financial assets or liabilities by remaining contractual maturities at the consolidated statement of financial position date.

At October 31, 2013	Within 3 Months Or on Demand	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
Assets							
Cash and cash equivalents	\$ 47,691,909	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47,691,909
Balance with The Central Bank of The Bahamas	42,381,412	-	-	-	-	-	42,381,412
Loans and advances to customers	15,936,958	3,324,277	6,682,524	8,545,299	20,575,071	810,169,480	865,233,609
Investment securities	473,366	25,900	-	5,092,300	1,974,700	32,817,300	40,383,566
Others assets	506,154	-	-	-	-	-	506,154
TOTAL	\$ 106,989,799	\$ 3,350,177	\$ 6,682,524	\$ 13,637,599	\$ 22,549,771	\$842,986,780	\$996,196,650
Liabilities							
Customers' deposits	\$ 462,152,593	\$ 164,815,090	\$ 132,103,428	\$ 105,824	\$ -	\$ -	\$ 759,176,935
Other borrowed funds	-	-	-	-	-	-	-
Due to affiliated companies	74,858,688	2,360,013	-	-	-	-	77,218,701
Other liabilities	7,059,618	-	-	-	-	-	7,059,618
TOTAL	\$ 544,070,899	\$ 167,175,103	\$ 132,103,428	\$ 105,824	\$ -	\$ -	\$ 843,455,254
	\$ (437,081,100)	\$ (163,824,926)	\$ (125,420,904)	\$ 13,531,775	\$ 22,549,771	\$842,986,780	\$ 152,741,396

Finance Corporation of Bahamas Limited

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Expressed in Bahamian Dollars

23. Financial risk management (continued)

At October 31, 2012	Within 3 Months Or on Demand	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
Assets							
Cash and cash equivalents	\$ 44,577,094	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,577,094
Balance with The Central Bank of The Bahamas	41,418,985	-	-	-	-	-	41,418,985
Loans and advances to customers	13,524,360	6,504,512	13,127,315	8,537,674	17,921,497	785,722,321	845,337,679
Investment securities	472,073	-	-	3,449,700	2,329,000	34,131,500	40,382,273
Others assets	658,893	-	-	-	-	-	658,893
TOTAL	\$ 100,651,405	\$ 6,504,512	\$ 13,127,315	\$ 11,987,374	\$ 20,250,497	\$819,853,821	\$ 972,374,924
Liabilities							
Customers' deposits	\$ 452,003,806	\$ 178,100,386	\$ 154,435,018	\$ 22,301	\$ -	\$ -	\$ 784,561,511
Other borrowed funds	-	-	27,300,000	-	-	-	27,300,000
Due to affiliated companies	5,742,227	22,399,832	-	-	-	-	28,142,059
Other liabilities	3,617,708	-	-	-	-	-	3,617,708
TOTAL	\$ 461,363,741	\$ 200,500,218	\$ 181,735,018	\$ 22,301	\$ -	\$ -	\$ 843,621,278
	\$ (360,712,336)	\$ (193,995,706)	\$ (168,607,703)	\$ 11,965,073	\$ 20,250,497	\$819,853,821	\$ 128,753,646

b) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Interest rate risk also arises from differences in the maturity or repricing dates of assets and liabilities. Interest rate risk exposures or "gaps" may produce favourable or unfavourable effects on interest margins depending on the nature of the gap and the direction of interest rate movement and/or the expected volatility of those interest rates. When assets have a shorter average maturity or repricing date than liabilities, an increase in interest rates has a positive impact on net interest margins, and conversely, if more liabilities than assets mature or are repriced in a particular time interval then a negative impact on net interest margins results.

The Company 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 impact on net income:

	Effect on net profit	
	2013	2012
Change in interest rate		
+ 1%	\$ 8,028,000	\$ 7,808,000
- 1%	\$(8,028,000)	\$(7,808,000)

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23. Financial risk management (continued)

Interest sensitivity of assets and liabilities to repricing risk

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

	Within 3 Months	3-6 Months	6-12 Months	1-5 Years	Over 5 Years	Not Interest Rate Sensitive	Total
At October 31, 2013							
Assets							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47,691,909	\$ 47,691,909
Balance with The Central Bank of The Bahamas	-	-	-	-	-	42,381,412	42,381,412
Loans and advances to customers	806,740,130 7.51%	13,316 6.75%	-	-	-	58,480,163	865,233,609
Investment securities	39,910,200 4.41%	-	-	-	-	473,366	40,383,566
Other assets	-	-	-	-	-	506,154	506,154
TOTAL	\$ 846,650,330	\$ 13,316	\$ -	\$ -	\$ -	\$ 149,533,004	\$ 996,196,650
Liabilities							
Customers' deposits	\$ 458,710,325 1.87%	\$ 162,455,077 2.64%	\$ 132,103,429 2.66%	\$ 105,824 1.68%	\$ -	\$ 5,802,280	\$ 759,176,935
Due to affiliated companies	74,858,688 3.34%	2,360,012 2.88%	-	-	-	-	77,218,700
Other liabilities	-	-	-	-	-	7,059,618	7,059,618
TOTAL	\$ 533,569,013	\$ 164,815,089	\$ 132,103,429	\$ 105,824	\$ -	\$ 12,861,898	\$ 843,455,253
Interest Rate Sensitivity Gap	\$ 313,081,317	\$ (164,801,773)	\$ (132,103,429)	\$ (105,824)	\$ -	\$ 136,671,106	\$ 152,741,397
Cumulative Interest Rate Sensitivity Gap	\$ 313,081,317	\$ 148,279,544	\$ 16,176,115	\$ 16,070,291	\$ 16,070,291	\$ 152,741,397	\$ -
At October 31, 2012							
Assets							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,577,094	\$ 37,577,094
Balance with The Central Bank of The Bahamas	-	-	-	-	-	41,418,985	41,418,985
Loans and advances to customers	786,317,788 7.50%	37,068 6.86%	-	-	-	58,982,823	845,337,679
Investment securities	7,000,000 0.08%	-	-	5,778,700 5.36%	34,131,500 5.09%	472,073	47,382,273
Other assets	-	-	-	-	-	658,893	658,893
TOTAL	\$ 793,317,788	\$ 37,068	\$ -	\$ 5,778,700	\$ 34,131,500	\$ 139,109,868	\$ 972,374,924
Liabilities							
Customers' deposits	\$ 452,003,806 1.98%	\$ 178,100,386 2.54%	\$ 147,708,835 2.50%	\$ 22,301 0.88%	\$ -	\$ 6,726,183	\$ 784,561,511
Other borrowed funds	27,300,000 4.00%	-	-	-	-	-	27,300,000
Due to affiliated companies	28,142,059 3.36%	-	-	-	-	-	28,142,059
Other liabilities	-	-	-	-	-	3,617,708	3,617,708
TOTAL	\$ 507,445,865	\$ 178,100,386	\$ 147,708,835	\$ 22,301	\$ -	\$ 10,343,891	\$ 843,621,278
Interest Rate Sensitivity Gap	\$ 285,871,923	\$ (178,063,318)	\$ (147,708,835)	\$ 5,756,399	\$ 34,131,500	\$ 128,765,977	\$ 128,753,646
Cumulative Interest Rate Sensitivity Gap	\$ 285,871,923	\$ 107,808,605	\$ (39,900,230)	\$ (34,143,831)	\$ (12,331)	\$ 128,753,646	\$ -

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

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23. Financial risk management (continued)

c) Currency risk

The Company has no significant foreign currency risk as the majority of its assets and liabilities are denominated in its functional currency.

d) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's credit risk is primarily represented by cash and cash equivalents, investments and loans and advances.

The credit risk on cash and cash equivalents and investments is limited because the counterparties are deemed to be high-quality institutions, including The Central Bank of The Bahamas and The Bahamas Government. Loans and advances are primarily mortgages and are generally secured by a first mortgage charge over the underlying property. The amount presented in the consolidated statement of financial position is net of an allowance for credit loss, estimated by the Company's management based upon prior experience and the current economic environment. The Company's credit risk is concentrated in The Bahamas and is spread over a number of counterparties and customers.

The following is an analysis of past due financial assets:

	2013				
	Residential Mortgages	Home equity and other Mortgages	Government Insured Mortgages	Demand Loans and overdrafts	Total
Past due 30-59 days	\$ 9,499,825	\$ 5,349,387	\$ 64,442	\$ 60,724	\$ 14,974,378
Past due 60-89 days	19,279,348	8,193,940	-	7,726	27,481,014
Past due 3-6 months	5,338,618	1,705,749	8,338	18,951	7,071,656
Past due 6 months - 1 year	8,936,988	4,858,424	-	10,426	13,805,838
Over 1 year	52,448,540	30,716,461	201,847	87,342	83,454,190
	<u>\$ 95,503,319</u>	<u>\$ 50,823,961</u>	<u>\$ 274,627</u>	<u>\$ 185,169</u>	<u>\$146,787,076</u>

	2012				
	Residential Mortgages	Home equity and other Mortgages	Government Insured Mortgages	Demand Loans and overdrafts	Total
Past due 30-59 days	\$ 16,035,311	\$ 7,147,099	\$ 66,668	\$ 53,557	\$ 23,302,635
Past due 60-89 days	15,256,109	5,779,480	-	11,887	21,047,476
Past due 3-6 months	9,321,893	6,411,320	30,671	4,636	15,768,520
Past due 6 months - 1 year	8,702,657	5,555,690	35,984	17,079	14,311,410
Over 1 year	48,499,614	25,000,906	183,848	139,575	73,823,943
	<u>\$ 97,815,584</u>	<u>\$ 49,894,495</u>	<u>\$ 317,171</u>	<u>\$ 226,734</u>	<u>\$148,253,984</u>

Finance Corporation of Bahamas Limited

Notes to the consolidated financial statements October 31, 2013

Expressed in Bahamian Dollars

23. Financial risk management (continued)

Carrying amount per class of financial assets whose terms have been renegotiated are as follows:

	2013	2012
Loans and advances to customers:		
Home equity and other mortgages	\$34,194,377	\$26,910,775
Residential mortgages	<u>36,897,535</u>	<u>24,286,620</u>
Total renegotiated loans and advances to customers	<u>\$71,091,912</u>	<u>\$51,197,395</u>

The following table breaks down the Company's main credit exposure of loans and advances as categorized by industry sectors of counterparties.

	2013	2012
Distribution	\$ 150,793	\$ 155,110
Construction	320,182	353,421
Real Estate	910,397,764	889,073,894
Tourism	188,580	199,892
Professional Services	25,950	30,321
Other	<u>580,687</u>	<u>1,559,075</u>
	<u>\$911,663,956</u>	<u>\$891,371,713</u>

24. Capital management

The Company's objectives when managing capital are:

- To comply with the capital requirements set by The Central Bank of The Bahamas (the "Central Bank").
- To safeguard the Company's ability to continue as a going concern.
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored by the Company's management, employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision as implemented by The Central Bank and is determined and reported monthly to its regulator.

The Central Bank requires the Company to maintain minimum Tier 1 and Total Capital ratios of 7% and 14%, respectively. At October 31, 2013 the Company's Tier 1 and Total Capital ratios were 24.36% and 25.61% (2012: 21.26% and 22.51%), respectively.

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25. Operating segments

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

	2013		
	<u>Banking</u>	<u>Other</u>	<u>Consolidated</u>
Assets	<u>\$988,868,928</u>	<u>\$ 8,351,382</u>	<u>\$ 997,220,310</u>
Liabilities	<u>\$842,657,895</u>	<u>\$ 797,359</u>	<u>\$ 843,455,254</u>
Revenue:			
Net interest income	<u>\$ 45,514,907</u>	<u>\$ -</u>	<u>\$ 45,514,907</u>
Fees and commission income	<u>2,427,247</u>	<u>1,408,327</u>	<u>3,835,574</u>
Total income	<u>\$ 47,942,154</u>	<u>\$ 1,408,327</u>	<u>\$ 49,350,481</u>
Total comprehensive income	<u>\$ 29,158,894</u>	<u>\$ 1,199,746</u>	<u>\$ 30,358,640</u>
	2012		
	<u>Banking</u>	<u>Other</u>	<u>Consolidated</u>
Assets	<u>\$966,589,044</u>	<u>\$ 7,105,318</u>	<u>\$ 973,694,362</u>
Liabilities	<u>\$842,870,237</u>	<u>\$ 751,041</u>	<u>\$ 843,621,278</u>
Revenue:			
Net interest income	<u>\$ 39,956,957</u>	<u>\$ -</u>	<u>\$ 39,956,957</u>
Fees and commission income	<u>2,376,653</u>	<u>1,366,528</u>	<u>3,743,181</u>
Total income	<u>\$ 42,333,610</u>	<u>\$ 1,366,528</u>	<u>\$ 43,700,138</u>
Total comprehensive income	<u>\$ 9,807,044</u>	<u>\$ 1,174,779</u>	<u>\$ 10,981,823</u>

Finance Corporation of Bahamas Limited

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26. Fair value of financial assets and liabilities

The estimated fair values represent values at which financial instruments could be exchanged in a current transaction between willing parties. Wherever there is no available trading market, fair values are estimated using appropriate valuation methods. Financial assets and liabilities that are not remeasured at fair value after initial recognition include cash and cash equivalents, balances with The Central Bank of The Bahamas loans and advances to customers, due to/from banks, customers' deposits and other borrowed funds. The following comments are relevant to their fair value.

Assets

Cash and cash equivalents, due from banks and balances with The Central Bank of The Bahamas

Since these assets are short-term in nature, the values are taken as indicative of fair value.

Loans and advances to customers

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

Liabilities

Due to banks, customers' deposits and other borrowed funds

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

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