RBC

FINCO

A leading provider of long-term homeownership solutions

2023 Annual Report

Statements of Accounts for the year ended October 31, 2023

Table of Contents

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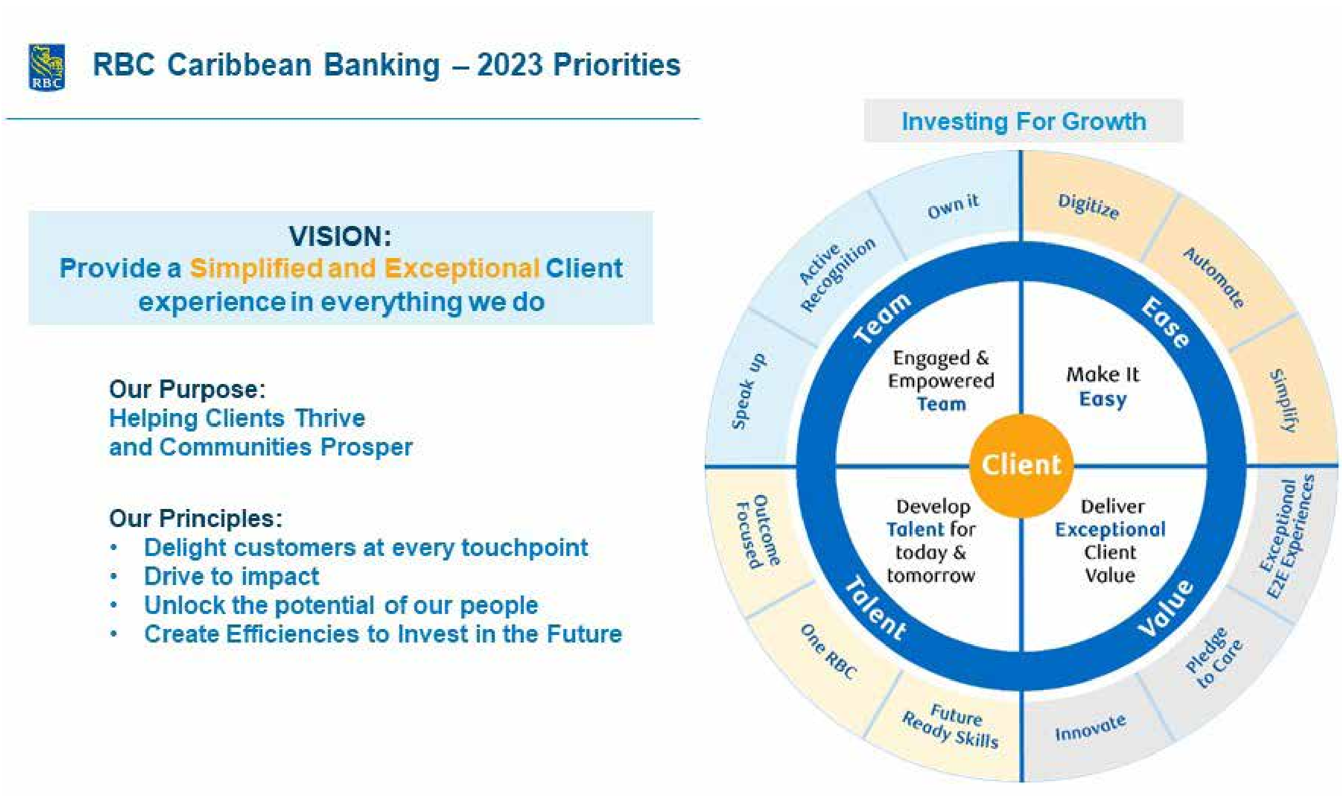
CORPORATE PROFILE & COLLECTIVE AMBITION



Finance Corporation of Bahamas Limited was incorporated on July 24, 1953. As of April 1, 1982, the Bank became a wholly-owned subsidiary of R.B.C. Holdings (Bahamas) Limited, a wholly-owned subsidiary of Royal Bank of Canada. On March 1, 1984, R.B.C. Holdings (Bahamas) Limited sold 25% of its ownership to the Bahamian general public, retaining 75%. On May 10, 2011, R.B.C. Holdings (Bahamas) Limited sold its ownership of the Bank to RBC Royal Bank Holdings (Bahamas) Limited. RBC Royal Bank Holdings (Bahamas) Limited sold its ownership of the Bank to RBC Royal Bank (Bahamas) Limited on April 29, 2019.

The Bank employs 28 people who serve more than 50,000 clients through offices in Nassau and Freeport, and has more than 4,000 shareholders.

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

2023 FINCO DISCLOSURE

Royal Bank of Canada (RBC) is a global financial institution with a purpose-driven, principles-led approach to delivering leading performance. RBC's success comes from the 94,000+ employees who leverage their imaginations and insights to bring its vision, values and strategy to life so it can help its clients thrive and communities prosper. As Canada's biggest bank and one of the largest in the world, based on market capitalization, RBC has a diversified business model with a focus on innovation and providing exceptional experiences to its more than 17 million clients in Canada, the United States (U.S.) and 27 other countries.

Personal & Commercial Banking provides a broad suite of financial products and services to individual and business clients for their day-to-day banking, investing and financing needs in Canada, the Caribbean and the U.S. Its commitment to building and maintaining deep and meaningful relationships with its clients is underscored by the delivery of exceptional client experiences, the breadth of its product suite, its depth of expertise, and the features of its digital solutions. Personal & Commercial Banking operates through two businesses – Canadian Banking and Caribbean & U.S. Banking. Canadian Banking serves RBC's home market in Canada, where it maintains top (#1 or #2) rankings in market share for all key retail and business products. It has the largest branch network, the most ATMs, and one of the largest mobile sales forces across Canada along with market-leading digital capabilities. In Caribbean & U.S. Banking, it offers a broad range of financial products and services in targeted markets. In Canada, RBC competes with other Schedule I banks, independent trust companies, foreign banks, credit unions, caisses populaires, auto financing companies, as well as emerging entrants to the financial services industry. In the Caribbean, its competition includes banks, emerging digital banks, trust companies and investment management companies serving retail and corporate clients, as well as public institutions. In the U.S., it competes primarily with other Canadian banking institutions that have U.S. operations.

Wealth Management serves affluent, high net worth (HNW) and ultra-high net worth (UHNW) clients from its offices in key financial centres mainly in Canada, the U.S., the United Kingdom (U.K.), Europe, and Asia. It offers a comprehensive suite of wealth, investment, trust, banking, credit and other advice-based solutions. Wealth Management also provides asset management products to institutional and individual clients through its distribution channels and third-party distributors. Its lines of businesses include Canadian Wealth Management, U.S. Wealth Management (including City National), Global Asset Management (GAM), International Wealth Management and Investor Services. Canadian Wealth Management is the largest full-service wealth advisory business in Canada, as measured by assets under administration (AUA), serving HNW and UHNW clients. Canadian Wealth Management competes with domestic banks and trust companies, investment counselling firms, bank-owned full-service brokerages and boutique brokerages, mutual fund companies and global private banks. U.S. Wealth Management (including City National) encompasses its private client group (PCG) and clearing and custody businesses. PCG is the 6th largest full-service wealth advisory firm in the U.S., as measured by AUA, and City National is a U.S.-based relationship bank serving the entertainment industry, mid-market businesses, HNW individuals and other clients who value personalized banking relationships. Competitors with U.S. Wealth Management (including City National) include other broker-dealers, commercial banks and other financial institutions that service HNW and UHNW individuals, entrepreneurs and their businesses. GAM is the largest retail mutual fund company in Canada as measured by assets under management, as well as a leading institutional asset manager. GAM faces competition in Canada from banks, insurance companies and asset management organizations; in the U.S. from independent asset management firms, as well as those that are part of national and international banks and insurance companies; and internationally from asset managers that are owned by international banks, as well as national and regional asset managers in the geographies where it serves clients. International Wealth Management serves HNW and UHNW clients, primarily through key financial centres in the U.K., Ireland, the Channel Islands and Asia. Competitors to the International Wealth Management business include global wealth managers, traditional private banks and domestic wealth managers. Investor Services safeguards client assets and supports the growth of Canadian and U.K. asset managers and asset owners, investment counsellors and other financial institutions. Competitors to the Investor Services business include domestic and international custodians with Canadian and U.K. operations.

Insurance offers a comprehensive suite of advice and solutions for individual and business clients, including life, health, wealth, property & casualty, travel, group benefits, annuities, and reinsurance. RBC Insurance® is one of the largest Canadian bank-owned insurance organizations on a total revenue basis and operates under two business lines: Canadian Insurance and International Insurance. In Canada, it offers life, health, travel, wealth accumulation solutions, and annuities to individuals and businesses, as well as property and casualty insurance through a distribution agreement with Aviva Canada. Its products and services are distributed through multiple channels, including proprietary sales force, digital platforms, and a network of independent brokers and partners. In Canada, many of its competitors specialize in either life and health, wealth, or in property and casualty products. Outside Canada, it operates globally in the reinsurance and retrocession markets offering longevity reinsurance, life retrocession, and reinsurance for creditor life, disability, and critical illness. The global reinsurance market is competitive as there are many participants. Market share is largely held by a small number of reinsurers, with RBC Insurance® continuing to selectively pursue niche opportunities.

Effective the first quarter of 2023, RBC simplified its reporting structure by eliminating the Investor & Treasury Services segment and moving its former businesses to existing segments. RBC moved its Investor Services business to its Wealth Management segment, and its Treasury Services and Transaction Banking businesses to its Capital Markets segment. Effective the fourth quarter of 2023, RBC moved the Investor Services lending business from its Wealth Management segment to its Capital Markets segment.

Capital Markets provides expertise in advisory & origination, sales & trading, lending & financing and transaction banking to corporations, institutional clients, asset managers, private equity firms and governments globally. Its professionals provide clients with the advice, products, and services their businesses need from 60 offices in 16 countries. Its presence extends across North America, the U.K. & Europe, Australia, Asia and other regions. Capital Markets operates two main business lines, Corporate & Investment Banking and Global Markets. In North America, it offers a full suite of products and services which include equity and debt origination and distribution, advisory services, sales & trading, and transaction banking. In Canada, it is a market leader with a strategic presence in all lines of capital markets businesses. In the U.S., where its competitors include large global investment banks, it has a full industry sector coverage and investment banking product range, as well as capabilities in credit, secured lending, municipal finance, fixed income, currencies & commodities, and equities. Outside North America, it has a targeted strategic presence in the U.K. & Europe, Australia, Asia & other markets aligned to its global expertise. In the U.K. & Europe, it offers a diversified set of capabilities in key industry sectors of focus. In Australia and Asia, it competes with global and regional investment banks in targeted areas aligned to its global expertise, including fixed income distribution and currencies trading, secured financing, as well as corporate and investment banking.

Corporate Support consists of Technology & Operations, which provides the technological and operational foundation required to effectively deliver products and services to RBC's clients, Functions, which includes finance, human resources, risk management, internal audit and other functional groups, as well as the Corporate Treasury function. Reported results for Corporate Support mainly reflect enterprise level activities which are not allocated to business segments.

2023 FINANCIAL HIGHLIGHTS

(EXPRESSED IN BAHAMIAN DOLLARS)

	CHANGE 2023/2022	2023	2022	2021	2020	2019
EARNINGS						
Net interest income	-9.0%	$31,650,850	$34,787,947	$35,930,420	$37,670,095	$39,101,626
Non-interest income	0.2%	1,680,240	1,677,119	1,824,755	1,965,510	2,958,202
Total Income	-8.6%	33,331,090	36,465,066	37,755,175	39,635,605	42,059,828
Release of provision for credit losses	-89.5%	(1,778,096)	(16,913,679)	(15,452,569)	16,248,789	6,825,373
Non-interest expense	5.5%	14,017,994	13,283,367	13,972,157	14,185,276	14,408,302
Net Income	-47.4%	21,091,192	40,095,378	39,235,587	9,201,540	20,826,153
Efficiency Ratio	563 bps	42.1%	36.4%	37.0%	35.8%	34.3%
Return on equity	-738 bps	8.0%	15.4%	16.8%	4.2%	9.9%
BALANCE SHEET DATA						
Loans and advances to customers	-2.2%	$608,780,367	$622,161,572	$639,069,944	$656,142,377	$685,328,230
Total Assets	-3.3%	704,708,710	729,099,046	731,614,966	756,759,812	800,049,625
Customer Deposits	-3.1%	271,353,071	280,028,507	324,466,643	379,571,167	464,509,564
Total Equity	-6.9%	254,893,735	273,799,049	248,333,236	218,307,664	217,111,723
COMMON SHARE INFORMATION						
Earnings per share	$(0.71)	$0.79	$1.50	$1.47	$0.35	$0.78
Dividend per share	0.95	1.50	0.55	0.34	0.30	0.20
Book value per share-year-end	(0.71)	9.56	10.27	9.31	8.19	8.14
NUMBER OF:						
Employees		27	27	28	26	25
Automated banking machines		5	5	5	5	5
Branches		4	4	4	4	4

Net Interest Income
Net interest income is comprised of interest earned on loans, mortgages and investment securities, less interest paid on deposits from customers and other financial institutions. Net interest income decreased by 9.0% compared to fiscal year 2022. Lower loan volumes in addition to lower yields on mortgages are the major factor's affecting the bank's core revenue. The bank continues to manage its challenges with respect to new credit origination.

Non-Interest Income
Non-interest income consists of all income not classified as interest income such as service fees, commissions and other bank fees. Non-interest income increased slightly by 0.2% from the previous year.

Release of provision for credit losses
Release of provision for credit losses was $1.8 million representing a decline of 89.5% from the previous year's release of $16.9 million. This decrease is mostly driven by the significant releases of provisions in the previous year which had been built up in response to the expected economic effect of the Covid-19 pandemic. Total allowance for loan losses is 8.5% (2022: 9.2%) of the total loan portfolio and the stage 3 allowance represents 57.0% (2022: 57.6%) of non-performing loans.

Non-Interest Expenses
Non-interest expenses grew by 5.5% from the previous year and is mostly due to an increase in business license fees, staff costs and other group related costs.

The bank continues to actively manage its costs and seek opportunities to improve efficiency.

Net Income
Net income of $21.1 million is lower compared to $40.1 million reported for fiscal 2022. The decrease in net income is due mostly to lower releases of provision for credit losses when compared to fiscal 2022, and to a lesser extent, lower revenues.

Efficiency Ratio
The efficiency ratio is calculated based on the amount of expenses compared to total revenues. The efficiency ratio increased by 563bps due mainly to a decrease in revenues and an increase in non-interest expenses when compared to previous year.

Return on Equity
Return on equity (ROE) is calculated as a function of net income compared to the average total equity of the current and previous year. During the year ROE decreased by 738bps.

Loans and advances to customers
Loans and advances to customers was $608.8 million, a decrease of 2.2% from $622.2 million reported in 2022. This decrease continues to be a result of the bank's challenge with credit origination and non-performing loans which were written off during the year.

Earnings per Share
Earnings per share decreased to $0.79 compared to $1.50 in the previous year and is the result of the decrease in net income. The weighted average number of ordinary shares in issue remained unchanged during the year.

Dividend per Share
At each quarterly meeting, the Board of Directors give careful consideration on delivering a return on the investments to shareholders after considering the bank's overall financial performance and regulatory requirements. Shareholders received dividend payments during the year totalling $1.50 (2022: $0.55) per share.

CHAIRMAN'S REPORT 2023

Chris Ronald
Chairman,
Finance Corporation of Bahamas Limited

Dear Shareholders,

For 70 years, The Finance Corporation of The Bahamas (RBC FINCO) has been making the Bahamian dream of homeownership a reality. Throughout 2023, RBC FINCO has maintained its focus on providing simplified, accessible, and relevant financial solutions, that have enabled our Bahamian clients to achieve homeownership – a significant milestone towards building their financial futures.

This dedication to facilitating client success underscores our enduring purpose: to help our clients thrive and communities prosper, a mission brought to life by the thousands of Bahamians RBC FINCO has assisted throughout its history.

For the fiscal year ended October 31, 2023, RBC FINCO recorded $21.1 million in net income. This represents a 47.4 percent decrease when compared to net income recorded in FY2022. This decrease in net income was mostly driven by lower releases of provisions for credit losses when compared to the prior year, and to a lesser extent, a decrease in revenues.

This past year also saw a 2.2 percent decrease in our loans and advances to customers, amounting to $608.8 million. This reduction is primarily attributed to challenges faced in credit origination and the write-off of non-performing loans. However, we are pleased to report that our strategic efforts to address this decline have made a positive impact.

A key focus has been to empower our Relationship Managers to actively build their portfolios through targeted acquisition activities with developers and realtors. Additionally, we have hosted client advice events and leveraged our network of contacts to generate new business opportunities.

As a result of these initiatives, the declining trend in our loan portfolio has shown signs of stabilization. While there is still work to be done, we are optimistic about the progress made thus far and remain committed to further strengthening our loan portfolio in FY2024.

Notwithstanding the growth and non-performing loans challenges, the Bank continues to maintain a strong capital position well above regulatory guidelines and adequate provisions for any potential negative impact from non-performing loans. We remain profitable, and there are no liquidity issues. Taking these factors into consideration, the Board of Directors declared quarterly dividends totaling $1.50 per share throughout FY2023. The Board reviews the payment of dividends every quarter 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 ultimate beneficial owner, Royal Bank of Canada (RBC), continues to thrive as a strong international financial services institution. Leveraging the strength of the RBC brand, further reinforces the safety and soundness of RBC FINCO.

On behalf of the Board of Directors and the executive team, I extend sincere gratitude to our loyal clientele for their unwavering trust in RBC FINCO. Our commitment to improving our service and operations reflects our dedication to being a Bank for All of You, making it easier for you to engage with us.

I also wish to express appreciation to our employees, whose unwavering dedication drives our achievements. They strive to help our clients achieve their financial goals by providing them with expert guidance. Their ongoing commitment to our clients, each other, and to upholding our RBC values on a daily basis, is pivotal in our ability to excel and positions us for sustainable, long-term growth and success. We are grateful to our Board of Directors for their service and acknowledge their dedication to the highest standards of corporate governance.

RBC FINCO remains committed to serving the Bahamian community and looks forward to continuing to support our clients in their financial journeys in the years to come.

Chris Ronald
Chairman,
Finance Corporation of Bahamas Limited

MANAGING DIRECTOR'S REPORT

DEVERSON WARNER
Managing Director
Finance Corporation of Bahamas Limited

Dear Fellow Shareholders,

Our year was defined by our focus on helping our clients thrive by being the leading provider of long-term homeownership solutions in The Bahamas. Since my first day in this role, I have been impressed by how the Finance Corporation of Bahamas Limited (RBC FINCO) supports our colleagues, clients, and communities to prosper even more so in Fiscal Year 2023.

The continued recovery of the Bahamian economy created an opportunity for RBC FINCO to help more Bahamians look beyond today and focus on the future. In 2023, we successfully provided long-term homeownership solutions to more than 250 clients, furthering our commitment to helping individuals and families achieve their financial goals.

To enhance the overall client experience, we prioritized the development of self-service capabilities, enabling our clients to conduct business with us at their convenience. As a result, over 2,400 clients are now digitally enabled, signalling a positive response to our efforts.

The Bahamas economic recovery supported our 2023 financial performance, as the releases of provision resulted in our net income exceeding plan by $1.4 million. Market competitive pressure continues to impact our net interest margins for our interest rate sensitive business.

We were intentional in our approach to improve responsiveness and "wow" our clients and this is resonating with them as they have taken the time to share words of encouragement and commendations with our team.

Our clients asked us to "make it easier to do business with you" and we listened and responded. RBC FINCO continues to simplify our policy and procedures and have empowered team members to offer more solution options to accelerate revenue and deliver exceptional value to our clients.

As part of our ongoing commitment to provide easier access to our services, we expanded our RBC FINCO mortgage services across New Providence to the following locations:

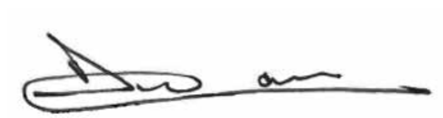
- Cable Beach
- Carmichael at Southwest Plaza
- Palmdale
- Prince Charles at One East Plaza

Our employees are the foundation of our success. We will continue to be an organization that leads the way on skills and career development, diversity and inclusion, and the new world of work because it's our people and culture that will define our future.

We will continue to leverage the global strength of RBC, its international standards, policies and procedures, and best practices through various outsourced agreements to align with expectations of our compliance, anti-money laundering, and operations divisions. This relationship and RBC's management oversight allow for sound risk management and governance practices at RBC FINCO.

RBC FINCO has a proud history in The Bahamas, helping more Bahamians with homeownership solutions and expert advice. By continuously adapting to the changing needs of the market and providing personalized service, RBC FINCO has not only contributed to the prosperity of our individual clients but has also strengthened the social fabric of The Bahamas as a whole.

Thank you to our clients for your trust and business, and to our employees who continue to work hard and remain passionate about our purpose to help clients thrive and communities prosper.



Deverson Warner
Managing Director
Finance Corporation of Bahamas Limited

BOARD OF DIRECTORS

CHRIS RONALD
HEAD, CARIBBEAN BANKING
Finance Corporation of Bahamas Limited

Chris Ronald has been Head of Caribbean Banking since November 2021.

In this role, Chris is responsible for overseeing RBC's business strategy, operations, product offerings, and marketing activities across the region. In addition he helps set the overall strategic direction and vision of RBC in the Caribbean.

Prior to joining Caribbean Banking, Chris served as RBC's Regional President for Atlantic Canada. In that role, he oversaw the sales and market management for the four jurisdictions that make up the Atlantic region. This included setting the direction, developing strategy and managing the overall performance and delivery of RBC's products and services to more than 800,000 personal and business clients in Nova Scotia, New Brunswick, Prince Edward Island, and Newfoundland and Labrador.

Since joining RBC in 1988, Chris has held a wide variety regional and national office positions, with a concentration in Retail Banking, Commercial Banking, Advice (Contact) Centres and Human Resources. Prior to assuming his current role and his role of Regional President for Atlantic Canada, in 2018 Chris was Regional Vice President of Corporate, Commercial and Private Banking for the Caribbean.

DEVERSON WARNER
EXECUTIVE DIRECTOR
Managing Director
Finance Corporation of Bahamas Limited

Deverson Warner is a career Banker with 20 plus years of experience in the industry.

Warner is a proven Senior Sales Leader who has implemented successful sales strategies that win for the team, the client, and RBC in the areas of retail & commercial banking, credit risk recoveries and specialized sales. He has extensive experience in coaching teams through specific activities that achieve significant revenue across multiple lines of business in Caribbean Banking. He is known for his exceptional execution that has delivered results as well as thoughtful leadership that builds engaged teams to achieve success.

In his former role as Director Cash Transformation Caribbean Banking, Deverson led cross-functional teams to evolve how cash was managed in RBC Caribbean Banking operations, while delivering a valued client experience. Deverson holds an MBA in Finance and Accounting from London's University of Liverpool.

LASONYA MISSICK
NON-EXECUTIVE DIRECTOR

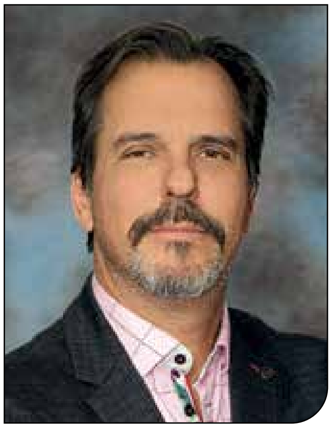
Lasonya Missick is the Managing Director and Head of Personal Banking for RBC Royal Bank (Bahamas) Limited. The Managing Director is the face of the Bank and the leader responsible for all governance and regulatory matters.

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

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

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

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



NICK TOMOVSKI
NON-EXECUTIVE DIRECTOR
Senior Vice President, P&CB
Royal Bank of Canada

Nick Tomovski is Senior Vice President of Finance covering Personal & Commercial Banking, Technology and Operations and Functions at Royal Bank of Canada.

He is responsible for providing financial advisory services to enable and support the Canadian Banking, Caribbean and U.S. Banking businesses, T&O and Functional groups in achieving their strategic initiatives and priorities.

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

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

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

DAVETTE LIGHTBOURNE
INDEPENDENT
NON-EXECUTIVE DIRECTOR
CFO, AML Foods Limited

Davette Lightbourne is a Certified Public Accountant with over 15 plus years of progressive experience in public accounting and listed public companies. Davette began her career locally with a Big 4 Accounting Firm before being seconded to Deloitte LLP in Florida where she served as Audit Manager for a Fortune 200 SEC publicly listed company. In 2016, she returned to The Bahamas and worked as Finance Manager at Aliv where she was instrumental in building the finance team during start-up phase of the Company. She joined AML Foods Limited in 2019 and currently serves as Chief Financial Officer. At AML, Davette is responsible for developing the Company's financial strategies and overseeing financial reporting, budgeting, cash management, and financial planning. Davette is passionate about leveraging data and technology to play a pivotal role in the decision making process and adding efficiencies to organizations.

Lightbourne holds a Bachelor of Commerce (Accounting) degree from Dalhousie University in Nova Scotia, Canada and has attended executive level courses at Harvard Business School and MIT. She is also a member of the Rotary Club of Old Fort.

VERNICE WALKINE

INDEPENDENT NON-EXECUTIVE DIRECTOR
President and CEO, Nassau Airport Development Company

Vernice Walkine joined Vantage Airport Group in 2010 when she took a position with the Nassau Airport Development Company (NAD), as Vice President of Marketing and Communications. She was given the additional responsibility for Commercial Operations in February 2012, and on March 1, 2013 became the President & CEO.

NAD operates the largest airport in The Bahamas, Lynden Pindling International Airport, and has managed its development, the single largest infrastructure project ever undertaken in the history of The Bahamas. Under her leadership, the airport has achieved a number of records for passenger performance and passenger satisfaction.

Prior to joining Vantage, Ms. Walkine achieved more than 30 years of experience and expertise in tourism development and marketing, having had a varied career at the Bahamas Ministry of Tourism, eventually being appointed in 2005 to the highest technical post in the tourism industry, when she became Director General, the first woman to hold that position. Under her leadership the tourism industry achieved a number of firsts, including the first time achieving 5 million visitors in a year.

Ms. Walkine holds a Bachelor of Arts Degree in Foreign Languages from Elmira College, Elmira, NY, and a Master of Business Administration Degree (Cum Laude) from the University of Miami.

ANTHONY A. ROBINSON
INDEPENDENT NON-EXECUTIVE DIRECTOR
Deputy Chairman,
FOCOL Holdings Ltd.

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

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

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

The Bank's Independent Non-Executive Directors for fiscal 2023 were Ross McDonald (resigned April 2023), Teresa Butler (resigned October 2023), Vernice Walkine, Anthony Robinson and Davette Lightbourne. They continue to meet the requirements of independence as stated in the relevant Corporate Governance Guidelines. There were four board meetings held during fiscal 2023.

CORPORATE GOVERNANCE REPORT

Introduction

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

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

Board Appointment / Training Process

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

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

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

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

Board Responsibilities

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

Directors' Independence

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

Director Compensation

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

Committee of the Board of Directors

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

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

Summary of Board Evaluation Results

The Directors conduct a periodic evaluation of the performance and effectiveness of the Board in light of its mandate. In this process, Directors provide their views on whether the Board is functioning effectively, as well as matters as specific as key strategic, operational and risk issues and the effectiveness of the director orientation and education programme. The results of the evaluation are reviewed by the full Board who consider whether any changes to the Board's processes, composition or committee structure appropriate. Based on the 2023 survey results, the Board is operating effectively and in accordance with its mandate.

in our Code. Directors of FINCO must acknowledge each year that they have read and understand the Code, and certify that they are in compliance with it.

Enterprise Risk Management

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

Risk Governance

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

Major Shareholdings and Voting Rights

Name & Address of Shareholder	Class	No. of Units	Value	Percentage
RBC Royal Bank (Bahamas) Limited East Hill Street, Nassau, N.P., The Bahamas	Common	20,000,000	B$4,000,000	75%
Bahamian Public	Common	6,666,670	B$1,333,334	25%

Code of Conduct

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

Risk Appetite

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

Internal Audit

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

Compliance

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

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

Global Compliance does this through:

Compliance Programmes – develop, maintain and communicate policies, processes and controls at enterprise and business levels;

Oversight and Monitoring – oversee and monitor compliance processes within the enterprise to ensure effectiveness, achieve compliance and manage regulatory risk; monitor review findings and resolution;

Reporting – provide reporting to enable senior management and boards/committees to effectively perform their management and oversight responsibilities;

Working Relationships – develop and maintain good working relationships with stakeholders including regulators.

Risk Appetite

The Company's risk appetite is the amount and type of risk that the Company is able and willing to accept in the pursuit of its business objectives. It reflects our self-imposed upper bound to risk taking, and influences our risk management philosophy, conduct, operation style, and resource allocation. The goal in managing risk is to protect the Company from an unacceptable loss or an undesirable outcome with respect to earnings volatility, capital adequacy or liquidity, while supporting and enabling its overall business strategy.

Internal Audit

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

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BOARD OF DIRECTORS OF THE COMPANY

- The Board of Directors establishes the tone from the top, and sets the standards of conduct and champions RBC's values as set out in RBC's Code of Conduct.
- From a Risk Governance perspective, the Board also approves the Company's risk appetite, provides oversight and carries out its risk management mandate primarily by reviewing and approving the credit risk and operational risk reports.
- The Board ensures that appropriate systems and controls are in place for the effective risk management, and that the Company respects and complies with applicable regulatory, corporate, securities and other legal requirements, while remaining current with new/increasing risks applicable to the Company's business environment. From an operational risk perspective the Board monitors the integrity and effectiveness of the Company's internal controls and management information systems.

SENIOR MANAGEMENT OF THE COMPANY

- Actively shape the Company's risk appetite and recommends it for Board approval.
- Visibly support and communicate enterprise risk appetite, ensuring that sufficient resources and expertise are in place to help provide effective oversight of adherence to the enterprise risk appetite.
- Ensure alignment of strategic planning, financial planning, capital planning and risk appetite.
- Seeks to ensure principles, policies, authorities, resources, responsibilities and reporting are in place to support the control infrastructure.

1ST LINE OF DEFENCE

RISK OWNERS

- All employees across our businesses and functional areas
- Accountable for:
  - Identification
  - Assessment
  - Mitigation
  - Monitoring, and
  - Reporting of risk against approved policies and appetite.

2ND LINE OF DEFENCE

RISK OVERSIGHT

RISK MANAGEMENT	GLOBAL COMPLIANCE AND ANTI-MONEY LAUNDERING

- The CRO has direct access to the Risk Committee.
- The Chief Compliance Officer (CCO) and the Chief Anti-Money Laundering Officer (CAMLO) have direct access to the Audit Committee.
- Establishes risk management practices and provides risk guidance
- Provides oversight of the effectiveness of First Line risk management practices.
- Monitors and independently reports on the level of risk against established appetite.

3RD LINE OF DEFENCE

INDEPENDENT ASSURANCE

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

Board of Directors' Annual Certification To The Securities Commission of The Bahamas

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

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

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

d. We are satisfied that we are compliant with RBC's Code of Conduct;

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

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

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

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

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

j. The value of all material benefits and compensation paid to directors collectively did not exceed $2.4 million dollars for the calendar year;

k. The value of non-executive directors' fees and allowances was $54,875 for the calendar year.

This Certificate is in respect of the calendar year 2023.

Deverson Warner

Anthony Robinson

Davette Lightbourne

Lasonya Missick

Vernice Walkine

Nick Tomovski

Christopher Ronald

Dated this 22nd day of January 2024

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) and its subsidiary (collectively "the Group") which comprise the consolidated statement of financial position as at October 31, 2023 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and 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.

DEVERSON WARNER	CHRISTOPHER HANNA
Managing Director	Senior Manager, Finance Northern Caribbean
January 22, 2024	January 22, 2024

FINANCE CORPORATION OF BAHAMAS LIMITED

RBC FINCO 2023 FINANCIAL STATEMENTS

Independent auditors' report

To the Shareholders of Finance Corporation of Bahamas Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Finance Corporation of Bahamas Limited (the Bank) and its subsidiary (together 'the Group') as at October 31, 2023, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at October 31, 2023;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

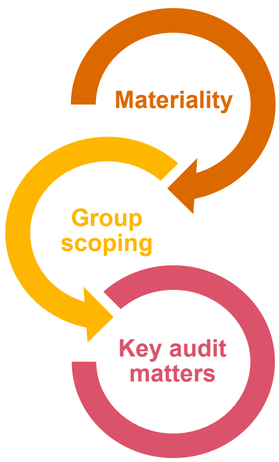
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



- Overall group materiality: $2,548,500, which represents approximately 1% of net assets.

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

- Assumptions used in the Stage 1 and Stage 2 allowance for credit losses loan model in respect of future macroeconomic scenarios, including forward-looking information, may not be reasonable.

Audit scope

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

How we tailored our group audit scope

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

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

Materiality

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

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

Overall Group materiality	$2,548,500
How we determined it	Approximately 1% of net assets
Rationale for the materiality benchmark applied	We chose net assets as the benchmark because, in our view, it is the most stable benchmark against which the performance of the Group is measured by users. We chose approximately 1% which is within a range of acceptable benchmark thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $127,400, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Assumptions used in the Stage 1 and Stage 2 allowance for credit losses loan model in respect of future macroeconomic scenarios, including forward-looking information, may not be reasonable. *Refer to notes 2(c) and 5 to the consolidated financial statements for disclosures of related accounting policies and balances.* Stage 1 and Stage 2 loans and advances to customers of $595 million represent 84% of the Group's total assets at the consolidated statement of financial position date. The Group has recorded an allowance for credit losses (ACL) in the amount of $15.9 million on these loans and advances. Management's determination of the ACL for loans and advances to customers for Stage 1 and Stage 2 loans is a complex calculation which involves a significant number of interrelated inputs and assumptions including internal historical default rates, changes in credit quality and macroeconomic factors. The probability of default and loss given default inputs used to calculate the ACL are modelled based on macroeconomic scenarios. Management considers multiple future macroeconomic scenarios, each of which includes a forecast of relevant macroeconomic variables, designed to capture a range of possible outcomes. The future macroeconomic variables are probability-weighted according to management's expectation of the relative likelihood of the range of outcomes each scenario represents. As a result of the significant volatility in the economic environment in which the Group operates, the Group's ACL has a high degree of uncertainty. The key input surrounding the forward-looking assumptions pertains to the Gross Domestic Product (GDP) rates, which are inherently subjective, and can materially impact the estimate of the Stage 1 and Stage 2 ACL in future periods.	We performed the following procedures, amongst others, over the Stage 1 and Stage 2 allowance for credit losses: • obtained an understanding of management's process to calculate the Stage 1 and Stage 2 ACL; • tested the design and operating effectiveness of certain relevant controls relating to the Stage 1 and Stage 2 ACL, including controls over: o the Allowance Committee's review of the model, macroeconomic forecasts, scenarios and probability weightings, results of model validation and assessment of the final ACL; and o the validation of the ACL model. • on a sample basis, tested the completeness and accuracy of underlying data used in the estimation of the Stage 1 and Stage 2 ACL model by agreeing the details to loan agreements; • with the assistance of our credit modelling specialists, tested the appropriateness of the historical macroeconomic and forward-looking information and related assumptions used in the design of future macroeconomic variables for each forward-looking scenario by comparing these assumptions with relevant external market and industry data; and • performed a sensitivity analysis on economic variables including GDP forecasts. Based on the procedures performed, assumptions used in the Stage 1 and Stage 2 ACL in respect of future macroeconomic scenarios, including forward-looking information, were not unreasonable.

The significant level of judgement required by management to estimate future macroeconomic assumptions and the high degree of estimation uncertainty surrounding the impact that management's forward-looking assumptions have on the ACL resulted in this being a key area of focus.

Other information

Management is responsible for the other information. The other information comprises the RBC FINCO Annual Report 2023 (but does not include the consolidated financial statements and our auditors' report thereon), which is expected to be made available to us after the date of this auditors' report.

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

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

When we read the RBC FINCO Annual Report 2023, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Prince A. Rahming.

PricewaterhouseCoopers

Chartered Accountants
Nassau, Bahamas

January 31, 2024

Consolidated Statement of Financial Position

As at October 31, 2023

Expressed in Bahamian Dollars

	Notes	2023	2022
		$	$
Assets			
Cash and cash equivalents	3	30,301,677	39,501,591
Balance with central bank	4	35,868,688	37,190,298
Loans and advances to customers	5	608,780,367	622,161,572
Investment securities	6	27,450,976	28,075,852
Premises and equipment	7	17,426	66,559
Other assets	8	2,289,576	2,103,174
Total Assets		**704,708,710**	**729,099,046**
Liabilities			
Customer deposits	9	271,353,071	280,028,507
Due to affiliated companies	21	168,889,152	171,983,594
Other liabilities	10	9,572,752	3,287,896
Total Liabilities		**449,814,975**	**455,299,997**
Equity			
Stated capital	12	5,333,334	5,333,334
Share premium		2,552,258	2,552,258
Other components of equity	12	42,681	39,182
Retained earnings		246,965,462	265,874,275
Total Equity		**254,893,735**	**273,799,049**
Total Liabilities and Equity		**704,708,710**	**729,099,046**

On January 22, 2024 the Board of Directors of Finance Corporation of Bahamas Limited authorized these financial statements for issue.

Deverson Warner
Director

Lasonya Missick
Director

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

Consolidated Statement of Comprehensive Income

For the Year Ended October 31, 2023

Expressed in Bahamian Dollars

	Notes	2023	2022
		$	$
Income			
Interest income	14	38,146,653	40,558,389
Interest expense	15	(6,495,803)	(5,770,442)
Net interest income		31,650,850	34,787,947
Non-interest income	16	1,680,240	1,677,119
Total revenue		**33,331,090**	**36,465,066**
Non-interest expenses	17	(14,017,994)	(13,283,367)
Provision for credit losses on FVOCI investments		(18,289)	(23,878)
Release of credit losses on other assets		48	-
Release of credit losses on loans		1,915,713	16,215,544
(Provision)/release for credit losses on securities		(119,376)	722,013
Net income		**21,091,192**	**40,095,378**
Other comprehensive income:			
Items that may be reclassified to net income			
Net gains/(losses) on investments in debt instruments measured at FVOCI		(14,790)	13,172
Provision for expected credit losses on FVOCI investments		18,289	23,931
Total comprehensive income		**21,094,691**	**40,132,481**
Earnings per share (basic and diluted)	**13**	**0.79**	**1.50**

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

Consolidated Statement of Changes in Equity

For the Year Ended October 31, 2023

Expressed in Bahamian Dollars

	Stated Capital $	Share Premium $	Other Components of Equity $	Retained Earnings $	Total $
As at November 1, 2021	5,333,334	2,552,258	2,079	240,445,565	248,333,236
Comprehensive Income					
Net income	-	-	-	40,095,378	40,095,378
Other comprehensive income	-	-	37,103	-	37,103
Total Comprehensive Income	-	-	37,103	40,095,378	40,132,481
Transactions with owners					
Dividends (Note 18)	-	-	-	(14,666,668)	(14,666,668)
Total transactions with owner	-	-	-	(14,666,668)	(14,666,668)
As at October 31, 2022	**5,333,334**	**2,552,258**	**39,182**	**265,874,275**	**273,799,049**
As at November 1, 2022	5,333,334	2,552,258	39,182	265,874,275	273,799,049
Comprehensive Income					
Net income	-	-	-	21,091,192	21,091,192
Other comprehensive income	-	-	3,499	-	3,499
Total Comprehensive Income	-	-	3,499	21,091,192	21,094,691
Transactions with owners					
Dividends (Note 18)	-	-	-	(40,000,005)	(40,000,005)
Total transactions with owner	-	-	-	(40,000,005)	(40,000,005)
As at October 31, 2023	**5,333,334**	**2,552,258**	**42,681**	**246,965,462**	**254,893,735**

Dividends per share (Note 18) $1.50 (2022: $0.55)

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

Consolidated Statement of Cash Flows

For the Year Ended October 31, 2023

Expressed in Bahamian Dollars

	Notes	2023	2022
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		21,091,192	40,095,378
Adjustments for:			
Net release of credit losses on financial instruments		(1,778,096)	(16,913,679)
Depreciation and amortization	7	23,560	33,690
Loss on disposal of premises and equipment		25,573	16,421
		19,362,229	23,231,810
(Increase)/decrease in operating assets:			
Restricted cash balances with central banks		253,760	5,874,378
Loans and advances to customers		15,296,918	33,123,917
Other assets		(186,354)	1,967,007
Increase/(decrease) in operating liabilities:			
Customer deposits		(8,675,436)	(44,438,136)
Due to affiliated companies		105,558	14,431,228
Other liabilities		951,522	(308,158)
Net cash from operating activities		27,108,197	33,882,046
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of premises and equipment	7	-	(25,573)
Purchase of investment securities	6	(6,379,000)	(4,854,500)
Proceeds from maturity of investment securities	6	6,884,500	9,292,200
Net cash from investing activities		505,500	4,412,127
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	18	(37,866,671)	(12,333,335)
Net cash used in financing activities		(37,866,671)	(12,333,335)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(10,252,974)	25,960,838
Effects of fair value changes on cash and cash equivalents		(14,790)	13,172
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		65,543,979	39,569,969
CASH AND CASH EQUIVALENTS, END OF YEAR		55,276,215	65,543,979
Cash and cash equivalents:			
Cash and cash equivalents	3	30,301,677	39,501,591
Unrestricted cash balances with central banks	4	24,974,538	26,042,388
		55,276,215	65,543,979
Supplemental information:			
Interest received		38,366,484	41,747,734
Interest paid		(6,411,003)	(5,935,993)

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

Notes to the Consolidated Financial Statements
October 31, 2023

1. INCORPORATION AND BUSINESS ACTIVITIES

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below. These accounting policies conform, in all material respects, to International Financial Reporting Standards (IFRS). Except where otherwise noted, the same accounting policies have been applied to all periods presented.

a. Basis of preparation

In preparing the Group's consolidated financial statements, management is required to make subjective estimates and assumptions that affect the reported amount of assets, liabilities, net income and related disclosures. Estimates made by management are based on historical experience and other assumptions that are believed to be reasonable. Key sources of estimation uncertainty include: determination of fair value of financial instruments, allowance for credit losses, insurance claims and policy benefit liabilities, pensions and other post-employment benefits, income taxes, goodwill and other intangible assets, and provisions. Accordingly, actual results may differ from these and other estimates thereby impacting the group's future consolidated financial statements. Refer to the relevant accounting policies in this note for details on the Group use of estimates and assumptions.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Notes 2(c), 2(j) and 25.

New standards, amendments and interpretations adopted by the Group

Standards, amendments and interpretations to published standards that became effective for the Group's financial year beginning on November 1, 2023 were either not relevant or not significant to the Group's operations and accordingly did not have a material impact on the Group's accounting policies or consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Basis of preparation (continued)

New, revised and amended standards not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after November 1, 2023. The Group has not early-adopted any of them and therefore they have not been applied in preparing these consolidated financial statements. These standards, amendments and interpretations are not expected to have a material impact on the Group's financial statements.

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 Group has power over an entity when it has existing rights that give it the current ability to direct the activities that most significantly affect the entity's returns (relevant activities). Power may be determined based on voting rights or, in the case of structured entities, other contractual arrangements.

The determination of control is based on the current facts and circumstances and is continuously assessed. In some circumstances, different factors and conditions may indicate that various parties control an entity depending on whether those factors and conditions are assessed in isolation or in totality. Significant judgement is applied in assessing the relevant factors and conditions in totality when determining whether the Group controls an entity. Specifically, judgement is applied in assessing whether the Group has substantive decision-making rights over the relevant activities and whether it is exercising its power as a principal or an agent. The Group consolidates all subsidiaries from the date control is transferred and ceases consolidation when an entity is no longer controlled by it. The Group's consolidation conclusions affect the classification and amount of assets, liabilities, revenues and expenses reported in the consolidated financial statements.

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

c. Financial instruments

Classification and measurement of financial assets

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Classification and measurement of financial assets (continued)

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

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

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

- How the economic activities of the business generate benefits, for example through trading revenue, enhancing yields or other costs and how such economic activities are evaluated and reported to key management personnel;
- The significant risks affecting the performance of the business, for example, market risk, credit risk, or other risks as described in the Risk Management Note 23, and the activities taken to manage those risks;
- Historical and future expectations of sales of the loans and securities managed as part of a business model; and
- The compensation structures for managers of the businesses within the Group, to the extent that these are directly linked to the economic performance of the business model.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Classification and measurement of financial assets (continued)

Investment Securities

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

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

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

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

Fair value option

A financial instrument with a reliably measurable fair value can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The fair value option can be used for financial assets if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing related gains and losses on a different basis (an "accounting mismatch"). The fair value option can be elected for financial liabilities if: (i) the election eliminates an accounting mismatch; (ii) the financial liability is part of a portfolio that is managed on a fair value basis, in accordance with a documented risk management or investment strategy; or (iii) there is an embedded derivative in the financial or non-financial host contract and the derivative is not closely related to the host contract. These instruments cannot be reclassified out of the FVTPL category subsequently.

Financial assets designated as FVTPL are initially recorded at fair value and any unrealized gains or losses arising due to changes in fair value are included in non-interest income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Classification and measurement of financial assets (continued)

Investment Securities (continued)

Financial liabilities designated as FVTPL are initially recorded at fair value and fair value changes attributable to changes in the Group's own credit risk are recorded in OCI. Own credit risk amounts recognized in OCI are not reclassified subsequently to net income. The remaining fair value changes not attributable to changes in the Group's own credit risk are recorded in non-interest income. Upon initial recognition, if the Group determines that presenting the effects of own credit risk changes in OCI would create or enlarge an accounting mismatch in net income, the full fair value change in the Group's debt designated as at FVTPL is recognized in net income. To make that determination, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. Such an expectation is based on an economic relationship between the characteristics of the liability and the characteristics of the other financial instrument. The determination is made at initial recognition and is not reassessed.

To determine the fair value adjustments on its financial liabilities designated as at FVTPL, the Group calculates the present value of the instruments based on the contractual cash flows over the term of the arrangement by using its effective funding rate at the beginning and end of the period.

Loans and advances to customers

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

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

For loans carried at amortized cost, impairment losses are recognized at each statement of financial position date in accordance with the three-stage impairment model outlined in these accounting policies.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Allowance for credit losses

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

Off-statement of financial position items subject to impairment assessment include undrawn loan commitments. The ACL for undrawn credit commitments is included in the ACL for loans and advances to customers. For these products, ACL is disclosed in the notes to the consolidated financial statements.

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

Performing financial assets:

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

Impaired financial assets:

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Allowance for credit losses (continued)

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

An expected credit loss estimate is produced at the loan level. The estimate is based on model that takes into account different segments of the Group's portfolio and forward looking information. To reflect other characteristics that are not already considered through modelling, expert credit judgment can be exercised in determining the final expected credit losses using a range of possible outcomes.

Expected credit losses are discounted using the effective interest rate.

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

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

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

The Group's assessment of significant increases in credit risk is based on factors such as delinquency status and whether or not the account is watch-listed and managed by the special loans group.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Allowance for credit losses (continued)

Assessment of significant increase in credit risk (continued)

If any of the following conditions is met, the instrument is moved from Stage 1 to Stage 2:

1) The instrument is 30 days past due;
2) The account is watch-listed and centrally monitored and managed. This centrally monitored portfolio today remains a mix of accounts which are in default and accounts with minimal or no delinquency. The latter remains within the purview of the specialized management team due to circumstances other than delinquency which marks the account as having a higher risk component;
3) Retail loans receiving business as usual deferrals granted by the Group's collections team;
4) Loans of clients who had a prior default during the last three years; and
5) Increases in the probability of default (PD) at the loan level.

Use of forward-looking information

The PD and LGD inputs used to estimate the Stage 1 and Stage 2 credit loss allowances under the IFRS 9 model are modelled based on macroeconomic scenarios. Each macroeconomic scenario used in the Group's expected credit loss calculation includes a projection of all relevant macroeconomic variables used in the Group's models for a five year period.

Further details on the Group's forward looking assumptions and scenarios as at October 31, 2023 are provided in Note 5.

Scenario Design

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Allowance for credit losses (continued)

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

Credit-impaired financial assets (Stage 3)
Financial assets are assessed for credit-impairment at each consolidated statement of financial position date and more frequently when circumstances warrant further assessment. Evidence of credit-impairment may include indications that the borrower is experiencing significant financial difficulty, probability of bankruptcy or other financial reorganization, as well as a measurable decrease in the estimated future cash flows evidenced by the adverse changes in the payments status of the borrower or economic conditions that correlate with defaults. An asset that is in Stage 3 will move back to Stage 2 when, as at the reporting date, it is no longer considered to be credit-impaired. The asset will migrate back to Stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly from initial recognition, which could occur during the same reporting period as the migration from Stage 3 to Stage 2.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Allowance for credit losses (continued)

Individually assessed loans (Stage 3)
When individually significant loans are identified as impaired, the carrying value of the loan is reduced to its estimated realizable value by recording an individually assessed ACL to cover identified credit losses. The individually assessed ACL reflects the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered, and the impact of time delays in collecting principal and/or interest (time value of money). The estimated realizable value for each individually significant loan is the present value of expected future cash flows discounted using the original effective interest rate for each loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated realizable amount may be determined using observable market prices for comparable loans, the fair value of collateral underlying the loans, and other reasonable and supported methods based on management judgment.

Individually-assessed allowances are established in consideration of a range of possible outcomes, to the extent relevant to the circumstances of the specific borrower being assessed. Assumptions used in estimating expected future cash flows reflect current and expected future economic conditions based on expert credit judgement.

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

Collectively assessed loans (Stage 3)
Loans that are collectively assessed are grouped on the basis of similar risk characteristics, taking into account loan type, geographic location, collateral type, past due status and other relevant factors.

The collectively-assessed ACL reflects: (i) the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered, and (ii) the impact of time delays in collecting principal and/or interest (time value of money).

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Allowance for credit losses (continued)

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

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

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

If a modification of terms does not result in derecognition of the financial asset, the carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows, discounted at the original effective interest rate and a gain or loss is recognized only if material. The financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment, as described above. The financial asset continues to be monitored for significant increases in credit risk and credit-impairment.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Determination of fair value

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

The Group has established policies, procedures and controls for valuation methodologies and techniques to ensure fair value is reasonably estimated. Major valuation processes and controls include, but are not limited to, profit and loss decomposition, independent price verification (IPV) and model validation standards. These control processes are managed by either Finance or Group Risk Management and are independent of the relevant businesses and their trading functions.

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

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

Level 3 inputs are inputs that are unobservable. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available at the measurement date. The availability of inputs for valuation may affect the selection of valuation techniques. The classification of a financial instrument in the hierarchy for disclosure purposes is based upon the lowest level of input that is significant to the measurement of fair value. Where observable prices or inputs are not available, management judgement is required to determine fair values by assessing other relevant sources of information such as historical data, proxy information from similar transactions, and through extrapolation and interpolation techniques.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Determination of fair value (continued)

For more complex or illiquid instruments, significant judgement is required in the determination of the model used, the selection of model inputs, and in some cases, the application of valuation adjustments to the model value or quoted price for inactively traded financial instruments, as the selection of model inputs may be subjective, and the inputs may be unobservable. Unobservable inputs are inherently uncertain as there is little or no market data available from which to determine the level at which the transaction would occur under normal business circumstances. Appropriate parameter uncertainty and market-risk valuation adjustments for such inputs and other model-risk valuation adjustments are assessed in all such instances.

Transaction costs

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

Offsetting financial assets and financial liabilities

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

Derecognition of financial assets

Financial assets are derecognized when the Group's contractual rights to the cash flows from the assets have expired, when the Group retains the rights to receive the cash flows of the assets but assume an obligation to pay those cash flows to a third party subject to certain pass-through requirements or when the Group transfers its contractual rights to receive the cash flows and substantially all of the risk and rewards of the assets have been transferred. When the Group retains substantially all of the risks and rewards of the transferred assets, the transferred assets are not derecognized and are accounted for as secured financing transactions. When the Group neither retains nor transfer substantially all risks and rewards of ownership of the assets, it derecognizes the assets if control over the assets is relinquished. If the Group retains control over the transferred assets, it continues to recognize the transferred assets to the extent of its continuing involvement. Management's judgement is applied in determining whether the contractual rights to the cash flows from the transferred assets have expired or whether the Group retains the rights to receive cash flows on the assets but assume an obligation to pay for those cash flows. The Group derecognizes transferred financial assets if it transfers substantially all the risk and rewards of the ownership in the assets. When assessing whether the Group has transferred substantially all of the risk and rewards of the transferred assets, management considers the entity exposure before and after the transfer with the variability in the amount and timing of the net cash flows of the transferred assets.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

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

d. Foreign currency translation

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

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

e. Customer deposits

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

f. Income and expense recognition

<u>Interest</u>
Interest is recognized in interest income and interest expense in the consolidated statement of comprehensive income for all interest-bearing financial instruments using the effective interest method. The effective interest rate is the rate that discounts estimated future cash flows over the expected life of the financial asset or liability to the net carrying amount upon initial recognition. Judgement is applied in determining the effective interest rate due to uncertainty in the timing and amounts of future cash flows.

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.

<u>Revenue recognition</u>
Revenue is recognized when control of a service transfers to a customer. Service contracts are assessed by taking the following factors into consideration sequentially, which individually will vary based on the facts and circumstances present in a contract with a customer and will require the exercise of management judgement:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Income and expense recognition (continued)

1. Identified all contracts with customers;
2. Identified the separate performance obligations under a contract;
3. Determined the transaction price of the contract;
4. Allocated the transactions price to each of the separate performance obligations; and
5. Recognized the revenue as each performance obligation is satisfied.

The Group adopts the portfolio approach, as an operational expedient, where contracts are assessed as a portfolio as opposed to individually assessed when the characteristics of each contract is similar. The Group reviews the services provided as part of the contract, the contract duration, the terms and conditions for the contract, the amount, form and timing of consideration and the timing of the transfer of the service. Due to the high volume of the Group's contracts that are identical or have similar contractual terms (for example standardized banking agreements with retail customers), the expedient is applied to many of its current revenue streams.

In addition, the Group does not adjust for the effects of a significant financing component for contracts with a 12 months or less expected time difference between when the Group transfer the service to the customer and the receipt of the contract consideration.

The Group expenses incremental costs to obtain a contract if the expected amortization period of the asset otherwise would have been recognized in 12 months or less. Anticipated contract renewals and amendments with the same customer are considered when determining whether the period of benefit, and therefore the period of amortization, is 12 months or less.

Income which falls under the scope of revenue recognition is not netted off against related expense with the exception of credit related fees and commissions. The Group does not incur material costs to obtain contracts with customers such as sales commissions.

<u>Commissions and fees</u>
Commission and fees primarily relate to transactions service fees and commissions and credit related commissions and fees and are recognized based on the applicable service contracts with customers.

Credit fees are primarily earned for arranging syndicated loans and making credit available on undrawn facilities. The timing of the recognition of credit fees varies based on the nature of the services provided. Where services are provided over time, revenue is recognized as the services are provided.

When service fees and other costs are incurred in relation to commissions and fees earned, the Group records these costs on a gross basis in either 'other operating expenses or staff costs' based on its assessment of whether it has primary responsibility to fulfill the contract with the customer and have discretion in establishing the price for the commissions and fees earned, which may require judgment. Other expenses are recognized on the accrual basis.

g. Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and the initial estimate of any disposal costs.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Premises and equipment (Continued)

Depreciation and amortization is calculated principally on the straight-line basis over their estimated useful lives of the assets, which are:

Leasehold improvements	- Straight line lease term plus 1 renewal term
Furniture and other equipment	- Straight line 5 years
Computer equipment & software	- Straight line – 3 to 7 years

Premises and equipment are assessed for indicators of impairment at each reporting period. If there is an indication that an asset may be impaired, an impairment test is performed by comparing the asset's carrying amount to its recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs and test for impairment at the CGU level. An impairment charge is recorded to the extent the recoverable amount of an asset (or CGU), which is the higher of value in use and fair value less costs of disposal, is less than its carrying amount. Value in use is the present value of the future cash flows expected to be derived from the asset (or CGU). Fair value less costs of disposal is the amount obtainable from the sale of the asset (or CGU) in an orderly transaction between market participants, less costs of disposal.

After the recognition of impairment, the depreciation charge is adjusted in future periods to reflect the asset's revised carrying amount. If an impairment is later reversed, the carrying amount of the asset is revised to the lower of the asset's recoverable amount and the carrying amount that would have been determined (net of depreciation) had there been no prior impairment loss. The depreciation charge in future periods is adjusted to reflect the revised carrying amount.

h. 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.

i. Leases

At inception of a contract, the Group assesses whether a contract is or contains a lease. A lease is an agreement whereby the lessor conveys to the lessee the right to obtain substantially all of the economic benefits from, and direct the use of, an identified asset for a period of time in return for consideration in the form of payment or series of payments.

When the Group is the lessee in a lease arrangement, it initially records a right-of-use asset and corresponding lease liability, except for short-term leases and leases of low-value assets. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are unspecialized, common, technologically unsophisticated, widely available, and widely used non-infrastructure assets. For short-term leases and leases of low-value assets, the Group records the lease payments as an operating expense on a straight-line basis over the lease term.

Where the Group is reasonably certain to exercise extension and termination options, they are included in the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted at the Group's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method, recorded in interest expense.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Leases (Continued)

The right-of-use asset is initially measured based on the initial amount of the lease liability, adjusted for lease payments made on or before the commencement date, initial direct costs incurred less any lease incentives received. Costs related to dismantling are capitalized as part of the leasehold improvement asset (rather than the right-of-use-asset of the lease) when the leasehold improvements are separately capitalized.

The right-of-use asset is depreciated to the earlier of the lease term and the useful life, unless ownership will transfer to the Group or the Group is reasonably certain to exercise a purchase option, in which case the useful life of the right-of-use asset is used. The Bank applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and account for any identified impairment loss as described in the premises and equipment accounting policies in the Group's financial statements.

j. Provisions

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, such as an insurer, a separate asset is recognized if it is virtually certain that reimbursement will be received.

k. Stated capital

The Group classifies a financial instrument that the Group issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments issued by the Group are classified as equity instruments when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are included in equity as a deduction from the proceeds. Shares issued for cash are accounted for at the issue price less any transaction costs of the issue.

l. Dividends

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

m. Employee benefits

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. Employee benefits (continued)

Defined benefit plan

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

Defined contribution plan

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

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

n. Taxation

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

o. Segment reporting

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

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

p. Corresponding figures

Corresponding figures shown in Note 4 loan modifications for change to the process and Note 23(a) maximum credit risk by sector, to conform with the current year's presentation.

3. CASH AND CASH EQUIVALENTS

	2023 $	2022 $
Treasury bills	14,416,776	10,983,361
Due from banks	15,884,901	28,518,230
	30,301,677	**39,501,591**

Due from banks are deposits held with other banks on demand or for fixed periods up to three months. Treasury bills have original maturities up to three months. Due from banks are non-interest bearing. Treasury bills earn interest rates ranging from 2.87% to 2.94% (2022: 2.74% to 2.91%).

4. BALANCE WITH CENTRAL BANK

The balance with The Central Bank of The Bahamas is non-interest bearing and includes a mandatory daily average reserve deposit which is not available for use in the Group's daily operations and is based on a ratio to customers' deposits. Fluctuations in balances with central bank is generally due to movement in investment securities and customer deposits denominated in Bahamian dollars.

	2023 $	2022 $
Mandatory reserve	10,894,150	11,147,910
Unrestricted cash balance	24,974,538	26,042,388
	35,868,688	**37,190,298**

5. LOANS AND ADVANCES TO CUSTOMERS

Loans - Net

	2023 $	2022 $
Retail	794,961	690,361
Home equity and other mortgages	132,932,073	147,970,369
Residential mortgages	532,607,990	538,311,964
Government insured mortgages	281,185	337,805
	666,616,209	687,310,499
Allowance for credit losses	(56,633,471)	(63,514,181)
Loan origination fees and cost (net)	(1,202,371)	(1,634,746)
	608,780,367	**622,161,572**

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Loans categorized by performance are as follows:

	2023 $	2022 $
Stage 1	509,476,515	499,742,139
Stage 2	85,722,416	104,660,740
Stage 3	71,417,278	82,907,620
	666,616,209	**687,310,499**

Loans categorized by maturity are as follows:

	2023 $	2022 $
Current (due within one year)	8,566,970	10,745,822
Non-current (due after one year)	658,049,239	676,564,677
	666,616,209	**687,310,499**

Loans and advances classified as stage 3 represent 10.71% (2022: 12.06%) of the total loans and advances portfolio. The allowance for impairment losses represents 8.50% (2022: 9.24%) of the total loans and advances portfolio and the stage 3 allowance represents 57.02% (2022: 57.57%) of the total stage 3 loans.

Allowance for credit losses

Allowance for credit losses consists of the following:

For the year ended October 31, 2023	Balance at beginning of year $	Provision for/ (release of) credit losses $	Net write-offs $	Other $	Balance at end of year $
Retail	53,404	2,311,830	(2,328,641)	(252)	36,341
Mortgages	63,460,777	(4,227,543)	(1,697,187)	(938,917)	56,597,130
	63,514,181	**(1,915,713)**	**(4,025,828)**	**(939,169)**	**56,633,471**
The above includes:					
Undrawn loan commitments	50,261	(5,942)	-	-	44,319

For the year ended October 31, 2022	Balance at beginning of year $	Provision for/ (release of) credit losses $	Net write-offs $	Other $	Balance at end of year $
Retail	221,120	6,238,611	(6,402,548)	(3,779)	53,404
Mortgages	88,720,699	(22,454,155)	(1,243,195)	(1,562,572)	63,460,777
	88,941,819	**(16,215,544)**	**(7,645,743)**	**(1,566,351)**	**63,514,181**
The above includes:					
Undrawn loan commitments	322,159	(271,898)	-	-	50,261

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Allowance for credit losses (continued)

The tables below reconcile the opening and closing allowance for credit losses for loans and commitment by stage. Reconciling items include the following:

- Model Changes: There was no update to the existing model during the year. In the previous year, an update was made to the existing model used to derive an estimate of credit losses. Key data elements were updated to better reflect actual historical behaviours. The impact of this model update is disclosed as a model change in the reconciliation below.
- Transfers between stages: which are presumed to occur before any corresponding remeasurements.
- Purchases and originations: which reflect the newly recognized assets and the related allowance during the period.
- Derecognitions and maturities: which reflect the assets and related allowance derecognized during the period without a credit loss being incurred.
- Remeasurements for allowances: which comprise of the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in the measurement following a transfer between stages; and unwinding of the time value discount due to the passage of time. For gross carrying amounts, this represents additional draws, repayments, and the accrual of interest under the effective interest method.
- Write-offs: represent the closure/ elimination of a loan balance when there is no realistic prospect of recovery.
- Recoveries: are the collection of cash or cash equivalents for a loan balance previously written-off.
- Other: This category includes the unwinding of the impact of time delays in collecting principal and/or interest (time value of money).

For the year ended October 31, 2023				
Allowance for Credit Losses				
	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Balance at beginning of year	3,294,860	12,490,484	47,728,837	63,514,181
Provision for credit losses:				
Model changes	-	-	-	-
Transfers in/(out) to Stage 1	3,469,157	(3,469,157)	-	-
Transfers in/ (out) to Stage 2	(113,742)	6,130,251	(6,016,509)	-
Transfers in/(out) to Stage 3	(49,576)	(1,907,185)	1,956,761	-
Purchases and originations	351,646	-	-	351,646
Derecognitions and maturities	(105,125)	(322,204)	(2,148,381)	(2,575,710)
Remeasurements	(2,909,596)	(947,788)	4,165,735	308,351
Write-offs	-	-	(12,408,992)	(12,408,992)
Recoveries	-	-	8,383,164	8,383,164
Other	-	-	(939,169)	(939,169)
Balance at end of year	**3,937,624**	**11,974,401**	**40,721,446**	**56,633,471**

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Allowance for credit losses (continued)

For the year ended October 31, 2022				
Allowance for Credit Losses				
	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Balance at beginning of year	12,386,200	25,448,290	51,107,329	88,941,819
Provision for credit losses:				
Model changes	(8,312,459)	4,421,263	-	(3,891,196)
Transfers in/(out) to Stage 1	12,274,851	(12,274,851)	-	-
Transfers in/ (out) to Stage 2	(1,468,905)	11,519,123	(10,050,218)	-
Transfers in/(out) to Stage 3	(416,032)	(5,950,705)	6,366,737	-
Purchases and originations	322,081	-	-	322,081
Derecognitions and maturities	(792,118)	(456,652)	(1,614,711)	(2,863,481)
Remeasurements	(10,698,758)	(10,215,984)	11,131,794	(9,782,948)
Write-offs	-	-	(16,189,168)	(16,189,168)
Recoveries	-	-	8,543,425	8,543,425
Other	-	-	(1,566,351)	(1,566,351)
Balance at end of year	3,294,860	12,490,484	47,728,837	63,514,181

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

Key inputs and assumptions:

The measurement of expected credit losses is a complex calculation that involves a number of interrelated inputs and assumptions. The key drivers of changes in expected losses under the IFRS 9 model include the Group's internal historical default rates, changes in credit quality and real GDP growth rate.

The global economy is showing signs of improvement, but the upturn remains weak, as headwinds persist. Weakening growth prospects in some of the major global markets, elevated core inflation, restrictive monetary conditions, and heightened uncertainties particularly from the protracted war in Ukraine and more recently by the slower than expected rebound of the Chinese economy weigh heavily on the global outlook. The Bank's base scenario considers the ongoing recovery of 2023 in The Bahamas and the moderating of real GDP growth rates in 2023-2025 as the economies revert to their steady state. The downside scenarios consider potential recessions with different levels of severity. The upside scenario reflects slightly stronger economic growth than the base scenario.

In arriving at the real GDP growth rates, the Group incorporated external agencies such as the International Monetary Fund (IMF) and Central Bank's projections as well as the actual historic results of GDP growth in The Bahamas.

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Allowance for credit losses (continued)

Key inputs and assumptions:

To assess the reasonableness of the Group's GDP rates, if the Group amended Year 1 of the calendar quarter forecast of GDP growth rates used in the base case model to estimate the allowance for credit losses, the base case allowance for credit losses will move as follows:

- A 100 basis points increase will lower the allowance for credit losses by $527,175 (2022: $271,377).
- A 100 basis points decrease will increase the allowance for credit losses by $539,282 (2022: $311,301).

Further details on the key inputs and assumptions used as at October 31, 2023 are provided in Note 2(c).

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

	As at October 31	
	2023	2022
	$	$
ACL on performing loans (1)		
Carrying Value	15,912,025	15,785,344
Base Scenario	14,373,870	14,286,700

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

Transfers between stages

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

	As at October 31	
	Performing loans (1)	
	2023	2022
	$	$
ACL - all performing loans in Stage 1(1)	4,594,859	3,982,006
Impact of staging	11,317,166	11,803,338
Stage 1 and 2 ACL	15,912,025	15,785,344

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

Staging is based on 30 days past due, centrally managed accounts, retail loans receiving business as usual deferrals granted by the Group, loans of clients who had a prior default during the last three years and increases in probability of default at the loan level.

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Allowance for credit losses (continued)

Key inputs and assumptions:

Loan modifications

Relief provided to customers has been on a case-by-case basis as requested by the customers. In some cases, the original terms of the associated loans are renegotiated or otherwise modified, resulting in changes to the contractual terms of the loans that affect the contractual cash flows. For the year ended October 31, 2023, the amortized cost of stage 2 and stage 3 loans whose contractual terms were modified was $54,238,174 (2022: $11,958,421), resulting in no material modification gains or losses. The terms were not substantially different and as such the original loans were not derecognized.

6. INVESTMENT SECURITIES

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

	2023	2022
	$	$
Bahamas Government Registered Stocks	26,749,300	27,254,800
Locally issued corporate bonds	2,738,400	2,738,400
	29,487,700	29,993,200
Allowance for expected credit losses	(2,036,724)	(1,917,348)
	27,450,976	**28,075,852**

The following table represents the contractual maturities of the carrying values of investment securities held at the end of the year.

	As at October 31, 2023					
	Within 3 months	3 months to 1 year	1 year to 5 years	5 years to 10 years	Over 10 years	Total
	$	$	$	$	$	$
Amortized cost						
Amortized cost	271,500	8,426,100	8,119,000	5,508,000	7,163,100	29,487,700
Fair value	272,450	8,414,466	8,143,422	5,571,024	7,193,552	29,594,914
Total carrying value of investments	271,500	8,426,100	8,119,000	5,508,000	7,163,100	29,487,700

6. INVESTMENT SECURITIES (CONTINUED)

	As at October 31, 2022					
	Within 3 months	3 months to 1 year	1 year to 5 years	5 years to 10 years	Over 10 years	Total
	$	$	$	$	$	$
Amortized cost						
Amortized cost	64,800	6,819,700	10,229,600	5,985,100	6,894,000	29,993,200
Fair value	64,800	6,809,578	10,274,823	6,010,465	6,678,314	29,837,980
Total carrying value of investments	64,800	6,819,700	10,229,600	5,985,100	6,894,000	29,993,200

Investment securities have floating interest rates ranging from 0.125% to 1.625% (2022: 0.125% to 1.625%) above the B$ Prime rate of 4.25% (2022: 4.25%). All investment securities are comprised of level 2 securities in the fair value hierarchy (Note 24).

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

	2023	2022
	$	$
Balance, beginning of year	28,075,852	31,791,539
Purchases	6,379,000	4,854,500
Maturities	(6,884,500)	(9,292,200)
(Increase)/decrease in allowance for credit losses	(119,376)	722,013
Balance, end of year	27,450,976	28,075,852

Allowance for credit losses on investment securities

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

	2023	2022
	$	$
Stage 1	6,379,000	4,854,500
Stage 2	23,108,700	25,138,700
Total securities	29,487,700	29,993,200
Allowance for credit losses	(2,036,724)	(1,917,348)
Securities net of expected credit losses	**27,450,976**	**28,075,852**

6. INVESTMENT SECURITIES (CONTINUED)

Allowance for credit losses on investment securities (continued)

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

- Transfers between stages: which are presumed to occur before any corresponding remeasurement of the allowance.
- Purchases and originations: which reflect the allowance related to assets newly recognized during the period.
- Derecognitions and maturities: which reflect the allowance related to assets derecognized during the period without a credit loss being incurred.
- Remeasurements: which comprise the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in the measurement following a transfer between stages; and unwinding of the time value discount due to the passage of time.
- Write-offs: represent the closure/elimination of a security balance when there is no realistic prospect of recovery.

	For the year ended October 31, 2023			
	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Balance at beginning of year	32,986	1,884,362	-	1,917,348
Provision for credit losses:				
Model changes	-	-	-	-
Purchases and originations	80,849	-	-	80,849
Derecognitions and maturities	-	-	-	-
Remeasurements	(59,087)	97,614	-	38,527
Balance at end of year	**54,748**	**1,981,976**	**-**	**2,036,724**

For the year ended October 31, 2022				
Performing		**Impaired**		
Stage 1	**Stage 2**	**Stage 3**	**Total**	
$ $	**$**	**$**		
Balance at beginning of year	74,387	2,564,974	-	2,639,361
Provision for credit losses:				
Model changes	-	-	-	-
Purchases and originations	54,549	-	-	54,549
Derecognitions and maturities	(41,678)	40,549	-	(1,129)
Remeasurements	(54,272)	(721,161)	-	(775,433)
Balance at end of year	**32,986**	**1,884,362**	**-**	**1,917,348**

There were no transfers between stages or write-offs during the year. Allowance for credit losses for securities at FVOCI was $47,728 (2022: $29,440).

7. PREMISES AND EQUIPMENT

	Leasehold Improvements $	Furniture & Other Equipment $	Computer Equipment & Software $	Total $
Year Ended				
October 31, 2023				
Opening net book value	-	-	66,559	66,559
Disposal	-	-	(25,573)	(25,573)
Depreciation charge	-	-	(23,560)	(23,560)
Closing net book value	-	-	**17,426**	**17,426**
At October 31, 2023				
Cost	105,007	-	247,933	352,940
Accumulated depreciation	(105,007)	-	(230,507)	(335,514)
Net book value	-	-	**17,426**	**17,426**

	Furniture & Leasehold Improvements $	Computer Other Equipment $	Equipment & Software $	Total $
Year Ended				
October 31, 2022				
Opening net book value	746	18,066	72,285	91,097
Additions	-	-	25,573	25,573
Disposal	(723)	(15,698)	-	(16,421)
Depreciation charge	(23)	(2,368)	(31,299)	(33,690)
Closing net book value	-	-	**66,559**	**66,559**
At October 31, 2022				
Cost	105,007	-	273,506	378,513
Accumulated depreciation	(105,007)	-	(206,947)	(311,954)
Net Book value	-	-	**66,559**	**66,559**

Computer equipment and software includes computer software with a net book value of $12,603 (2022: $56,168) which is an intangible asset. During the year, the Group capitalized computer software amounting to $Nil (2022: $25,573) and disposed of $25,573 (2022: $1,320,851) of computer equipment that were fully depreciated.

8. OTHER ASSETS

	2023 $	2022 $
Accounts receivable and other	16,372	27,805
Accrued interest receivable	1,831,073	2,050,904
In-transit	442,131	24,465
	2,289,576	**2,103,174**

9. CUSTOMER DEPOSITS

	2023 $	2022 $
Term deposits	170,262,902	180,216,474
Savings deposits	85,165,877	87,912,532
Demand deposits	15,924,292	11,899,501
	271,353,071	**280,028,507**

Deposits categorized by customer type are as follows:

	2023 $	2022 $
Personal	192,064,057	190,203,940
Non-Personal	79,289,014	89,824,567
	271,353,071	**280,028,507**

Deposits categorized by maturity are as follows:

	2023 $	2022 $
Current (due within one year)	271,333,204	280,026,507
Non-current (due after one year)	19,867	2,000
	271,353,071	**280,028,507**

Deposits carry fixed interest rates ranging from 0.00% to 3.15% (2022: 0.00% to 2.50%) per annum, but the fixed interest rates are determined based on variable market rates and can be adjusted based on changes in market rates.

10. OTHER LIABILITIES

	2023 $	2022 $
Accrual and payables	6,692,773	1,389,842
Interest payable	411,033	361,489
Staff related liabilities	182,708	139,156
In-transit and other	2,286,238	1,397,409
	9,572,752	**3,287,896**

11. PENSION PLANS

Employees of the Group participate in a defined benefit pension plan of Royal Bank of Canada (the Plan). Employees become eligible for membership after completing a probationary period on a contributory or non-contributory basis. The Plan provides pensions based on years of service, contribution to the Plan and average earnings at retirement. The Plan also covers a portion of the current medical insurance premiums for retirees. RBC funds the Plan in accordance with actuarially determined amounts required to satisfy employee benefit entitlements under current pension regulations. The most recent actuarial valuation performed was completed on January 1, 2023 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:

	2023	2022
Discount rate	5.60%	4.55%
Expected return on plan assets	6.16%	5.10%
Rate of increase in future compensation	1.00% - 6.50%	1.00% - 6.50%

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.

Royal Bank of Canada charges the Group for its share of the amount of funding required in the Plan. This cost is recognized as an expense in the consolidated statement of comprehensive income after which no further obligation is required of the Group. During the year, the Group's pension expenses arising from the Plan was $713,498 (2022: $670,115) and the defined contribution plan was $18,747 (2022: $19,507).

12. STATED CAPITAL & RESERVES

Stated capital consist of the following:

	2023	2022
	$	$
27,500,000 common shares at par value B$0.20		
Issued and fully paid: 26,666,670 common shares	**5,333,334**	**5,333,334**

Other components of equity comprise:

	Revaluation Reserve	Expected Credit Losses (FVOCI)	Total
	$	$	$
Year Ended October 31, 2023			
Balance at beginning of year	9,742	29,440	39,182
Allowance for credit losses FVOCI	-	18,289	18,289
Net change in fair value	(14,790)	-	(14,790)
Balance at end of year	**(5,048)**	**47,729**	**42,681**

12. STATED CAPITAL & RESERVES (CONTINUED)

	Revaluation Reserve $	Expected Credit Losses (FVOCI) $	Total $
Year Ended October 31, 2022			
Balance at beginning of year	(3,430)	5,509	2,079
Allowance for credit losses FVOCI	-	23,931	23,931
Net change in fair value	13,172	-	13,172
Balance at end of year	**9,742**	**29,440**	**39,182**

13. 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.

	2023 $	2022 $
Total earnings for the year attributable to the equity shareholders	21,091,192	40,095,378
Weighted average number of ordinary shares in issue	26,666,670	26,666,670
Basic and diluted earnings per share	0.79	1.50

14. INTEREST INCOME

	2023 $	2022 $
Loans and advances to customers	36,481,386	38,919,820
Investment securities	1,665,267	1,638,569
	38,146,653	**40,558,389**

Included in interest income is interest attributable to the time value of money component of non-performing loans of $1,670,171 (2022: $2,066,158).

15. INTEREST EXPENSE

	2023 $	2022 $
Customer deposits	1,738,784	1,402,483
Due to affiliated companies	4,757,019	4,367,959
	6,495,803	**5,770,442**

16. NON-INTEREST INCOME

The Group derives revenue over time and at a point in time within the following categories:

	2023 $	2022 $
Non-interest income over time:		
Transaction service fees and commission	99,065	94,072
Non-interest income at a point in time:		
Foreign exchange earnings	3,845	(4,482)
Other service charges and fees	1,577,330	1,612,168
Loss on disposal of fixed assets	-	(16,421)
	1,581,175	1,591,265
Loss on redemption of FVOCI investments	-	(8,218)
	1,680,240	**1,677,119**

17. NON-INTEREST EXPENSES

	2023 $	2022 $
Salaries and staff benefits	2,039,395	1,812,356
Operating lease rentals	389,849	389,849
Premises and equipment expenses excluding operating lease rentals	53,455	83,933
Depreciation and amortization	23,560	33,690
Business and miscellaneous fees	4,527,412	4,012,949
Deposit insurance premium	152,947	177,188
Professional fees	527,740	605,580
Management and internal fees	6,052,677	5,949,172
Other operating expense	250,959	218,650
	14,017,994	**13,283,367**

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 $152,947 (2022: $177,188) into the fund.

18. DIVIDENDS

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

	Cents per Share	Amount
Declaration Date		**$**
January 13, 2023	79	21,066,669
April 25, 2023	23	6,133,334
July 13, 2023	24	6,400,001
October 19, 2023	24	6,400,001
	150	40,000,005

Dividends of $0.55 per share were declared during the fiscal year ended 2022. Dividends amounting to $6,400,001 (2022: $4,266,667) were payable at year end.

19. CONTINGENT LIABILITIES

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

20. CREDIT COMMITMENTS

These represent the undrawn credit facilities for which the Group is potentially liable at year end. These include undrawn facilities on loans and overdrafts. These amounts are not reflected in the consolidated statement of financial position.

The following table breaks down the Group's main credit exposure of credit commitments as categorized by industry sectors of counterparties:

Gross maximum exposure	**2023**	**2022**
	$	**$**
Personal	7,550,121	2,779,656
Other	1,000	-
	7,551,121	**2,779,656**

21. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties include the immediate parent and ultimate parent company, Royal Bank of Canada, associated companies, key management personnel, the Board of Directors (Directors), close family members of key management personnel and Directors, and entities which are, directly or indirectly, controlled by, jointly controlled by or significantly influenced by key management personnel, Directors or their close family members.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly. They include the senior executives called the Operating Committee (OC) and Executive Management Committee (EMC). The OC and EMC are comprised of the Head of Caribbean Banking and those individuals that report directly to him, including the Chief Financial Officer, Head of Human Resources Officer, Chief Risk Officer, and heads of business and functional units. The OC is ultimately responsible for all material decisions. The OC is also responsible for establishing the overall strategic direction of the Bank and, in that regard, sets global parameters for the Bank within which the board of directors and management exercise their respective discretion to make decisions concerning the strategic direction and day-to-day management.

These consolidated financial statements include the following balances and transactions with related parties not otherwise disclosed in these consolidated financial statements:

The Group has technical service and license agreements with its Immediate Parent. During the year $5,612,479 (2022: $5,600,689) was expensed in reference to these agreements and is included in general and administrative expense in the consolidated statement of comprehensive income. The Group also paid for various technical and back-office services to other affiliated entities $829,047 (2022: $738,332) for services rendered. The Group continues to pursue opportunities for outsourcing with related parties to improve operational efficiency.

Nostro and clearing accounts are maintained with the Immediate Parent, which acts as a clearing agent for the Group. These balances are included in cash and cash equivalents and was $15,552,177 (2022: $28,172,178). These deposits are non-interest bearing and are held as a part of the Group's liquidity reserve requirement.

Included in due to affiliated companies are balances that are medium term lending arrangements with terms up to three years and bearing interest at effective rates of 2.27% and 3.15% (2022: 1.80% and 2.30%).

21. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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

	2023	2022
	$	$
Cash and cash equivalent		
Immediate parent	15,552,177	28,172,178
Loans and advances to customers:		
Directors and key management personnel	-	-
Customers' deposits:		
Directors and key management personnel	2,893,324	2,830,764
Due to affiliated companies		
Immediate parent	168,135,944	171,300,690
Other related parties	753,208	682,904
Interest income		
Directors and key management personnel	-	-
Non-interest expense		
Other related parties	6,442,526	6,339,022
Interest expense		
Directors and key management personnel	15,591	7,849
Staff costs		
Salaries and other short term benefits	179,796	195,140

22. CATEGORIZATION OF FINANCIAL ASSETS AND LIABILITIES

Consolidated statement of financial position

	2023	2022
	$	$
Assets		
Financial assets at fair value through other comprehensive income		
Cash and cash equivalents	14,416,776	10,983,361
Financial assets at amortized cost:		
Cash and cash equivalents	15,884,901	28,518,230
Balance with central banks	35,868,688	37,190,298
Loans and advances to customers	608,780,367	622,161,572
Investment securities	27,450,976	28,075,852
Other assets	1,494,333	1,444,377
Total financial assets	**703,896,041**	**728,373,690**
Liabilities		
Financial liabilities at amortized cost:		
Customer deposits	271,353,071	280,028,507
Due to affiliated companies	168,889,152	171,983,594
Other liabilities	9,572,752	3,287,896
Total financial liabilities	**449,814,975**	**455,299,997**

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring subject to risk limits and other controls. This 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 Board of Directors is responsible for providing oversight over the management of risks. The OC is responsible for managing and monitoring risks.

Operating Committee (OC)

The OC is responsible for the overall risk management approach and for approving the risk strategies and principles. The main risks arising from the Group's financial instruments are credit risk, interest and market risk, liquidity risk and operational risk.

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Risk Management Unit

A centralized Risk Management Unit 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 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.

Group Asset and Liability Committee (ALCO)

The RBC ALCO provides oversight and monitoring of the financial resources of operating entities. The committee's mandate includes the recommendation of policies covering investments, capital, funding and liquidity and market risk to the OC and the Board, and the monitoring of compliance with risk policies and limits in the areas of credit risk and market risk.

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 ultimate 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 OC, the ALCO, and head of each business unit. The reports include but are not limited to aggregate credit exposure, open currency positions, liquidity ratios and risk profile changes. On a quarterly basis, senior management assesses the appropriateness of the allowance for credit losses.

For all levels throughout the RBC Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business units have access to necessary and up-to-date information.

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 which are 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 predominately comprise debt securities issued by the Government of the Commonwealth of The Bahamas.

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

a. Credit risk (Continued)

Credit risk rating

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral reviews. The Group has stringent lending criteria which include conservative debt service coverage, loan to value ratios and stability of earnings. These exposures are continuously monitored to identify any change in the credit worthiness of the borrower. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

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

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

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.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its periodic review of loan accounts in arrears.

Credit-related commitments

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

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

a. Credit risk (continued)

Maximum exposure to credit risk

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

Maximum Credit Exposure On & Off Balance Sheet

	2023 $	2022 $
On statement of financial position		
Due from banks	15,884,901	28,518,230
Treasury bills	14,416,776	10,983,361
Balance with central banks	35,868,688	37,190,298
Loans and advances to customers	666,616,209	687,310,499
Investment securities	29,487,700	29,993,200
Other assets	1,494,333	1,444,377
	763,768,607	**795,439,965**
Off statement of financial position		
Credit commitments	7,551,121	2,779,656
Total credit risk exposure	**771,319,728**	**798,219,621**

The above table represents a worst-case scenario of credit risk exposure to the Group without taking account of any collateral held or other credit enhancements attached.

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 following table shows the Group's maximum on balance sheet credit exposure categorized by industry sectors:

Credit EXPOSURE by Sector:

	2023 $	2022 $
Personal	664,143,567	684,598,683
Financial Services	51,753,589	65,708,528
Tourism	159,148	165,937
Government	43,904,476	40,976,561
Other	3,807,827	3,990,256
	763,768,607	**795,439,965**

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

a. Credit risk (continued)

Concentrations of financial assets (continued)

Concentration of risk is managed by client/counterparty and by industry sector. The maximum credit exposure to any client or counterparty as at the date of the consolidated statement of financial position was $41,541,759 (2022: $38,560,374) before taking account of collateral or other credit enhancements.

Renegotiated loans and advances that would otherwise be past due but not impaired or impaired totaled $148,673,201 (2022: $150,834,271).

Credit quality by class of financial assets

	Stage 1 $	Stage 2 $	Stage 3 $	Total $
As at October 31, 2023				
Treasury bills	14,416,776	-	-	14,416,776
	14,416,776	**-**	**-**	**14,416,776**
Loans and advances to customers:				
Personal loans	510,015	284,545	401	794,961
Mortgages	508,966,500	85,437,871	71,416,877	665,821,248
Loans and advances to customers (gross)	**509,476,515**	**85,722,416**	**71,417,278**	**666,616,209**
Investment securities:				
Government	6,379,000	20,370,300	-	26,749,300
Corporate Bonds	-	2,738,400	-	2,738,400
Investment securities (gross)	**6,379,000**	**23,108,700**	**-**	**29,487,700**
Total	**530,272,291**	**108,831,116**	**71,417,278**	**710,520,685**

	Stage 1 $	Stage 2 $	Stage 3 $	Total $
As at October 31, 2022				
Treasury bills	10,983,361	-	-	10,983,361
	10,983,361	**-**	**-**	**10,983,361**
Loans and advances to customers:				
Personal loans	252,401	437,960	-	690,361
Mortgages	499,489,738	104,222,780	82,907,620	686,620,138
Loans and advances to customers (gross)	**499,742,139**	**104,660,740**	**82,907,620**	**687,310,499**
Investment securities:				
Government	4,842,364	22,412,436	-	27,254,800
Corporate Bonds	-	2,738,400	-	2,738,400
Investment securities (gross)	**4,842,364**	**25,150,836**	**-**	**29,993,200**
Total	**515,567,864**	**129,811,576**	**82,907,620**	**728,287,060**

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

a. Credit risk (continued)

Credit quality by class of financial assets (continued)

For those exposures that are stage 2 the majority are rated between standard (good) to excellent which is high grade.

Repossessed collateral

Repossessed collateral is sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Collateral is repossessed when the Group enforces its rights of the sale agreements over the collateral as a result of the counter-parties failure to honor their obligations to the Group. The Group's sales agreements enables the Group to commence Power of Sale proceedings where sale of the collateral is attempted first by public auction, and if unsuccessful, then through private treaty as a second option. At the beginning of the Power of Sale proceedings the Group obtains an appraisal of the collateral to certify the updated market value.

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

Repossessed Collateral

	2023 $	2022 $
Land	13,917,700	13,544,359
Building	200,963,793	126,905,333
	214,881,493	**140,449,692**

b. Liquidity risk

Liquidity and funding risk (Liquidity risk) is the risk that the Group may be unable to generate sufficient cash or its equivalents in a timely and cost effective manner to meet the Group's commitments as they come due. Liquidity risk arises from mismatches in the timing and value of cash flows. The Group's liquidity profile is structured to ensure that the Bank has sufficient liquidity to satisfy current and prospective commitments in both normal and stressed conditions. To achieve this goal, the Group operates under a comprehensive Liquidity Risk Management Framework (LRMF) that includes Liquidity Risk Policy (LRP), Pledging Policy (PP) and Contingency Plan. The LRMF, LRP and PP are all addendums to the Enterprise and will identify changes within the Caribbean. The Liquidity Contingency Plan is intended to provide communication protocols and forums to give consideration to and support implementation of a predetermined suite of liquidity & funding options to effectively manage, anticipate and address increasing funding risks generated by stress events.

These policies are supported by management limits and authorities that govern the measurement and management of liquidity.

The Group's liquidity management process is carried out by the Treasury department of each business unit and monitored by Caribbean Treasury and Group ALCO. Liquidity risk is measured monthly via internally defined Net Cash Flow. For example, within the time buckets over 30 and 60 days assets and liabilities are accounted for as follows: assets are haircut as per enterprise haircut grid whilst liabilities

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

b. Liquidity risk (continued)

are run off within the specific time bucket. Liabilities are assigned run-off rates based on the results of the core assumptions methodology. For example, government bonds generally can be quickly and easily converted to cash without significant loss of value regardless of their contractual maturity. Similarly, while relationship-based deposits contractually can be withdrawn immediately, in practice, these balances can be relatively stable sources of funding depending on several factors, such as the nature of the client and their intended use. Risk methodologies and underlying assumptions are periodically reviewed and validated to ensure their alignment with the Group's operating environment, expected economic and market conditions, regulatory requirements and generally accepted industry practices. To manage liquidity risk within the Group's liquidity risk appetite, limits are set in addition to monthly stress under idiosyncratic, systemic and combined scenarios.

Stress tests, which include scenario analysis, measure the Group's prospective exposure to idiosyncratic, systemic and combined stress events over a period of several weeks. The contingency liquidity risk planning process identifies contingent funding needs and sources, and as a result, informs requirements for the Group's pool of unencumbered liquid asset portfolios. The Group's unencumbered liquid asset portfolios consist of diversified, highly rated and liquid marketable securities and unencumbered cash held at central bank's and deposits held with other financial institutions. These portfolios are subject to minimum asset quality levels and, as appropriate, other eligibility guidelines (e.g., maturity, and eligibility for central bank advances) to maximize ready access to additional cash should it be required, when added to other unencumbered liquid assets that the Group holds contribute to the Bank's liquidity reserve.

The Group's liquidity risk measurement and control activities are divided into three categories as follows:

Structural (longer-term) liquidity risk
To guide the Group's secured and unsecured wholesale term funding activities, it employs an Internal Liquidity Metric (ILM) to manage and control the structural alignment between long-term assets and longer-term funding sources from core deposits.

Tactical (shorter-term) liquidity risk
To address potential immediate cash flows risks in times of stress, the Group uses short-term net cash flow limits to control risk of material units, subsidiaries and currencies and perform stress testing assessments. Net cash flow positions are determined by applying results of core assumptions methodology i.e. internally-derived risk assumptions and parameters to known and anticipated cash flows for all material unencumbered assets, liabilities and off-balance sheet activities. Encumbered assets are not considered a source of available liquidity.

Contingency liquidity risk
Contingency liquidity risk planning assesses the impact of sudden stress events, and the Group's planned responses. The Group's Liquidity Contingency Plan (LCP) maintained and administered by Caribbean Treasury, has been developed to guide its potential responses to liquidity crises. The contingency liquidity risk planning process identifies contingent funding needs and sources under various stress scenarios, and as result informs requirements for the Bank's earmarked unencumbered liquid asset portfolios.

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

b. Liquidity risk (continued)

The amounts disclosed in the following table are the contractual discounted cash flows of all non-derivative financial assets and financial liabilities and excludes any projected interest on loans, securities or deposits. Cash flows related to gross loans are disclosed based on number of days in each period.

	Up to 3 months $	Over 3 to 6 months $	Over 6 to 12 months $	Over 1 to 5 years $	Over 5 years $	Total $
At October 31, 2023						
Assets:						
Cash and cash equivalents	30,301,677	-	-	-	-	30,301,677
Balance with central banks	35,868,688	-	-	-	-	35,868,688
Loans and advances to customers	19,027,601	15,167,533	28,580,920	197,463,609	348,540,704	608,780,367
Investment securities	27,450,976	-	-	-	-	27,450,976
Other assets	1,494,333	-	-	-	-	1,494,333
Total financial assets	**114,143,275**	**15,167,533**	**28,580,920**	**197,463,609**	**348,540,704**	**703,896,041**
Liabilities:						
Customer deposits	175,636,882	25,743,024	69,953,298	19,867	-	271,353,071
Due to affiliated companies	889,152	48,000,000	80,000,000	40,000,000	-	168,889,152
Other liabilities	9,572,752	-	-	-	-	9,572,752
Total financial liabilities	**186,098,786**	**73,743,024**	**149,953,298**	**40,019,867**	**-**	**449,814,975**
Liquidity gap	**(71,955,511)**	**(58,575,491)**	**(121,372,378)**	**157,443,742**	**348,540,704**	
Cumulative gap	**(71,955,511)**	**(130,531,002)**	**(251,903,380)**	**(94,459,638)**	**254,081,066**	

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

b. Liquidity risk (continued)

	Up to 3 6 months	Over 3 to 12 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Total
	$	$	$	$	$	$
At October 31, 2022						
Assets:						
Cash and cash equivalents	39,501,591	-	-	-	-	39,501,591
Balance with central banks	37,190,298	-	-	-	-	37,190,298
Loans and advances to customers	21,378,024	15,703,721	29,965,444	204,023,528	351,090,855	622,161,572
Investment securities	(1,852,548)	4,854,500	1,965,200	10,229,600	12,879,100	28,075,852
Other assets	1,444,377	-	-	-	-	1,444,377
Total financial assets	**97,661,742**	**20,558,221**	**31,930,644**	**214,253,128**	**363,969,955**	**728,373,690**
Liabilities:						
Customer deposits	187,396,621	27,725,241	64,904,645	2,000	-	280,028,507
Due to affiliated companies	3,983,594	40,000,000	80,000,000	48,000,000	-	171,983,594
Other liabilities	3,287,896	-	-	-	-	3,287,896
Total financial liabilities	**194,668,111**	**67,725,241**	**144,904,645**	**48,002,000**	**-**	**455,299,997**
Liquidity gap	**(97,006,369)**	**(47,167,020)**	**(112,974,001)**	**166,251,128**	**363,969,955**	
Cumulative gap	**(97,006,369)**	**(144,173,389)**	**(257,147,390)**	**(90,896,262)**	**273,073,693**	

Contingent liabilities and commitments

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 6 months	Over 3 to 12 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Total
	$	$	$	$	$	$
At October 31, 2023						
Credit commitments	834,951	489,150	6,227,020	-	-	7,551,121
Total	**834,951**	**489,150**	**6,227,020**	**-**	**-**	**7,551,121**
At October 31, 2022						
Credit commitments	1,084,930	97,948	1,586,237	-	10,541	2,779,656
Total	**1,084,930**	**97,948**	**1,586,237**	**-**	**10,541**	**2,779,656**

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

b. Liquidity risk (continued)

The following table provides remaining contractual maturity analysis of the Bank's financial liabilities. The amounts disclosed in the following table are the contractual undiscounted cash flows of all financial liabilities (e.g., par value or amount payable upon maturity). The amounts do not reconcile directly with those in the statement of financial position as the table incorporates only cash flows relating to payments at maturity and do not recognize premiums, discounts or mark-to-market adjustments.

	Due on Demand $	Up to one Year $	One to five years $	Over five years $	Total $
At October 31, 2023					
Liabilities:					
Customer deposits	101,090,169	171,643,860	19,887	-	272,753,916
Due to affiliated companies	348,209	133,802,608	41,818,488	-	175,969,305
Other liabilities	-	9,572,752	-	-	9,572,752
Total liabilities	**101,438,378**	**315,019,220**	**41,838,375**	**-**	**458,295,973**

	Due on Demand $	Up to one Year $	One to five years $	Over five years $	Total $
At October 31, 2022					
Liabilities:					
Customer deposits	99,812,033	181,358,295	2,002	-	281,172,330
Due to affiliated companies	3,477,904	123,326,301	51,275,704	-	178,079,909
Other liabilities	-	3,287,896	-	-	3,287,896
Total liabilities	**103,289,937**	**307,972,492**	**51,277,706**	**-**	**462,540,135**

c. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility or market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group does not hold financial assets and liabilities sensitive to changes in market variables aside from foreign exchange and interest rates. As such, the Bank is not deemed to have significant other price risk exposures.

The major measurement technique used by the Group to measure and control market risk is stress testing. The Bank applies stress test to provide an indication of the potential size of losses that could arise in extreme conditions.

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

d. Currency risk

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

e. Interest rate risk

To monitor and control interest rate risk in the banking book (IRRBB), the Group assesses two primary metrics, Net Interest Income (NII) risk and Economic Value of Equity (EVE) risk, under a range of market shocks, scenarios, and time horizons. Market scenarios include currency-specific parallel and non-parallel yield curve changes, interest rate volatility shocks and interest rate scenarios prescribed by regulators. IRRBB – as defined by the Basel Committee – is the "current or prospective risk to a bank's capital and earnings, arising from adverse movements in interest rates that affect the bank's banking book positions." Insufficient management, measurement and control of IRRBB can pose a significant threat to the Bank's capital base and/or its future earnings.

In measuring NII risk, detailed banking book balance sheets are stressed to determine the impact of changes in interest rates on accrual or projected earnings. Assets, liabilities and off-balance sheet positions are simulated over a 1 year time horizon. The simulations incorporate maturities, renewals and new originations along with prepayment behaviour. Product pricing and volumes are forecasted based on past experience to determine response expectations for a given market shock scenario.

Value risk management focuses on managing the exposure of the institution's economic value of equity (EVE) to interest rate changes. EVE is measured as the difference in net present value of assets minus liabilities plus the net value of off-balance sheet items. In measuring EVE risk, scenario valuation techniques are applied to detailed spot position data.

A number of assumptions affecting cash flows, product re-pricing and the administration of rates underlie the models used to measure NII and EVE risk. All assumptions are derived empirically based on historical client behaviour and product pricing with consideration of possible forward-looking changes. All models and assumptions used to measure IRRBB are subject to independent oversight by Group Risk Management (GRM). The Board approves the risk appetite for IRRBB, and the Asset-Liability Committee (ALCO), along with GRM, provides ongoing governance of IRRBB measurement and management through risk policies, limits, operating standards and other controls. IRRBB reports are reviewed monthly by GRM, ALCO, and quarterly by the Board.

The following table reflects the results of an immediate and sustained 100 bps increase or decrease in interest rates on projected 12-month NII and EVE, assuming no subsequent hedging. Rate floors are applied within the declining rates scenarios which prevent EVE valuation and NII simulation rate levels from falling below a minimum average level of negative 25 bps for hard currencies and 0 bps for local currencies.

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

e. Interest rate risk (continued)

	EVE Risk		NII Risk	
	Bahamian Dollar $'000s	Foreign Currency $'000s	Bahamian Dollar $'000s	Foreign Currency $'000s
At October 31, 2023				
100 bps increases in rates	1,308	Nil	1,277	Nil
100 bps decreases in rates	(1,334)	Nil	(1,277)	Nil

	EVE Risk		NII Risk	
	Bahamian Dollar $'000s	Foreign Currency $'000s	Bahamian Dollar $'000s	Foreign Currency $'000s
At October 31, 2022				
100 bps increases in rates	1,349	Nil	1,275	Nil
100 bps decreases in rates	(1,377)	Nil	(1,275)	Nil

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.

	Up to 1 year $	Over 1 to 5 years $	Over 5 years $	Non-Interest Rate Sensitive $	Total $
At October 31, 2023					
Assets:					
Cash and cash equivalents	-	-	-	30,301,677	30,301,677
Balance with central banks	-	-	-	35,868,688	35,868,688
Loans and advances to customers	581,179,777	-	-	27,600,590	608,780,367
Investment securities	27,450,976	-	-	-	27,450,976
Other assets	-	-	-	1,494,333	1,494,333
Total financial assets	**608,630,753**	**-**	**-**	**95,265,288**	**703,896,041**
Liabilities:					
Customer deposits	271,333,204	19,867	-		271,353,071
Due to affiliated companies	128,000,000	40,000,000	-	889,152	168,889,152
Other liabilities	-	-	-	9,572,752	9,572,752
Total financial liabilities	**399,333,204**	**40,019,867**	**-**	**10,461,904**	**449,814,975**
Net repricing gap	**209,297,549**	**(40,019,867)**	**-**		

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

e. Interest rate risk (continued)

	Up to 1 year $	Over 1 to 5 years $	Over 5 years $	Non-Interest Rate Sensitive $	Total $
At October 31, 2022					
Assets:					
Cash and cash equivalents	-	-	-	39,501,591	39,501,591
Balance with central banks	-	-	-	37,190,298	37,190,298
Loans and advances to customers	584,888,853	-	-	37,272,719	622,161,572
Investment securities	28,075,852	-	-	-	28,075,852
Other assets	-	-	-	1,444,377	1,444,377
Total financial assets	**612,964,705**	**-**	**-**	**115,408,985**	**728,373,690**
Liabilities:					
Customer deposits	280,026,507	2,000	-		280,028,507
Due to affiliated companies	120,000,000	48,000,000	-	3,983,594	171,983,594
Other liabilities	-	-	-	3,287,896	3,287,896
Total financial liabilities	**400,026,507**	**48,002,000**	**-**	**7,271,490**	**455,299,997**
Net repricing gap	**212,938,198**	**(48,002,000)**	**-**		

Maturity and rate sensitivity

The table below summarizes the Group's loans and securities categorized by the earlier of contractual repricing or maturity dates:

	Up to 1 year $	Over 1 to 5 years $	Over 5 years $	Non-Interest Rate Sensitive $	Total $
As at October 31, 2023					
Loans and advances to customers:					
Retail	794,961	-	-	-	794,961
Mortgages	598,608,342	-	-	67,212,906	665,821,248
Gross loans and advances to customers	**599,403,303**	**-**	**-**	**67,212,906**	**666,616,209**
Investments securities:					
Held-to-collect at amortized cost	8,697,600	8,119,000	12,671,100	-	29,487,700
Gross investment securities	**8,697,600**	**8,119,000**	**12,671,100**	**-**	**29,487,700**

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

e. Interest rate risk (continued)
Maturity and rate sensitivity (continued)

	Up to 1 year $	Over 1 to 5 years $	Over 5 years $	Non-Interest Rate Sensitive $	Total $
As at October 31, 2022					
Loans and advances to customers:					
Retail	690,361	-	-	-	690,361
Mortgages	602,508,883	-	-	84,111,255	686,620,138
Gross loans and advances to customers	**603,199,244**	**-**	**-**	**84,111,255**	**687,310,499**
Investment securities:					
Held-to-collect at amortized cost	6,884,500	10,229,600	12,879,100	-	29,993,200
Gross investment securities	**6,884,500**	**10,229,600**	**12,879,100**	**-**	**29,993,200**

The following table summarizes the Bank's lending portfolio by interest rate sensitivity.

	Fixed Rate $	Floating Rate $	Non-Interest Rate Sensitive $	Grand Total $
As at October 31, 2023				
Loans and advances to customers:				
Retail	-	794,961	-	794,961
Mortgages	-	598,608,342	67,212,906	665,821,248
	-	**599,403,303**	**67,212,906**	**666,616,209**

	Fixed Rate $	Floating Rate $	Non-Interest Rate Sensitive $	Grand Total $
As at October 31, 2022				
Loans and advances to customers:				
Retail	-	690,361	-	690,361
Mortgages	-	602,508,883	84,111,255	686,620,138
	-	**603,199,244**	**84,111,255**	**687,310,499**

23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

f. Other price risk

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

g. Capital management

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

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

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

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

Capital adequacy and the use of regulatory capital are monitored by the Group's management, based on an internal risk assessment approach employing techniques based on the guidelines developed by the Basel Committee on Grouping Supervision as implemented by the Central Bank of The Bahamas. The required information is filed with the Central Bank on a monthly basis as prescribed. The Central Bank requires the Group to maintain a minimum total capital ratio of 17%. As of the date of the consolidated statement of financial position, the Group's total capital ratio was 60.53% (2022: 63.38%).

24. OPERATING SEGMENTS

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

	2023		
	Banking	Insurance Brokerage Services	Consolidated
	$	$	$
Assets	689,611,597	15,097,113	704,708,710
Liabilities	448,970,016	844,959	449,814,975
Income:			
Net interest income	31,650,850	-	31,650,850
Non-interest income	716,143	964,097	1,680,240
Total income	32,366,993	964,097	33,331,090
Non-interest expense	(13,660,680)	(357,314)	(14,017,994)
Provision for credit losses	1,778,096	-	1,778,096
Net income	20,484,409	606,783	21,091,192

	2022		
	Banking	Insurance Brokerage Services	Consolidated
	$	$	$
Assets	714,789,155	14,309,891	729,099,046
Liabilities	455,268,405	31,592	455,299,997
Income:			
Net interest income	34,787,947	-	34,787,947
Non-interest income	737,486	939,633	1,677,119
Total income	35,525,433	939,633	36,465,066
Non-interest expense	(12,931,925)	(351,442)	(13,283,367)
Provision for credit losses	16,913,679	-	16,913,679
Net income	39,507,187	588,191	40,095,378

25. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following fair value hierarchy table presents fair values of financial assets and liabilities that are carried at amortized cost, and therefore excludes financial instruments that are measured and disclosed at fair value on a recurring basis. The carrying amounts of certain financial instruments approximate their fair values due to the short-term nature and generally insignificant credit risk of the instruments: (i) loans and deposits with original maturity of less than three months or payable on demand; and (ii) certain receivables and payables in other assets and other liabilities.

				Fair Value Hierarchy		
	Fair Value Always Approximate Carrying Value $	Fair Value may not Approximate Carrying Value $	Total Fair Value $	Level 1 $	Level 2 $	Level 3 $
October 31, 2023						
Financial Assets						
Cash and cash equivalents	30,301,677	-	30,301,677	-	30,301,677	-
Balance with central bank	35,868,688	-	35,868,688	-	35,868,688	-
Loans and advances to customers	-	645,190,848	645,190,848	-	645,190,848	-
Investment securities	-	29,594,914	29,594,914	-	29,594,914	-
Other assets	1,494,333	-	1,494,333	-	1,494,333	-
Financial Liabilities						
Customer deposits	175,636,882	95,913,545	271,550,427	-	271,550,427	-
Due to affiliated companies	168,889,152	-	168,889,152	-	168,889,152	-
Other Liabilities	9,572,752	-	9,572,752	-	9,572,752	-

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

	Fair Value Always Approximate Carrying Value	Fair Value may not Approximate Carrying Value	Total Fair Value	Fair Value Hierarchy		
				Level 1	Level 2	Level 3
	$	$	$	$	$	$
October 31, 2022						
Financial Assets						
Cash and cash equivalents	39,501,591	-	39,501,591	-	39,501,591	-
Balance with central bank	37,190,298	-	37,190,298	-	37,190,298	-
Loans and advances to customers	-	670,129,469	670,129,469	-	670,129,469	-
Investment securities	-	29,837,980	29,837,980	-	29,837,980	-
Other assets	1,444,377	-	1,444,377	-	1,444,377	-
Financial Liabilities						
Customer deposits	280,028,507	-	280,028,507	-	280,028,507	-
Due to affiliated companies	171,983,594	-	171,983,594	-	171,983,594	-
Other Liabilities	3,287,896	-	3,287,896	-	3,287,896	-

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 valuation model is reviewed on an annual basis and updated as necessary to reflect portfolio experience.

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

Disclosures of fair value for financial instruments that are measured and disclosed at fair value

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, 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).

As at October 31, 2023	Level 1	Level 2	Level 3	Total
	$	$	$	$
Bahamas Government Debt Securities	-	26,749,300	-	26,749,300
Locally Issued Corporate Bonds	-	2,738,400	-	2,738,400
	-	**29,487,700**	**-**	**29,487,700**

As at October 31, 2022	Level 1	Level 2	Level 3	Total
	$	$	$	$
Bahamas Government Debt Securities	-	27,254,800	-	27,254,800
Locally Issued Corporate Bonds	-	2,738,400	-	2,738,400
	-	**29,993,200**	**-**	**29,993,200**

26. SUBSEQUENT EVENT

Subsequent to year-end, the directors approved a dividend on ordinary shares in the amount of $0.20 per share to all shareholders of record as at February 12, 2024 payable on February 19, 2024.

Shareholders' Information

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info@bahamascsd.com

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

DIVIIDEND DATES
Subject to approval by the Board of Directors.

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

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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