



**FINCO**

A leading provider of long-term  
homeownership solutions



# 2024 Annual Report

Statements of Accounts for the  
year ended October 31, 2024

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# CORPORATE PROFILE & COLLECTIVE AMBITION



## Purpose

Helping clients thrive and communities prosper

## Vision

Provide a simplified and exceptional client experience in everything we do

## Mission

Investing for Growth to Win for Tomorrow

## Our Principles

- ✓ Delight customers at every touchpoint
- ✓ Unlock the potential of our people
- ✓ Simplify how we work
- ✓ Prioritize and focus resources using an owner-operator mindset
- ✓ Lead in corporate citizenship to drive community and social impact

## Our Values

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

**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 24 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.

# 2024 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 98,000+ 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 18 million clients in Canada, the United States (U.S.) and 27 other countries.**

Personal Banking provides a broad suite of financial products and services to retail clients for their day-to-day banking, investing and financing needs. Its focus on building 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 Banking operates through two businesses – Personal Banking - Canada and Caribbean & U.S. Banking. Personal Banking - Canada serves RBC's home market in Canada. 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 1 banks, independent trust companies, foreign banks, credit unions, caisses populaires and 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. Commercial Banking offers a wide range of lending, deposit and transaction banking products and services to businesses across Canada. With one of the largest teams of relationship managers and specialists in the industry, its commitment to client experience and trusted advice has earned RBC leading market share in business lending and deposits. RBC is a market-leading

bank with a full range of services to meet the needs of Canadian companies and foreign businesses operating in Canada. In Canada, RBC competes with other Schedule 1 banks, foreign banks, credit unions, auto financing companies, as well as emerging entrants to the financial services industry.

Effective the fourth quarter of 2024, the Personal & Commercial Banking segment became two standalone business segments: Personal Banking and Commercial Banking. With this change, RBC Direct Investing moved from the previous Personal & Commercial Banking segment to the Wealth Management segment.

Wealth Management primarily serves affluent, high net worth (HNW) and ultra-high net worth (UHNW) clients from its offices in key financial centres across the globe. It offers a comprehensive suite of wealth, investment, trust, banking, credit and other solutions to this client segment. Wealth Management also provides a self-directed investment service in Canada, as well as asset management products globally 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 includes a full-service wealth advisory business in servicing HNW and UHNW clients, as well as a leading self-directed investment service in Canada. The full service wealth advisory business is the largest in Canada, as measured by assets under administration. 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 a full-service wealth advisory firm in the U.S., 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 asset managers, asset owners, insurance companies and investment counsellors. Investor Services also provides sub-custody services to global financial institutions and brokers. Competitors to the Investor Services business include domestic and international custodians with Canadian entities and operations.

RBC Insurance® provides tailored, client-led advice and solutions, harnessing the power of technology and data and leveraging the strength and scale of the RBC enterprise as its competitive advantage. RBC Insurance® is one of the largest Canadian bank-owned insurance organizations on a total revenue basis. It offers a comprehensive suite of advice and solutions for individual and business clients, including life, health, wealth solutions, travel, group benefits and reinsurance. It provides property & casualty insurance through a distribution agreement with Aviva Canada. It also offers longevity reinsurance, and reinsurance solutions for creditor life, disability and critical illness. Its products and services are distributed through multiple channels, including proprietary sales force, digital platforms, and a network of independent brokers and partners.

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 58 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, including 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 and 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 & 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.

# 2024 FINANCIAL HIGHLIGHTS

(EXPRESSED IN BAHAMIAN DOLLARS)

	CHANGE		2024	2023	2022	2021	2020
	2024/2023						
<b>EARNINGS</b>							
Net interest income	-4.7%	\$30,154,392	\$31,650,850	\$34,787,947	\$35,930,420	\$37,670,095	
Non-interest income	0.5%	1,688,485	1,680,240	1,677,119	1,824,755	1,965,510	
Total Income	-4.5%	31,842,877	33,331,090	36,465,066	37,755,175	39,635,605	
Release of provision for credit losses	687.7%	(14,005,799)	(1,778,096)	(16,913,679)	(15,452,569)	16,248,789	
Non-interest expense	0.9%	14,141,438	14,017,994	13,283,367	13,972,157	14,185,276	
Net Income	50.3%	31,707,238	21,091,192	40,095,378	39,235,587	9,201,540	
Efficiency Ratio	235 bps	44.4%	42.1%	36.4%	37.0%	35.8%	
Return on equity	418 bps	12.2%	8.0%	15.4%	16.8%	4.2%	
<b>BALANCE SHEET DATA</b>							
Loans and advances to customers	-0.5%	\$605,439,866	\$608,780,367	\$622,161,572	\$639,069,944	\$656,142,377	
Total Assets	-1.1%	696,920,813	704,708,710	729,099,046	731,614,966	756,759,812	
Customer Deposits	-6.7%	253,158,347	271,353,071	280,028,507	324,466,643	379,571,167	
Total Equity	4.6%	266,591,003	254,893,735	273,799,049	248,333,236	218,307,664	
<b>COMMON SHARE INFORMATION</b>							
Earnings per share	\$0.40	\$1.19	\$0.79	\$1.50	\$1.47	\$0.35	
Dividend per share	(0.75)	0.75	1.50	0.55	0.34	0.30	
Book value per share-year-end	0.44	10.00	9.56	10.27	9.31	8.19	
<b>NUMBER OF:</b>							
Employees		23	27	27	28	26	
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 4.7% compared to fiscal year 2023. Lower loan volumes is the major factor affecting the bank's core revenue growth. The bank continues to manage its challenges with respect to new credit origination.

### Release of provision for credit losses

Release of provision for credit losses was \$14.0 million for fiscal 2024 representing an increase of 687.7% from the previous year's release of \$1.7 million. This favorable movement reflects the decrease in non-performing loans during the year and improvement in credit quality. Total allowance for loan losses is 6.9% (2023: 8.5%) of the total loan portfolio and the stage 3 allowance represents 56.7% (2023: 57.0%) of non-performing loans.

### 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 by 0.5% over the previous year due to higher commission revenue from the bank's insurance business.

### Non-Interest Expenses

Non-interest expenses increased marginally by 0.9% from the previous year and is due to increases in deposit insurance premium and other operating costs. The bank continues to actively manage its costs and seek opportunities to improve efficiency.

## 2023 FINANCIAL HIGHLIGHTS (CONTINUED)

### **Net Income**

Net income increased to \$31.7 million compared to \$21.1 million for fiscal 2023. This sizable growth was mainly driven from releases of provision for credit losses partly offset by lower revenue and higher operating costs.

### **Efficiency Ratio**

The efficiency ratio is calculated based on the amount of expenses compared to total revenues. The efficiency ratio rose by 235bps given the decrease in revenues and 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 years. During the year ROE grew by 418bps given the significant increase in net income.

### **Loans and advances to customers**

Loans and advances to customers was \$605.4 million, a decrease of 0.5% from \$608.8 million reported in 2023. This decrease is a result of the bank's chal-

lenge with credit origination and non-performing loans which were written off during the year. A key strategic focus of enabling our relationship managers to build their portfolio through specific acquisition activities with developers and realtors, including the hosting of advice events and leveraging their COI contacts to drum up more business is slowing the declining trend in our loan portfolio.

### **Earnings per Share**

Earnings per share increased to \$1.19 compared to \$0.79 in the previous year and is driven by the growth 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 \$0.75 (2023: \$1.50) per share.

# CHAIRMAN'S REPORT 2024



**Chris Duggan**  
Chairman,  
Finance Corporation of Bahamas Limited

Dear Shareholders,

The Finance Corporation of Bahamas Limited (RBC FINCO) proudly carries a rich legacy.

For more than 70 years, RBC FINCO has been at the forefront of the local market, assisting our clients in realizing the dream of owning a home. Thousands of Bahamians have benefited as a result, and we are committed to empowering even more clients to achieve this essential milestone.

Our year was defined by our continued focus on providing simplified, accessible, and relevant financial solutions. Our goal is to make it easier for our Bahamian clients to achieve homeownership – a significant step toward building their financial futures.

Our dedicated employees work diligently every day to provide expert financial advice to help our clients find the right solutions to achieve their financial goals and dreams. As an organization, we are committed to helping our clients thrive and communities prosper.

For the fiscal year ended October 31, 2024, RBC FINCO reported a net income of \$31.7 million.

This marks a 50.3 percent increase compared to net income recorded for FY 2023. The increase was primarily driven by the release of provisions for credit losses, though it was partially offset by lower revenue and higher operating costs.

This past year, we experienced a 2.3 percent decrease in loans and advances to customers, totalling \$605.4 million. This reduction was primarily due to challenges 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

## CHAIRMAN'S REPORT 2023 (CONTINUED)

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 FY2025.

Despite the challenges posed by non-performing loans, the Bank continues to maintain a strong capital position well above regulatory guidelines, with adequate provisions for any potential negative impact. We remain profitable, and there are no liquidity issues. Considering these factors, the Board of Directors declared quarterly dividends totaling \$0.75 per share throughout FY 2024. The Board reviews the dividends payments each quarter and will continuously monitor the economy, the mortgage portfolio, and overall performance to ensure prudent financial management of RBC FINCO.

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, I extend our heartfelt gratitude to our dedicated management and employees for their unwavering commitment and significant contributions to RBC FINCO in 2024. I also wish to express my appreciation to our more than 4,000 shareholders for their continued confidence and support of RBC FINCO. We are thankful for the invaluable service of our Board of Directors and commend their dedication to upholding the highest standards of corporate governance.



**Chris Duggan**  
Chairman,  
Finance Corporation of Bahamas Limited

# MANAGING DIRECTOR'S REPORT 2024



**DEVERSON WARNER**  
Managing Director  
Finance Corporation of Bahamas Limited

Dear Shareholders,

As we reflect on the past year, 2024 has been a period of continued growth, resilience, and commitment to our core purpose—helping our clients thrive and our communities prosper. Building on the foundation laid over our 70-year history, RBC FINCO remains steadfast in providing long-term homeownership solutions for Bahamians while adapting to an evolving financial landscape.

Our commitment to delivering accessible, digital-first financial solutions has yielded significant results in 2024. We continue to promote our self-service capabilities, enabling more clients to conveniently manage their financial needs. As of this year, over 2,500 clients have now embraced our digital platforms, reflecting a strong demand for streamlined and efficient banking experiences.

In line with our strategic priority to “Make it Easy,” we have taken further steps to simplify our policies, reduce processing times, and empower our employees with greater flexibility in offering customized financial solutions. These efforts have led to improved client satisfaction and increased engagement across service channels.

The Bahamian economy's continued recovery has positively influenced our 2024 financial

performance, reinforcing our ability to deliver exceptional results. We are pleased to report that Net Income Before Tax (NIBT) for 2024 was \$31.7 million, exceeding our plan by 81%. This achievement was largely driven by releases of provisions for credit losses, which improved by \$16.2 million compared to plan.

## Key Financial Highlights for 2024

- Mortgage Portfolio:** We faced continued challenges with mortgage growth, registering a \$15.3 million decline in loan volumes compared to FY 2023.
- Credit Quality:** We continued to see improving trends with early delinquency and non-performing loans, with non-performing loans down by \$13.1MM compared to prior year.
- Operational Efficiencies:** Through strategic cost management and process optimization, we have held our expense growth to a negligible increase, ensuring greater value for our shareholders and clients.
- Efficiency Ratio:** Our efficiency ratio weakened by 235 basis points (to 44.4%) compared to the prior year. While overall cost held, demonstrating our focus on cost management, revenue showed some decline compared to the prior year.

## MANAGING DIRECTOR'S REPORT 2023 (CONTINUED)

At the heart of our business lies our mission to expand homeownership opportunities for Bahamians. In 2024, RBC FINCO supported close to 300 families in securing their homes, reaffirming our leadership in the mortgage market.

In our commitment to enhancing our market presence and positioning RBC FINCO for growth, we made strategic adjustments to our branch structure. We expanded our FINCO presence into five locations in New Providence including, Palmdale, Carmichael at Southwest Plaza, Cable Beach, Old Fort Bay and Prince Charles at One East Plaza. This expansion increases our footprint in the market, allowing us to better serve our clients and meet the growing demand for accessible financial services.

Additionally, we deepened our commitment to corporate social responsibility, supporting local communities through financial literacy programs, housing initiatives, and community outreach efforts. This year, our employees dedicated over 750 volunteer hours, reinforcing our culture of service and impact beyond banking.

### Looking Ahead to 2025:

RBC FINCO remains committed to:

- **Mortgage Portfolio Growth:** We will continue to focus on stabilizing and growing our portfolio through enhanced credit

origination strategies, improved portfolio management and retention strategies.

- **Driving Digital Transformation:** We will continue investing in digital tools and solutions to further enhance client experiences.
- **Enhancing Mortgage Accessibility:** By refining our credit processes and expanding partnerships with local professionals in the mortgage and construction sectors, we aim to increase mortgage approvals and accelerate the homeownership journey for more Bahamians.
- **Sustaining Financial Strength:** Through prudent risk management, cost efficiency measures, and innovation, we will maintain strong financial performance while adapting to evolving economic conditions.

Our journey forward is one of growth, innovation, and unwavering commitment to our clients. Thank you for your continued trust in RBC FINCO. Together, we look forward to an even stronger 2025.

Regards,



Deverson Warner  
Managing Director  
Finance Corporation of Bahamas Limited

# BOARD OF DIRECTORS



**CHRIS DUGGAN**  
HEAD, CARIBBEAN BANKING  
Finance Corporation of Bahamas  
Limited

**Christopher Duggan** is Head, Caribbean Banking, which spans ten countries and territories in the English-speaking and Dutch-speaking Caribbean.

In his capacity as Head, Caribbean Banking, Chris leads the Caribbean Operating Committee and Executive Management Committee and is responsible for the growth, development, and strategic direction of RBC's Caribbean Banking operations.

Before joining RBC in March 2024, Chris was the Cayman Islands Government Representative to North America in Washington DC, where he represented the Cayman Islands in the United States and Canada, primarily around the area of financial services.

Prior to his government role, Chris was employed for over twenty years in senior leadership positions within the Cayman Islands Financial Services industry, most recently as Vice President of Business Development at the DART Family Office, and prior to that as Head of Private Banking at Butterfield Bank. Through these roles Chris gained extensive experience in dealing with all areas of banking operations, as well as client and regulatory matters related to international financial services. He has remained actively engaged internationally in developing key strategic relationships for the jurisdiction.

Chris is very active in the local community and has served in leadership roles on the boards of numerous charitable organizations over the years. He was awarded the Queen's Certificate and Badge of Honour in recognition of his outstanding service to the Cayman Islands community during the COVID-19 Pandemic.

Chris holds a Bachelor of Science in Business Administration from the University of Wales, Cardiff, United Kingdom.



**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.

Deverson 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.

## BOARD OF DIRECTORS (CONTINUED)



**LASONYA MISSICK**  
NON-EXECUTIVE DIRECTOR

**Ms. LaSonya Missick** is an accomplished banker with 30 years of banking experience who brings cross-functional skills and knowledge in personal banking and human resource management to her role. She began her career as a teller and went on to serve in progressively senior roles including Personal Banking Officer, Assistant Manager - Personal Banking, Assistant Manager - Small Business, Manager - Personal Banking, Branch Manager, Director of Human Resources, and Area Vice President - Personal Banking. In 2019, she was appointed as RBC's Managing Director for The Bahamas and Turks & Caicos Islands and is notably the first woman to be appointed to this position. In 2023, she was appointed Regional Vice President Personal & Private Banking and became the first Bahamian appointed to RBC Caribbean's Executive Management Committee.

In her current role, she oversees the personal and private banking business in the Caribbean, collaborating with leaders and teams across the 10 countries where RBC operates. She also has oversight of RBC FINCO, a subsidiary that specializes in mortgage financing for Bahamian homeowners.

LaSonya has a proven track record in leadership and sales management, and her exceptional people development skills have provided her a unique business perspective. She has been instrumental in executing strategic initiatives, fostering high employee engagement and advancing the vision of digital enablement within the banking sector.

LaSonya holds 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. She serves as a director on the boards of RBC FINCO, Safeguard Insurance, RBC Cayman and previously on the boards of RBC Royal Bank and RBC Trust. Additionally, she is the former Chair of both The Bahamas Automated Clearing House and The Bahamas Clearing Banks Association, exemplifying her leadership and commitment to the industry.

## BOARD OF DIRECTORS (CONTINUED)



**NICK TOMOVSKI**

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

**Mr. Nick Tomovski** is Senior Vice President, Enterprise Controller 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.

Nick 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.

Nick 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

**Ms. 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.

Davette 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.

## BOARD OF DIRECTORS (CONTINUED)



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

**Ms. 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, Vernice 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.

Vernice 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.

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

Anthony 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, Anthony 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 2024 were 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 six board meetings held during fiscal 2024.*

# 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 Committee is also responsible for the initial review of the Bank's annual audited financial statements prior to consideration thereof by the Board of Directors. It approves the scope of the audit activities proposed

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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 2024 survey results, the Board is operating effectively and in accordance with its mandate.

### **Major Shareholdings and Voting Rights**

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

### **Code of Conduct**

The RBC Code of Conduct (Code) promotes standards of desired 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 on-line learning program and annual employee testing and certification to demonstrate that employees are familiar with and understand the values and principles outlined in our Code. Directors of FINCO must acknowledge each year that they have read and understand the Code, and certify that they are in compliance with it.

### **Enterprise Risk Management**

Under the oversight of the Board of Directors and senior management, the RBC Enterprise Risk Management Framework provides an overview of enterprise-wide 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.

### **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.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### **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.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### 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.

#### FIRST LINE OF DEFENCE

Lines of Business

Functional Units

##### RISK OWNERS

- All employees across our businesses and functional areas are responsible for ensuring risk controls are in place
- Accountable for:
  - Identification
  - Assessment
  - Mitigation and management
  - Monitoring, and
  - Reporting of risks against approved policies and appetite

#### SECOND LINE OF DEFENCE

Group Risk Management

Regulatory Compliance

##### RISK OVERSIGHT

- Establishes risk management practices, policies and provides risk guidance
- Oversees and challenges the effectiveness of 1LOD risk management practices
- Monitors and independently reports on the level of risk against established appetite

#### THIRD LINE OF DEFENCE

Internal Audit

Credit Risk Review  
(where applicable)

##### INDEPENDENT ASSURANCE

- Independent assurance to management and the Board of Directors on the effectiveness of risk management practices of the 1LOD and 2LOD

## **1.1 Risk Appetite**

(a) 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.

## **1.2 Conflicts of interest**

(a) In practice, conflicts of interest can arise as a result of professional and contractual arrangements, directorships and other personal or business interests. As part of its oversight of conduct review, RBC has established and monitors procedures to resolve conflicts of interest. Where the personal or business interests of directors and executive officers may conflict with those of RBC, they must disclose the nature and extent of the conflict of interest as soon as possible, in writing or by requesting to have it entered in the minutes of the meeting. In the event of a conflict of interest, the director or executive officer in question will leave the meeting when the issue is discussed and, in the case of a director, will not vote or participate in the decision.

## **1.3 Internal Audit**

(a) 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.

## **1.4 Compliance**

(a) 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 Company. Compliance confirms the shared accountability of all employees by ensuring it maintains robust and effective compliance and regulatory risk controls.

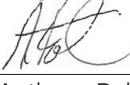
FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)

## 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 \$2.3 million dollars for the calendar year;
- k. The value of non-executive directors' fees and allowances was \$65,500 for the calendar year;

This Certificate is in respect of the calendar year 2024.

  
Dwight Burrows

  
Anthony Robinson

  
Davette Lightbourne

  
Lasonrya Missick

  
Vernice Walkine

  
Nick Tomovski

  
Christopher Duggan

Dated this 21st day of January 2025

## FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)

# 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, 2024 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and material accounting policies, estimates and judgements 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 IFRS Accounting Standards, as issued by the International Accounting Standards Board. Where IFRS Accounting Standards presented alternative accounting treatments, management chose those considered most appropriate in the circumstances.

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

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



Managing Director

January 21, 2025



Senior Manager, Finance Northern Caribbean

January 21, 2025



FINANCE CORPORATION OF BAHAMAS LIMITED

## **RBC FINCO 2024 FINANCIAL STATEMENTS**

## Independent auditors' report

To the Shareholders of Finance Corporation of Bahamas Limited

### Report on the audit of the consolidated financial statements

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#### 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, 2024, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards.

#### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at October 31, 2024;
- 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, comprising material accounting policy information and other explanatory information.

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#### 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: \$2,665,000, which represents approximately 1% of net assets.
- The consolidated group consists of the Bank, and its wholly owned subsidiary, Safeguard Insurance Brokers Limited, both of which are incorporated in The Bahamas.
- The audit engagement team was the auditor for both the Bank and its 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 a PwC component engagement team, 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 component and reviewed all reports with regards to the approach and findings of the component auditor in detail. This, together with additional procedures performed at the Group level, provided us with the evidence we needed for our opinion on the Group's consolidated financial statements as a whole.

### Materiality

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

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

Overall Group materiality	\$2,665,000
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 \$133,000, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

#### **Key audit matters**

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

Key audit matter	How our audit addressed the key audit matter
<p><i>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.</i></p> <p><i>Refer to notes 2(c) and 5 to the consolidated financial statements for disclosures of related accounting policies and balances.</i></p> <p>Stage 1 and Stage 2 loans and advances to customers of \$596 million represent 85% 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 \$13.6 million on these loans and advances.</p>	<p>We performed the following procedures, amongst others, over the Stage 1 and Stage 2 allowance for credit losses:</p> <ul style="list-style-type: none"><li>• obtained an understanding of management's process to calculate the Stage 1 and Stage 2 ACL;</li><li>• tested the design and operating effectiveness of certain relevant controls relating to the Stage 1 and Stage 2 ACL, including controls over:<ul style="list-style-type: none"><li>◦ 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</li></ul></li></ul>

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.

- 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.

## Other information

Management is responsible for the other information. The other information comprises the RBC FINCO Annual Report 2024 (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 2024, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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## 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 IFRS Accounting 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.

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## 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.

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

  
Chartered Accountants  
Nassau, The Bahamas

January 27, 2025

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
(Incorporated Under The Laws Of The Commonwealth Of The Bahamas)

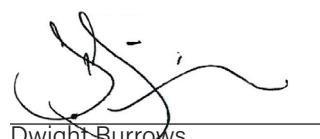
# Consolidated Statement of Financial Position

As at October 31, 2024

(Expressed in Bahamian dollars)

	Notes	2024	2023
		\$	\$
<b>Assets</b>			
Cash and cash equivalents	3	35,421,886	30,301,677
Balance with central bank	4	26,177,457	35,868,688
Loans and advances to customers	5	605,439,866	608,780,367
Investment securities	6	26,677,265	27,450,976
Premises and equipment	7	268,661	17,426
Other assets	8	2,935,678	2,289,576
<b>Total Assets</b>		<b>696,920,813</b>	<b>704,708,710</b>
<b>Liabilities</b>			
Customer deposits	9	253,158,347	271,353,071
Due to affiliated companies	21	172,737,435	168,889,152
Other liabilities	10	4,434,028	9,572,752
<b>Total Liabilities</b>		<b>430,329,810</b>	<b>449,814,975</b>
<b>Equity</b>			
Stated capital	12	5,333,334	5,333,334
Share premium		2,552,258	2,552,258
Other components of equity	12	32,714	42,681
Retained earnings		258,672,697	246,965,462
<b>Total Equity</b>		<b>266,591,003</b>	<b>254,893,735</b>
<b>Total Liabilities and Equity</b>		<b>696,920,813</b>	<b>704,708,710</b>

On January 21, 2025 the Board of Directors of Finance Corporation of Bahamas Limited authorized these financial statements for issue.



Dwight Burrows

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, 2024

(Expressed in Bahamian dollars)

	Notes	2024	2023
		\$	\$
<b>Income</b>			
Interest income	14	37,342,696	38,146,653
Interest expense	15	(7,188,304)	(6,495,803)
<b>Net interest income</b>		<b>30,154,392</b>	<b>31,650,850</b>
Non-interest income	16	1,688,485	1,680,240
<b>Total revenue</b>		<b>31,842,877</b>	<b>33,331,090</b>
Non-interest expenses	17	(14,141,438)	(14,017,994)
Release of/(provision for) credit losses on FVOCI investments		11,006	(18,289)
Release of credit losses on other assets		6	48
Release of credit losses on loans	5	13,253,698	1,915,713
Release of /(provision for) credit losses on securities		741,089	(119,376)
<b>Net income</b>		<b>31,707,238</b>	<b>21,091,192</b>
<b>Other comprehensive income:</b>			
<i>Items that may be reclassified to net income</i>			
Net gains/(losses) on investments in debt instruments measured at FVOCI		1,039	(14,790)
(Provision for)/release of expected credit losses on FVOCI investments		(11,006)	18,289
<b>Total comprehensive income</b>		<b>31,697,271</b>	<b>21,094,691</b>
<b>Earnings per share (basic and diluted)</b>	13	<b>1.19</b>	<b>0.79</b>

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

# Consolidated Statement of Changes in Equity

For the Year Ended October 31, 2024

(Expressed in Bahamian dollars)

	Stated Capital \$	Share Premium \$	Other Components of Equity \$	Retained Earnings \$	Total \$
As at November 1, 2022	5,333,334	2,552,258	39,182	265,874,275	273,799,049
<b>Comprehensive income</b>					
Net income	-	-	-	21,091,192	21,091,192
Other comprehensive income	-	-	3,499	-	3,499
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>3,499</b>	<b>21,091,192</b>	<b>21,094,691</b>
<b>Transactions with owners</b>					
Dividends (Note 18)	-	-	-	(40,000,005)	(40,000,005)
<b>Total transactions with owner</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(40,000,005)</b>	<b>(40,000,005)</b>
<b>As at October 31, 2023</b>	<b>5,333,334</b>	<b>2,552,258</b>	<b>42,681</b>	<b>246,965,462</b>	<b>254,893,735</b>
As at November 1, 2023	5,333,334	2,552,258	42,681	246,965,462	254,893,735
<b>Comprehensive income</b>					
Net income	-	-	-	31,707,238	31,707,238
Other comprehensive income	-	-	(9,967)	-	(9,967)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(9,967)</b>	<b>31,707,238</b>	<b>31,697,271</b>
<b>Transactions with owners</b>					
Dividends (Note 18)	-	-	-	(20,000,003)	(20,000,003)
<b>Total transactions with owner</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(20,000,003)</b>	<b>(20,000,003)</b>
<b>As at October 31, 2024</b>	<b>5,333,334</b>	<b>2,552,258</b>	<b>32,714</b>	<b>258,672,697</b>	<b>266,591,003</b>

Dividends per share (Note 18) \$0.75 (2023: \$1.50)

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

# Consolidated Statement of Cash Flows

For the Year Ended October 31, 2024

(Expressed in Bahamian dollars)

	Notes	2024	2023
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income		31,707,238	21,091,192
Adjustments for:			
Net release of credit losses on financial instruments		(14,005,799)	(1,778,096)
Depreciation and amortization	7	16,903	23,560
Loss on disposal of premises and equipment		-	25,573
		17,718,342	19,362,229
(Increase)/decrease in operating assets:			
Mandatory reserves with central bank		(1,778,413)	253,760
Loans and advances to customers		16,594,199	15,296,918
Other assets		(646,096)	(186,354)
Increase/(decrease) in operating liabilities:			
Customer deposits		(18,194,724)	(8,675,436)
Due to affiliated companies		48,282	105,558
Other liabilities		(5,390)	951,522
<b>Net cash from operating activities</b>		<b>13,736,200</b>	<b>27,108,197</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of premises and equipment	7	(268,138)	-
Purchase of investment securities	6	(7,182,800)	(6,379,000)
Proceeds from maturity of investment securities	6	8,697,600	6,884,500
<b>Net cash from investing activities</b>		<b>1,246,662</b>	<b>505,500</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid	18	(21,333,336)	(37,866,671)
<b>Net cash used in financing activities</b>		<b>(21,333,336)</b>	<b>(37,866,671)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(6,350,474)</b>	<b>(10,252,974)</b>
Effects of fair value changes on cash and cash equivalents		1,039	(14,790)
Cash and cash equivalents, beginning of year		55,276,215	65,543,979
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>		<b>48,926,780</b>	<b>55,276,215</b>
<b>Cash and cash equivalents:</b>			
Cash and cash equivalents	3	35,421,886	30,301,677
Unrestricted cash balances with central bank	4	13,504,894	24,974,538
		48,926,780	55,276,215
<b>Supplemental information:</b>			
Interest received		37,321,891	38,366,484
Interest paid		(7,246,499)	(6,411,003)

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

# Notes to the Consolidated Financial Statements

October 31, 2024

## 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. MATERIAL ACCOUNTING POLICIES

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

### a) Basis of preparation

These financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared on a historical cost basis, except as disclosed in the accounting policy below.

In preparing these consolidated financial statements (hereafter, 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 and the allowance for credit losses and litigation provisions. Accordingly, actual results may differ from these and other estimates thereby impacting the Group's future financial statements. Refer to the relevant accounting policies in this note for details on the 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*

Except as disclosed below, 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. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**a) Basis of preparation (continued)**

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

**Amendments to Disclosure of Accounting Policies**

The IASB issued Disclosure of Accounting Policies which amended IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements (the Amendment). The Amendment amended IAS 1 to replace the requirement for entities to disclose their significant accounting policies with the requirement to disclose their material accounting policy information. The Amendment was effective for the Group on November 1, 2023. The adoption of this Amendment did not have a material impact the Group's consolidated financial statements.

Certain new accounting standards and interpretations have been published that are not mandatory for October 31, 2024 reporting periods and have not been early adopted by the Group. Except as noted below, these standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

*Changes in accounting policies*

**Amendments to the Classification and Measurement of Financial Instruments**

In May 2024, the IASB issued Amendments to the Classification and Measurement of Financial Instruments which amends IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures (the Amendments). The Amendments clarify classification guidance for financial assets with environmental, social and governance-linked features and introduce additional related disclosure requirements. The Amendments will be effective for the Group on November 1, 2026. The Group is currently assessing the impact of adopting the Amendments on its financial statements.

**IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS (IFRS 18)**

In April 2024, the IASB issued IFRS 18 which sets out requirements for the presentation and disclosure of information in the financial statements. IFRS 18 will replace IAS 1 Presentation of Financial Statements and accompanies limited amendments to other standards which will be effective upon the adoption of the new standard. The standard introduces new defined subtotals to be presented in the statements of income, disclosure of management-defined performance measures and requirements for grouping of information. This standard will be effective for the Bank on November 1, 2027. The Group is currently assessing the impact of adopting this standard on its consolidated financial statements.

**b) Basis of consolidation**

These consolidated financial statements include the assets and liabilities and results of operations of the Bank and its wholly-owned subsidiary after elimination of intercompany transactions, balances, revenues and expenses.

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

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**b) Basis of consolidation (continued)**

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.

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;

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**c) Financial instruments (continued)**

**Classification and measurement of financial assets (continued)**

- 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.

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

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**c) Financial instruments (continued)**

**Classification and measurement of financial assets (continued)**

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 date 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.

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. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**c) Financial instruments (continued)**

**Classification and measurement of financial assets (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 and accounts 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.

Items subject to impairment assessment also 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.

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. MATERIAL 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 to the reporting period date using the effective interest rate.

*Expected life*

For instruments in Stage 2 or Stage 3, the loss allowance reflects the expected credit losses 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. 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 remains largely the same and is based on factors such as delinquency status and whether or not the account is watch-listed and managed by the special loans group.

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**c) Financial instruments (continued)**

**Allowance for credit losses (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, 2024 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 RBC group level allows RBC to have a consistent view of macroeconomic scenarios across business lines and legal entities.

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

*Definition of default*

The definition of default used in the measurement of expected credit losses is consistent with the definition of default used for the Group's internal credit risk management purposes. The definition of default may differ across products and consider both quantitative and qualitative factors, such as the terms of financial covenants and days past due. For retail 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

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**c) Financial instruments (continued)**

**Allowance for credit losses (continued)**

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-impaired at each consolidated statement of financial position date and more frequently when circumstances warrant further assessment. Evidence of credit-impaired 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.

*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.

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**c) Financial instruments (continued)**

**Allowance for credit losses (continued)**

*Individually assessed loans (Stage 3) (continued)*

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 using 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 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.

*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

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**c) Financial instruments (continued)**

**Allowance for credit losses (continued)**

*Modifications (continued)*

such modifications is primarily based on the process undertaken to execute the renegotiation and the nature and extent of changes expected to result. Modifications can be tracked through the original financial asset or result in derecognition of the original financial asset and recognition of a new financial asset.

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

**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

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**c) Financial instruments (continued)**

**Determination of fair value (continued)**

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.

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 net interest income over the estimated life of the instrument using the effective interest method.

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**c) Financial instruments (continued)**

**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.

Financial assets are derecognized from the consolidated statement of financial position 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 from the consolidated statement of financial position and are accounted for as secured financing transactions. When the Group neither retains nor transfers 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.

**Derecognition of financial liabilities**

The Group derecognizes a financial liability from the consolidated statement of financial position 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.

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**d) Foreign currency translation (continued)**

*Transactions and balances*

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

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

**e) Customer deposits**

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

**f) Income and expense recognition**

Interest

Interest income and interest expense is recognized in the consolidated statement of comprehensive income for all interest-bearing financial instruments using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly 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 and advances to customers.

Revenue recognition

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:

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 transaction price to each of the separate performance obligations; and
5. Recognized the revenue as each performance obligation is satisfied.

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**f) Income and expense recognition (continued)**

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.

**Commissions and fees**

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.

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

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**g) Premises and equipment (continued)**

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 expected lease payments over the terms of the leases, 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.

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, and an estimate of costs to dismantle, remove or restore the asset, 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.

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**i) Leases (continued)**

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 classified 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.

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

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. MATERIAL ACCOUNTING POLICIES (CONTINUED)**

**m) Employee benefits (continued)**

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.

The Group's ultimate parent is domiciled in Canada. Canadian law implemented certain measures relating to the Organisation for Economic Co-operation and Development's (OECD) two-pillar plan to combat tax base erosion and profit shifting, including a 15% global minimum corporate tax on certain multinational enterprises (Pillar Two). Pillar Two income taxes may arise in or in relation to jurisdictions where the operations of multinational enterprises such as Royal Bank of Canada have an effective tax rate below 15%.

On November 28, 2024 The Bahamas enacted its Domestic Minimum Top-Up Tax Act, 2024 (the DMTT Act) which implements a domestic minimum top-up tax (DMTT) of 15% effective January 1, 2024 for qualifying multinational entities in The Bahamas. Based on the legislation, the DMTT Act becomes effective for the Bank's fiscal year beginning November 1, 2024. The Bank is in the process of assessing its tax exposure to the Pillar Two legislation for the fiscal year 2025.

**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 23(e) maturity and rate sensitivity by contractual repricing date to conform with the current year's presentation.

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**3. CASH AND CASH EQUIVALENTS**

	2024	2023
	\$	\$
Treasury bills	19,394,094	14,416,776
Due from banks	<u>16,027,792</u>	<u>15,884,901</u>
	<b><u>35,421,886</u></b>	<b><u>30,301,677</u></b>

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 2.93% to 3.06% (2023: 2.87% to 2.94%).

**4. BALANCE WITH CENTRAL BANK**

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

	2024	2023
	\$	\$
Mandatory reserve	12,672,563	10,894,150
Unrestricted cash balance	<u>13,504,894</u>	<u>24,974,538</u>
	<b><u>26,177,457</u></b>	<b><u>35,868,688</u></b>

**5. LOANS AND ADVANCES TO CUSTOMERS**

	2024	2023
	\$	\$
Retail	738,895	794,961
Home equity and other mortgages	126,263,666	132,932,073
Residential mortgages	524,124,086	532,607,990
Government insured mortgages	<u>224,045</u>	<u>281,185</u>
	<u>651,350,692</u>	<u>666,616,209</u>
Allowance for credit losses	(45,101,061)	(56,633,471)
Unamortised loan origination fees and cost (net)	<u>(809,765)</u>	<u>(1,202,371)</u>
	<b><u>605,439,866</u></b>	<b><u>608,780,367</u></b>

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

Loans categorized by performance are as follows:

	2024	2023
	\$	\$
Stage 1	525,071,166	509,476,515
Stage 2	70,789,367	85,722,416
Stage 3	<u>55,490,159</u>	<u>71,417,278</u>
	<u>651,350,692</u>	<u>666,616,209</u>

Loans categorized by maturity are as follows:

	2024	2023
	\$	\$
Current (due within one year)	14,878,262	8,566,970
Non-current (due after one year)	<u>636,472,430</u>	<u>658,049,239</u>
	<u>651,350,692</u>	<u>666,616,209</u>

Loans and advances classified as stage 3 represent 8.52% (2023: 10.71%) of the total loans and advances portfolio. The allowance for impairment losses represents 6.92% (2023: 8.50%) of the total loans and advances portfolio and the stage 3 allowance represents 56.74% (2023: 57.02%) of the total stage 3 loans.

**Allowance for credit losses**

Allowance for credit losses consists of the following:

For the year ended October 31, 2024					
	Balance at beginning of year	Provision for/ (release of) credit losses	Net recoveries	Other	Balance at end of year
	\$	\$	\$	\$	\$
Retail	36,341	2,423,755	(2,408,047)	(533)	51,516
Mortgages	<u>56,597,130</u>	<u>(15,677,453)</u>	<u>4,300,649</u>	<u>(170,781)</u>	<u>45,049,545</u>
	<u>56,633,471</u>	<u>(13,253,698)</u>	<u>1,892,602</u>	<u>(171,314)</u>	<u>45,101,061</u>
<i>The above includes:</i>					
Undrawn loan commitments	44,319	(2,411)	-	-	41,908

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	<u>63,460,777</u>	<u>(4,227,543)</u>	<u>(1,697,187)</u>	<u>(938,917)</u>	<u>56,597,130</u>
	<u>63,514,181</u>	<u>(1,915,713)</u>	<u>(4,025,828)</u>	<u>(939,169)</u>	<u>56,633,471</u>
<i>The above includes:</i>					
Undrawn loan commitments	50,261	(5,942)	-	-	44,319

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**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 reflects the impact of updates during the year to the models used to derive an estimate of credit losses. There were no updates to the existing models during the reporting period or the prior period.
- 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).

Personal loans	For the year ended October 31, 2024			
	Allowance for Credit Losses			
	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Balance at November 1, 2023	4,163	31,957	221	36,341
Provision for credit losses:				
Transfers in/(out) to Stage 1	5,402	(5,402)	-	-
Transfers in/ (out) to Stage 2	(79)	79	-	-
Transfers in/(out) to Stage 3	(16)	(5,246)	5,262	-
Purchases and originations	155	-	-	155
Derecognitions and maturities	(118)	(724)	(218)	(1,060)
Remeasurements	(5,329)	2,472	2,427,517	2,424,660
Write-offs	-	-	(2,266,111)	(2,266,111)
Recoveries	-	-	(141,936)	(141,936)
Other	-	-	(533)	(533)
<b>Balance at October 31, 2024</b>	<b>4,178</b>	<b>23,136</b>	<b>24,202</b>	<b>51,516</b>

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

**Allowance for credit losses (continued)**

Mortgages	For the year ended October 31, 2024			
	Allowance for Credit Losses			
	Performing		Impaired	
	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
Balance at November 1, 2023	3,933,461	11,942,444	40,721,225	56,597,130
Provision for credit losses:				
Transfers in/(out) to Stage 1	3,624,436	(3,624,436)	-	-
Transfers in/ (out) to Stage 2	(84,298)	6,732,208	(6,647,910)	-
Transfers in/(out) to Stage 3	(33,807)	(1,419,712)	1,453,519	-
Purchases and originations	373,191	-	-	373,191
Derecognitions and maturities				
Remeasurements				
Write-offs	-	-	(4,681,437)	(4,681,437)
Recoveries	-	-	8,982,086	8,982,086
Other	-	-	(170,781)	(170,781)
<b>Balance at October 31, 2024</b>	<b>3,987,464</b>	<b>9,603,575</b>	<b>31,458,506</b>	<b>45,049,545</b>
<b>Total</b>	<b>For the year ended October 31, 2024</b>			
	<b>Allowance for Credit Losses</b>			
	<b>Performing</b>		<b>Impaired</b>	
	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
Balance at November 1, 2023	3,937,624	11,974,401	40,721,446	56,633,471
Provision for credit losses:				
Transfers in/(out) to Stage 1	3,629,838	(3,629,838)	-	-
Transfers in/ (out) to Stage 2	(84,377)	6,732,287	(6,647,910)	-
Transfers in/(out) to Stage 3	(33,823)	(1,424,958)	1,458,781	-
Purchases and originations	373,346	-	-	373,346
Derecognitions and maturities				
Remeasurements				
Write-offs	-	-	(6,947,548)	(6,947,548)
Recoveries	-	-	8,840,150	8,840,150
Other	-	-	(171,314)	(171,314)
<b>Balance at October 31, 2024</b>	<b>3,991,642</b>	<b>9,626,711</b>	<b>31,482,708</b>	<b>45,101,061</b>

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

**Allowance for credit losses (continued)**

Personal loans	For the year ended October 31, 2023			
	Allowance for Credit Losses			
	Performing		Impaired	
	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
Balance at November 1, 2022	2,413	50,831	160	53,404
Provision for credit losses:				
Transfers in/(out) to Stage 1	16,824	(16,824)	-	-
Transfers in/ (out) to Stage 2	(28)	28	-	-
Transfers in/(out) to Stage 3	(3)	-	3	-
Purchases and originations				
Derecognitions and maturities				
Remeasurements	(16,077)	(1,537)	2,329,100	2,311,486
Write-offs	-	-	(2,294,761)	(2,294,761)
Recoveries	-	-	(33,880)	(33,880)
Other	-	-	(252)	(252)
<b>Balance at October 31, 2023</b>	<b>4,163</b>	<b>31,957</b>	<b>221</b>	<b>36,341</b>
Mortgages	For the year ended October 31, 2023			
	Allowance for Credit Losses			
	Performing		Impaired	
	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
Balance at November 1, 2022	3,292,447	12,439,653	47,728,677	63,460,777
Provision for credit losses:				
Transfers in/(out) to Stage 1	3,452,333	(3,452,333)	-	-
Transfers in/ (out) to Stage 2	(113,714)	6,130,223	(6,016,509)	-
Transfers in/(out) to Stage 3	(49,573)	(1,907,185)	1,956,758	-
Purchases and originations	350,462	-	-	350,462
Derecognitions and maturities	(104,975)	(321,663)	(2,148,232)	(2,574,870)
Remeasurements	(2,893,519)	(946,251)	1,836,635	(2,003,135)
Write-offs	-	-	(10,114,231)	(10,114,231)
Recoveries	-	-	8,417,044	8,417,044
Other	-	-	(938,917)	(938,917)
<b>Balance at October 31, 2023</b>	<b>3,933,461</b>	<b>11,942,444</b>	<b>40,721,225</b>	<b>56,597,130</b>

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

**Allowance for credit losses (continued)**

Total	For the year ended October 31, 2023			
	Allowance for Credit Losses			
	Performing		Impaired	
	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
Balance at November 1, 2022	3,294,860	12,490,484	47,728,837	63,514,181
Provision for credit losses:				
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				
Remeasurements				
Write-offs	-	-	(12,408,992)	(12,408,992)
Recoveries	-	-	8,383,164	8,383,164
Other	-	-	(939,169)	(939,169)
<b>Balance at October 31, 2023</b>	<b>3,937,624</b>	<b>11,974,401</b>	<b>40,721,446</b>	<b>56,633,471</b>

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

**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 Group's base scenario considers the existing economic conditions in The Bahamas and the moderating of real GDP growth rates in 2024-2026 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.

To assess the reasonableness of the GDP rates used by the Bank, if the Group amended Year 1 of the calendar quarter forecast of relevant 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 \$471,601 (2023: \$527,175).
- A 100 basis points decrease will increase the allowance for credit losses by \$484,045 (2023: \$539,282).

Further details on the key inputs and assumptions used at October 31, 2024 are provided in Note 2(c).

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

**Allowance for credit losses (continued)**

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	
	2024	2023
	\$	\$
ACL on performing loans <sup>(1)</sup>		
Carrying Value	13,618,353	15,912,025
Base Scenario	12,393,774	14,373,870

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

**Key inputs and assumptions:**

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

	Performing loans <sup>(1)</sup>	
	2024	2023
	\$	\$
ACL - all performing loans in Stage 1 <sup>(1)</sup>	4,527,239	4,594,859
Impact of staging	9,091,114	11,317,166
Stage 1 and 2 ACL	<u>13,618,353</u>	<u>15,912,025</u>

(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's collections team, loans of clients who had a prior default during the last three years and increases in probability of default at the loan level.

*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. The terms were not substantially different and as such the original loans were not derecognized. For the year ended October 31, 2024, the amortized cost of stage 2 and stage 3 loans whose contractual terms were modified was \$11,112,891 (2023: \$54,238,174), resulting in no material modification gains or losses.

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**6. INVESTMENT SECURITIES**

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

	2024	2023
	\$	\$
Bahamas Government Registered Stocks	25,490,700	26,749,300
Locally issued corporate bonds	2,482,200	2,738,400
	<hr/>	<hr/>
Allowance for expected credit losses	(1,295,635)	(2,036,724)
	<hr/>	<hr/>
	<b>26,677,265</b>	<b>27,450,976</b>

Investment securities mainly comprise Bahamas Government Registered Stocks and Bahamian Corporate Bonds which have floating interest rates ranging from 4.406% to 5.875% (2023: 0.125% to 1.625%) above the B\$ Prime rate of 4.25% (2023: 4.25%). All investment securities are comprised of level 2 securities in the fair value hierarchy (Note 25).

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, 2024					
	Within 3 months	3 months to 1 year	1 year to 5 years	5 years to 10 years	10 years	Over
	\$	\$	\$	\$	\$	\$
<b>Debt financial instruments</b>						
Amortized cost	362,700	10,449,300	6,825,500	5,674,100	4,661,300	27,972,900
Fair value	364,006	10,462,667	6,852,631	5,723,971	4,682,665	28,085,940
Total carrying value of investments	362,700	10,449,300	6,825,500	5,674,100	4,661,300	27,972,900
 <b>As at October 31, 2023</b>						
	Within 3 months	3 months to 1 year	1 year to 5 years	5 years to 10 years	10 years	Over
	\$	\$	\$	\$	\$	\$
<b>Debt financial instruments</b>						
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

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

	2024	2023
	\$	\$
Balance, beginning of year	27,450,976	28,075,852
Purchases	7,182,800	6,379,000
Maturities	(8,697,600)	(6,884,500)
(Increase)/decrease in allowance for credit losses	741,089	(119,376)
<b>Balance, end of year</b>	<b>26,677,265</b>	<b>27,450,976</b>

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**6. INVESTMENT SECURITIES (CONTINUED)**

**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:

	2024	2023
	\$	\$
Stage 1	7,182,800	6,379,000
Stage 2	20,790,100	23,108,700
<b>Total securities</b>	<b>27,972,900</b>	<b>29,487,700</b>
Allowance for credit losses	(1,295,635)	(2,036,724)
<b>Securities net of expected credit losses</b>	<b>26,677,265</b>	<b>27,450,976</b>

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, 2024			
	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Balance at beginning of year	54,748	1,981,976	-	2,036,724
Provision for credit losses:				
Purchases and originations	128,827			128,827
Derecognitions and maturities	(57,383)	(228)	-	(57,611)
Remeasurements	(79,546)	(732,759)	-	(812,305)
<b>Balance at end of year</b>	<b>46,646</b>	<b>1,248,989</b>	<b>-</b>	<b>1,295,635</b>

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**6. INVESTMENT SECURITIES (CONTINUED)**

	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:				
Purchases and originations	80,849	-	-	80,849
Derecognitions and maturities	-	-	-	-
Remeasurements	(59,087)	97,614	-	38,527
<b>Balance at end of year</b>	<b>54,748</b>	<b>1,981,976</b>	<b>-</b>	<b>2,036,724</b>

There were no transfers between stages or write-offs during the year. Allowance for credit losses for securities at FVOCI was \$36,723 (2023: \$47,728).

**7. PREMISES AND EQUIPMENT**

	Leasehold Improvements	Computer Equipment & Software	Work In Progress	Total
<b>Year Ended</b>				
<b>October 31, 2024</b>				
Opening net book value	-	17,426	-	17,426
Additions	-	-	268,138	268,138
Depreciation charge	-	(16,903)	-	(16,903)
<b>Closing net book value</b>	<b>-</b>	<b>523</b>	<b>268,138</b>	<b>268,661</b>
<b>At October 31, 2024</b>				
Cost	105,007	247,934	268,138	621,079
Accumulated depreciation		(105,007)		(247,411)
	-		(352,418)	
<b>Net book value</b>	<b>-</b>	<b>523</b>	<b>268,138</b>	<b>268,661</b>

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**7. PREMISES AND EQUIPMENT (CONTINUED)**

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

Computer equipment and software includes fully depreciated computer software with a cost of \$194,673 and net book value of \$Nil (2023: \$12,603). During the year, the Group disposed of \$Nil (2023: \$25,573) of computer equipment that were fully depreciated.

**8. OTHER ASSETS**

	2024 \$	2023 \$
Accounts receivable and other	835,465	16,372
Accrued interest receivable	1,851,878	1,831,073
In-transit	248,335	442,131
<b>2,935,678</b>	<b>2,289,576</b>	

All other assets are due within one year.

**9. CUSTOMER DEPOSITS**

	2024 \$	2023 \$
Term deposits	148,897,908	170,262,902
Savings	88,729,795	85,165,877
Current accounts	15,530,644	15,924,292
<b>253,158,347</b>	<b>271,353,071</b>	

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**9. CUSTOMER DEPOSITS (CONTINUED)**

Deposits categorized by customer type are as follows:

	2024	2023
	\$	\$
Consumer	197,877,872	192,064,057
Private sector	<u>55,280,475</u>	<u>79,289,014</u>
	<b><u>253,158,347</u></b>	<b><u>271,353,071</u></b>

Deposits categorized by maturity are as follows:

	2024	2023
	\$	\$
Current (due within one year)	253,156,347	271,333,204
Non-current (due after one year)	<u>2,000</u>	<u>19,867</u>
	<b><u>253,158,347</u></b>	<b><u>271,353,071</u></b>

Deposits carry fixed interest rates ranging from 0.0% to 3.15% (2023: 0.00% to 3.15%) 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**

	2024	2023
	\$	\$
Accrual and payables	3,108,973	6,692,773
Interest payable	341,815	411,033
Staff related liabilities	150,193	182,708
In-transit and other	<u>833,047</u>	<u>2,286,238</u>
	<b><u>4,434,028</u></b>	<b><u>9,572,752</u></b>

All other liabilities are due within one year.

**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:

	2024	2023
Discount rate	5.60%	5.60%
Expected return on plan assets	6.16%	6.16%
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

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**11. PENSION PLANS (CONTINUED)**

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 \$672,462 (2023: \$713,498) and the defined contribution plan was \$19,126 (2023: \$18,747).

**12. STATED CAPITAL & RESERVES**

Stated capital consist of the following:

	2024	2023
	\$	\$
27,500,000 common shares at par value B\$0.20	<u>5,500,000</u>	<u>5,500,000</u>
Issued and fully paid: 26,666,670 common shares	<u>5,333,334</u>	<u>5,333,334</u>

Other components of equity comprise:

	Revaluation Reserve \$	Expected Credit Losses (FVOCL) \$	Total \$
<b>Year Ended October 31, 2024</b>			
Balance at beginning of year	(5,048)	47,729	42,681
Allowance for credit losses FVOCL	-	(11,006)	(11,006)
Net change in fair value	1,039	-	1,039
Balance at end of year	<u>(4,009)</u>	<u>36,723</u>	<u>32,714</u>

	Revaluation Reserve \$	Expected Credit Losses (FVOCL) \$	Total \$
<b>Year Ended October 31, 2023</b>			
Balance at beginning of year	9,742	29,440	39,182
Release of allowance for credit losses FVOCL	-	18,289	18,289
Net change in fair value	(14,790)	-	(14,790)
Balance at end of year	<u>(5,048)</u>	<u>47,729</u>	<u>42,681</u>

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**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.

	2024	2023
	\$	\$
Total earnings for the year attributable to the equity shareholders	31,707,238	21,091,192
Weighted average number of ordinary shares in issue	26,666,670	26,666,670
<b>Basic and diluted earnings per share</b>	<b>1.19</b>	<b>0.79</b>

**14. INTEREST INCOME**

	2024	2023
	\$	\$
Loans and advances to customers	35,575,216	36,481,386
Investment securities	1,767,480	1,665,267
	<b>37,342,696</b>	<b>38,146,653</b>

Included in interest income is interest attributable to the time value of money component of non- performing loans of \$1,338,601 (2023: \$1,670,171).

**15. INTEREST EXPENSE**

	2024	2023
	\$	\$
Customer deposits	1,671,004	1,738,784
Due to affiliated companies	5,517,300	4,757,019
	<b>7,188,304</b>	<b>6,495,803</b>

**16. NON-INTEREST INCOME**

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

	2024	2023
	\$	\$
<i><u>Non-interest income over time:</u></i>		
Transaction service fees and commission	103,944	99,065
<i><u>Non-interest income at a point in time:</u></i>		
Foreign exchange earnings	2,058	3,845
Other service charges and fees	1,582,483	1,577,330
	<b>1,584,541</b>	<b>1,581,175</b>
	<b>1,688,485</b>	<b>1,680,240</b>

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**17. NON-INTEREST EXPENSES**

	2024	2023
	\$	\$
Salaries and employee benefits	1,880,914	2,039,395
Operating lease rentals	389,849	389,849
Premises and equipment expenses excluding operating lease rentals	62,825	53,455
Depreciation and amortization	16,903	23,560
Business and miscellaneous fees	4,194,962	4,527,412
Deposit insurance premium	279,036	152,947
Professional fees	428,658	527,740
Management and internal fees	6,055,479	6,052,677
Other operating expense	832,812	250,959
	<u>14,141,438</u>	<u>14,017,994</u>

The following table shows an analysis of salaries and employee benefits.

	2024	2023
	\$	\$
Wages and salaries including bonuses	1,579,312	1,738,785
Defined contribution pension expense	49,164	61,557
Other staff benefits and insurance premiums	252,438	239,052
	<u>1,880,914</u>	<u>2,039,394</u>

The Protection of Depositors Act, 1999 as amended, in The Bahamas requires that the Group pay an annual premium to the Deposit Insurance Fund based on insurable deposit liabilities outstanding. Effective January 1, 2024, the premium rate increased to one-tenth of one percent (2023: one-twentieth of one percent). During the year, the Group paid \$279,036 (2023: \$152,947) into the fund.

In connection with the audit of the financial statements, the following fees were paid or are payable to PricewaterhouseCoopers (PwC) and other PwC network firms:

	2024	2023
	\$	\$
Audit of the consolidated financial statements for the fiscal year ended	174,068	162,680
Other services provided for the fiscal year ended	27,500	22,500
	<u>201,568</u>	<u>185,180</u>

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**18. DIVIDENDS**

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

<b>Declaration Date</b>	<b>\$ per Share</b>	<b>Amount</b>
January 22, 2024	0.20	5,333,334
April 25, 2024	0.18	4,800,001
July 18, 2024	0.18	4,800,001
October 17, 2024	0.19	5,066,667
	<hr/>	<hr/>
	0.75	20,000,003

Dividends of \$1.50 per share were declared during the fiscal year ended 2023. Dividends amounting to \$5,066,667 (2023: \$6,400,001) 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:

<b>Gross maximum exposure</b>	<b>2024</b>	<b>2023</b>
	<b>\$</b>	<b>\$</b>
Personal	5,026,851	7,550,121
Other	1,000	1,000
	<hr/>	<hr/>
	<b>5,027,851</b>	<b>7,551,121</b>

**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.

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**21. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)**

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 to him, including the Chief Financial Officer, Head of Human Resources, Chief Risk Officer, and heads of business and functional units. The EMC is ultimately responsible for all material decisions. The EMC 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 \$5,602,293 (2023: \$5,612,479) 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 \$843,035 (2023: \$829,047) 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 \$15,712,036 (2023: \$15,552,177). 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% (2023: 2.27% and 3.15%).

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**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:

	2024	2023
	\$	\$
<b>Cash and cash equivalent</b>		
Immediate parent	15,712,036	15,552,177
<b>Loans and advances to customers:</b>		
Directors and key management personnel	1,003,765	-
<b>Customers' deposits:</b>		
Directors and key management personnel	2,868,150	2,893,324
<b>Due to affiliated companies</b>		
Immediate parent	171,946,969	168,135,944
Other related parties	790,466	753,208
<b>Interest income</b>		
Directors and key management personnel	43,064	-
<b>Non-interest expense</b>		
Other related parties	6,445,328	6,442,526
<b>Interest expense</b>		
Immediate parent	5,517,300	4,757,019
Directors and key management personnel	14,535	15,591
<b>Dividend paid</b>		
Immediate parent	16,000,003	28,400,003
<b>Staff costs</b>		
Salaries and other short term benefits	184,780	179,796

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**22. CATEGORIZATION OF FINANCIAL ASSETS AND LIABILITIES**

**Consolidated statement of financial position**

	2024	2023
	\$	\$
<b><u>Assets</u></b>		
<b>Financial assets at fair value through other comprehensive income</b>		
Cash and cash equivalents	19,394,094	14,416,776
<b>Financial assets at amortized cost:</b>		
Cash and cash equivalents	16,027,792	15,884,901
Balance with central banks	26,177,457	35,868,688
Loans and advances to customers	605,439,866	608,780,367
Investment securities	26,677,265	27,450,976
Other assets	2,175,544	1,494,333
<b>Total financial assets</b>	<b><u>695,892,018</u></b>	<b><u>703,896,041</u></b>
<b><u>Liabilities</u></b>		
<b>Financial liabilities at amortized cost:</b>		
Customer deposits	253,158,347	271,353,071
Due to affiliated companies	172,737,435	168,889,152
Other liabilities	4,283,835	9,572,752
<b>Total financial liabilities</b>	<b><u>430,179,617</u></b>	<b><u>449,814,975</u></b>

**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 EMC is responsible for managing and monitoring risks.

**Executive Management Committee (EMC)**

The EMC 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, foreign currency risk and operational risk.

**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 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. These units are responsible for the independent oversight of risks, including monitoring the risk or exposures against limits and the assessment of risks of new products and structured transactions. These units also ensure the risks are completely captured in the risk measurement and reporting systems.

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)**

**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 Executive Management Committee – Risk Governance and the Board, and the monitoring of compliance with risk policies and limits in the areas of credit risk and market risk.

ALCO is responsible for the oversight and monitoring of the financial resources. The committee proactively assesses balance sheet strategies and dynamics in the context of:

- economic data and forecasts.
- business and enterprise strategies.
- risks.
- The Group's legal entity structure.
- market developments.
- accounting pronouncements, and
- competitive and regulatory environments.

Considering these dynamics, ALCO is responsible for reviewing, approving and recommending policies, frameworks, other relevant documents and benchmark limits pertaining to capital, interest rate risk in the banking book (IRRBB) for both on and off-balance sheet, structural foreign exchange risk, liquidity and funding management, and the Group's investment portfolio, which are all centrally managed by Treasury. For these areas, ALCO also monitors key metrics and opportunities, providing strategic direction to Treasury and business platforms.

**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. Internal audit 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 EMC, 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

**23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)**

**(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 exposure 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.

**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.

**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.

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)**

**(a) Credit risk (continued)**

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

	2024	2023
	\$	\$
<b><u>On statement of financial position</u></b>		
Due from banks	16,027,792	15,884,901
Treasury bills	19,394,094	14,416,776
Balance with central banks	26,177,457	35,868,688
Loans and advances to customers	651,350,692	666,616,209
Investment securities	27,972,900	29,487,700
Other assets	2,175,544	1,494,333
	<b><u>743,098,479</u></b>	<b><u>763,768,607</u></b>
<b><u>Off statement of financial position</u></b>		
Credit commitments	5,027,851	7,551,121
Total credit risk exposure	<b><u>748,126,330</u></b>	<b><u>771,319,728</u></b>

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:

	2024	2023
	\$	\$
<b>Personal</b>		
Financial Services	647,614,483	664,143,567
Tourism	42,205,249	51,753,589
Government	152,849	159,148
Other	47,366,994	43,904,476
	<b><u>5,758,904</u></b>	<b><u>3,807,827</u></b>
	<b><u>743,098,479</u></b>	<b><u>763,768,607</u></b>

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 \$45,259,990 (2023: \$41,541,759) before taking account of collateral or other credit enhancements.

Renegotiated loans and advances that would otherwise be past due but not impaired or impaired totalled \$141,954,010 (2023: \$148,673,201).

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)**

**(a) Credit risk (continued)**

Credit quality by class of financial assets

	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
<b>As at October 31, 2024</b>				
Treasury bills	19,394,094	-	-	19,394,094
	<u>19,394,094</u>	<u>-</u>	<u>-</u>	<u>19,394,094</u>
<b>Loans and advances to customers:</b>				
Personal loans	505,613	190,230	43,052	738,895
Mortgages	<u>524,565,553</u>	<u>70,599,137</u>	<u>55,447,107</u>	<u>650,611,797</u>
<b>Loans and advances to customers (gross)</b>	<b><u>525,071,166</u></b>	<b><u>70,789,367</u></b>	<b><u>55,490,159</u></b>	<b><u>651,350,692</u></b>
Investment securities: Government	7,182,800	18,307,900	-	25,490,700
Corporate Bonds	-	2,482,200	-	2,482,200
<b>Investment securities (gross)</b>	<b><u>7,182,800</u></b>	<b><u>20,790,100</u></b>	<b><u>-</u></b>	<b><u>27,972,900</u></b>
<b>Total</b>	<b><u>551,648,060</u></b>	<b><u>91,579,467</u></b>	<b><u>55,490,159</u></b>	<b><u>698,717,686</u></b>
 <b>As at October 31, 2023</b>				
Treasury bills	14,416,776	-	-	14,416,776
	<u>14,416,776</u>	<u>-</u>	<u>-</u>	<u>14,416,776</u>
<b>Loans and advances to customers:</b>				
Personal loans	510,015	284,545	401	794,961
Mortgages	<u>508,966,500</u>	<u>85,437,871</u>	<u>71,416,877</u>	<u>665,821,248</u>
<b>Loans and advances to customers (gross)</b>	<b><u>509,476,515</u></b>	<b><u>85,722,416</u></b>	<b><u>71,417,278</u></b>	<b><u>666,616,209</u></b>
Investment securities:				
Government	6,379,000	20,370,300	-	26,749,300
Corporate Bonds	-	2,738,400	-	2,738,400
<b>Investment securities (gross)</b>	<b><u>6,379,000</u></b>	<b><u>23,108,700</u></b>	<b><u>-</u></b>	<b><u>29,487,700</u></b>
<b>Total</b>	<b><u>530,272,291</u></b>	<b><u>108,831,116</u></b>	<b><u>71,417,278</u></b>	<b><u>710,520,685</u></b>

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)**

**(a) Credit risk (continued)**

Rating agency designation

The table below presents an analysis of the Bank's due from banks and debt securities by rating agency designation

Standard & Poor's rating	2024	2023
	\$	\$
Due from Banks		
AA-	15,712,036	15,490,095
A+	315,756	332,724
	<b>16,027,792</b>	<b>15,822,819</b>
Cash equivalents (Treasury Bills)		
B+	19,394,094	14,416,776
	<b>19,394,094</b>	<b>14,416,776</b>
Investment securities (Debt instruments)		
B+	27,972,900	29,487,700
	<b>27,972,900</b>	<b>29,487,700</b>

**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**

	2024	2023
	\$	\$
Land	6,742,800	13,917,700
Building	79,075,972	200,963,793
	<b>85,818,772</b>	<b>214,881,493</b>

**(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. Liquidity risk management activities are conducted in accordance with a comprehensive Liquidity Risk Management Framework (LRMF)

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)**

**(b) Liquidity risk (continued)**

that includes Liquidity Risk Policy (LRP), Pledging Policy (PP) and Contingency Plan. These policies are all addendums to Royal Bank of Canada and will identify distinctions within the Caribbean. Additionally, 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 and 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 within the Group's risk appetite. Liquidity risk objectives, policies and risk appetite are reviewed regularly, and updated as required to reflect changes in industry practice and relevant regulatory guidance.

Liquidity risk oversight and management are the responsibilities of the Board, Enterprise Risk Committee - Risk and Governance and the Asset and Liability Committee for The Group. The Group's liquidity management process is carried out by the Treasury department of each business unit and monitored by Treasury and ALCO. Liquidity risk management activities are subject to the three lines of defence governance model. Treasury, the first line of defence for the management of liquidity risk, is subject to independent second line challenge and oversight by GRM. RBC Internal Audit is the third line of defence. The three lines of defence are independent of the business whose activities generate liquidity risks.

The Board and ALCO for The Group regularly reviews information on liquidity positions for each entity operating within The Group as well as on a consolidated level. ALCO annually reviews and recommends the liquidity risk management policies for relevant Board approvals and annually approves the Liquidity Contingency Plan.

A robust liquidity risk measurement process is maintained to support timely and frequent reporting of information for management of liquidity positions and oversight of risk. This reporting includes both internal and regulatory metrics and is used to monitor adherence with our risk appetite and limits and position relative to regulatory minimums. Regulatory metrics include reserve requirements and Liquidity Coverage Ratio applicable to a few of the Caribbean Islands and Internal measurements for liquidity risk is performed monthly via internally defined Net Cash Flow. This includes the application of scenario-specific assumptions against our assets and liabilities, to project cash flows over varying time horizons and degrees of stress. 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 our 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, we set limits on various metrics over a range of time horizons, jurisdictions and currencies. The Group also considers various levels of stress conditions in our development of appropriate contingency, recovery and resolution plans.

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

**Tactical (shorter-term) liquidity risk**

To address potential immediate cash flows risks in times of stress, the Bank uses short-term net cash flow limits to control risk of material units, subsidiaries and currencies and perform stress

**23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)**

**(b) Liquidity risk (continued)**

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.

**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.

**Contingency liquidity risk**

Contingency liquidity risk planning assesses the impact of sudden stress events, and the Group's liquidity risk position and identifies a range of potential mitigating actions and plans. 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. Additionally, under the leadership of Treasury, The Group's Liquidity Crisis Teams (LCTs) each meet at least annually or more as required to assess the Group's liquidity status and review the LCPs. During times of stress, provide linkages to the front line and other functions to support effective and coordinated crisis management and oversight. The Group's LCTs include members from key primary stakeholders including GRM. The liquidity status assessment and monitoring process informs management, ALCO and the Board of the Group's assessment of internal and external events and their potential implications on liquidity risk.

The amounts disclosed in the following table are the contractual discounted cash flows of all non-derivative financial assets and financial liabilities based on the estimated timing of when settlement of the amounts is expected to occur as of the balance sheet date 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

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.

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
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**23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)**

**(b) Liquidity risk (continued)**

	Up to 3 months	Over 3 to 6 months	Over 6 to 12months	Over 1 to 5 years	Over 5 years	Total
	\$	\$	\$	\$	\$	\$
<b>At October 31, 2024</b>						
<b>Assets:</b>						
Cash and cash equivalents	35,421,886	-	-	-	-	35,421,886
Balance with central banks	26,177,457	-	-	-	-	26,177,457
Gross loans	19,120,807	16,532,569	32,552,092	195,252,645	387,892,579	651,350,692
Allowance for credit losses and unamortised loan fees and cost				(45,910,826)	(45,910,826)	
Investment securities	26,677,265	-	-	-	-	26,677,265
Other assets	2,175,544	-	-	-	-	2,175,544
<b>Total financial assets</b>	<b>109,572,959</b>	<b>16,532,569</b>	<b>32,552,092</b>	<b>195,252,645</b>	<b>341,981,753</b>	<b>695,892,018</b>
<b>Liabilities:</b>						
Customer deposits	159,468,030	23,791,183	69,897,134	2,000	-	253,158,347
Due to affiliated companies	4,737,435	40,000,000	80,000,000	48,000,000	-	172,737,435
Other liabilities	4,283,835	-	-	-	-	4,283,835
<b>Total financial liabilities</b>	<b>168,489,300</b>	<b>63,791,183</b>	<b>149,897,134</b>	<b>48,002,000</b>	<b>-</b>	<b>430,179,617</b>
<b>Liquidity gap</b>	<b>(58,916,341)</b>	<b>(47,258,614)</b>	<b>(117,345,042)</b>	<b>147,250,645</b>	<b>341,981,753</b>	
<b>Cumulative gap</b>	<b>(58,916,341)</b>	<b>(106,174,955)</b>	<b>(223,519,997)</b>	<b>(76,269,352)</b>	<b>265,712,401</b>	

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)**

**(b) Liquidity risk (continued)**

	Up to 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Total
	\$	\$	\$	\$	\$	\$
<b>At October 31, 2023</b>						
<b>Assets:</b>						
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
<b>Total financial assets</b>	<b>114,143,275</b>	<b>15,167,533</b>	<b>28,580,920</b>	<b>197,463,609</b>	<b>348,540,704</b>	<b>703,896,041</b>
<b>Liabilities:</b>						
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
<b>Total financial liabilities</b>	<b>186,098,786</b>	<b>73,743,024</b>	<b>149,953,298</b>	<b>40,019,867</b>	<b>-</b>	<b>449,814,975</b>
<b>Liquidity gap</b>	<b>(71,955,511)</b>	<b>(58,575,491)</b>	<b>(121,372,378)</b>	<b>157,443,742</b>	<b>348,540,704</b>	
<b>Cumulative gap</b>	<b>(71,955,511)</b>	<b>(130,531,002)</b>	<b>(251,903,380)</b>	<b>(94,459,638)</b>	<b>254,081,066</b>	

**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 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Total
	\$	\$	\$	\$	\$	\$
<b>At October 31, 2024</b>						
Credit commitments	1,490,564	1,300,966	2,196,321	-	40,000	5,027,851
<b>Total</b>	<b>1,490,564</b>	<b>1,300,966</b>	<b>2,196,321</b>	<b>-</b>	<b>40,000</b>	<b>5,027,851</b>
<b>At October 31, 2023</b>						
Credit commitments	834,951	489,150	6,227,020	-	-	7,551,121
<b>Total</b>	<b>834,951</b>	<b>489,150</b>	<b>6,227,020</b>	<b>-</b>	<b>-</b>	<b>7,551,121</b>

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**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 \$
<b>At October 31, 2024</b>					
<i>Liabilities:</i>					
Customer deposits	104,260,439	150,044,848	1,999	-	254,307,286
Due to affiliated companies	4,185,467	124,338,488	51,281,753	-	179,805,708
Other liabilities	-	4,283,835	-	-	4,283,835
<b>Total liabilities</b>	<b>108,445,906</b>	<b>278,667,171</b>	<b>51,283,752</b>	<b>-</b>	<b>438,396,829</b>
 <b>At October 31, 2023</b>					
<i>Liabilities:</i>					
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
<b>Total liabilities</b>	<b>101,438,378</b>	<b>315,019,220</b>	<b>41,838,375</b>	<b>-</b>	<b>458,295,973</b>

**(c) Market risk**

The Group takes on exposure to market risk, which 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. On a monthly basis, Treasury and Finance departments review and approve the valuation of all securities sent by the Valuations department.

Non-trading portfolios primarily arise from the interest rate management of the Group's retail and commercial banking assets and liabilities. These portfolios also consist of interest rate, foreign exchange and equity risk arising from the Group's amortized and FVOCI securities.

The major measurement technique used by the Group to measure and control market risk is stress testing. The Group 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**

**Market risk controls – Interest Rate Risk in the Banking Book (IRRBB) positions**

IRRBB arises primarily from traditional customer-originated banking products such as deposits and loans and includes related hedges. Factors contributing to IRRBB include mismatches between asset and liability repricing dates, relative changes in asset and liability rates in response to market rate scenarios, and other product features affecting the expected timing of cash flows, such as options to pre-pay loans. IRRBB sensitivities are regularly measured and reported, and subject to limits and controls with independent oversight from Group Risk Management (GRM). The Board approves the risk appetite for IRRBB, and the Asset Liability Committee (ALCO) and GRM provide ongoing governance through IRRBB risk policies, limits, operating standards and other controls. IRRBB reports are reviewed monthly by GRM, ALCO, and quarterly by the Board.

IRRBB arises primarily from traditional customer-originated banking products such as deposits and loans and includes related hedges. Factors contributing to IRRBB include mismatches between asset and liability repricing dates, relative changes in asset and liability rates in response to market rate scenarios, and other product features affecting the expected timing of cash flows, such as options to pre-pay loans. IRRBB sensitivities are regularly measured and reported, and subject to limits and controls with independent oversight from Group Risk Management (GRM). The Board approves the risk appetite for IRRBB, and the Asset Liability Committee (ALCO) and GRM provide ongoing governance through IRRBB risk policies, limits, operating standards and other controls. IRRBB reports are reviewed monthly by GRM, ALCO, and quarterly by the Board.

**IRRBB measurement**

To monitor and control IRRBB, The Group assess 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.

In measuring NII risk, detailed banking book balance sheets are dynamically simulated to estimate the impact of market stress scenarios on projected NII. Assets, liabilities and off-balance sheet positions are simulated over various time horizons. 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 under a given market shock scenario.

EVE risk captures the market value sensitivity to changes in rates. 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. NII and EVE risks are measured for a range of market risk stress scenarios which include extreme but plausible changes in market rates and volatilities.

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)**

**(e) Interest rate risk (continued)**

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. The key assumptions, fixed-rate loan pre-payment behaviour and empirically based historical client behaviour on non-maturity deposits and product pricing with consideration of possible forward-looking changes. All models and assumptions used to measure IRRBB are subject to independent oversight by GRM.

**Market risk measures – IRRBB Sensitivities**

The following table shows the potential before-tax impact of an immediate and sustained 100 bps increase or decrease in interest rates on projected EVE and 12-month NII, assuming no subsequent hedging. Interest rate risk measures are based on current on and off-balance sheet positions which can change over time in response to business activity and management actions.

	EVE Risk		NII Risk	
	Bahamian Dollar \$'000s	Foreign Currency \$'000s	Bahamian Dollar \$'000s	Foreign Currency \$'000s
<b>At October 31, 2024</b>				
100 bps increases in rates	1,795	Nil	1,302	Nil
100 bps decreases in rates	(1,842)	Nil	(1,302)	Nil
<b>At October 31, 2023</b>				
100 bps increases in rates	1,308	Nil	1,277	Nil
100 bps decreases in rates	(1,334)	Nil	(1,277)	Nil

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)**

**(e) Interest rate risk (continued)**

The following table summarizes the Group's exposure to interest rate repricing risk. It includes the Group's 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
<b>At October 31, 2024</b>					
<b>Assets:</b>					
Cash and cash equivalents	19,394,094	-	-	16,027,79	35,421,886
Balance with central banks	-	-	-	26,177,457	26,177,457
Gross loans	596,657,022	-	-	54,693,670	651,350,692
Allowance for credit losses and unamortised loan fees and cost	-	-	-	(45,910,826)	(45,910,826)
Investment securities	26,677,265	-	-	-	26,677,265
Other assets	-	-	-	2,175,544	2,175,544
<b>Total financial assets</b>	<b>642,728,381</b>	<b>-</b>	<b>-</b>	<b>53,163,637</b>	<b>695,892,018</b>
<b>Liabilities:</b>					
Customer deposits	148,917,302	2,000	-	104,239,045	253,158,347
Due to affiliated companies	120,000,000	48,000,000	-	4,737,435	172,737,435
Other liabilities	-	-	-	4,283,835	4,283,835
<b>Total financial liabilities</b>	<b>268,917,302</b>	<b>48,002,000</b>	<b>-</b>	<b>113,260,315</b>	<b>430,179,617</b>
<b>Net repricing gap</b>	<b>373,811,079</b>	<b>(48,002,000)</b>	<b>-</b>		

	Up to 1 year	Over 1 to 5 years	Over 5 years	Non-Interest Rate Sensitive	Total
<b>At October 31, 2023</b>					
<b>Assets:</b>					
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
<b>Total financial assets</b>	<b>608,630,753</b>	<b>-</b>	<b>-</b>	<b>95,265,288</b>	<b>703,896,041</b>
<b>Liabilities:</b>					
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
<b>Total financial liabilities</b>	<b>399,333,204</b>	<b>40,019,867</b>	<b>-</b>	<b>10,461,904</b>	<b>449,814,975</b>
<b>Net repricing gap</b>	<b>209,297,549</b>	<b>(40,019,867)</b>	<b>-</b>		

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)**  
 (e) Interest rate risk (continued)

**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	1 to 5 years	Over 5 years	Total
	\$	\$	\$	\$
<b>As at October 31, 2024</b>				
<i>Loans and advances to customers:</i>				
Retail	738,894	-	-	738,894
Mortgages	<u>650,611,798</u>	<u>-</u>	<u>-</u>	<u>650,611,798</u>
<b>Gross loans and advances to customers</b>	<b><u>651,350,692</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>651,350,692</u></b>
<i>Investments securities:</i>				
Held-to-collect at amortized cost	<u>10,812,000</u>	<u>6,825,500</u>	<u>10,335,400</u>	<u>27,972,900</u>
<b>Gross investment securities</b>	<b><u>10,812,000</u></b>	<b><u>6,825,500</u></b>	<b><u>10,335,400</u></b>	<b><u>27,972,900</u></b>
<b>As at October 31, 2023</b>				
<i>Loans and advances to customers:</i>				
Retail	794,961	-	-	794,961
Mortgages	<u>598,608,342</u>	<u>-</u>	<u>-</u>	<u>665,821,248</u>
<b>Gross loans and advances to customers</b>	<b><u>599,403,303</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>666,616,209</u></b>
<i>Investments securities:</i>				
Held-to-collect at amortized cost	<u>8,697,600</u>	<u>8,119,000</u>	<u>12,671,100</u>	<u>29,487,700</u>
<b>Gross investment securities</b>	<b><u>8,697,600</u></b>	<b><u>8,119,000</u></b>	<b><u>12,671,100</u></b>	<b><u>29,487,700</u></b>

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)**

**(e) Interest rate risk (continued)**

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

	Fixed Rate \$	Floating Rate \$	Non-Rate Sensitive \$	Grand Total \$
<b>As at October 31, 2024</b>				
<i>Loans and advances to customers:</i>				
Retail	-	696,526	42,368	738,894
Mortgages	<u>2,946,330</u>	<u>593,014,165</u>	<u>54,651,303</u>	<u>650,611,798</u>
	<u><b>2,946,330</b></u>	<u><b>593,710,691</b></u>	<u><b>54,693,671</b></u>	<u><b>651,350,692</b></u>
<b>As at October 31, 2023</b>				
<i>Loans and advances to customers:</i>				
Retail	-	794,961	-	794,961
Mortgages	<u>-</u>	<u>598,608,342</u>	<u>67,212,906</u>	<u>665,821,248</u>
	<u><b>-</b></u>	<u><b>599,403,303</b></u>	<u><b>67,212,906</b></u>	<u><b>666,616,209</b></u>

**(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;

FINANCE CORPORATION OF THE BAHAMAS LIMITED (FINCO)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**23. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)**

**(g) Capital management (continued)**

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

Capital adequacy and the use of regulatory capital are monitored by the Group's management, based on an internal risk assessment approach employing techniques based on the guidelines developed by the Basel Committee on 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 57.77% (2023: 60.53%).

**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.

	2024		
	Banking	Insurance Brokerage Services	Consolidated
	\$	\$	\$
Assets	681,168,977	15,751,836	696,920,813
Liabilities	429,481,124	848,686	430,329,810
Income:			
Net interest income	30,154,392	-	30,154,392
Non-interest income	680,287	1,008,198	1,688,485
Total income	30,834,679	1,008,198	31,842,877
Non-interest expense	(13,784,236)	(357,202)	(14,141,438)
Release of provision for credit losses	14,005,799	-	14,005,799
Net income	31,056,242	650,996	31,707,238

**24. OPERATING SEGMENTS (CONTINUED)**

	<b>2023</b>		
	<b>Banking</b>	<b>Insurance Brokerage Services</b>	<b>Consolidated</b>
	\$	\$	\$
Assets	<u>689,611,597</u>	<u>15,097,113</u>	<u>704,708,710</u>
Liabilities	<u>448,970,016</u>	<u>844,959</u>	<u>449,814,975</u>
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	<u>20,484,409</u>	<u>606,783</u>	<u>21,091,192</u>

**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.

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

				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
	\$	\$	\$	\$	\$	\$
<b>October 31, 2024</b>						
<b>Financial Assets</b>						
Cash and cash equivalents	16,027,792	-	16,027,792	-	16,027,792	-
Balance with central bank	26,177,457	-	26,177,457	-	26,177,457	-
Loans and advances to customers	-	637,993,471	637,993,471	-	637,993,471	-
Investment securities	-	28,085,940	28,085,940	-	28,085,940	-
Other assets	2,175,544	-	2,175,544	-	2,175,544	-
<b>Financial Liabilities</b>						
Customer deposits	159,468,030	93,726,570	253,194,600	-	253,194,600	-
Due to affiliated companies	172,737,435	-	172,737,435	-	172,737,435	-
Other Liabilities	4,434,028	-	4,434,028	-	4,434,02	-
				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
	\$	\$	\$	\$	\$	\$
<b>October 31, 2023</b>						
<b>Financial Assets</b>						
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	-
<b>Financial Liabilities</b>						
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)

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

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

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

### **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, 2024	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Bahamas Government Debt Securities	-	25,490,700	-	25,490,700
Locally Issued Corporate Bonds	-	2,482,200	-	2,482,200
	-	27,972,900	-	27,972,900

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

## 26. SUBSEQUENT EVENT

On January 21, 2025 the Group's directors approved a dividend in the amount of \$37,333,338 (\$1.40 per share) to all shareholders of record as at February 11, 2025 payable on February 18, 2025, subject to the required regulatory approval.

## Shareholders' Information

### CORPORATE HEADQUARTERS

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

### TRANSFER AGENT AND REGISTRAR SERVICE

Bahamas Central Securities Depository  
310 Cotton Tree Plaza  
4 Bay Street  
P. O. Box N 9307, Nassau, Bahamas  
Tel: (242) 322 5522/5  
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.

### DIVIDEND 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:

Finance Corporation of Bahamas Limited Royal Bank House  
101 East Hill Street  
P. O. Box N 3038, Nassau, Bahamas  
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## Annual Report Credits

### Graphic Design

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### Printing

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#### **CORPORATE HEADQUARTERS**

**Finance Corporation of Bahamas Limited**  
Royal Bank House, 101 East Hill Street  
P. O. Box N 3038, Nassau, Bahamas  
T: (242) 356 8500. F: (242) 328 8848

#### **MAIN BRANCH**

Shared location with:  
RBC Royal Bank, 323 Bay Street  
P. O. Box N 3038, Nassau, Bahamas  
T: (242) 502 7700. F: (242) 328 8848

#### **CARMICHAEL ROAD BRANCH**

Shared location with:  
RBC Royal Bank  
South West Plaza, Carmichael Road  
P. O. Box N 3038, Nassau, Bahamas  
T: (242) 676 7500. F: (242) 676 7792

#### **FREEPORT BRANCH**

Shared location with:  
RBC Royal Bank  
East Mall Drive & Explorer's Way

P. O. Box F 40029, Freeport

Grand Bahama, Bahamas  
T: (242) 352 8896. F: (242) 352 3022

#### **PALMDALE BRANCH**

Shared location with:  
RBC Royal Bank  
Palmdale Shopping Centre, Madeira Street  
P. O. Box N 3038, Nassau, Bahamas  
T: (242) 302 2500. F: (242) 325 2061

#### **SAFEGUARD INSURANCE BROKERS LTD**

P. O. Box N 3038, Nassau, Bahamas  
T: (242) 676 7521. F: (242) 676 7563

#### **SHAREHOLDERS' CONTACT**

**Finance Corporation of Bahamas Limited**  
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T: (242) 356 8500. F: (242) 328 8848

[www.rbc.com/bahamas](http://www.rbc.com/bahamas)