

Finance Corporation of Bahamas Limited

**Consolidated Financial Statements
October 31, 2011**

Finance Corporation of Bahamas Limited

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Independent Auditors' Report

To the shareholders of
Finance Corporation of Bahamas Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Finance Corporation of Bahamas Limited (the "Corporation") which comprise the consolidated statement of financial position as at October 31, 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

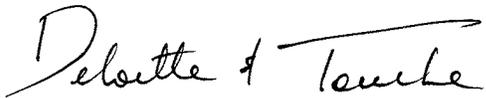
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Finance Corporation of Bahamas Limited as at October 31, 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 3b to the consolidated financial statements which indicate that the renewal application of Finance Corporation of Bahamas Limited's subsidiary for its agency licence as required by the Insurance Act 2009 is pending with the Insurance Commission of The Bahamas. Finance Corporation of Bahamas Limited's subsidiary is taking steps to satisfy all regulatory requirements. Our opinion is not qualified in respect of this matter.

A handwritten signature in cursive script that reads "Deloitte & Touche". The signature is written in dark ink and is positioned above the date.

December 13, 2011

Finance Corporation of Bahamas Limited

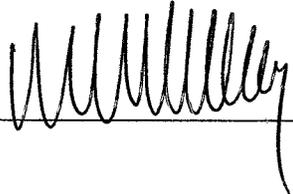
Consolidated Statement of Financial Position

Expressed in Bahamian Dollars

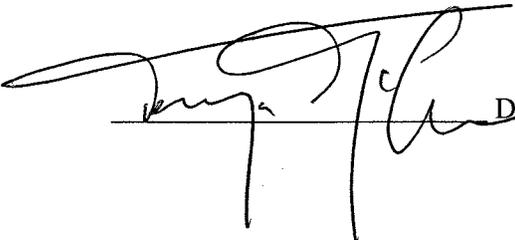
	Note	At October 31 2011	At October 31 2010
ASSETS			
Cash and cash equivalents	5	\$ 33,345,833	\$ 61,028,719
Balance with The Central Bank of The Bahamas	6	39,372,285	39,845,940
Loans and advances to customers	7	842,331,063	817,997,932
Investment securities	8	54,888,120	45,787,941
Premises and equipment	9	1,899,736	1,978,803
Other assets		813,731	702,069
Total assets		\$ 972,650,768	\$ 967,341,404
LIABILITIES AND EQUITY			
LIABILITIES:			
Customer deposits	10	\$ 807,570,366	\$ 827,659,285
Other borrowed funds	11	37,300,000	37,300,000
Affiliated companies	11	6,000,000	-
Other liabilities		2,689,141	2,056,448
Total liabilities		853,559,507	867,015,733
EQUITY:			
Share capital	13	5,333,334	5,333,334
Share premium		2,552,258	2,552,258
General reserve		500,000	500,000
Retained earnings		110,705,669	91,940,079
Total equity		119,091,261	100,325,671
Total liabilities and equity		\$ 972,650,768	\$ 967,341,404

The notes on pages 7 to 32 form an integral part of these consolidated financial statements.

On December 13, 2011 the Board of Directors of Finance Corporation of Bahamas Limited authorized these consolidated financial statements for issue.



Director



Director

Finance Corporation of Bahamas Limited

Consolidated Statement of Comprehensive Income

Expressed in Bahamian Dollars

	Note	Year Ended October 31 2011	Year Ended October 31 2010
Interest income	14	\$ 66,060,799	\$ 65,467,343
Interest expense	15	<u>(33,066,275)</u>	<u>(37,225,961)</u>
Net interest income		32,994,524	28,241,382
Non-interest income	16	<u>3,725,817</u>	<u>3,575,960</u>
Total income		36,720,341	31,817,342
Non-interest expense	17	(12,958,473)	(12,283,936)
Impairment losses on loans and advances	7	<u>(4,996,278)</u>	<u>(1,345,330)</u>
Total net and comprehensive income for the period		<u>\$ 18,765,590</u>	<u>\$ 18,188,076</u>
Earnings per share (basic and diluted)		<u>\$ 0.70</u>	<u>\$ 0.68</u>

The notes on pages 7 to 32 form an integral part of these consolidated financial statements.

Finance Corporation of Bahamas Limited

Consolidated Statement of Changes in Equity

Expressed in Bahamian Dollars

	<u>Share Capital</u>	<u>Share Premium</u>	<u>General Reserve</u>	<u>Retained Earnings</u>	<u>Total</u>
Year Ended					
October 31, 2010					
Balance at beginning of year	\$ 5,333,334	\$ 2,552,258	\$ 500,000	\$ 73,752,003	\$ 82,137,595
Comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,188,076</u>	<u>18,188,076</u>
Balance at end of year	<u>\$ 5,333,334</u>	<u>\$ 2,552,258</u>	<u>\$ 500,000</u>	<u>\$ 91,940,079</u>	<u>\$ 100,325,671</u>
Year Ended					
October 31, 2011					
Balance at beginning of year	\$ 5,333,334	\$ 2,552,258	\$ 500,000	\$ 91,940,079	\$ 100,325,671
Comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,765,590</u>	<u>18,765,590</u>
Balance at end of year	<u>\$ 5,333,334</u>	<u>\$ 2,552,258</u>	<u>\$ 500,000</u>	<u>\$ 110,705,669</u>	<u>\$ 119,091,261</u>

The notes on pages 7 to 32 form an integral part of these consolidated financial statements.

Finance Corporation of Bahamas Limited
Consolidated Statement of Cash Flows

Expressed in Bahamian Dollars

	Year Ended October 31 2011	Year Ended October 31 2010
Operating activities		
Net income	\$ 18,765,590	\$ 18,188,076
Adjustments for:		
Impairment losses on loans and advances to customers	4,996,278	1,345,330
Depreciation and amortization of tangible assets	539,128	557,313
(Gain) loss on disposal of premises and equipment	(9,227)	93
Amortization of deferred fee income	112,150	391,849
	<u>24,403,919</u>	<u>20,482,661</u>
(Increase) decrease in operating assets		
Balances with Central Bank	473,655	(2,256,172)
Loans and advances to customers	(29,377,038)	(47,293,309)
Other assets	(111,661)	(56,718)
Increase (decrease) in operating liabilities		
Affiliated companies	6,000,000	-
Customers' deposits	(20,088,920)	4,150,593
Other liabilities	632,693	(271,336)
Cash used in operating activities	<u>(18,067,352)</u>	<u>(25,244,281)</u>
Investing activities		
Net movement in investment securities	(9,164,700)	3,808,700
Additions to premises and equipment	(480,834)	(166,390)
Proceeds from sale of premises and equipment	30,000	-
Cash used in investing activities	<u>(9,615,534)</u>	<u>3,642,310</u>
Financing activity		
Net movement in other borrowed funds	-	37,300,000
Cash provided by financing activity	<u>-</u>	<u>37,300,000</u>
Net (decrease) increase in cash and cash equivalents	(27,682,886)	15,698,029
Balance at beginning of period	<u>61,028,719</u>	<u>45,330,690</u>
Balance at end of period	<u>\$ 33,345,833</u>	<u>\$ 61,028,719</u>

The notes on pages 7 to 32 form an integral part of these consolidated financial statements.

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements October 31, 2011

Expressed in Bahamian Dollars

1. INCORPORATION AND BUSINESS ACTIVITIES

Finance Corporation of Bahamas Limited (the "Corporation") is incorporated in The Commonwealth of The Bahamas and is licensed under the provisions of the Banks and Trust Companies Regulations Act, 2000. The Corporation is also licensed as an Authorized Dealer, pursuant to the Exchange Control Regulations Act and is 75% owned by RBC Royal Bank Holdings (Bahamas) Limited. On May 10, 2011 R.B.C. Holdings (Bahamas) Limited transferred its ownership in the Corporation to RBC Royal Bank Holdings (Bahamas) Limited, also a wholly-owned subsidiary of the ultimate parent company Royal Bank of Canada. The remaining 25% of the Corporation's shares are publicly traded and listed on The Bahamas International Securities Exchange.

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

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS)

The following new and revised IFRSs and interpretations have been adopted in the current period and have affected the amounts reported in these financial statements.

Standards affecting presentation and disclosure

- IAS 1, Presentation of Financial Statements. Amendments resulting from April 2009 annual improvements to IFRSs (effective January 1, 2010)
- IAS 7, Statement of Cash Flows. Amendments resulting from April 2009 annual improvements to IFRSs (effective January 1, 2010)
- IAS 17, Leases. Amendments resulting from April 2009 annual improvements to IFRSs (effective January 1, 2010)
- IAS 36, Impairment of Assets. Amendments resulting from April 2009 annual improvements to IFRSs (effective January 1, 2010)

Standards and Interpretations in issue not yet adopted

- IAS 1, Presentation of Financial Statements. Amendments resulting from April 2010 annual improvements to IFRSs (annual periods beginning on or after January 1, 2011)
- IAS 1, Presentation of Financial Statements. Amendments to revise the way other comprehensive income is presented (annual periods beginning on or after January 1, 2012)
- IAS 19, Employee Benefits. Amended standard resulting from the post-employment benefits and termination benefits project (annual periods beginning on or after January 1, 2013)

- IAS 24, Related party disclosures. Revised definition of related parties (annual periods beginning on or after January 1, 2011)
- IFRS 7, Financial Instruments: Disclosures. Amendments resulting from May 2010 annual improvements to IFRSs (annual periods beginning on or after January 1, 2011)
- IFRS 7, Financial Instruments: Disclosures. Amendments enhancing disclosure about transfers of financial assets (annual periods beginning on or after July 1, 2011)
- IFRS 9, Financial Instruments. Classification and Measurement (annual periods beginning on or after January 1, 2015)
- IFRS 10, Consolidated Financial Statements (annual periods beginning on or after January 1, 2013)
- IFRS 13, Fair Value Measurement (annual periods beginning on or after January 1, 2013)
- IFRIC 14, Requirements and their interaction. November 2009 amendment with respect to voluntary prepaid contributions (to be effected January 1, 2011)

Management does not expect that the adoption of these standards and interpretations will have a significant impact on the Corporation's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

Statement of compliance

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

Basis of measurement

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

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

b. Basis of consolidation

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

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

As of the balance sheet date, FIAL's application for renewal of its agency licence is pending with the Insurance Commission of The Bahamas. FIAL is taking steps to satisfy all regulatory requirements.

c. Foreign currency translation

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

In preparing the financial statements transactions in currencies other than the functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period assets and liabilities denominated in foreign currencies are translated at the rates prevailing at that date.

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

d. Financial assets

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

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

i. Financial assets at FVTPL

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

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

Financial assets and liabilities are designated at FVTPL when:

- The designation significantly reduces measurement inconsistencies that would arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- Assets and liabilities that are part of a group of financial assets, financial liabilities or both which are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated as "fair value through profit or loss"; and

- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit or loss.

ii. Loans and advances to customers

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

iii. Held-to-maturity financial assets

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

iv. AFS financial assets

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

Purchases and sales of financial assets at FVTPL, held-to-maturity and AFS are recognized on the settlement date - the date on which there is a cash outflow or inflow.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at FVTPL. Financial assets carried at fair value through profit and loss are initially recognized at fair value, and transaction costs are expensed when incurred.

AFS financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and advances to customers and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the statement of comprehensive income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognized in other comprehensive income is recognized in profit or loss. Interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognized in the statement of comprehensive income when the Corporation's right to receive payment is established.

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

v. Derecognition of financial assets

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

e. **Impairment of financial assets**

i. Financial assets carried at amortized cost

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

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

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

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

Generally, loans are considered impaired whenever a payment is 90 days past due. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Corporation may measure impairment on the basis of an instrument's fair value using an observable market price.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped together on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

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

ii. Financial assets classified as AFS

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

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

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

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

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

iii. Renegotiated loans

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

iv. Change in accounting estimate

As further explained in 3e(i) above, effective July 31, 2011 the Corporation amended its general provision estimate of probable losses to better align its levels with that of its parent company and The Central Bank of The Bahamas. The Corporation continues to assess a specific provision on specifically identified borrowers that have become impaired based on the timing of future cash flows, financially responsible guarantors and the realization of collateral. However, a more conservative approach is applied by establishing an allowance for credit losses of at least 7.5% on all loans that show evidence of impairment. The general provision has been set to approximate 1% of the total loan portfolio. The result of these changes was a \$5.4 million reduction in the allowance for credit losses and has been included in the consolidated statement of comprehensive income.

f. Financial liabilities

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

i. Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future;
- or

- it is a part of an identified portfolio of financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

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

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

ii. Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value net of transaction costs and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

iii. Derecognition of financial liabilities

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

g. Revenue recognition

i. Interest income and expense

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

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income and interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or where appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Corporation estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transactions costs and all other premiums or discounts.

ii. Fees and commissions

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

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

h. **Impairment of tangible assets**

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

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

i. **Premises and equipment**

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

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

Freehold land is not depreciated.

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

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

j. Cash and cash equivalents

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

k. Leases

i. The Corporation is the lessee

The leases entered into by the Corporation which does not transfer substantially all the risk and benefits of ownership are classified as operating leases. The total payments made under operating leases are charged to non-interest expense in income on a straight-line basis over the period of the lease.

ii. The Corporation is the lessor

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

l. Provisions

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

m. Share capital

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

n. Dividends

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

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

o. Employee benefits

i. Defined benefit plan

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

ii. Defined contribution plan

Under the defined contribution plan, an employee may contribute up to 10% of their salary and the Bank 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 Bank become vested after the completion of ten years of service. Expenses for services rendered by the employees and related to the defined contribution plan are recognized during the period.

p. Offsetting

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

q. Comparative information

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. Specifically the presentation in the consolidation statement of comprehensive income has been amended. However, these changes have no effect on the net income of the Corporation for the previous year.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

a. Impairment of financial assets

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

b. Fair value of financial instruments including derivatives

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

c. Depreciation and amortization

Depreciation and amortization are based on management estimates of future useful life of fixed assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the amortization or depreciation charges. The Corporation reviews the future useful life of fixed assets periodically taking into consideration the factors mentioned above and all other important factors. Estimated useful life for similar type of assets may vary due to factors such as growth rate, maturity of the market, history and expectations for replacements or transfer of assets, climate etc. In case of significant changes in the estimated useful lives, depreciation and amortization charges are adjusted prospectively.

d. Legal proceedings, claims and regulatory discussions

The Corporation is subject to various legal proceedings, claims and regulatory discussions, the outcomes of which are subject to significant uncertainty. The Corporation evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Unanticipated events or changes in these factors may require the Corporation to increase or decrease the amount the Corporation has accrued for any matter or accrue for a matter that has not been previously accrued for because it was not considered probable, or a reasonable estimate could not be made.

5. CASH AND CASH EQUIVALENTS

	2011	2010
Cash	\$ 1,031,373	\$ 1,021,034
Due from banks	<u>32,314,460</u>	<u>60,007,685</u>
	<u>\$ 33,345,833</u>	<u>\$ 61,028,719</u>

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

6. BALANCES WITH CENTRAL BANKS

The Corporation's statutory reserve account with The Central Bank of The Bahamas is non-interest bearing and includes a mandatory reserve deposit of \$38,438,038 which is based on a ratio to customers' deposits.

7. LOANS AND ADVANCES TO CUSTOMERS

	2011	2010
Retail	\$ 8,700,910	\$ 8,496,758
Home equity and other mortgages	299,018,903	299,295,349
Residential mortgages	565,083,825	537,351,992
Government insured mortgages	<u>1,629,606</u>	<u>2,068,397</u>
	874,433,244	847,212,496
Deferred fee income	<u>(8,093,141)</u>	<u>(7,980,991)</u>
	866,340,103	839,231,505
Interest receivable	4,323,939	5,358,532
Allowance for impairment losses	<u>(28,332,979)</u>	<u>(26,592,105)</u>
Total loans - net	<u>\$ 842,331,063</u>	<u>\$ 817,997,932</u>

Loans categorized by performance are as follows:

Neither past due nor impaired loans and advances	\$ 737,204,046	\$ 708,716,059
Past due but not impaired loans and advances	37,120,120	49,856,085
Impaired loans and advances	<u>100,109,078</u>	<u>88,640,352</u>
Gross loans and advances	<u>\$ 874,433,244</u>	<u>\$ 847,212,496</u>

Loans classified as impaired represent 11.45% (2010: 10.47%) of the total loan portfolio. Allowance for impairment losses represents 3.24% (2010: 3.14%) of the total loan portfolio and 28.30% (2010: 30.00%) of total impaired loans.

Allowance for impairment losses

	2011	2010
Balance at beginning of year	\$ 26,592,105	\$ 25,924,766
Loan and advances written off	(3,544,768)	(923,633)
Recoveries	289,364	245,642
Provision for credit losses	<u>4,996,278</u>	<u>1,345,330</u>
Balance at end of year	<u>\$ 28,332,979</u>	<u>\$ 26,592,105</u>
Specific and collective impairment	\$ 19,658,952	\$ 1,570,874
General impairment	<u>8,674,027</u>	<u>25,021,231</u>
	<u>\$ 28,332,979</u>	<u>\$ 26,592,105</u>

8. INVESTMENT SECURITIES

Securities available-for-sale at fair value

	2011	2010
Securities issued or guaranteed by The Bahamas Government:		
Treasury bills	\$ 14,500,000	\$ 5,335,300
Registered stocks	36,872,900	36,872,900
Corporate bonds	<u>3,037,300</u>	<u>3,037,300</u>
	54,410,200	45,245,500
Interest receivable	<u>477,920</u>	<u>542,441</u>
	<u>\$ 54,888,120</u>	<u>\$ 45,787,941</u>

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

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

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

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

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

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

	2011	2010
Balance, beginning of year	\$ 45,245,500	\$ 49,054,200
Additions	38,439,200	33,529,600
Disposals (sale and redemption)	<u>(29,274,500)</u>	<u>(37,338,300)</u>
Balance, end of year	<u>\$ 54,410,200</u>	<u>\$ 45,245,500</u>

9. PREMISES AND EQUIPMENT

	Land and building	Leasehold premises	Furniture & Equipment	Total
Year ended				
October 31, 2010				
Opening net book value	\$ 534,915	\$ 714,162	\$ 1,120,742	\$ 2,369,819
Additions	-	3,473	162,917	166,390
Disposals	-	-	(93)	(93)
Depreciation charge	<u>(42,744)</u>	<u>(231,751)</u>	<u>(282,818)</u>	<u>(557,313)</u>
Closing net book value	<u>492,171</u>	<u>485,884</u>	<u>1,000,748</u>	<u>1,978,803</u>
As at October 31, 2010				
Total cost	1,282,360	2,108,550	3,112,991	6,503,901
Accumulated depreciation	<u>(790,189)</u>	<u>(1,622,666)</u>	<u>(2,112,243)</u>	<u>(4,525,098)</u>
Net book value	<u>492,171</u>	<u>485,884</u>	<u>1,000,748</u>	<u>1,978,803</u>
Year ended				
October 31, 2011				
Opening net book value	\$ 492,171	\$ 485,884	\$ 1,000,748	\$ 1,978,803
Additions	69,796	10,776	400,262	480,834
Disposals	-	(14,558)	(6,215)	(20,773)
Depreciation charge	<u>(40,451)</u>	<u>(217,403)</u>	<u>(281,274)</u>	<u>(539,128)</u>
Closing net book value	<u>521,516</u>	<u>264,699</u>	<u>1,113,521</u>	<u>1,899,736</u>
As at October 31, 2011				
Total cost	1,352,156	2,082,526	3,459,957	6,894,639
Accumulated depreciation	<u>(830,640)</u>	<u>(1,817,827)</u>	<u>(2,346,436)</u>	<u>(4,994,903)</u>
Net book value	<u>521,516</u>	<u>264,699</u>	<u>1,113,521</u>	<u>1,899,736</u>

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

	2011	2010
Not later than one year	\$ 7,700	\$ 7,700
Later than one year and no later than five years	<u>36,500</u>	<u>36,500</u>
	<u>\$ 44,200</u>	<u>\$ 44,200</u>

10. CUSTOMERS' DEPOSITS

	2011	2010
Savings	\$ 126,796,107	\$ 121,006,751
Term deposits	646,290,284	671,152,124
Current Accounts	<u>26,042,831</u>	<u>24,779,405</u>
	799,129,222	816,938,280
Accrued interest	<u>8,441,144</u>	<u>10,721,005</u>
	<u>\$ 807,570,366</u>	<u>\$ 827,659,285</u>

11. OTHER BORROWED FUNDS AFFILIATED COMPANIES

Other borrowed funds comprise a \$37.3 million promissory note issued to R.B.C Holdings (Bahamas) Limited on November 2, 2009. R.B.C. Holdings (Bahamas) Limited was the Corporation's parent company until May 10, 2011 as disclosed in Note 1. The promissory note bears interest at 5.00% per annum and will be due for repayment on or before August 1, 2012. The amounts payable to affiliated companies are for terms up to 90 days and bear interest at 4.25%.

12. PENSION PLANS

Employees of the Corporation participate in a defined benefit group pension plan and a defined contribution plan of Royal Bank of Canada. The defined benefit group pension plan is funded in accordance with actuarially determined amounts required to satisfy employee benefit entitlements under current pension regulations. The most recent actuarial valuation performed was completed in January 1, 2011 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:

	2011	2010
Discount rate	<u>5.50%</u>	<u>5.75%</u>
Expected return on plan assets	<u>6.65%</u>	<u>6.25%</u>
Rate of increase in future compensation	<u>3.00%</u>	<u>3.00%</u>

The Bank'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 Corporation 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 Corporation become vested after the completion of ten years of service.

During the year, the Corporation's pension expenses arising from the defined benefit plan was \$779,252 (2010: \$648,961) and the defined contribution plan was \$52,793 (2010: \$62,572).

13. SHARE CAPITAL

Share capital consists of the following:

	2011	2010
<i>Authorized:</i>		
27,500,000 common shares at par value B\$0.20		
Issued and fully paid: 26,666,670 common shares	<u>\$ 5,333,334</u>	<u>\$ 5,333,334</u>

14. INTEREST INCOME

	2011	2010
Interest income		
Loans and advances to customers	\$ 63,728,892	\$ 62,925,285
Investment securities	<u>2,331,907</u>	<u>2,542,058</u>
	<u>\$ 66,060,799</u>	<u>\$ 65,467,343</u>

15. INTEREST EXPENSE

	2011	2010
Interest expense		
Customers' deposits	\$ 30,871,633	\$ 35,062,813
Affiliated companies	329,642	308,121
Other interest bearing liabilities	<u>1,865,000</u>	<u>1,855,027</u>
	<u>\$ 33,066,275</u>	<u>\$ 37,225,961</u>

16. NON-INTEREST INCOME

	2011	2010
Non-interest income		
Fees and commissions	\$ 3,464,034	\$ 3,353,439
Foreign exchange earnings	178,173	158,646
Sundry income	<u>83,610</u>	<u>63,875</u>
	<u>\$ 3,725,817</u>	<u>\$ 3,575,960</u>

17. NON-INTEREST EXPENSES

	2011	2010
Non-interest expenses		
Staff cost	\$ 5,634,408	\$ 5,808,542
Premises and equipment expenses, excluding depreciation and operating lease rentals	652,420	903,282
Advertising	83,741	49,824
Depreciation and amortization of tangibles	539,128	557,313
Deposit insurance premium	346,818	315,777
Operating lease rentals	1,423,710	1,158,290
Directors' fees	77,250	70,875
Auditors' fees	95,500	95,500
Other operating expenses	<u>4,105,498</u>	<u>3,324,533</u>
	<u>\$ 12,958,473</u>	<u>\$ 12,283,936</u>

The Protection of Depositors Act, 1999 requires that the Corporation pay an annual premium to the Deposit Insurance Fund based on insurable deposit liabilities outstanding. During the year the Corporation paid \$346,818 into the fund.

18. DIVIDENDS

There were no dividends declared to shareholders during the fiscal years ended 2011 and 2010.

19. CONTINGENT LIABILITIES

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

20. CREDIT AND LEASE COMMITMENTS

- a. Mortgage commitments at year end in the normal course of business amounting to \$41,881,015 (2010: \$39,052,443).
- b. The Corporation is obligated under non-cancelable leases on premises, all of which are operating leases and on which the annual rentals are approximately as follows:

	2011	2010
Within one year	\$ 1,400,849	\$ 1,402,066
One to five years	7,010,885	7,018,280
Over five years	<u>1,404,403</u>	<u>1,404,403</u>
	<u>\$ 9,816,137</u>	<u>\$ 9,824,749</u>

21. RELATED PARTY TRANSACTIONS

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

The Corporation also has technical service and license agreements with RBC Royal Bank (Bahamas) Limited. During the year, \$1,682,591 (2010: \$1,264,642) was expensed in reference to these agreements and is included in general and administrative expense in the consolidated statement of income. The Corporation continues to pursue opportunities for outsourcing with related parties to improve operational efficiency.

All clearing accounts are maintained at RBC Royal Bank (Bahamas) Limited, which acts as a clearing bank for the Corporation. The balance as at October 31, 2011 was \$31,397,220 (2010: \$59,549,286). These deposits are non-interest bearing and are held as a part of the Corporation's Statutory Reserve Requirement.

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

	2011	2010
Assets		
Loans and advances		
Directors and key management personnel	\$ 246,097	\$ 708,066
Liabilities		
Customer Deposits		
Directors and key management personnel	\$ 212,122	\$ 1,756,531
Other related parties	13,276,807	12,445,611
	<u>\$ 13,488,929</u>	<u>\$ 14,202,142</u>
 <u>Comprehensive Income</u>		
	2011	2010
Interest income		
Directors and key management personnel	\$ 14,301	\$ 36,358
Interest expense		
Directors and key management personnel	\$ 7,316	\$ 47,689
Affiliated companies	329,642	308,121
Other related parties	564,758	307,045
Other borrowed funds	1,865,000	1,855,027
	<u>\$ 2,766,716</u>	<u>\$ 2,517,882</u>
 Key management compensation		
Salaries and other short term benefits	\$ 206,273	\$ 521,951

22. STATEMENT OF FINANCIAL POSITION - CATEGORIZATION

	At October 31 2011	At October 31 2010
Assets		
Financial assets at fair value through equity		
Investment securities	\$ 54,888,120	\$ 45,787,941
Financial assets at amortized costs		
Cash on hand and due from banks	33,345,833	61,028,719
Balance with Central Bank	39,372,285	39,845,940
Loans and advances to customers	842,331,063	817,997,932
Other assets	813,731	702,069
	<u>915,862,912</u>	<u>919,574,660</u>
Total financial assets	970,751,032	965,362,601
Non-financial assets	<u>1,899,736</u>	<u>1,978,803</u>
Total assets	<u>\$ 972,650,768</u>	<u>\$ 967,341,404</u>
	At	At
	October 31	October 31
	2011	2010
Liabilities		
Financial liabilities at amortized cost		
Customer deposits	\$ 807,570,366	\$ 827,659,285
Other borrowed funds	37,300,000	37,300,000
Due affiliated companies	6,000,000	-
Other liabilities	<u>2,689,141</u>	<u>2,056,448</u>
Total liabilities	853,559,507	867,015,733
Total equity	<u>119,091,261</u>	<u>100,325,671</u>
Total equity and liabilities	<u>\$ 972,650,768</u>	<u>\$ 967,341,404</u>

23. FINANCIAL RISK MANAGEMENT

Risk is inherent in the Corporation'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 Corporation's continuing profitability. The Corporation is exposed to credit risk, liquidity risk, operational risk and market risk.

a. Liquidity risk

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

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

	Within 3 Months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
At October 31, 2011							
Assets							
Cash and cash equivalents	\$ 33,345,833	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,345,833
Balance with Central Bank	39,372,285	-	-	-	-	-	39,372,285
Investment securities	14,977,920	-	-	25,900	5,092,300	34,792,000	54,888,120
Loans and advances	16,254,132	5,063,808	9,017,677	9,180,196	16,082,510	786,732,740	842,331,063
Others assets	813,731	-	-	-	-	-	813,731
TOTAL	\$ 104,763,901	\$ 5,063,808	\$ 9,017,677	\$ 9,206,096	\$ 21,174,810	\$ 821,524,740	\$ 970,751,032
Liabilities							
Customer deposits	\$ 480,040,698	\$ 193,571,176	\$ 133,567,830	\$ 390,662	\$ -	\$ -	\$ 807,570,366
Other borrowed funds	-	-	-	37,300,000	-	-	37,300,000
Due to affiliated companies	6,000,000	-	-	-	-	-	6,000,000
Other liabilities	2,689,141	-	-	-	-	-	2,689,141
TOTAL	\$ 488,729,839	\$ 193,571,176	\$ 133,567,830	\$ 37,690,662	\$ -	\$ -	\$ 853,559,507
	\$ (383,965,938)	\$ (188,507,368)	\$ (124,550,153)	\$ (28,484,566)	\$ 21,174,810	\$ 821,524,740	\$ 117,191,525
At October 31, 2010							
Assets							
Cash and cash equivalents	\$ 61,028,719	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 61,028,719
Balance with Central Bank	39,845,940	-	-	-	-	-	39,845,940
Investment securities	5,877,741	-	-	-	4,139,500	35,770,700	45,787,941
Loans and advances	19,228,084	4,230,515	8,647,592	9,437,654	19,454,524	756,999,563	817,997,932
Others assets	702,069	-	-	-	-	-	702,069
TOTAL	\$ 126,682,553	\$ 4,230,515	\$ 8,647,592	\$ 9,437,654	\$ 23,594,024	\$ 792,770,263	\$ 965,362,601
Liabilities							
Customer deposits	\$ 496,871,252	\$ 194,936,387	\$ 132,458,621	\$ 3,393,025	\$ -	\$ -	\$ 827,659,285
Other borrowed funds	-	-	-	-	37,300,000	-	37,300,000
Other liabilities	2,056,448	-	-	-	-	-	2,056,448
TOTAL	\$ 498,927,700	\$ 194,936,387	\$ 132,458,621	\$ 3,393,025	\$ 37,300,000	\$ -	\$ 867,015,733
	\$ (372,245,147)	\$ (190,705,872)	\$ (123,811,029)	\$ 6,044,629	\$ (13,705,976)	\$ 792,770,263	\$ 98,346,868

b. Interest rate risk

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

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

	Effect on Net Profit	
	2011	2010
Change in interest rate		
+ 1%	\$ 7,650,000	\$ 7,500,000
- 1%	\$ (7,700,000)	\$ (7,500,000)

Interest sensitivity of assets and liabilities to repricing risk

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

	Within 3 Months	3-6 Months	6-12 Months	1-5 Years	Over 5 Years	Not Interest Rate Sensitive	Total
Assets							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,345,833	\$ 33,345,833
Balance with Central Bank	-	-	-	-	-	39,372,285	39,372,285
Investment securities	14,500,000	-	-	5,118,200	34,792,000	477,920	54,888,120
Loans and advances to customers	774,224,902	99,264	-	-	-	68,006,897	842,331,063
Premises and equipment	-	-	-	-	-	1,899,736	1,899,736
Other assets	-	-	-	-	-	813,731	813,731
TOTAL	\$ 788,724,902	\$ 99,264	\$ -	\$ 5,118,200	\$ 34,792,000	\$ 143,916,402	\$ 972,650,768
Liabilities							
Customer deposits	\$ 471,599,554	\$ 193,571,176	\$ 133,567,830	\$ 390,662	\$ -	\$ 8,441,144	\$ 807,570,366
Other borrowed funds	37,300,000	-	-	-	-	-	37,300,000
Due to affiliated companies	6,000,000	-	-	-	-	-	6,000,000
Other liabilities	-	-	-	-	-	2,689,141	2,689,141
TOTAL	\$ 514,899,554	\$ 193,571,176	\$ 133,567,830	\$ 390,662	\$ -	\$ 11,130,285	\$ 853,559,507
Interest Rate Sensitivity Gap	\$ 273,825,348	\$ (193,471,912)	\$ (133,567,830)	\$ 4,727,538	\$ 34,792,000	\$ 132,786,117	\$ 119,091,261
Cumulative Interest Rate Sensitivity Gap	\$ 273,825,348	\$ 80,353,436	\$ (53,214,394)	\$ (48,486,856)	\$ (13,694,856)	\$ 119,091,261	\$ -

c. Currency risk

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

d. Credit risk

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

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

The following is an analysis of past due financial assets:

	2011				Total
	Residential Mortgages	Home equity and other Mortgages	Government Insured Mortgages	Demand Loans overdrafts	
Past due up to 29 days	\$118,580,428	\$ 58,573,634	\$ 450,403	\$ 568,710	\$178,173,175
Past due 30-59 days	11,727,690	5,292,176	61,564	42,930	17,124,360
Past due 60-89 days	12,713,465	7,231,066	47,247	3,982	19,995,760
Past due 3-6 months	6,297,922	4,021,096	42,532	19,224	10,380,774
Past due 6 months - 1 year	11,816,022	4,522,042	-	68,850	16,406,914
Over 1 year	48,510,194	24,440,432	164,569	206,195	73,321,390
	<u>\$209,645,721</u>	<u>\$104,080,446</u>	<u>\$ 766,315</u>	<u>\$ 909,891</u>	<u>\$315,402,373</u>

	2010				Total
	Residential Mortgages	Home equity and other Mortgages	Government Insured Mortgages	Demand Loans overdrafts	
Past due up to 29 days	\$ 85,690,988	\$ 43,574,478	\$ 365,522	\$ 813,059	\$130,444,047
Past due 30-59 days	13,461,954	5,488,084	28,041	84,064	19,062,143
Past due 60-89 days	20,762,090	9,968,555	62,773	524	30,793,942
Past due 3-6 months	7,507,732	4,004,868	-	33,193	11,545,793
Past due 6 months - 1 year	17,323,374	7,917,846	133,874	33,085	25,408,179
Over 1 year	34,937,777	16,534,247	160,767	53,590	51,686,381
	<u>\$179,683,915</u>	<u>\$ 87,488,078</u>	<u>\$ 750,977</u>	<u>\$ 1,017,515</u>	<u>\$268,940,485</u>

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

	2011	2010
Loans and advances to customers:		
Home equity and other mortgages	\$ 543,237	\$ 1,107,198
Residential mortgages	<u>11,900,024</u>	<u>21,321,779</u>
Total renegotiated loans and advances to customers	<u>\$ 12,443,261</u>	<u>\$ 22,428,977</u>

24. CAPITAL MANAGEMENT

The Corporation's objectives when managing capital are:

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

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

The Central Bank requires the Corporation to maintain minimum Tier 1 and Total Capital ratios of 7% and 14%, respectively. At October 31, 2011 the Corporation's Tier 1 and Total Capital ratios were 19.06% and 20.31% (2010: 15.86% and 17.11%), respectively.

25. OPERATING SEGMENTS

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

	2011		
	<u>Banking</u>	<u>Other</u>	<u>Consolidated</u>
Assets	<u>\$ 966,692,685</u>	<u>\$ 5,958,083</u>	<u>\$ 972,650,768</u>
Liabilities	<u>\$ 852,780,922</u>	<u>\$ 778,585</u>	<u>\$ 853,559,507</u>
Revenue:			
Net interest income	\$ 32,994,524	\$ -	\$ 32,994,524
Fees and commission income	<u>2,382,142</u>	<u>1,343,675</u>	<u>3,725,817</u>
Total income	<u>\$ 35,376,666</u>	<u>\$ 1,343,675</u>	<u>\$ 36,720,341</u>
Total comprehensive income	<u>\$ 17,606,768</u>	<u>\$ 1,158,822</u>	<u>\$ 18,765,590</u>

(Continued)

	2010		
	<u>Banking</u>	<u>Other</u>	<u>Consolidated</u>
Assets	<u>\$ 962,585,092</u>	<u>\$ 4,756,312</u>	<u>\$ 967,341,404</u>
Liabilities	<u>\$ 866,280,097</u>	<u>\$ 735,636</u>	<u>\$ 867,015,733</u>
Revenue:			
Net interest income	\$ 28,241,382	\$ -	\$ 28,241,382
Allowance for credit losses	(10,209,366)	-	(10,209,366)
Fees and commission income	<u>2,183,849</u>	<u>1,392,111</u>	<u>3,575,960</u>
Total income	<u>\$ 20,215,865</u>	<u>\$ 1,392,111</u>	<u>\$ 21,607,976</u>
Net income	<u>\$ 17,001,267</u>	<u>\$ 1,186,809</u>	<u>\$ 18,188,076</u>

(Concluded)

26. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Assets

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

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

Loans and advances to customers

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

Liabilities

Due to banks, customers' deposits and other borrowed funds

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

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