



contents

2	Who We Are: RBC FINCO's Corporate Profile	16	Independent Auditor's Statement
3	Who We Are: Majority Shareholder's Profile	17	Consolidated Statement of Financial Position
4	Financial Highlights	18	Statement of Management Responsibilities
6	Chairman's Report	19	Consolidated Statement of Comprehensive Income
7	Managing Director's Report	20	Consolidated Statement of Changes in Equity
10	Board of Directors	21	Consolidated Statement of Cash Flows
11	Officers & Executive Management Team	22	Notes to the Consolidated Financial Statements
11	Management Team	43	Shareholder's Information and Annual Report Credits
12	Special Feature: "Strengthening Our Community – Global Priorities, Local Initiatives"	44	RBC FINCO Branch Locations and Contact Information

who we are

RBC FINCO's Corporate Profile

Finance Corporation of Bahamas Limited was incorporated on July 24, 1953. As of April 1, 1982, the company became a wholly owned subsidiary of R.B.C. Holdings (Bahamas) Limited, a wholly-owned subsidiary of Royal Bank of Canada. On March 1, 1984, R.B.C. Holdings (Bahamas) Limited sold 25% of its ownership to the Bahamian general public, retaining 75%. The Company employs 95 people who serve more than 50,000 clients through offices in Nassau and Freeport, and has more than 4,000 shareholders.

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

VISION

Always earning the right to be our clients' first choice.

VALUES

Our RBC FINCO values guide our day-to-day behaviour and living; our values will help ensure that we achieve our vision.

- Excellent service to clients and each other.
- Working together to succeed.
- Personal responsibility for high performance.
- Diversity for growth and innovation.
- Trust through integrity in everything we do.

GOALS

- To be recognized as the undisputed lead provider of homes in The Bahamas, while providing attractive interest rates for our depositors.
- Generate superior returns for our shareholders.

STRATEGIC PRIORITIES

- **Enhance the Client Experience –** We will deliver a superior client experience to help clients achieve financial success.
- **Develop our People and Strengthen Their Engagement.**
- **Simplify the Way We Do Business –** We will continue to improve our processes and revise our business models to make it easier for our clients and employees to do business.
- **Optimise Distribution –** We will cost effectively match our channel infrastructure with the needs of our clients.
- **Effectively Manage Risk and Compliance –** We will ensure adherence to policies and procedures and the origination and monitoring of a quality portfolio.

Majority Shareholder's Profile

Royal Bank of Canada (RY on TSX and NYSE) and its subsidiaries operate under the master brand name RBC. We are Canada's largest bank as measured by assets and market capitalization, and are among the largest banks in the world, based on market capitalization. We are one of North America's leading diversified financial services companies, and provide personal and commercial banking, wealth management services, insurance, investor services and wholesale banking on a global basis. We employ approximately 80,000 full- and part-time employees who serve more than 15 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 49 other countries.

Effective October 31, 2012, certain business segments were strategically realigned to better serve and grow our global institutional client base and to leverage our domestic banking expertise across our international operations. We eliminated the International Banking segment and created a new Investor & Treasury Services segment which includes RBC Investor Services, formerly a business under International Banking, and we moved correspondent banking and treasury services from Capital Markets into this new segment. Concurrently, we created a Personal & Commercial Banking segment which includes the former Canadian Banking segment and expanded it to include our banking businesses in the Caribbean and the U.S. From a reporting perspective there were no changes to our Wealth Management or Insurance segments. Our business segments are described below.

In Personal & Commercial Banking, which includes our domestic personal and business banking operations, as well as certain retail investment businesses, we serve 13 million individual, business and institutional clients across Canada, the Caribbean and the U.S. In Canada, we provide a broad suite of financial products and services through our extensive branch, automated teller machine (ATM), online and telephone banking networks, as well as through a large number of proprietary sales professionals. In

the Caribbean, we offer a broad range of financial products and services to individuals, business clients and public institutions in their respective markets. In the U.S., our cross-border banking business serves the needs of Canadian clients within the U.S.

In the Canadian financial services industry where we compete with other Schedule I banks, independent trust companies, foreign banks, credit unions and caisses populaires, we have top rankings in market share for most retail financial product categories, the largest branch network, the most ATMs and the largest mobile sales network across Canada. In the Caribbean, we compete against banks, trust companies and investment management companies serving retail corporate and institutional customers. We are the second largest bank as measured by assets in the English Caribbean, with 121 branches in 19 countries and territories. In the U.S., we compete primarily with other Canadian banking institutions with operations in the U.S., along with traditional U.S. retail banking institutions and U.S. wealth management firms with integrated banking and brokerage capabilities.

Our Wealth Management segment serves affluent, high net worth and ultra high net worth clients in Canada, the U.S., the U.K., Europe and emerging markets, with a comprehensive suite of investment, trust, banking, credit and other wealth management solutions. We also provide asset management products and services directly to institutional and individual clients as well as through RBC distribution channels and third-party distributors. In 2012, we were recognized as a top 10 global wealth manager, ranking sixth globally by assets for the second consecutive year in Scorpio Partnership's 2012 Global Private Banking KPI Benchmark. We also received numerous Canadian, U.S. and international awards, reflecting the strength of our global capabilities and commitment to client service.

Our Insurance segment comprises our insurance operations in Canada and globally. In Canada, we offer life, health, property and casualty insurance products as well as wealth accumulation solutions

Majority Shareholder's Profile (continued)

to individual and group clients. We offer insurance products and services through our proprietary distribution channels, comprised of the field sales force which includes retail insurance branches, our field sales representatives, call centres and online, as well as through independent insurance advisors and travel agencies in Canada. Outside North America, we operate in reinsurance markets globally and offer life and health, accident, annuity and trade credit reinsurance products.

Our Investor & Treasury Services segment offers global custody and fund administration, as well as an integrated suite of products and services to institutional investors worldwide. We also provide cash management, correspondent banking and trade finance services to financial institutions globally, and funding and liquidity management for RBC as well as other select institutions. We are a top 10 global custodian by assets under administration with a worldwide network of offices in 15 countries. In 2012 we were ranked best custodian overall (Global Investor) and custodian of the year in Canada (Custody Risk Americas Awards).

Our Capital Markets segment comprises the majority of our global wholesale banking businesses providing public and private companies, institutional investors, governments and central banks with a wide range of products and services. In North America, we offer a full suite of products and services which include corporate and investment banking, equity and debt origination and distribution, and structuring and trading. Outside North America, we have a select presence in the U.K., Europe and Asia Pacific, where we offer a diversified set of capabilities in our key sectors of expertise such as energy, mining and infrastructure. In Canada, we were named Best Investment Bank in Canada by Euromoney Magazine for the fifth consecutive year and as a result of our successes in each of our regions, we were ranked globally as the 10th largest investment bank by fees (Dealogic – published October 2, 2012).

	Change 2012/2011	2012	2011	2010	2009	2008
EARNINGS						
Net interest income	7.63%	\$39,956,957	\$37,122,980	\$28,241,382	\$28,314,047	\$28,333,232
Non-interest income	0.47%	3,743,181	3,725,817	3,575,960	3,558,251	3,376,877
Total Revenues	6.98%	43,700,138	40,848,797	31,817,342	31,872,298	31,710,109
Impairment losses on loans and advancements	114.78%	19,597,777	9,124,734	1,345,330	15,073,431	5,337,212
Non-interest expense	1.25%	13,120,538	12,958,473	12,283,936	12,236,236	11,917,009
Net Income	-41.48%	10,981,823	18,765,590	18,188,076	4,562,631	14,455,888
Efficiency Ratio	-777 bps	30.02%	31.72%	38.61%	38.39%	37.58%
Return on equity	-829 bps	8.81%	17.10%	19.94%	5.26%	15.68%
BALANCE SHEET DATA						
Loans (Net)	0.36%	\$845,337,679	\$842,331,063	\$817,997,932	\$772,442,403	\$692,078,638
Assets	0.11%	973,694,362	972,650,768	967,341,404	907,974,071	800,627,248
Deposits	-1.87%	784,561,511	799,516,718	827,659,285	823,508,692	680,510,132
Equity	9.22%	130,073,084	119,091,261	100,325,671	82,137,595	91,441,632
COMMON SHARE INFORMATION						
Earnings per share	\$(0.29)	\$0.41	\$0.70	\$0.68	\$0.17	\$0.54
Dividend per share	–	–	–	–	0.52	0.57
Book value per share year-end	0.41	4.88	4.47	3.76	3.08	3.43
NUMBER OF:						
Employees	-8	97	105	126	146	142
Automated banking machines	–	5	5	5	5	5
Service delivery units	–	6	6	6	6	6

Net Interest Income

Net interest income is comprised of interest earned on mortgages and securities less interest paid on deposits from customers and other financial institutions. Net interest income increased by 7.63% during the year. This increase is due primarily to lower interest paid on deposits during the year.

Non-Interest Income

Non-interest income consists of all income not classified as interest income such as bank fees, commissions and service charges. Marginal decreases in commissions and service charges were offset by increases in credit related fee income. The change over the previous year is minimal.

Impairment for Credit Losses

The impairment charge for credit losses was \$19.6 million (2011: \$9.1 million). The unfavourable increase in the provision charge is attributable to increases in non-accrual loans and an adjustment of \$9.1 million which is the result of a change in the realization period and discount rate estimate for calculating the time value of money on non-performing loans. The total allowance for impairment losses is 4.69% of the loan portfolio and 40.21% of non-performing loans, compared to 3.24% and 28.30%, respectively at the end of fiscal 2011. Total non-performing loans, which represent 11.66% (2011: 11.45%) of the loan portfolio is lower than the industry average.

Non-Interest Expenses

Non-interest expenses increased slightly by 1.25% during fiscal 2012. The Bank continues to actively manage its costs and pursue opportunities to increase efficiency.

Net Income

The Bank's net income decreased to \$11 million or 41.48% when compared to \$18.8 million in the previous year. This decrease is due primarily to the change in estimate of impairment losses mentioned previously.

Loans-net

The loan portfolio grew to \$845.3 million (increase of \$3 million or 0.36%) compared to \$842.3 million for fiscal year 2011. This sluggish growth is indicative of the current economic challenges.

Earnings Per Share (EPS)

Earnings per share decreased to \$0.41 compared to \$0.70 in the previous year.

Dear Shareholders,

Finance Corporation of Bahamas Limited (RBC FINCO) recorded \$10.9 million in net income for the fiscal year ended October 31, 2012. This compares to \$18.8 million in net income recorded in the previous year.

The 42% decline in net income is attributed to increased provisioning for loan losses. Non-performing loans remained high at \$104 million. The slow economic recovery has impacted the level of house sales in the market and the time period required to sell properties under the Bank's power of sale. As a result, RBC FINCO has revised its estimate of the average period to recover on its collateral from 1 year to 3 years. This change resulted in an increase of \$9.1 million in the allowance for loan losses which impacted net income.

RBC FINCO experienced growth in its mortgage portfolio of 2.8%, compared to 3.43% growth in 2011. The Bank's non-performing loan portfolio remained relatively flat in 2012 compared to 2011. The non-performing loan ratio was 11.66% at the end of the year, compared to 11.45% in 2011. This ratio is better than the industry average of 15.81%.

After much deliberation, and considering the current year profit, the strength of the Bank's capital ratios, the stability of its non-performing loans and the Bank's consistent profitability, the Board of Directors determined to pay a special dividend of \$0.10 per share to shareholders of record as of December 27, 2012. The Board will continue to carefully monitor the company's overall performance to ensure good corporate governance and prudent management of the Company's balance sheet.

We were pleased to collaborate with the Government of The Bahamas and key private stakeholders, particularly the Clearing Banks Association of The Bahamas in formulating the Government's Mortgage Relief Plan. Under the Mortgage Relief Plan and our standard practice of working with our clients to deal with their individual needs, we have re-structured \$30 million in mortgages during 2012, helping our customers keep their homes.

RBC FINCO has been faithfully serving clients in The Bahamas for 58 years and this is our 28th year as a public company. There continues to be a strong demand for mortgages. Our employees provide the highest level of service and sound financial advice to help our clients realize their dreams.

Our majority shareholder, RBC Royal Bank of Canada, is Canada's largest bank by assets and market capitalization, with broad leadership in financial services. With offices in Canada, the United States and 49 other countries around the world, RBC holds strong market positions globally. Our ability to leverage the majority shareholder helps to ensure the strength and stability of RBC FINCO.

On behalf of the Board of Directors, I wish to commend our management and staff for their commitment and thank them for their significant contributions to RBC FINCO in 2012. We are grateful to our Board of Directors for their service and acknowledge their dedication to the highest standards of corporate governance.



Michael Detje
Chairman, RBC FINCO

During the year under review, the bank maintained its disciplined approach to implementing its strategic priorities, resulting in growth in our mortgage portfolio of 2.8%. The current challenging economic conditions continued to impact our financial performance, as the level of non-performing loans remained high. Our five core objectives continued to predicate all of our activities:

- 1) Enhance the client experience;
- 2) Develop our people and strengthen their engagement;
- 3) Simplify the way we do business;
- 4) Optimise distribution;
- 5) Effectively manage risk and compliance.

Enhance the Client Experience

We placed greater emphasis on the continued provision of quality customer service this year. During 2012, we conducted a group customer satisfaction survey. Our overall ratings exceeded all of the benchmarks. Nonetheless, where we identified opportunities to enhance the client experience we have developed and implemented action plans. This year, all staff focused on improving turn-around time on applications, client concerns management and effective problem resolution.

Develop Our People and Strengthen Their Engagement

Based on the results of the 2012 Employee Opinion Survey, RBC FINCO employees remain highly engaged. We are committed to providing opportunities for career advancement, professional development and training for our staff. The focus for the upcoming fiscal year will be on employee enablement – providing effective coaching and feedback as a means of ensuring that the expectations of staff are met.

Reward and recognition of staff members who contribute to our success is encouraged and practiced at all levels. RBC FINCO will be represented at the RBC global convention for exceptional per-

formers by Mr. Eugene Goodman, a Mortgage Specialist at the Palmdale Branch.

Simplify the Way We Do Business

We continue to leverage the capabilities of RBC Royal Bank (Bahamas) Limited as we streamline our processes, align them to global enterprise standards, and improve operational efficiency. The results speak for themselves as our efficiency rating continually improves year over year. Currently it stands at 34.4%, compared to 36.7% in 2011.

Through service level agreements, back office functions are now done locally by RBC Royal Bank allowing our team to focus primarily on accelerating business performance.

Optimise Distribution

As we revisit the way we serve our clients through various distribution channels, RBC FINCO focused on creating greater synergies with our partners across the Group, which include RBC Royal Bank (Bahamas) Limited, RBC International Wealth Management and Royal Fidelity Merchant Bank & Trust Ltd. Through the strength of our distribution network, our clients enjoy full access to the entire suite of RBC products to meet their needs.

In 2012, our dedicated sales team focused on relationship building with new clients. Our existing client base has remained a key priority for driving business growth with a renewed focus on target marketing. Our sales initiatives have been facilitated by the support of the parent company's marketing team who has organised a number of successful events including Home Expos both in New Providence and Grand Bahama. We also ran a number of sales campaigns with a focus on bundling both mortgage and personal banking products. We have partnered with key stakeholders including realtors and developers to host open houses at various real estate developments in New Providence.

Effectively Manage Risk and Compliance

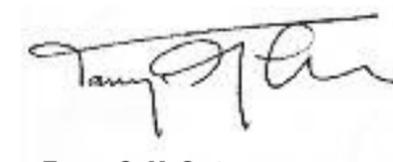
We remain committed to assisting our clients who have historically been consistent with meeting their commitments but who, due to the economic environment, are challenged with meeting their mortgage obligation.

The bank's level of provisioning for non-performing loans is consistent with our policy, and in line with industry standards. Again, we managed overall risk well this year. Audits and reviews conducted during the fiscal year identified no significant control deficiencies. Where there are opportunities to improve internal controls we have implemented action plans.

The Way Forward

We have identified our priorities for the 2013 fiscal year to ensure that we continue on a growth trend. These include:

- 1) New Client Acquisition;
- 2) Employee Skill Building;
- 3) Leveraging our RBC relationship to ensure that our clients are offered the full suite of mortgage and personal banking products;
- 4) Ensuring effective Revenue and Fee Collection;
- 5) Ensuring efficient flow of Referral Business between RBC partners.



Tanya C. McCartney
Managing Director
RBC FINCO

board of directors



MICHAEL DETJE

Chairman of the Board
Chief Financial Officer
RBC Financial
(Caribbean) Limited



**NATHANIEL BENEY JR.,
F.B.I.F.S., B.SC., M.B.A.**

Market Head, Personal Banking
RBC Royal Bank
The Bahamas, Cayman,
and Turks & Caicos Islands



**JULIAN W. FRANCIS,
C.B.E., M.B.A.**

Former Governor of the
Central Bank of The Bahamas



**TANYA C. MCCARTNEY,
L.L.B., L.L.M.**

Managing Director
RBC FINCO



ROSS A. MCDONALD, B.A., M.B.A.

Former Head of Caribbean Banking
RBC Royal Bank



ANTHONY A. ROBINSON, BSC.

Managing Director
Sun Oil Limited



HARRIET THORNHILL

Regional President
Personal Banking
RBC Financial
(Caribbean) Limited



LARRY WILSON, CPA

Head, Finance
RBC Royal Bank
The Bahamas, Cayman,
and Turks & Caicos Islands

officers and executive management team



**CHRISTOPHER HANNA, C.P.A.,
C.A.**

Manager, Financial
Control & Planning



KANDI CASH

Head, Compliance
Bahamas, Cayman and
Turks & Caicos Islands



SARSWATI MAHARAJ

Corporate Secretary

management team



EDWARD STRACHAN

Manager
RBC FINCO
Mortgage Center

DETRICE HANNA

Branch Manager
RBC FINCO
Robinson Rd. Branch

BRENT DEVEAUX

Branch Manager
RBC FINCO
Carmichael Rd. Branch

DIONNE SMITH BOWE

Manager, Mortgages
RBC FINCO
Freeport Branch

MARCUS HUTCHESON

Branch Manager
RBC FINCO
Palmdale Branch

Strengthening Our Community: Global Priorities, Local Initiatives

RBC FINCO recognizes that our strength as a company is not only determined by how well we serve our clients, but by how well we address the important needs of our communities and contribute to their present and future well-being.

Our investments across The Bahamas through charitable donations and sponsorship programmes are aligned with the vision of our corporate parent, RBC Royal Bank of Canada, and together serve to reinforce our presence and commitment to being an active corporate citizen.

As part of the RBC Royal Bank of Canada Group, RBC FINCO shares in a global commitment to:

- Support a wide range of community and civic causes.
- Provide significant sponsorship and assistance to organizations whose goals are aligned with RBC's strategic focus areas.
- Encourage and enable employees to contribute to their communities.

Guided by these principles, our businesses across The Bahamas and the Caribbean are making a positive difference.

COMMUNITY & CIVIC INITIATIVES

RBC FINCO supports a wide range of social, cultural, educational and environmental organizations that help in the development and growth of the Bahamian society. In 2012, RBC FINCO and RBC Royal Bank combined made close to 200 donations to local charitable organizations investing over \$700,000.00.

While we support many worthy causes, we place special focus on the following priority areas so our investments can have an even greater impact on people's lives.

RBC PRIORITY PROJECTS

RBC's global and regional Priority Projects include the RBC Children's Mental Health Project, RBC Emerging Artists Project, RBC Blue Water Project, the RBC Children's Cancer Fund and the RBC Employee Volunteer Programme.



RBC FINCO makes a donation to the PACE Foundation during the 59th anniversary of the opening of its Main Branch, Shirley St.

RBC Children's Mental Health Project

The RBC Children's Mental Health Project is a multi-year philanthropic commitment to support community-based and hospital programmes that reduce stigma, provide early intervention and increase public awareness about children's mental health issues. Mental health is at the very foundation of a child's readiness for interacting with the world and success in school. The following are some of the local organizations RBC FINCO has partnered with to assist in the well being and emotional health of children throughout our community:

- **PACE Foundation** – In commemoration of the 59th Anniversary of RBC FINCO's Main Branch in Nassau, a donation was made to PACE Foundation. For over 40 years, PACE has helped first time teenage mothers to complete their education and acquire the skills they need to begin building better lives for themselves.
- **Elizabeth Estates Children's Home** – In partnership with The Links organization, RBC pledged its support of the Elizabeth Estates Children's Home. The funds were used to provide continuous mental healthcare to girls aged 14 to 18 who reside at the Elizabeth Estates children's home.

RBC Emerging Artists Project

RBC FINCO believes in the power of the arts to enrich our lives and enhance our communities. The RBC Emerging Artists Project provides sponsorship and donations to organizations in support of emerging artists.



Students of the 2012 RBC Summer Arts workshop attend a special class at the National Art Gallery of The Bahamas. RBC has supported the workshop for emerging artists for the past 31 years.

- **RBC Summer Arts Workshop:** In 2012, RBC held its 31st annual Summer Arts Workshop. The Workshop is conducted in partnership with the Ministry of Education and the local arts community, and is regarded by many as the most comprehensive learning programme for young Bahamian art students. By being immersed in an interactive environment, participants are trained in various artistic styles and techniques by a cadre of local professional artists and teachers.
- **Bahamas International Film Festival:** As a corporate sponsor of The Bahamas International Film Festival (BIFF) since its inception, RBC FINCO and RBC Royal Bank have continued to work with the Festival's committee to present the best of international and local films to Bahamians and visitors alike. RBC's partnership with BIFF focuses on building the expertise of emerging film makers through master classes with and exposure to some of the global film industry's most celebrated professionals.

RBC Blue Water Project

RBC's Blue Water Project, is a global initiative that helps preserve and protect the world's freshwater resources, and fosters a culture of water stewardship around the globe. RBC FINCO celebrated its 3rd Annual Blue Water Day in 2012, and along with RBC Royal Bank, has supported a number of initiatives throughout The Bahamas:

- **Bahamas National Trust Grant** – RBC FINCO and RBC Royal Bank facilitated a grant to the



RBC and the Bahamas National Trust partner in a public education initiative about the environment at the Marathon Mall.

- **Bahamas National Trust (BNT),** in support of work towards preserving the considerable fresh water resources in the west side of Andros Island.
- **Andros Conservancy and Trust** – RBC provided a grant to the Andros Conservancy and Trust to assist in the cleaning and restoration of Cousteau's Blue Hole (Fresh Creek, Andros).
- **Public Education Initiatives** – In an effort to raise public awareness about Water Conservation, RBC promoted several programmes including a travelling exhibit on water, developed by The Bahamas National Trust; and the "Essence of Water" photography contest.

RBC Caribbean Children's Cancer Fund

The RBC Caribbean Children's Cancer Fund was established four years ago to assist paediatric cancer patients across the Caribbean – ages 16 and under – by providing access to funding for the testing and treatment of childhood cancers. The Children's Cancer Fund has already assisted children from 5 countries throughout the Caribbean including three children, ages five through nine, from The Bahamas.

In September 2012, RBC FINCO branches along with members of the public held awareness and fund raising initiatives in support of Children's Cancer. Parents and guardians of children diagnosed with cancer were encouraged to visit the Children's Cancer Fund website and apply for assistance.



RBC FINCO staff volunteered at the 2012 Red Cross Fair, one of the major fund raisers of the Bahamas Red Cross Society.

EMPLOYEE VOLUNTEERISM AT RBC

In addition to donating funds to numerous social, cultural and environmental organizations, RBC encourages employee volunteerism. In The Bahamas, RBC FINCO employees lend their energy and expertise to organizations and initiatives that positively impact the community.

RBC Employees Give Back

RBC sponsors employee volunteer programmes to support the critical role that its employees play in community building:

- The RBC Day of Service Grant supports and recognizes employees who respond to a community need.
- The RBC Employee Volunteer Grants Programme provides donations to support charities at which RBC employees volunteer during their personal time.
- The RBC Community Spirit Award honours individual employees for their outstanding leadership and dedication to making a difference in their community through volunteerism.

In 2012, RBC employees volunteered their time and talents in support of many local organizations and initiatives including the following:

- **Bahamas Red Cross Fair** – RBC FINCO staff volunteered at the 2012 Red Cross Fair, one of the major fund raisers of the Bahamas Red Cross Society.
- **Atlantic Medical Fun Run/ Walk** – RBC FINCO volunteers participated in the Atlantic Medical Fun Run/ Walk in support of the Cancer Society of The Bahamas.
- **National Art Gallery of The Bahamas (NAGB) Membership Fair and Art Raffle** – RBC FINCO staff volunteered at the NAGB Membership Fair and Art Raffle.

RBC FINCO'S COMMITMENT TO STRENGTHENING COMMUNITIES

RBC believes that working together with other stakeholders strengthens our ability to contribute to the growth, development and social fabric of our communities. We have a long history of support for communities where we live and work, addressing today's needs and seeding tomorrow's success. Reinforcing our community efforts is our unwavering commitment to operate with integrity at all times, engage with stakeholders, understand the issues, and strive to have a positive impact.

In 2011, RBC contributed \$98 million to community causes worldwide. RBC is one of the largest corporate donors in The Bahamas.

“RBC will continue to develop its current programs and look to introduce new initiatives that benefit the wider Bahamian society”, said Ms. Tanya McCartney, Managing Director, RBC FINCO. She continued, “We are proud to make a difference in our communities.”

RBC FINCO'S 2012 consolidated financial statements



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, 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

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 auditor's 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, 2012 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 3b to the consolidated financial statements which indicate that the renewal application of the Corporation's subsidiary for its agency licence as required by the Insurance Act 2009 is pending with the Insurance Commission of The Bahamas (the "Commission"). The Corporation's subsidiary has been permitted by the Commission to continue business as an insurance intermediary for mortgage clients of the Corporation in the interim as the deadline for registration of foreign intermediaries was extended to September 30, 2013. Our opinion is not qualified in respect to this matter.

December 21, 2012

A member firm of
Deloitte Touche Tohmatsu

STATEMENT OF MANAGEMENT RESPONSIBILITIES

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

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

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

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

Director
December 21, 2012

Manager, Financial Control & Planning
December 21, 2012

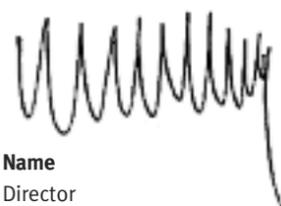
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in Bahamian Dollars)

	At October 31 2012	At October 31 2011
ASSETS		
Cash and cash equivalents (Note 5)	\$ 37,577,094	\$ 33,345,833
Balance with The Central Bank of The Bahamas (Note 6)	41,418,985	39,372,285
Loans and advances to customers (Note 7)	845,337,679	842,331,063
Investment securities (Note 8)	47,382,273	54,888,120
Premises and equipment (Note 9)	1,319,438	1,899,736
Other assets	658,893	813,731
TOTAL ASSETS	\$ 973,694,362	\$ 972,650,768
LIABILITIES AND EQUITY		
LIABILITIES:		
Customers' deposits (Note 10)	\$ 784,561,511	\$ 799,516,718
Other borrowed funds (Note 11)	27,300,000	37,300,000
Affiliated companies (Note 11)	28,142,059	14,053,648
Other liabilities	3,617,708	2,689,141
TOTAL LIABILITIES	843,621,278	853,559,507
EQUITY:		
Share capital (Note 13)	5,333,334	5,333,334
Share premium	2,552,258	2,552,258
General reserve	500,000	500,000
Retained earnings	121,687,492	110,705,669
TOTAL EQUITY	130,073,084	119,091,261
TOTAL LIABILITIES AND EQUITY	\$ 973,694,362	\$ 972,650,768

The notes on pages 9 to 39 form an integral part of these consolidated financial statements.

On December 21, 2012, the Board of Directors of Finance Corporation of Bahamas Limited authorized these consolidated financial statements for issue.



Name
Director



Larry Williams
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Expressed in Bahamian Dollars)

	Year Ended October 31 2012	Year Ended October 31 2011
Interest income (Note 14)	\$ 65,878,465	\$ 70,189,255
Interest expense (Note 15)	(25,921,508)	(33,066,275)
Net interest income	39,956,957	37,122,980
Non-interest income (Note 16)	3,743,181	3,725,817
Total income	43,700,138	40,848,797
Non-interest expenses (Note 17)	(13,120,538)	(12,958,473)
Impairment losses on loans and advances (Note 7)	(19,597,777)	(9,124,734)
Total net and comprehensive income for the period	\$ 10,981,823	\$ 18,765,590
Earnings per share (basic and diluted)	\$ 0.41	\$ 0.70

The notes on pages 7 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Expressed in Bahamian Dollars)

	Share Capital	Share Premium	General Reserve	Retained Earnings	Total
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	–	–	–	18,765,590	18,765,590
Balance at end of year	\$ 5,333,334	\$ 2,552,258	\$ 500,000	\$ 110,705,669	\$ 119,091,261
YEAR ENDED OCTOBER 31, 2012					
Balance at beginning of year	\$ 5,333,334	\$ 2,552,258	\$ 500,000	\$ 110,705,669	\$ 119,091,261
Comprehensive income	–	–	–	10,981,823	10,981,823
Balance at end of year	\$ 5,333,334	\$ 2,552,258	\$ 500,000	\$ 121,687,492	\$ 130,073,084

The notes on pages 7 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in Bahamian Dollars)

	Year Ended October 31 2012	Year Ended October 31 2011
OPERATING ACTIVITIES		
Net income	\$ 10,981,823	\$ 18,765,590
ADJUSTMENTS FOR:		
Impairment losses on loans and advances to customers	19,597,777	9,124,734
Depreciation and amortization of tangible assets	400,483	539,128
(Loss) gain on disposal of premises and equipment	121,616	(9,227)
Amortization of deferred fee income	(159,391)	112,150
	30,942,308	28,532,375
(INCREASE) DECREASE IN OPERATING ASSETS		
Balances with Central Bank	(2,046,700)	473,655
Loans and advances to customers	(22,316,480)	(29,377,038)
Other assets	154,838	(111,661)
INCREASE (DECREASE) IN OPERATING LIABILITIES		
Affiliated companies	14,088,411	6,000,000
Customers' deposits	(14,955,207)	(20,088,920)
Other liabilities	928,567	632,693
Cash from (used in) operating activities	6,795,737	(18,067,352)
INVESTING ACTIVITIES		
Purchase of investment securities	(34,969,700)	(33,686,100)
Proceeds from sale and redemption of investment securities	42,469,700	24,521,400
Additions to premises and equipment	(64,476)	(480,834)
Proceeds from sale of premises and equipment	–	30,000
Cash from (used in) investing activities	7,435,524	(9,615,534)
FINANCING ACTIVITY		
Payments on other borrowed funds	(10,000,000)	–
Cash used in financing activity	(10,000,000)	–
Net (increase) decrease in cash and cash equivalents	4,231,261	(27,682,886)
Balance at beginning of period	33,345,833	61,028,719
Balance at end of period	\$ 37,577,094	\$ 33,345,833

The notes on pages 7 to 37 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2012

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 and is also licensed as an Authorized Dealer, pursuant to the Exchange Control Regulations Act. The Corporation 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 AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERNATIONAL ACCOUNTING STANDARDS (IAS)

In the current year, there were several new and amended Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB effective for annual reporting periods beginning on or after November 1, 2011. The adoption of these Standards and Interpretations has not led to any changes in the Corporation's accounting policies.

a. Standards and Interpretations effective but not affecting the reported results or financial position

- IAS 24 *Related party disclosures* – Revised definition of related parties (annual periods beginning on or after 1 January 2011)
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Amendments resulting from May 2010 Annual Improvements to IFRSs (annual periods beginning on or after 1 January 2011)
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Replacement for 'fixed dates' for certain exceptions with 'the date of transaction to IFRSs (annual periods beginning on or after 1 July 2011)
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Additional exemption for entities ceasing to suffer from severe hyperinflation (annual periods beginning on or after 1 July 2011)
- IFRS 7 *Financial Instruments: Disclosures* – Amendments resulting from May 2010 annual improvements to IFRSs (annual periods beginning on or after 1 January 2011)
- IFRS 7 *Financial Instruments: Disclosures* – Amendments enhancing disclosure about transfers of financial assets (annual periods beginning on or after 1 July 2011)
- IAS 1 *Presentation of Financial Statements* – Amendments resulting from April 2010 annual improvements to IFRSs (annual periods beginning on or after 1 January 2011)

b. Standards and Interpretations in issue but not yet effective

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Amendments (March 2012) providing an exception to the retrospective application of IFRS guidance for government loans at below-market interest rate. (annual periods beginning on or after 1 January 2013)
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Amendments resulting from Improvements to IFRSs (May 2012) relating to repeated application to IFRS 1 and borrowing costs capitalized under previous GAAP. (annual periods beginning on or after 1 January 2013)

- IFRS 9 *Financial Instruments* – Classification and Measurement (annual periods beginning on or after 1 January 2015)
- IFRS 10 *Consolidated Financial Statements* – (annual periods beginning on or after 1 January 2013)
- IFRS 11 *Joint Arrangements* – (annual periods beginning on or after 1 January 2013) IFRS 12 *Disclosure in Interests in Other Entities* – (annual periods beginning on or after 1 January 2013)
- IFRS 13 *Fair Value Measurement* – (annual periods beginning on or after 1 January 2013)
- IAS 1 *Presentation of Financial Statements* – Amendments to revise the way other comprehensive income is presented (annual periods beginning on or after 1 July 2012)
- IAS 1 *Presentation of Financial Statements* – Clarification of the requirements for comparative information (annual periods beginning on or after 1 July 2013)
- IAS 12 *Income Taxes* – Limited scope amendment (recovery of underlying assets) (annual periods beginning on or after 1 January 2012)
- IAS 19 *Employee Benefits* – Amended standard resulting from the post-employment benefits and termination benefits project (annual periods beginning on or after 1 January 2013)
- IAS 27 *Consolidated and Separate Financial Statements* – Re-issued as IAS 27 *Separate Financial Statements* (as amended in 2011), (annual periods beginning on or after 1 January 2013)
- IAS 28 *Investments in Associates* – Re-issued as IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2011), (annual periods beginning on or after 1 January 2013)
- IAS 32 *Financial Instruments: Presentation* – Offsetting financial assets and financial liabilities (annual periods beginning on or after 1 January 2014)
- IAS 16 *Property, Plant and Equipment* – Classification of servicing equipment (annual periods beginning on or after 1 January 2013)
- IAS 32 *Financial Instruments Presentation* – Tax effect of distribution to holders of equity instruments (annual periods beginning on or after 1 January 2013)
- IAS 34 *Interim Financial Reporting* – Interim financial reporting and segment information for total assets and liabilities (annual periods beginning on or after 1 January 2013)
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* – (annual periods beginning on or after 1 January 2013)
- IFRIC 14 *Requirements and voluntary prepaid contributions* – (to be effected 1 January 2011)

Management has not assessed whether the relevant adoption of these standards and interpretations in future periods will have a material impact on the financial statements of the Corporation.

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 statement of financial position date, FIAL's application for renewal of its agency licence is pending with the Insurance Commission of The Bahamas. FIAL is currently in final negotiations 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 financial assets; and available-for-sale (AFS) financial assets. Management determines the classification of its investments at initial recognition.

i. Financial assets at FVTPL

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

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

Financial assets and liabilities are designated at FVTPL when:

- The designation significantly reduces measurement inconsistencies that would arise from measuring the assets or liabilities or recognising gains or 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 at "fair value through profit or loss"; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit or loss.

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.

v. Gains and losses

AFS financial assets and financial assets at FVTPL are subsequently carried at fair value. Loans and advances to customers and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at FVTPL 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 AFS financial assets are recognized in other comprehensive income, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognized in other comprehensive income is recognized in profit or loss. Interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the statement of comprehensive income.

Dividends on AFS 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.

vi. Effective interest method

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

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

vii. Derecognition of financial assets

The 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 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 AFS, the cumulative loss in the other comprehensive income measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the other comprehensive income is removed and recognized in profit or loss.

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

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

During the year, the Corporation amended its discount rate and realization period in respect of future cash flows on non-performing loans. This change in estimate is treated prospectively in these financial statements and resulted in an \$11.6 million increase in the allowance for impairment losses. The Corporation's policy with respect to impairment losses is further explained in Note 3(e)(i).

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. 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:

Buildings 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.

i. 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.

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 consolidated financial statements.

o. Earnings Per Share

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

p. Employee benefits

i. Defined benefit plan

The 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, pro-

jected 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.

q. Offsetting

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

r. Comparative information

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.

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

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 replace-

ments 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

	2012	2011
Cash	\$ 1,031,373	\$ 1,021,034
Due from banks	32,314,460	60,007,685
	<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 noninterest bearing and includes a mandatory reserve deposit of \$38,985,625 (2011: \$38,438,038) which is based on a ratio to customers' deposits.

7. LOANS AND ADVANCES TO CUSTOMERS

Loans consist of the following:

	2012	2011
Retail	\$ 7,672,737	\$ 8,700,910
Home equity and other mortgages	260,605,137	299,018,903
Residential mortgages	621,709,509	565,083,825
Government insured mortgages	1,384,331	1,629,606
	<u>891,371,714</u>	<u>874,433,244</u>
Deferred fee income	(7,933,750)	(8,093,141)
	<u>883,437,964</u>	<u>866,340,103</u>
Interest receivable	3,674,799	4,323,939
Allowance for impairment losses	(41,775,084)	(28,332,979)
Total loans – net	<u>\$ 845,337,679</u>	<u>\$ 842,331,063</u>

Loans categorized by performance are as follows:

Neither past due nor impaired loans and advances	\$ 743,117,730	\$ 737,204,046
Past due but not impaired loans and advances	44,350,111	37,120,120
Impaired loans and advances	103,903,873	100,109,078
Gross loans and advances	<u>\$ 891,371,714</u>	<u>\$ 874,433,244</u>

Loans classified as impaired represent 11.66% (2011: 11.45%) of the total loan portfolio. Allowance for impairment losses represents 4.69% (2011: 3.24%) of the total loan portfolio and 40.21% (2011: 28.30%) of total impaired loans.

Allowance for impairment losses:

	2012	2011
Balance at beginning of year	\$ 28,332,979	\$ 26,592,105
Loan and advances written off	(9,463,686)	(10,013,410)
Recoveries	8,901,175	9,192,023
Reversal of time value of money component	(5,593,161)	(6,562,473)
Provision for credit losses	19,597,777	9,124,734
Balance at end of year	<u>\$ 41,775,084</u>	<u>\$ 28,332,979</u>
Specific and collective impairment	\$ 32,441,084	\$ 19,658,952
General impairment	9,334,000	8,674,027
	<u>\$ 41,775,084</u>	<u>\$ 28,332,979</u>

8. INVESTMENT SECURITIES

Securities available-for-sale at fair value:

	2012	2011
Securities issued or guaranteed by The Bahamas Government:		
Treasury bills	\$ 7,000,000	\$ 14,500,000
Registered stocks	36,872,900	36,872,900
Corporate bonds	3,037,300	3,037,300
	<u>46,910,200</u>	<u>54,410,200</u>
Interest receivable	472,073	477,920
	<u>\$ 47,382,273</u>	<u>\$ 54,888,120</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:

	2012	2011
Balance, beginning of year	\$ 54,410,200	\$ 45,245,500
Additions	34,969,700	38,439,200
Disposals (sale and redemption)	(42,469,700)	(29,274,500)
Balance, end of year	<u>\$ 46,910,200</u>	<u>\$ 54,410,200</u>

9. PREMISES AND EQUIPMENT

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

	Buildings & Land Improvements	Leasehold Premises	Furniture & Equipment	Computer Equipment & Software	Total
Year ended October 31, 2011					
Opening net book value	\$ 105,700	\$ 362,722	\$ 506,892	\$ 481,337	\$ 1,978,802
Additions	–	69,796	10,776	40,742	480,834
Disposals	–	–	(14,558)	(1,509)	(20,772)
Depreciation charge	–	(51,928)	(205,926)	(99,803)	(539,128)
Closing net book value	<u>\$ 105,700</u>	<u>\$ 380,590</u>	<u>\$ 297,184</u>	<u>\$ 420,767</u>	<u>\$ 1,899,736</u>
As at October 31, 2011					
Total cost	\$ 105,700	\$ 1,246,455	\$ 2,082,527	\$ 1,862,097	\$ 6,895,284
Accumulated depreciation	–	(865,865)	(1,785,343)	(1,441,330)	(4,995,548)
Net book value	<u>\$ 105,700</u>	<u>\$ 380,590</u>	<u>\$ 297,184</u>	<u>\$ 420,767</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:

	2012	2011
Not later than one year	\$ 75,545	\$ 7,700
Later than one year and no later than five years	302,180	36,500
	<u>\$ 377,725</u>	<u>\$ 44,200</u>

10. CUSTOMERS' DEPOSITS

	2012	2011
Savings	\$ 132,433,276	\$ 126,796,107
Term deposits	615,782,775	638,236,636
Current accounts	29,619,277	26,042,831
	<u>777,835,328</u>	<u>791,075,574</u>
Accrued interest	6,726,183	8,441,144
	<u>\$ 784,561,511</u>	<u>\$ 799,516,718</u>

11. OTHER BORROWED FUNDS AND AFFILIATED COMPANIES

Other borrowed funds is comprised of a promissory note issued to R.B.C Holdings (Bahamas) Limited. R.B.C. Holdings (Bahamas) Limited was the Corporation's parent company until May 10, 2011 as disclosed in Note 1. By agreement dated May 14, 2012 the final maturity date of the promissory note was extended to August 1, 2013 at an interest rate of 4.00% (2011: 5.00%). The Corporation repaid \$10 million on August 22, 2012. The amounts payable to affiliated companies are for terms up to 90 days and bear interest at 3.50%.

12. PENSION PLANS

Employees of the Corporation participate in a defined benefit group pension plan and a defined contribution plan of Royal Bank of Canada. Employees become eligible for membership after completing a probationary period on a contributory or non-contributory basis. The Plan provides pensions based on years of service, contribution to the Plan and average earnings at retirement. The defined benefit group pension plan is funded in accordance with actuarially determined amounts required to satisfy employee benefit entitlements under current pension regulations. The most recent actuarial valuation performed was completed in January 1, 2012 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:

	2012	2011
Discount rate	5.25%	5.50%
Expected return on plan assets	6.38%	6.65%
Rate of increase in future compensation	1.50 – 9.00%	1.50 – 9.00%

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 \$457,452 (2011: \$779,252) and the defined contribution plan was \$36,672 (2011: \$52,793).

13. SHARE CAPITAL

Share capital consists of the following:

	2012	2011
Authorized:		
27,500,000 common shares at par value B\$0.20		
Issued and fully paid: 26,666,670 common shares	\$ 5,333,334	\$ 5,333,334

14. INTEREST INCOME

	2012	2011
Loans and advances to customers	\$ 63,822,292	\$ 67,857,348
Investment securities	2,056,173	2,331,907
	<u>\$ 65,878,465</u>	<u>\$ 70,189,255</u>

15. INTEREST EXPENSE

	2012	2011
Customers' deposits	\$ 24,070,372	\$ 30,871,633
Due to affiliated companies	258,948	329,642
Other interest bearing liabilities	1,592,188	1,865,000
	<u>\$ 25,921,508</u>	<u>\$ 33,066,275</u>

16. NON-INTEREST INCOME

	2012	2011
Fees and commissions	\$ 3,530,820	\$ 3,464,034
Foreign exchange earnings	124,151	178,173
Sundry income	88,210	83,610
	<u>\$ 3,743,181</u>	<u>\$ 3,725,817</u>

17. NON-INTEREST EXPENSES

	2012	2011
Staff cost	\$ 5,529,407	\$ 5,634,408
Other operating expenses	4,528,554	4,105,498
Operating lease rentals	1,331,738	1,423,710
Premises and equipment expenses, excluding depreciation and operating lease rentals	692,587	652,420
Depreciation and amortization of tangibles	400,483	539,128
Deposit insurance premium	350,972	346,818
Advertising	137,672	83,741
Auditors' fees	95,500	95,500
Directors' fees	53,625	77,250
	<u>\$ 13,120,538</u>	<u>\$ 12,958,473</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 \$350,972 (2011: \$346,818) into the fund.

18. DIVIDENDS

There were no dividends declared to shareholders during the fiscal years ended 2012 and 2011 (See Note 27).

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

- Mortgage commitments at year end in the normal course of business amounting to \$36,852,665 (2011: \$41,881,015).
- 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:

	2012	2011
Within one year	\$ 1,396,079	\$ 1,400,849
One to five years	5,737,085	7,010,885
Over five years	1,477,677	1,404,403
	<u>\$ 8,610,841</u>	<u>\$ 9,816,137</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, \$2,136,668 (2011: \$1,682,591) 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, 2012 was \$36,245,018 (2011: \$31,397,220). 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:

	2012	2011
Statement of Financial Position		
Assets		
Loans and advances		
Directors and key management personnel	\$ 14,293	\$ 246,097
Liabilities		
Customer Deposits		
Directors and key management personnel	\$ 140,504	\$ 212,122
Other related parties	28,142,059	13,276,807
	<u>\$ 28,282,563</u>	<u>\$ 13,488,929</u>
Statement of Comprehensive Income		
Interest income		
Directors and key management personnel	\$ 211	\$ 14,301
Interest expense		
Directors and key management personnel	\$ 8,884	\$ 7,316
Due to affiliated companies	92,898	329,642
Other related parties	166,051	564,758
Other borrowed funds	1,592,188	1,865,000
	<u>\$ 1,860,021</u>	<u>\$ 2,766,716</u>
Key management compensation		
Salaries and other short-term benefits	\$ 153,522	\$ 206,273

22. STATEMENT OF FINANCIAL POSITION – CATEGORIZATION

	At October 31 2012	At October 31 2011
ASSETS		
Financial assets at fair value through other comprehensive income		
Investment securities	\$ 47,382,273	\$ 54,888,120
Financial assets at amortized costs		
Cash on hand and due from banks	37,577,094	33,345,833
Balance with Central Bank	41,418,985	39,372,285
Loans and advances to customers	845,337,679	842,331,063
Other assets	658,893	813,731
	<u>924,992,651</u>	<u>915,862,912</u>
Total financial assets	972,374,924	970,751,032
Non-financial assets	1,319,438	1,899,736
Total assets	<u>\$973,694,362</u>	<u>\$972,650,768</u>
LIABILITIES		
Financial liabilities at amortized cost		
Customers' deposits	\$ 784,561,511	\$ 799,516,718
Other borrowed funds	27,300,000	37,300,000
Due affiliated companies	28,142,059	14,053,648
Other liabilities	3,617,708	2,689,141
	<u>843,621,278</u>	<u>853,559,507</u>
Total liabilities	843,621,278	853,559,507
Total equity	130,073,084	119,091,261
Total equity and liabilities	<u>\$973,694,362</u>	<u>\$972,650,768</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 Or on Demand	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 Years	Total
At October 31, 2012							
Assets							
Cash and cash equivalents	\$ 37,577,094	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,577,094
Balance with Central Bank	41,418,985	-	-	-	-	-	41,418,985
Loans and advances to customers	13,524,360	6,504,512	13,127,315	8,537,674	17,921,497	785,722,321	845,337,679
Investment securities	7,472,073	-	-	3,449,700	2,329,000	34,131,500	47,382,273
Others assets	658,893	-	-	-	-	-	658,893
TOTAL	\$ 100,651,405	\$ 6,504,512	\$ 13,127,315	\$ 11,987,374	\$ 20,250,497	\$ 819,853,821	\$ 972,374,924
Liabilities							
Customers' deposits	\$ 452,003,806	\$ 178,100,386	\$ 154,435,018	\$ 22,301	\$ -	\$ -	\$ 784,561,511
Other borrowed funds	-	-	27,300,000	-	-	-	27,300,000
Due to affiliated companies	5,742,227	22,399,832	-	-	-	-	28,142,059
Other liabilities	3,617,708	-	-	-	-	-	3,617,708
TOTAL	\$ 461,363,741	\$ 200,500,218	\$ 181,735,018	\$ 22,301	\$ -	\$ -	\$ 843,621,278
	\$ (360,712,336)	\$ (193,995,706)	\$ (168,607,703)	\$ 11,965,073	\$ 20,250,497	\$ 819,853,821	\$ 128,753,646
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
Loans and advances to customers	16,254,132	5,063,808	9,017,677	9,180,196	16,082,510	786,732,740	842,331,063
Investment securities	14,977,920	-	-	25,900	5,092,300	34,792,000	54,888,120
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							
Customers' deposits	\$ 471,987,050	\$ 193,571,176	\$ 133,567,830	\$ 390,662	\$ -	\$ -	\$ 799,516,718
Other borrowed funds	-	-	-	37,300,000	-	-	37,300,000
Due to affiliated companies	14,053,648	-	-	-	-	-	14,053,648
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

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:

Change in interest rate	Effect on Net Profit						
	2012		2011				
+ 1%	\$ 7,808,000	\$ 7,650,000					
- 1%	\$ (7,808,000)	\$ (7,650,000)					
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	1-3 Years	3-5 Years	Over 5 Years	Total
At October 31, 2012							
Assets							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,577,094	\$ 37,577,094
Balance with Central Bank	-	-	-	-	-	41,418,985	41,418,985
Loans and advances to customers	786,317,788	37,068	-	-	-	58,982,823	845,337,679
	7.50%	6.86%	0.00%	0.00%	0.00%	0.00%	2.39%
Investment securities	7,000,000	-	-	5,778,700	34,131,500	472,073	47,382,273
	0.08%	0.00%	0.00%	5.36%	5.09%	0.00%	1.76%
Other assets	-	-	-	-	-	658,893	658,893
TOTAL	\$ 793,317,788	\$ 37,068	\$ -	\$ 5,778,700	\$ 34,131,500	\$ 139,109,868	\$ 972,374,924
Liabilities							
Customers' deposits	\$ 452,003,806	\$ 178,100,386	\$ 147,708,835	\$ 22,301	\$ -	\$ 6,726,183	\$ 784,561,511
	1.98%	2.54%	2.50%	0.88%	0.00%	0.00%	1.32%
Other borrowed funds	27,300,000	-	-	-	-	-	27,300,000
	4.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.67%
Due to affiliated companies	28,142,059	-	-	-	-	-	28,142,059
	3.36%	0.00%	0.00%	0.00%	-	0.00%	0.67%
Other liabilities	-	-	-	-	-	3,617,708	3,617,708
TOTAL	\$ 507,445,865	\$ 178,100,386	\$ 147,708,835	\$ 22,301	\$ -	\$ 10,343,891	\$ 843,621,278
Interest Rate Sensitivity Gap							
Sensitivity Gap	\$ 285,871,923	\$ (178,063,318)	\$ (147,708,835)	\$ 5,756,399	\$ 34,131,500	\$ 128,765,977	\$ 128,753,646
Cumulative Interest Rate Sensitivity Gap							
Sensitivity Gap	\$ 285,871,923	\$ 107,808,605	\$ (39,900,230)	\$ (34,143,831)	\$ (12,331)	\$ 128,753,646	\$ -

	Within 3 Months	3-6 Months	6-12 Months	1-5 Years	Over 5 Years	Not Interest Rate Sensitive	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
Loans and advances to customers	774,224,902	99,264	-	-	-	68,006,897	842,331,063
	7.61%	6.85%	0.00%	0.00%	0.00%	0.00%	2.41%
Investment securities	14,500,000	-	-	5,118,200	34,792,000	477,920	54,888,120
	0.41%	0.00%	0.00%	5.35%	5.09%	0.00%	1.81%
Other assets	-	-	-	-	-	813,731	813,731
TOTAL	\$ 788,724,902	\$ 99,264	\$ -	\$ 5,118,200	\$ 34,792,000	\$ 142,016,666	\$ 970,751,032
Liabilities							
Customers' deposits	\$ 463,545,906	\$ 193,571,176	\$ 133,567,830	\$ 390,662	\$ -	\$ 8,441,144	\$ 799,516,718
	2.91%	3.80%	3.47%	3.53%	0.00%	0.00%	2.29%
Other borrowed funds	37,300,000	-	-	-	-	-	37,300,000
	5.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.83%
Due to affiliated companies	14,053,648	-	-	-	-	-	14,053,648
	4.25%	0.00%	0.00%	0.00%	-	0.00%	0.85%
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	\$ 130,886,381	\$ 117,191,525
Cumulative Interest Rate Sensitivity Gap							
	\$ 273,825,348	\$ 80,353,436	\$ (53,214,394)	\$ (48,486,856)	\$ (13,694,856)	\$ 117,191,525	\$ -

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:

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

	2011				
	Residential Mortgages	Home Equity and Other Mortgages	Government Insured Mortgages	Demand Loans Overdrafts	Total
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
	\$ 91,065,293	\$ 45,506,812	\$ 315,912	\$ 341,181	\$ 137,229,198

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

	2012	2011
Loans and advances to customers:		
Non-residential mortgages	\$ 7,929,081	\$ 543,237
Residential mortgages	12,068,604	11,900,024
Total renegotiated loans and advances to customers	\$ 19,997,685	\$ 12,443,261

Concentration of risk of financial assets with credit risk exposure by industry sectors.

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

	2012	2011
Distribution	\$ 155,110	\$ 176,759
Construction	353,421	424,081
Real Estate	889,073,894	873,033,460
Tourism	199,892	212,823
Professional Services	30,321	32,520
Other	1,559,075	553,601
	\$ 891,371,713	\$ 874,433,244

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, 2012 the Corporation's Tier 1 and Total Capital ratios were 21.26% and 22.51% (2011: 19.06% and 20.31%), 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:

	2012		
	Banking	Other	Consolidated
Assets	\$ 966,692,685	\$ 5,958,083	\$ 972,650,768
Liabilities	\$ 852,780,922	\$ 778,585	\$ 853,559,507
Revenue:			
Net interest income	\$ 32,994,524	\$ –	\$ 32,994,524
Fees and commission income	2,382,142	1,343,675	3,725,817
Total income	\$ 35,376,666	\$ 1,343,675	\$ 36,720,341
Total comprehensive income	\$ 17,606,768	\$ 1,158,822	\$ 18,765,590
	2011		
	Banking	Other	Consolidated
Assets	\$ 962,585,092	\$ 4,756,312	\$ 967,341,404
Liabilities	\$ 866,280,097	\$ 735,636	\$ 867,015,733
Revenue:			
Net interest income	\$ 28,241,382	\$ –	\$ 28,241,382
Allowance for credit losses	(10,209,366)	–	(10,209,366)
Fees and commission income	2,183,849	1,392,111	3,575,960
Total income	\$ 20,215,865	\$ 1,392,111	\$ 21,607,976
Net income	\$ 17,001,267	\$ 1,186,809	\$ 18,188,076

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.

27. SUBSEQUENT EVENT

On December 6, 2012 the Board of Directors declared dividends of \$0.10 per share to shareholders of record as at December 27, 2012 to be paid January 3, 2013.

shareholders' information

CORPORATE HEADQUARTERS

Finance Corporation of Bahamas Limited
RBC House, 2nd Floor
101 East Hill Street
P. O. Box N 3038
Nassau, The Bahamas
Tel: (242) 356-8500
Fax: (242) 356-8660

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.

TRANSFER AGENT AND REGISTRAR SERVICE

Bahamas Central Securities Depository
50 Exchange Place
Bay Street
P. O. Box EE 15672
Nassau, The Bahamas
Tel: (242) 322-5573/5
Fax: (242) 356-3613

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
RBC House, 2nd Floor
101 East Hill Street
P. O. Box N 3038
Nassau, The Bahamas
Tel: (242) 356-8500
Fax: (242) 356-8660
Eml: FINCO@rbc.com

annual report credits

GRAPHIC DESIGN

Smith & Benjamin Art & Design
www.smith-benjamin.com

PRINTING

NAPCO Printing Company
Tel: (242) 393-3556

branch locations

HEAD OFFICE

RBC House
101 East Hill Street
P. O. Box N 3038
Nassau, The Bahamas
Tel: (242) 356-8500
Fax: (242) 356-8660

FREEPORT BRANCH

East Mall Drive & Explorer's Way
P. O. Box F 40029
Freeport, Grand Bahama
The Bahamas
Tel: (242) 352-8896
Fax: (242) 352-3022

ROBINSON ROAD BRANCH

Key West Street & Robinson Road
P. O. Box N 3038
Nassau, The Bahamas
Tel: (242) 397-1300
Fax: (242) 326-4508

CARMICHAEL ROAD BRANCH

Shared Location with:

RBC Royal Bank of Canada

Carmichael Road
P. O. Box N 3038
Nassau, The Bahamas
Tel: (242) 676-7500
Fax: (242) 676-7792

MAIN BRANCH

The Bahamas Financial Center
Shirley & Charlotte Streets
P. O. Box N 3038
Nassau, The Bahamas
Tel: (242) 502-7700
Fax: (242) 328-8848

PALMDALE BRANCH

Rosetta & Patton Streets
P. O. Box N 3038
Nassau, The Bahamas
Tel: (242) 302-2500/5
Fax: (242) 322-5005

MORTGAGE CENTRE

Prince Charles Shopping Centre
P. O. Box N 3038
Nassau, The Bahamas
Tel: (242) 502-5217
Fax: (242) 502-5116

FINCO INSURANCE

AGENCY LIMITED (FIAL)

Shirley & Charlotte Streets
P. O. Box N 3038
Nassau, The Bahamas
Tel: (242) 502-7790
Fax: (242) 502-7792

BANK LINE

Nassau Tel: (242) 323-2840
Freeport Tel: (242) 351-2840
E-mail: FINCO@rbc.com