

Finance Corporation of Bahamas Limited

**Consolidated Financial Statements
October 31, 2015**

Finance Corporation of Bahamas Limited

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Finance Corporation of Bahamas Limited

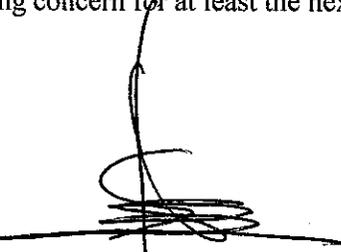
Statement of management responsibilities

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

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

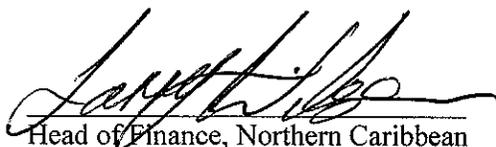
Management accepts responsibility for the annual consolidated financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards. Management is of the opinion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

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



Director

December 16, 2015



Head of Finance, Northern Caribbean

December 16, 2015

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 which comprise the consolidated statement of financial position as at October 31, 2015, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Finance Corporation of Bahamas Limited as at October 31, 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

The image shows a handwritten signature in cursive script. The word "Deloitte" is written in a large, stylized font with a prominent loop at the beginning. To its right is a smaller symbol resembling a stylized "S" or "Z" with a vertical line through it, followed by the word "Touche" in a similar cursive style.

January 29, 2016

Finance Corporation of Bahamas Limited

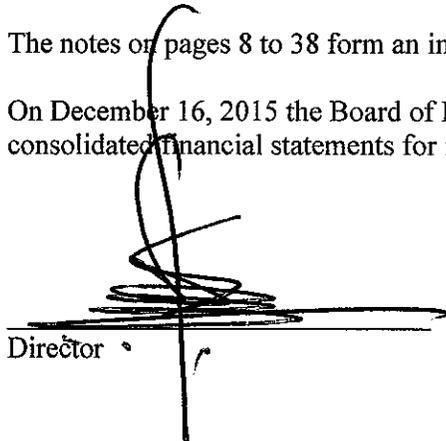
Consolidated Statement of Financial Position

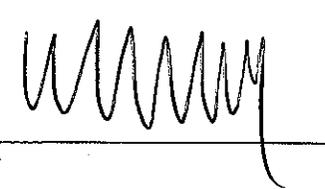
Expressed in Bahamian Dollars

		At October 31	At October 31
	Notes	2015	2014
Assets			
Cash and cash equivalents	5	\$ 72,809,826	\$ 51,479,021
Balance with central banks	6	50,268,339	41,886,036
Loans and advances to customers	7	831,073,644	847,753,868
Investment securities	8	36,895,254	40,357,511
Premises and equipment	9	658,356	716,361
Other assets		<u>728,158</u>	<u>1,024,647</u>
Total Assets		<u>\$ 992,433,577</u>	<u>\$ 983,217,444</u>
Liabilities			
Customer deposits	10	\$ 703,164,129	\$ 786,740,410
Due to affiliated companies	20	108,631,629	40,972,367
Other liabilities		<u>5,330,405</u>	<u>5,802,923</u>
Total Liabilities		<u>817,126,163</u>	<u>833,515,700</u>
Equity			
Share capital	12	5,333,334	5,333,334
Share premium		2,552,258	2,552,258
Reserve	12	500,000	500,000
Retained earnings		<u>166,921,822</u>	<u>141,316,152</u>
Total Equity		<u>175,307,414</u>	<u>149,701,744</u>
Total Equity and Liabilities		<u>\$ 992,433,577</u>	<u>\$ 983,217,444</u>

The notes on pages 8 to 38 form an integral part of these consolidated financial statements.

On December 16, 2015 the Board of Directors of Finance Corporation of Bahamas Limited authorized these consolidated financial statements for issue.


Director


Director

Finance Corporation of Bahamas Limited

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Expressed in Bahamian Dollars

	Notes	Year Ended October 31 2015	Year Ended October 31 2014
Income			
Interest income	13	\$ 64,827,310	\$ 68,082,135
Interest expense	14	<u>(15,579,273)</u>	<u>(19,296,245)</u>
Net interest income		49,248,037	48,785,890
Non-interest income	15	<u>4,304,264</u>	<u>4,188,923</u>
Total income		53,552,301	52,974,813
Non-interest expenses	16	(11,979,359)	(14,776,249)
Impairment losses on loans and advances	7	<u>(15,967,272)</u>	<u>(35,595,209)</u>
Net and total comprehensive income for the year		<u>\$ 25,605,670</u>	<u>\$ 2,603,355</u>
Earnings per share (basic and diluted)		<u>\$ 0.96</u>	<u>\$ 0.10</u>

The notes on pages 8 to 38 form an integral part of these consolidated financial statements.

Finance Corporation of Bahamas Limited

Consolidated Statement of Changes in Equity

Expressed in Bahamian Dollars

	<u>Notes</u>	<u>Share Capital</u>	<u>Share Premium</u>	<u>Reserves</u>	<u>Retained Earnings</u>	<u>Total</u>
Year Ended						
October 31, 2014						
Balance at beginning of year		\$ 5,333,334	\$ 2,552,258	\$ 500,000	\$ 145,379,464	\$ 153,765,056
Comprehensive income					2,603,355	2,603,355
Dividends	17	-	-	-	(6,666,667)	(6,666,667)
Balance at end of year		<u>\$ 5,333,334</u>	<u>\$ 2,552,258</u>	<u>\$ 500,000</u>	<u>\$ 141,316,152</u>	<u>\$ 149,701,744</u>
Year Ended						
October 31, 2015						
Balance at beginning of year		\$ 5,333,334	\$ 2,552,258	\$ 500,000	\$ 141,316,152	\$ 149,701,744
Comprehensive income		-	-	-	25,605,670	25,605,670
Balance at end of year		<u>\$ 5,333,334</u>	<u>\$ 2,552,258</u>	<u>\$ 500,000</u>	<u>\$ 166,921,822</u>	<u>\$ 175,307,414</u>

The notes on pages 8 to 38 form an integral part of these consolidated financial statements.

Finance Corporation of Bahamas Limited

Consolidated Statement of Cash Flows

Expressed in Bahamian Dollars

	Year Ended October 31 2015	Year Ended October 31 2014
OPERATING ACTIVITIES		
Comprehensive income	\$ 25,605,670	\$ 2,603,355
Adjustments for:		
Impairment losses on loans and advances	15,967,272	35,595,209
Depreciation and amortization tangible assets	229,929	239,176
Loss on disposal of premises and equipment	-	52,830
	<u>41,802,871</u>	<u>38,490,570</u>
(Increase) decrease in operating assets:		
Balance with central banks	(8,382,303)	495,376
Loans and advances to customers	712,952	(18,115,468)
Other assets	296,489	(518,493)
Increase (decrease) in operating liabilities:		
Customer deposits	(83,576,281)	27,563,475
Due to affiliated companies	67,659,262	(36,246,334)
Other liabilities	(472,518)	(1,256,695)
Net cash from (used in) operating activities	<u>18,040,472</u>	<u>10,412,431</u>
INVESTING ACTIVITIES		
Purchase of premises and equipment	(172,531)	-
Proceeds from sale of premises and equipment	607	15,293
Purchase of investments	(20,961,543)	(27,999,845)
Proceeds from sale/maturity of investments	<u>24,423,800</u>	<u>28,025,900</u>
Net cash from investing activities	<u>3,290,333</u>	<u>41,348</u>
FINANCING ACTIVITIES		
Dividends paid	-	(6,666,667)
Net cash used in financing activities	<u>-</u>	<u>(6,666,667)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,330,805	3,787,112
BALANCE AT BEGINNING OF YEAR	<u>51,479,021</u>	<u>47,691,909</u>
BALANCE AT END OF YEAR	<u>\$ 72,809,826</u>	<u>\$ 51,479,021</u>
Interest received	\$ 64,547,867	\$ 68,594,463
Interest paid	\$ (17,225,430)	\$ (19,437,235)

The notes on pages 8 to 38 form an integral part of these consolidated financial statements.

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

1. Incorporation and business activities

Finance Corporation of Bahamas Limited (the “Company”) is incorporated in The Commonwealth of The Bahamas and is licensed under the provisions of the Banks and Trust Companies Regulations Act, 2000 and is also licensed as an Authorized Dealer, pursuant to the Exchange Control Regulations Act.

The Company is 75% owned by RBC Royal Bank Holdings (Bahamas) Limited, a wholly-owned subsidiary of the ultimate parent company Royal Bank of Canada. The remaining 25% ownership of the Company’s shares are publicly traded and listed on The Bahamas International Securities Exchange.

The Company’s principal place of business include its Head Office located at Royal Bank House, East Hill Street, Nassau, The Bahamas along with 4 branch locations in New Providence and one in Freeport Grand Bahama. Its business activities include the acceptance of savings, term and demand deposits, the buying and selling of foreign currency, and mortgage lending in The Commonwealth of The Bahamas.

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

During the year, the following new accounting pronouncements were adopted:

- **IAS 32 Financial Instruments: Presentation (IAS 32)**

Amendments to IAS 32 clarify the existing requirements for offsetting financial assets and financial liabilities. The standard provides clarifications on the legal right to offset transactions, and when transactions settled through a gross settlement system would meet the simultaneous settlement criteria. The adoption of these amendments did not have an impact on these financial statements.

- **International Financial Reporting Standards (IFRS) Interpretations Committee IFRIC Interpretation 21 Levies (IFRIC 21)**

IFRIC 21 provides guidance on when to recognize a liability to pay a levy that is accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The adoption of this interpretation did not have a material impact on these financial statements.

- **Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities (annual periods beginning on or after January 1, 2014)**

The amendments to IFRS 10 defines an investment entity and requires a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities. The adoption of these amendments did not have an impact on these financial statements.

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

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

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

The amendments clarify the scope of the disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The adoption of these amendments did not have an impact on these financial statements.

Management is currently assessing the impact of adopting the following standards on these financial statements:

- **IFRS 15 Revenue from Contracts with Customers (IFRS 15)**

In May 2014, the IASB issued IFRS 15 which establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles based five-step model for revenue recognition to be applied to all contracts with customers. In September 2015, the IASB amended IFRS 15 by deferring its effective date by one year. IFRS 15 will be effective for us on November 1, 2018.

- **IFRS 9 Financial Instruments (IFRS 9)**

In July 2014, the IASB issued the complete version of IFRS 9, first issued in November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39.

IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at FVTPL, fair value through OCI or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39.

IFRS 9 also introduces an expected loss impairment model for all financial assets not as at FVTPL. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established; (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount.

Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities. IFRS 9 will be effective for us no later than November 1, 2018.

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.

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

3. Significant accounting policies (Continued)

Basis of measurement

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

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

b) Basis of consolidation

These consolidated financial statements include the financial position and financial performance of the Company and its wholly-owned subsidiary, Safeguard Insurance Brokers Limited (formerly, FINCO Insurance agency Limited) ("Safeguard"), after elimination of all inter-company balances and transactions. Safeguard provides insurance brokerage services to mortgage customers of the Company and is incorporated in the Commonwealth of The Bahamas. Its registered office is located at Royal Bank House, East Hill Street, Nassau Bahamas.

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

c) Foreign currency translation

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

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

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

d) Financial assets

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

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

3. Significant accounting policies (Continued)

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

i) Financial assets at FVTPL

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

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

Financial assets and liabilities are designated at FVTPL when:

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

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in net trading income.

ii) Loans and advances to customers

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

iii) Held-to-maturity financial assets

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

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

3. Significant accounting policies (Continued)

iv) AFS financial assets

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

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

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

AFS financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and advances to customers and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the consolidated 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 consolidated statement of comprehensive income. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of profit or loss when the entity's right to receive payment is established.

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

Interest calculated using the effective interest method and foreign currency gain and loss on monetary assets classified as available for sale are recognized in the consolidated statement of profit or loss.

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

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

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

3. Significant accounting policies (Continued)

v) Derecognition of financial assets

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

e) **Impairment of financial assets**

i) Financial assets carried at amortized cost

The Company assesses at each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment 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 (or events) 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 Company uses to determine that there is objective evidence of an impairment loss include:

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

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

Generally, loans are considered impaired whenever a payment is 90 days past due. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

3. Significant accounting policies (Continued)

amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of profit or loss. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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

ii) Financial assets classified as AFS

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

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

At the end of the reporting period if any such evidence exists for financial assets AFS, the cumulative loss in the other comprehensive income measured as the difference

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

3. Significant accounting policies (Continued)

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 loss previously recognized in income is recognized in other comprehensive income.

iii) Renegotiated loans

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

f) **Financial liabilities**

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

i) Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

3. Significant accounting policies (Continued)

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

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

ii) Other financial liabilities

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

iii) Derecognition of financial liabilities

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

g) **Revenue recognition**

i) Interest income and expense

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or where appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit 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 Company earns fees and commissions from its range of services and products provided to its customers.

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

3. Significant accounting policies (Continued)

Fees and commissions are generally recognized on an accrual basis 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. Loan syndication fees are recognized as revenue when the syndication has been completed and the Company has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction.

ii) Dividend income

Dividend income is recognized when the right to receive dividend is established.

h) **Impairment of tangible assets**

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

If the recoverable amount of an asset is estimated 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 assets 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 recognised for the asset in a prior period. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

i) **Premises and equipment**

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

Freehold land	- Not depreciated
Building and improvements	- Straight line – 20 to 40 years
Leasehold premises	- Straight line lease term plus 1 renewal term
Furniture and equipment	- Straight Line 5 yrs and declining balance - 20%
Computer equipment and software	- Straight line – 3 to 7 years
Motor vehicles	- Straight line – 3 years

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

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

3. Significant accounting policies (Continued)

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amounts and are included in profit or loss in the period. Costs of repairs and renewals are charged to income when the expenditure is incurred.

j) Cash and cash equivalents

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

k) Leases

(i) The Company is the lessee

The leases entered into by the Company, which do 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 profit on a straight-line basis over the lease period.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

(ii) The Company is the lessor

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

l) Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be immaterial.

m) Share capital

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

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

3. Significant accounting policies (Continued)

n) Dividends

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

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

o) Employee benefits

i) Defined benefit plan

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

ii) Defined contribution plan

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

4. Critical accounting estimates and judgments in applying accounting policies

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

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

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

4. Critical accounting estimates and judgments in applying accounting policies

a) Impairment of financial assets

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

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

c) Depreciation and amortization

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

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

d) Legal proceedings, claims and regulatory discussions

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

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

5. Cash and cash equivalents

	2015	2014
Cash on hand	\$ 268,386	\$ 593,600
Treasury bills	7,000,000	7,000,000
Due from banks	<u>65,541,440</u>	<u>43,885,421</u>
	<u>\$ 72,809,826</u>	<u>\$ 51,479,021</u>

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

6. Balances with central banks

The balance with The Central Bank of The Bahamas is non-interest bearing and includes a mandatory daily average reserve deposit of \$50,268,339 (2014: \$41,886,036) which is based on a ratio to customers' deposits.

7. Loans and advances to customers

	2015	2014
Retail	\$ 3,461,397	\$ 4,722,798
Home equity and other mortgages	259,460,754	285,592,315
Residential mortgages	626,227,206	631,126,029
Government insured mortgages	<u>886,328</u>	<u>1,112,281</u>
	890,035,685	922,553,423
Accrued interest receivable	3,626,661	3,308,761
Allowance for impairment loss	(57,145,555)	(70,160,490)
Unearned income	<u>(5,443,147)</u>	<u>(7,947,826)</u>
	<u>\$ 831,073,644</u>	<u>\$ 847,753,868</u>

Loans categorized by performance are as follows:

	2015	2014
Neither past due nor impaired	\$ 731,374,123	\$ 747,360,772
Past due but not impaired	56,151,160	57,601,766
Impaired	<u>102,510,402</u>	<u>117,590,885</u>
	<u>\$ 890,035,685</u>	<u>\$ 922,553,423</u>

Loans categorized by period are as follows:

	2015	2014
Current (due within one year)	\$ 19,635,967	\$ 22,082,043
Non-current (due after one year)	<u>870,399,718</u>	<u>900,471,380</u>
	<u>\$ 890,035,685</u>	<u>\$ 922,553,423</u>

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

7. Loans and advances to customers (Continued)

Loans and advances classified as impaired represent 11.52% (2014: 12.75%) of the total loans and advances portfolio. The allowance for impairment losses represents 6.42% (2014: 7.61%) of the total loans and advances portfolio and 55.75% (2014: 59.66%) of the total impaired loans.

Allowance for impairment losses consists of the following:

	2015	2014
Balance, beginning of year	\$ 70,160,490	\$ 42,345,664
Loans and advances written-off	(33,739,145)	(8,145,808)
Recoveries	9,179,808	6,591,316
Reversal of time value of money component	(4,422,870)	(6,225,891)
Increase in allowance for the year	<u>15,967,272</u>	<u>35,595,209</u>
	<u>\$ 57,145,555</u>	<u>\$ 70,160,490</u>

Consisting of:

Specific and collective impairment	\$ 47,568,555	\$ 59,969,490
General impairment	<u>9,577,000</u>	<u>10,191,000</u>
	<u>\$ 57,145,555</u>	<u>\$ 70,160,490</u>

8. Investment securities

Investment securities are all classified as available for sale and is comprised as follows:

	2015	2014
Bahamas Government Debt Securities	\$ 33,449,100	\$ 36,872,900
Locally Issued Corporate Bonds	<u>3,011,400</u>	<u>3,011,400</u>
	36,460,500	39,884,300
Accrued interest receivable	<u>434,754</u>	<u>473,211</u>
	<u>\$ 36,895,254</u>	<u>\$ 40,357,511</u>

Investments categorized by period are as follows:

	2015	2014
Current (due within one year)	\$ 1,668,500	\$ 3,423,800
Non-current (due after one year)	<u>34,792,000</u>	<u>36,460,500</u>
	<u>\$ 36,460,500</u>	<u>\$ 39,884,300</u>

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

	2015	2014
Balance, beginning of year	\$ 39,884,300	\$ 39,910,200
Sales / Maturity	<u>(3,423,800)</u>	<u>(25,900)</u>
	<u>\$ 36,460,500</u>	<u>\$ 39,884,300</u>

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

9. Premises and equipment

	<u>Land</u>	<u>Buildings & Improve- ments</u>	<u>Leasehold Improve-ments</u>	<u>Furniture & Other Equipment</u>	<u>Computer Equipment</u>	<u>Total</u>
Year Ended						
October 31, 2015						
Opening net book value	\$ 105,700	\$ 233,278	\$ 72,368	\$ 143,657	\$ 161,358	\$ 716,361
Transfers	-	-	-	(607)	-	(607)
Additions	-	-	110,669	-	61,862	172,531
Depreciation charge	-	(39,684)	(78,683)	(28,975)	(82,587)	(229,929)
Closing net book value	<u>\$ 105,700</u>	<u>\$ 193,594</u>	<u>\$ 104,354</u>	<u>\$ 114,075</u>	<u>\$ 140,633</u>	<u>\$ 658,356</u>

At October 31, 2015

Cost	\$ 105,700	\$ 1,219,104	\$ 1,612,921	\$ 1,144,647	\$ 1,556,042	\$ 5,638,414
Accumulated depreciation	-	(1,025,510)	(1,508,567)	(1,030,572)	(1,415,409)	(4,980,058)
Net book value	<u>\$ 105,700</u>	<u>\$ 193,594</u>	<u>\$ 104,354</u>	<u>\$ 114,075</u>	<u>\$ 140,633</u>	<u>\$ 658,356</u>

	<u>Land</u>	<u>Buildings & Improve- ments</u>	<u>Leasehold Improve-ments</u>	<u>Furniture & Other Equipment</u>	<u>Computer Equipment</u>	<u>Total</u>
Year Ended						
October 31, 2014						
Opening net book value	\$ 105,700	\$ 283,626	\$ 100,402	\$ 264,372	\$ 269,560	\$ 1,023,660
Disposals	-	-	(7,076)	(61,047)	-	(68,123)
Depreciation charge	-	(50,348)	(20,958)	(59,668)	(108,202)	(239,176)
Closing net book value	<u>\$ 105,700</u>	<u>\$ 233,278</u>	<u>\$ 72,368</u>	<u>\$ 143,657</u>	<u>\$ 161,358</u>	<u>\$ 716,361</u>

At October 31, 2014

Cost	\$ 105,700	\$ 1,219,104	\$ 1,502,252	\$ 1,171,642	\$ 1,494,180	\$ 5,492,878
Accumulated depreciation	-	(985,826)	(1,429,884)	(1,027,985)	(1,332,822)	(4,776,517)
Net Book value	<u>\$ 105,700</u>	<u>\$ 233,278</u>	<u>\$ 72,368</u>	<u>\$ 143,657</u>	<u>\$ 161,358</u>	<u>\$ 716,361</u>

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

9. Premises and equipment (Continued)

Certain of the Company's leasehold properties have been sublease to an affiliate company. Minimum lease payments in respect of these arrangements are as follows:

	2015	2014
Within one year	\$ 75,545	\$ 75,545
One to three years	151,090	151,090
Three to five years	56,659	151,090
Over five years	-	377,725
	<u>\$ 283,294</u>	<u>\$ 755,450</u>

10. Customers' deposits

	2015	2014
Term deposits	\$ 546,988,595	\$ 625,928,019
Savings deposits	132,379,427	131,953,206
Demand deposits	<u>20,360,038</u>	<u>23,197,895</u>
	699,728,060	781,079,120
Accrued interest payable	<u>3,436,069</u>	<u>5,661,290</u>
	<u>\$ 703,164,129</u>	<u>\$ 786,740,410</u>

Deposits categorized by customer type are as follows:

	2015	2014
Personal	\$ 354,218,401	\$ 404,230,810
Non-Personal	<u>345,509,659</u>	<u>376,848,310</u>
	<u>\$ 699,728,060</u>	<u>\$ 781,079,120</u>

Deposits categorized by period are as follows:

	2015	2014
Current (due within one year)	\$ 699,623,413	\$ 781,066,317
Non-current (due after one year)	<u>104,647</u>	<u>12,803</u>
	<u>\$ 699,728,060</u>	<u>\$ 781,079,120</u>

11. Pension plans

Employees of the Company participate in a defined benefit pension plan of Royal Bank of Canada (the Plan). Employees become eligible for membership after completing a probationary period on a contributory or non-contributory basis. The Plan provides pensions based on years of service, contribution to the Plan and average earnings at retirement. The Plan 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 on January 1, 2015 at which time the actuarial present valued accrued pension benefits exceeded the actuarial valuation of net assets.

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

11. Pension plans (Continued)

The principal assumptions used for the purpose of the actuarial valuation are as follows:

	2015	2014
Discount rate	5.50%	5.75%
Expected return on plan assets	6.54%	6.70%
Rate of increase in future compensation	1.50% - 9.00%	1.50% - 9.00%

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

During the year, the Company's pension expenses arising from the Plan was \$761,456 (2014: \$790,418) and the defined contribution plan was \$24,105 (2014: \$34,686).

12. Share capital & reserves

Share capital consists of the following:

	2015	2014
<i>Authorized:</i>		
27,500,000 common shares at par value B\$0.20		
Issued and fully paid: 26,666,670 common shares	<u>\$ 5,333,334</u>	<u>\$ 5,333,334</u>

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

13. Interest income

	2015	2014
Loans and advances to customers	\$ 62,849,198	\$ 66,004,103
Investment securities - AFS	<u>1,978,112</u>	<u>2,078,032</u>
	<u>\$ 64,827,310</u>	<u>\$ 68,082,135</u>

Included in interest income is interest attributable to the time value of money component of non-performing loans of \$4,422,870 (2014: \$6,225,891).

14. Interest expense

	2015	2014
Customer deposits	\$ 12,628,505	\$ 17,470,837
Due to affiliated companies	2,922,602	1,825,408
Other interest bearing liabilities	<u>28,166</u>	<u>-</u>
	<u>\$ 15,579,273</u>	<u>\$ 19,296,245</u>

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

15. Non-interest income

	2015	2014
Fees and commissions	\$ 3,950,283	\$ 3,924,995
Foreign exchange earnings	183,188	176,164
Other service charges and fees	170,793	87,764
	<u>\$ 4,304,264</u>	<u>\$ 4,188,923</u>

16. Non-interest expenses

	2015	2014
Staff costs	\$ 4,050,352	\$ 4,111,439
Other operating expenses	5,860,209	8,187,780
Operating lease rentals	633,085	1,002,187
Premises and equipment expenses, excluding depreciation and operating lease rentals	696,752	772,538
Depreciation and amortization	229,929	239,176
Deposit insurance premium	358,635	323,730
Professional fees	150,397	139,399
	<u>\$ 11,979,359</u>	<u>\$ 14,776,249</u>

The Protection of Depositors Act, 1999 requires that the Company pay an annual premium to the Deposit Insurance Fund based on insurable deposit liabilities outstanding. During the year, the Company paid \$358,635 (2014: \$323,730) into the fund.

17. Dividends

There were no dividends declared to shareholders during the fiscal year ended 2015. Dividends of \$0.25 per share were declared during the fiscal year ended 2014.

18. Contingent liabilities

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

19. Commitments

a) Credit commitments

As of the date of the consolidated statement of financial position, mortgage commitments in the normal course of business amounted to \$20,796,118 (2014: \$20,784,594).

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

19. Commitments (Continued)

b) Lease commitments

The Company enters into lease agreements for office space and equipment under non-cancellable leases. Minimum lease payments are as follows:

	2015	2014
Within one year	\$ 685,688	\$ 704,588
One to three years	1,371,376	1,371,376
Three to five years	1,079,034	1,371,377
Over five years	<u>2,264,638</u>	<u>3,458,233</u>
	<u>\$ 5,400,736</u>	<u>\$ 6,905,574</u>

Operating lease expense recorded in profit and loss amounted to \$633,085 (2014: \$1,002,187).

20. Related party balances and transactions

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

The Company also has technical service and license agreements with RBC Royal Bank (Bahamas) Limited. During the year \$3,757,917 (2014: \$2,611,338) was expensed in reference to these agreements and is included in general and administrative expense in the consolidated statement of income. The Company continues to pursue opportunities for outsourcing with related parties to improve operational efficiency.

All clearing accounts are maintained at RBC Royal Bank (Bahamas) Limited, which acts as a clearing bank for the Corporation. The balance as at October 31, 2015 was \$64,526,949 (2014: \$42,908,804). These deposits are non-interest bearing and are held as a part of the Corporation's liquidity reserve requirement.

Included in due to affiliate are balances that are medium term lending arrangements with terms up to three years and bearing interest at effective rates of 2.75% and 3.00%.

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

20. Related party balances and transactions (Continued)

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

	2015		2014
<u>Consolidated Statement of Financial Position</u>			
Assets			
Loans and advances to customers:			
Directors and key management personnel	\$ 900,438	\$	956,251
Liabilities			
Customers' deposits:			
Directors and key management personnel	\$ 172,190	\$	163,627
	2015		2014
<u>Consolidated Statement of Comprehensive Income</u>			
Interest income			
Directors and key management personnel	\$ 47,641	\$	37,347
Interest expense			
Directors and key management personnel	\$ 4,574	\$	5,655
Staff costs			
Salaries and other short term benefits	\$ 123,009	\$	104,477

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements October 31, 2015

21. Categorization of financial assets and liabilities

Consolidated Statement of financial position

	2015	2014
<u>Assets</u>		
Financial assets at fair value through equity:		
Investment securities	\$ 36,895,254	\$ 40,357,511
Financial assets at amortized cost:		
Cash and cash equivalents	\$ 72,809,826	\$ 51,479,021
Balance with central banks	50,268,339	41,886,036
Loans and advances to customers	831,073,644	847,753,868
Other assets	728,158	1,024,647
	<u>954,879,967</u>	<u>942,143,572</u>
Non-financial assets	658,356	716,361
Total Assets	<u>\$ 992,433,577</u>	<u>\$ 983,217,444</u>
<u>Liabilities</u>		
Financial liabilities at amortized cost:		
Customer deposits	\$ 703,164,129	\$ 786,740,410
Due to affiliated companies	108,631,629	40,972,367
Other liabilities	5,330,405	5,802,923
	<u>817,126,163</u>	<u>833,515,700</u>
Equity	<u>175,307,414</u>	<u>149,701,744</u>
Total Liabilities and Equity	<u>\$ 992,433,577</u>	<u>\$ 983,217,444</u>

22. Risk management of financial instruments

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

Risk management structure

The Company's board of directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Risk Management Unit

A centralized Risk Management Unit of the Company's parent provides oversight of the implementation and maintenance of risk related procedures to ensure an independent control process.

Finance Corporation of Bahamas Limited

Notes to the Consolidated Financial Statements

October 31, 2015

22. Risk management of financial instruments (Continued)

The unit, which is sub-divided into three departments (Group Market Risk, Group Credit Risk and Group Compliance and Operational Risk), is also responsible for monitoring compliance with risk policies and limits across the region in the three key areas of credit risk, market risk and operational risk. Each business unit has decentralized units which are responsible for the independent control of risks, including monitoring the risk or exposures against limits and the assessment of risks of new products and structured transactions. These decentralized units also ensure the risks are completely captured in the risk measurement and reporting systems.

Internal Audit

Risk management processes throughout the RBC Group are audited by the internal audit function that examines both the adequacy of the procedures and the Company's compliance with the procedures. The internal audit unit discusses the results of all assessments with management and reports its findings and recommendations to the Company's audit committee and the audit committee of the Company's parent.

Risk measurement and reporting systems

The Company's risks are measured using methods which reflect the expected loss likely to arise in normal circumstances.

Monitoring and controlling risks is primarily performed based on limits established by the RBC Group. These limits reflect the business strategy and market environment of the group as well as the level of risk that the group is willing to accept, with additional emphasis on selected industries and geographies.

Information compiled from all of the affiliate companies is examined and processed in order to analyze, control and identify risks early. This information, which consists of several reports, is presented and explained to the Company's managing director and the group's Operating and Asset/Liability Committees. The reports include but are not limited to aggregate credit exposure, open currency positions, liquidity ratios and risk profile changes. On a quarterly basis, senior management assesses the appropriateness of the allowance for credit losses.

(a) Credit risk

Credit risk is the risk that the Company will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Collateral

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

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22. Risk management of financial instruments (Continued)

The principal collateral types for loans and advances to customers are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

Impairment and provisioning policies

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the consolidated statement of financial position date based on objective evidence of impairment. See Note 3(e). The Company's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for portfolios of homogenous assets that are individually below the materiality threshold. An impairment allowance is provided for on all classes of loans based on historical loss ratios in respect of loans not yet identified as impaired.

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

<u>On statement of financial position</u>	2015	2014
Due from banks	\$ 65,541,440	\$ 43,885,421
Treasury bills	7,000,000	7,000,000
Balance with central banks	50,268,339	41,886,036
Loans and advances to customers	893,662,346	925,862,184
Investment securities - AFS	36,895,254	40,357,511
Other assets	728,158	1,024,647
	<u>1,054,095,537</u>	<u>1,060,015,799</u>
 <u>Off statement of financial position</u>		
Credit commitments	<u>20,796,118</u>	<u>20,784,594</u>
Total credit risk exposure	<u>\$ 1,074,891,655</u>	<u>\$ 1,080,800,393</u>

Concentration of risk is managed by client or counterparty and by industry sector. The maximum credit exposure to any client or counterparty as at the date of the consolidated statement of financial position before taking account of collateral or other credit enhancements was \$40,883,854 (2014: \$44,346,111) in government debt securities.

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22. Risk management of financial instruments (Continued)

The following table shows the Company's main credit exposure of loans and advances categorized by industry sectors:

	2015	2014
Distribution	\$ 150,793	\$ 150,793
Tourism	169,394	178,171
Construction	276,370	294,978
Professional Services	16,092	21,377
Personal	888,748,264	920,544,144
Other	674,772	1,363,960
	<u>\$ 890,035,685</u>	<u>\$ 922,553,423</u>

The following table is an aged analysis of loans and advances which were past due and impaired as of the date of the consolidated statement of financial position. All other financial assets of the Company are neither past due nor impaired.

	2015	2014
Past due 31 - 60 days	\$ 25,265,370	\$ 25,950,939
Past due 61 - 90 days	30,885,790	31,650,827
Past due over 90 days	102,510,402	117,590,885
	<u>\$ 158,661,562</u>	<u>\$ 175,192,651</u>

(b) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management manages assets with liquidity in mind and monitors future cash flows and liquidity needs on a daily basis. The Company's liquidity management process is performed by its treasury department and is also monitored by an RBC's Asset and Liability Committee (ALCO) for the region. The Company's liquidity management framework is designed to ensure that there are adequate reserves of cash and other liquid securities to satisfy current and prospective commitments arising from either on-balance sheet or off-balance sheet liabilities. The Company manages liquidity risk by preserving a large and diversified base of core client deposits, by maintaining ongoing access to wholesale funding and by maintaining a liquid pool of investment securities dedicated to mitigating liquidity risk as a contingency measure.

The following table presents the cash flows payable by the Company under non-derivative financial liabilities by remaining period to contractual maturity from the date of the consolidated statement of financial position:

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22. Risk management of financial instruments (Continued)

	<u>Up to 3 months</u>	<u>Over 3 to 6 months</u>	<u>Over 6 to 12 months</u>	<u>Over 1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
At October 31, 2015						
<i>Liabilities:</i>						
Customers' deposits	\$ 436,805,222	\$ 133,447,884	\$ 132,806,376	\$ 104,647	\$ -	\$ 703,164,129
Due to affiliated companies	1,723,836	2,478,412	-	104,429,381	-	108,631,629
Other liabilities	5,330,405	-	-	-	-	5,330,405
Total	<u>\$ 443,859,463</u>	<u>\$ 135,926,296</u>	<u>\$ 132,806,376</u>	<u>\$ 104,534,028</u>	<u>\$ -</u>	<u>\$ 817,126,163</u>

	<u>Up to 3 months</u>	<u>Over 3 to 6 months</u>	<u>Over 6 to 12 months</u>	<u>Over 1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
At October 31, 2014						
<i>Liabilities:</i>						
Customers' deposits	\$ 485,002,360	\$ 177,103,083	\$ 124,622,164	\$ 12,803	\$ -	\$ 786,740,410
Due to affiliated companies	38,560,802	2,411,565	-	-	-	40,972,367
Other liabilities	5,802,923	-	-	-	-	5,802,923
Total	<u>\$ 529,366,085</u>	<u>\$ 179,514,648</u>	<u>\$ 124,622,164</u>	<u>\$ 12,803</u>	<u>\$ -</u>	<u>\$ 833,515,700</u>

The following table presents the Company's cash flows from contingent liabilities and commitments by remaining period to contractual maturity from the date of the consolidated statement of financial position:

	<u>Up to 3 months</u>	<u>Over 3 to 6 months</u>	<u>Over 6 to 12 months</u>	<u>Over 1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
At October 31, 2015						
Credit commitments	\$ 7,485,337	\$ 1,042,415	\$ 9,773,382	\$ 157,500	\$ 2,337,484	\$ 20,796,118
Operating leases	171,422	171,422	342,844	2,450,410	2,264,638	5,400,736
Total	<u>\$ 7,656,759</u>	<u>\$ 1,213,837</u>	<u>\$ 10,116,226</u>	<u>\$ 2,607,910</u>	<u>\$ 4,602,122</u>	<u>\$ 26,196,854</u>

	<u>Up to 3 months</u>	<u>Over 3 to 6 months</u>	<u>Over 6 to 12 months</u>	<u>Over 1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
At October 31, 2014						
Credit commitments	\$ 6,645,605	\$ 2,791,561	\$ 10,576,735	\$ 770,693	\$ -	\$ 20,784,594
Operating leases	177,722	177,722	349,144	2,742,753	3,458,233	6,905,574
Total	<u>\$ 6,823,327</u>	<u>\$ 2,969,283</u>	<u>\$ 10,925,879</u>	<u>\$ 3,513,446</u>	<u>\$ 3,458,233</u>	<u>\$ 27,690,168</u>

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

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22. Risk management of financial instruments (Continued)

(c) Currency risk

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

(d) Interest rate risk

Interest rate risk arises primarily from differences in the maturity of repricing dates of assets and liabilities. Interest rate risk exposures or "gaps" may produce favorable or unfavorable effects on interest margins depending on the nature of the gap and the direction of interest rate movement and/or expected volatility of those interest rates. When assets have a shorter average maturity or repricing date than liabilities, an increase in interest rates have a positive impact on net interest margins, and conversely if more liabilities than assets mature or are repriced in a period then a negative impact on net interest margins results.

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

	<u>Immediately</u> <u>rate-sensitive</u>	<u>Up to 3 months</u>	<u>Over 3 to 6</u> <u>months</u>	<u>Over 6 to 12</u> <u>months</u>	<u>Over 1 to 5</u> <u>years</u>	<u>Over 5 years</u>	<u>Non-Interest</u> <u>Rate Sensitive</u>	<u>Total</u>
At October 31, 2015								
<i>Assets:</i>								
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 72,809,826	\$ 72,809,826
Balance with central banks	-	-	-	-	-	-	50,268,339	50,268,339
Loans and advances	-	787,214,292	310,991	-	-	-	43,548,361	831,073,644
Investment securities	36,460,500	-	-	-	-	-	434,754	36,895,254
Other assets	-	-	-	-	-	-	728,158	728,158
Total assets	\$ 36,460,500	\$ 787,214,292	\$ 310,991	\$ -	\$ -	\$ -	\$ 167,789,438	\$ 991,775,221
<i>Liabilities:</i>								
Customer deposits	\$ -	\$ 433,369,153	\$ 133,447,884	\$ 132,806,376	\$ 104,647	\$ -	\$ 3,436,069	\$ 703,164,129
Due to affiliated companies	-	1,711,653	2,478,412	-	105,000,000	-	(558,436)	108,631,629
Other liabilities	-	-	-	-	-	-	5,330,405	5,330,405
Total liabilities	\$ -	\$ 435,080,806	\$ 135,926,296	\$ 132,806,376	\$ 105,104,647	\$ -	\$ 8,208,038	\$ 817,126,163
Net repricing gap	\$ 36,460,500	\$ 352,133,486	\$ (135,615,305)	\$ (132,806,376)	\$ (105,104,647)	\$ -	\$ 159,581,400	\$ 174,649,058

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22. Risk management of financial instruments (Continued)

	<u>Immediately rate-sensitive</u>	<u>Up to 3 months</u>	<u>Over 3 to 6 months</u>	<u>Over 6 to 12 months</u>	<u>Over 1 to 5 years</u>	<u>Over 5 years</u>	<u>Non-Interest Rate Sensitive</u>	<u>Total</u>
At October 31, 2014								
<i>Assets:</i>								
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 51,479,021	\$ 51,479,021
Balance with central banks	-	-	-	-	-	-	41,886,036	41,886,036
Loans and advances	-	803,590,145	4,083	-	-	-	44,159,640	847,753,868
Investment securities	39,884,300	-	-	-	-	-	473,211	40,357,511
Other assets	-	-	-	-	-	-	1,024,647	1,024,647
Total assets	\$ 39,884,300	\$ 803,590,145	\$ 4,083	\$ -	\$ -	\$ -	\$ 139,022,555	\$ 982,501,083
<i>Liabilities:</i>								
Customer deposits	\$ -	\$ 479,338,071	\$ 177,103,083	\$ 124,622,163	\$ 12,803	\$ -	\$ 5,664,290	\$ 786,740,410
Due to affiliated companies	-	38,560,802	2,411,565	-	-	-	-	40,972,367
Other liabilities	-	-	-	-	-	-	5,802,923	5,802,923
Total liabilities	\$ -	\$ 517,898,873	\$ 179,514,648	\$ 124,622,163	\$ 12,803	\$ -	\$ 11,467,213	\$ 833,515,700
<i>Net repricing gap</i>	<u>\$ 39,884,300</u>	<u>\$ 285,691,272</u>	<u>\$ (179,510,565)</u>	<u>\$ (124,622,163)</u>	<u>\$ (12,803)</u>	<u>\$ -</u>	<u>\$ 127,555,342</u>	<u>\$ 148,985,383</u>

The Company analyses its exposure on interest sensitive assets and liabilities on a periodic bases. 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 expected impact on net income:

	Effect on net profit	
	2015	2014
Change in interest rate		
+ 1%	\$ 7,862,039	\$ 7,997,000
- 1%	\$ (7,862,039)	\$ (7,997,000)

23. Capital management

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

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

Finance Corporation of Bahamas Limited

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October 31, 2015

23. Capital management (Continued)

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

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

Capital adequacy and the use of regulatory capital are monitored by the Company's management, based on an internal risk assessment approach employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision as implemented by the Central Bank of The Bahamas. The required information is filed with the Central Bank on a monthly basis as prescribed. The Central Bank requires the Company to maintain a minimum total capital ratio of 14%. As of the date of the consolidated statement of financial position, the Company's total capital ratio was 30.54% (2014: 25.42%).

24. Operating segments

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

	2015		
	<u>Banking</u>	<u>Other</u>	<u>Consolidated</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Assets	<u>\$ 982,109,121</u>	<u>\$ 10,324,456</u>	<u>\$ 992,433,577</u>
Liabilities	<u>\$ 816,468,128</u>	<u>\$ 658,035</u>	<u>\$ 817,126,163</u>
Revenue:			
Net interest income	<u>\$ 49,248,037</u>	<u>\$ -</u>	<u>\$ 49,248,037</u>
Fees and commission income	<u>3,196,081</u>	<u>1,108,183</u>	<u>4,304,264</u>
Total income	<u>\$ 52,444,118</u>	<u>\$ 1,108,183</u>	<u>\$ 53,552,301</u>
Total comprehensive income	<u>\$ 24,746,417</u>	<u>\$ 859,253</u>	<u>\$ 25,605,670</u>

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24. Operating segments (Continued)

	2014		
	<u>Banking</u>	<u>Other</u>	<u>Consolidated</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Assets	<u>\$ 973,650,492</u>	<u>\$ 9,566,952</u>	<u>\$ 983,217,444</u>
Liabilities	<u>\$ 832,715,916</u>	<u>\$ 799,784</u>	<u>\$ 833,515,700</u>
Revenue:			
Net interest income	\$ 48,785,890	\$ -	\$ 48,785,890
Fees and commission income	<u>2,747,708</u>	<u>1,441,215</u>	<u>4,188,923</u>
Total income	<u>\$ 51,533,598</u>	<u>\$ 1,441,215</u>	<u>\$ 52,974,813</u>
Total comprehensive income	<u>\$ 1,390,210</u>	<u>\$ 1,213,145</u>	<u>\$ 2,603,355</u>

25. Fair value of financial assets and liabilities

Financial assets and liabilities not carried at fair value include cash and cash equivalents, balances with central banks, loans and advances to customers, due to affiliated companies, customers' deposits, and other assets and liabilities. The following comments are relevant to their fair value.

(a) Assets

Cash and cash equivalents, balances with central banks, other assets

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

Loans and advances to customers

Loans and advances are stated net of an allowance for impairment. 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.

(b) Liabilities

Customers' deposits, due to affiliated companies and other liabilities

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

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25. Fair value of financial assets and liabilities (Continued)

The following table provides an analysis of financial instruments that are measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

<u>As of October 31, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bahamas Government Debt Securities	\$ -	\$ -	\$ 33,449,100	\$ 33,449,100
Locally Issued Corporate Bonds	-	-	3,011,400	3,011,400
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,460,500</u>	<u>\$ 36,460,500</u>

<u>As of October 31, 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bahamas Government Debt Securities	\$ -	\$ -	\$ 36,872,900	\$ 36,872,900
Locally Issued Corporate Bonds	-	-	3,011,400	3,011,400
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,884,300</u>	<u>\$ 39,884,300</u>

Level 3 investments is comprised primarily of debt issued or guaranteed by the Bahamas government. While no secondary market exists for these investments, the Central Bank of the Bahamas has facilitated the sale of the investments at par should an investor wish to dispose of them. Essentially, the carrying amounts are deemed to be their fair values. The movement in the Bank's investments in Level 3 assets during the year was as follows:

	2015	2014
Balance, beginning of year	\$ 39,884,300	\$ 39,910,200
Maturity	(3,423,800)	(25,900)
Balance at end of year	<u>\$ 36,460,500</u>	<u>\$ 39,884,300</u>
