

Financial Statements

For the quarter ended July 31, 2020

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Caribbean Banking Financial Control – Northern Caribbean

Audit Committee – October 26, 2020
RBC Royal Bank (Bahamas) Limited



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Executive Summary

Q3 2020 Balance Sheet Highlights – July 2020 vs October 2019: \$239.1MM or 8% increase

- Balance with the central bank balance up by 27% or \$146.4MM from receipt of additional customer deposits and profits
- Due from affiliated companies increased by 32% or \$52.3MM mostly from \$45.0MM of additional funding to FINCO
- Other assets increased by 42% or 15.8MM due to increased balances for settlement & clearing accounts, prepaid expenses and interest receivable from the deferral program.
- Customer deposits increased by 12% or \$278.8MM almost entirely in demand deposits in personal and non-personal.
- Due to affiliated companies decreased by 56% or \$77.4MM from the repayment of the \$125.0MM term loan from an affiliate and repayment of I/G account payables. These were partially offset by an increase in demand deposits from various affiliate companies.

Q3 2020 Year over Year results – Reported NIBT of \$24.5MM is \$30.3MM or 55% behind the previous year

- Net interest income is up by 3% or \$2.5MM due to \$5.0MM in dividends from FINCO and increases in interest from business loans. These were partially offset by lower interest from personal loans, mortgages, impaired loans and investments. Interest expense grew given the \$200MM I/G borrowing.
- Non-interest income dropped by 10% or \$4.5MM due to decreases in card revenue, service fees and over-the-counter transactions. These were offset by a small increase in FX commissions.
- Provision for credit losses increased by \$31.8MM due to increases in Stage 2 provisions from additional overlay related to the Covid-19 pandemic. However, there were higher recoveries and lower debts written off compared to the previous year.
- Staff costs increased by 10% or \$2.2MM from a reclass of costs from internal fees, a reversal of severance costs in the previous year, and Covid-19 related staff allowances (special and work-from-home related compensation).
- Business taxes reduced by 27% or \$2.6MM due to lower stamp tax fees and lower VAT assessment due to lower management fees and apportionment of expenses.
- Internal fees & charges was lower by 8% or \$1.2MM from lower management fees and infrastructure charges. These decreases were partially offset by higher business traveler (SLA) and shared services costs.

Q3 2020 Quarter over Quarter comparison – NIBT of \$14.9MM is behind the previous year's quarter by \$6.6MM or 31%

- Non-interest income is behind the previous year by 17% or \$2.7MM from decreases in service fees, OTC revenue, and FX commissions. These were partially offset by a small increase in card revenue.
- Provision for credit losses was higher by 81% or \$3.0MM due to higher debts written off and lower recoveries.
- Staff costs are higher than the previous year by \$2.4MM or 32% from a reclass of costs from internal fees, a reversal of severance costs in the previous year, and Covid-19 related staff allowances (special and work-from-home related compensation).
- Overall expenses were lower by 1.1MM or 5% given lower charges for occupancy, communications and business taxes.

YTD Q3 2020 vs Plan – NIBT of \$24.5MM is behind plan by \$27.2MM or 53%

- Net interest of \$74.1MM was behind plan by 2% or \$1.1MM as overall interest on the loan portfolio was less than plan volumes. This decline partially offset by an increase in interest from investments. Interest cost was higher from the I/G group borrowing.
- Non-interest revenue was down by 15% or \$7.2MM from decreases in card revenue, service fees and OTC transactions. However, there were increases in FX revenues and credit related fees which partially offset the revenue decline.
- Provision for credit losses was higher by \$23.3MM given the increases from the Covid-19 overlay
- Expenses overall was less than plan by 7% or \$4.5MM with lower charges for Sundry & fraud losses, business taxes and internal fees. These were offset by higher staff and equipment costs.

RBC Royal Bank (Bahamas) Limited

Statement of financial position

(BSD in thousands)

	Notes	July 31 2020	October 31 2019	YTD	
				\$	%
Assets					
Cash and cash equivalent	1	\$ 515,316	\$ 501,578	\$ 13,738	3%
Balance with central banks	2	541,482	395,113	146,369	27%
Loans and advances to customers	3	1,364,513	1,340,336	24,177	2%
Investment securities	4	228,395	249,926	(21,530)	-9%
Due from affiliated companies	5	164,206	111,948	52,257	32%
Investment in subsidiaries		13,906	13,906	-	0%
Premises and equipment	6	26,435	18,150	8,285	31%
Other assets	7	37,217	21,451	15,766	42%
Total Assets		\$ 2,891,470	\$ 2,652,408	\$ 239,062	8%
*Bahamas Government Exposure		504,006	422,130	81,876	16%
*Loans and advance less Gov't Exposure		860,507	918,205	(57,699)	-7%
Liabilities					
Due to banks	8	\$ 39,290	\$ 27,045	\$ 12,244	31%
Customers' deposits	9	2,286,813	2,008,056	278,757	12%
Due to affiliated companies	10	137,797	215,222	(77,425)	-56%
Other liabilities		42,432	41,398	1,035	2%
Total Liabilities		\$ 2,506,332	\$ 2,291,722	\$ 214,611	9%
Equity					
Share capital		\$ 11,282	\$ 11,282	\$ -	0%
Share premium		198,572	198,572	-	0%
Other components of equity	11	4,769	3,575	1,194	25%
Retained earnings	12	170,514	147,257	23,257	14%
Total Equity		\$ 385,138	\$ 360,686	\$ 24,451	6%
Total Liabilities and Equity		\$ 2,891,470	\$ 2,652,408	\$ 239,062	8%

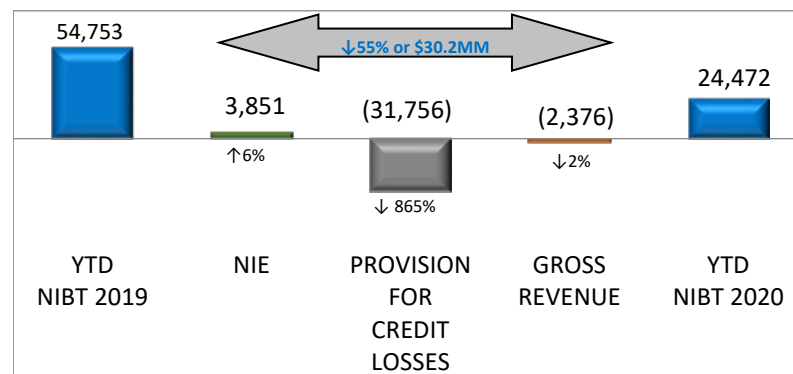
- The 3% increase in cash and cash equivalents is due to increases in the nostro accounts, which is funded by customer deposits, offset partially by a \$12.1MM reduction in T-bills.
- The central bank balance is higher from receipt of additional customer deposits and retained profits during the period. It is also affected by loan disbursements and additional funding to FINCO.
- The 2% growth in loans and advances is attributed largely to an increase in government borrowings of \$81.9MM, offset partially by decreases in retail loans (\$20.2MM), credit card advances (\$7.1MM) and commercial loans (\$4.2MM). Allowance for credit losses was up significantly by \$23.9MM which includes the Covid-19 overlay.
- The 9% decrease in investment securities is due to the maturity of USD denominated bonds.
- The rise in due from affiliated companies is due to a \$45.0MM increase in the term loan funding to FINCO and an increase in the nostro accounts of \$7.6MM.
- Increase in premises and equipment is primarily due to the capitalization of \$6.5MM in operating leases on adoption of IFRS 16. Related to this is a \$5.5MM capitalized leased obligation included in other liabilities.
- The variance in other assets is attributed to fluctuations in settlement, clearing and adjustment suspense balances. Also included are increases in prepaid expenses. Interest receivable is also higher given the deferral program.
- The increase in due to banks is attributed to market liquidity and is largely from demand deposits.
- Customer deposits increase is in demand deposits for both personal and non-personal customers of \$105.7MM and \$173.0MM, respectively.
- The decrease in due to affiliated companies is due to the payoff of a \$125MM term loan to RBC Barbados Funding Ltd and the settlement of \$13.2MM in intragroup payables, offset partially by a \$60.9MM increase in deposits from affiliates.
- The \$1.2MM increase in other components of equity is transfer of 25% of Turks FY2019 profit.
- Retained earnings movement is a result of accumulated profits for the period net the transfer to reserves.

RBC Royal Bank (Bahamas) Limited

Statement of income – Year to Date Analysis

(BSD in thousands)

Notes	For the nine months ended		YoY	
	July 31 2020	July 31 2019	\$	%
Interest income	\$ 75,541	\$ 72,128	\$ 3,413	5%
Interest expense	(1,402)	(457)	(945)	N/M
Net interest income	74,139	71,671	2,468	3%
Non-interest income	41,349	46,193	(4,844)	-10%
Total revenue	115,488	117,864	(2,376)	-2%
Non-interest expense	(62,933)	(66,784)	(3,851)	-6%
Provision for credit losses	(28,082)	3,673	31,756	N/M
Total non-interest expense	(91,016)	(63,111)	27,905	-44%
Net income before tax	\$ 24,472	\$ 54,753	\$ (30,281)	-55%
Non-interest expenses				
Salaries and Allowances	\$ 19,242	\$ 17,427	\$ 1,815	10%
Variable Compensation	1,553	2,129	(576)	-27%
Benefits and Retentions Compensation	4,923	3,922	1,001	26%
Total Staff Cost	25,718	23,478	2,241	10%
Equipment	1,945	1,265	680	54%
Occupancy	5,762	6,208	(447)	-7%
Communications	3,095	4,093	(998)	-24%
Professional fees	839	774	65	8%
Deposit insurance premium	510	519	(9)	-2%
Sundry & fraud losses	1,493	1,900	(406)	-21%
Business & other taxes	6,990	9,640	(2,649)	-27%
Internal fee & charges	13,501	14,702	(1,201)	-8%
Other expenses	3,080	4,206	(1,125)	-27%
Total non-interest expenses	\$ 62,933	\$ 66,784	\$ (3,851)	-6%
Debts Written off and Recoveries	(123)	2,126	(2,249)	N/M
Provision for Credit Losses - Stage 1	(1,295)	(419)	(876)	N/M
Provision for Credit Losses - Stage 2	28,511	(6,956)	35,467	N/M
Provision for Credit Losses - Stage 3	989	1,575	(586)	-37%
Total provision for credit losses	28,082	(3,673)	31,755	N/M
Total FTE	485	494	-10	-1.96%
Operating leverage	-	-	-	3.75%
Efficiency ratio	54.49%	56.66%	-2.17%	-3.83%



- The 3% growth in net interest income is due to \$5.0MM in dividends from FINCO and an increase in interest from business loans (\$1.9MM). These were offset by lower personal loan interest and mortgages (\$2.4MM) and lower interest on impaired loans and investments of \$1.5MM and \$0.5MM, respectively. The increase in interest expense is primarily due to interest paid on the I/G group borrowing for five months YTD compared to one month last year.
- The \$4.8MM decline in other income is from decreases in card service revenue (\$2.4MM), service fees (\$2.0MM) and OTC transactions (\$976M), offset by a small increase in FX revenue (\$369M).
- Higher PCL is due to increases in Stage 2 provisions from additional overlay related to the Covid-19 pandemic. However, year to date there were higher recoveries, lower debt write offs, and NPLs reduced by 25% (\$9.2MM) from the previous year.
- The rise in staff costs is due to a \$1.1MM reclass of cost from internal fees and a \$675M reversal of severance costs in the previous year. In addition, there was an increase in benefit costs due to Covid-19 work-from-office and WFH grants.
- The increase in equipment costs is due to an increase in amortization of computer software of \$700M and other project related costs.
- The 7% drop in occupancy costs resulted from lower rental expenses and property repair & maintenance costs of \$1.1MM and \$372M, respectively due to reduced retail operation at various bank locations due to the pandemic. These were offset by higher depreciation on adoption of IFRS16.
- The decrease in communication costs largely due to cost savings derived from a change in telephone service provider (from BTC to Aliv).
- Decrease in sundry & fraud charges primarily due to higher write-offs for fraudulent card transactions in the prior year.
- The reduction in business taxes is due to lower stamp tax fees of \$915M and lower VAT fees resulting from the apportionment and lower management fees of \$2.1MM.
- Lower internal fees & charges due to lower in management fees (\$2.1MM) and GTI charges (\$216M), offset by higher business travelers' fees (\$218M) and shared services costs (\$746M).

RBC Royal Bank (Bahamas) Limited

Statement of income – Quarter over Quarter analysis

(BSD in thousands)

Notes	For the three months ended			QTR vs Prior QTR		QTR vs Prior Year QTR	
	July 31 2020	April 30 2020	July 31 2019	\$	%	\$	%
Interest income	\$ 23,485	\$ 23,744	\$ 23,561	\$ (259)	-1%	\$ (76)	0%
Interest expense	(118)	(461)	(347)	343	-74%	229	-66%
Net interest income	23,367	23,283	23,214	83	0%	152	1%
Non-interest income	12,809	12,257	15,504	552	5%	(2,694)	-17%
Total revenue	36,176	35,540	38,718	636	2%	(2,542)	-7%
Non-interest expense	(21,958)	(20,797)	(20,826)	1,161	6%	1,132	5%
Provision for credit losses	676	(29,104)	3,643	(29,780)	N/M	2,967	-81%
Total non-interest expense	(21,282)	(49,901)	(17,183)	(28,619)	-57%	4,099	24%
Net income before tax	\$ 14,894	\$ (14,361)	\$ 21,535	\$ 29,255	N/M	\$ (6,641)	-31%
Non-interest expenses							
Salaries and Allowances	\$ 6,844	\$ 6,230	\$ 5,541	\$ 614	10%	\$ 1,303	24%
Variable Compensation	638	551	689	88	16%	(51)	-7%
Benefits and Retentions Compensation	2,372	1,035	1,213	1,337	N/M	1,160	96%
Total Staff Cost	9,854	7,816	7,443	2,039	26%	2,412	32%
Equipment	435	1,255	366	(821)	-65%	69	19%
Occupancy	1,741	1,731	1,991	10	1%	(251)	-13%
Communications	868	1,146	1,270	(278)	-24%	(403)	-32%
Professional fees	114	292	298	(178)	-61%	(184)	-62%
Deposit insurance premium	171	171	167	-	0%	4	2%
Sundry & fraud losses	824	345	513	479	N/M	312	61%
Business & other taxes	2,267	2,362	2,790	(94)	-4%	(522)	-19%
Internal fee & charges	4,741	4,562	4,769	179	4%	(28)	-1%
Other expenses	941	1,117	1,218	(176)	-16%	(277)	-23%
Total non-interest expenses	\$ 21,958	\$ 20,797	\$ 20,826	\$ 1,161	6%	\$ 1,132	5%
Debts Written off and Recoveries	817	(1,211)	(1,803)	2,028	N/M	2,620	N/M
Provision for Credit Losses - Stage 1	39	2,195	(768)	(2,156)	-98%	807	N/M
Provision for Credit Losses - Stage 2	(4,484)	29,479	(875)	(33,963)	N/M	(3,609)	N/M
Provision for Credit Losses - Stage 3	2,952	(1,358)	(196)	4,310	N/M	3,148	N/M
Total provision for credit losses	(676)	29,104	(3,643)	(29,780)	-102%	2,967	-81%
Total FTE	485	487	494	(2)	0%	(10)	-1.96%
Operating leverage	-	-	-	-	-3.79%	-	-12.00%
Efficiency ratio	59.85%	58.52%	52.70%	1%	2%	7%	14%

- The \$2.7MM decrease in other income resulted from decreases in key categories of revenue except card service revenue which increased by \$244M. Services fees and over-the-counter fees declined by \$893M and \$411M respectively, and is affected by the Covid-19 Emergency orders that slowed economic activity. FX commissions is at normal levels, but is unfavorable by \$1.6MM to the previous year's quarter given a larger amount of revenue booked in the previous year for an error correction.
- PCL is unfavorable to the previous quarter and Q3 2019. The unfavourable movement to Q3 2019 is primarily due to higher write offs of \$1.4MM and lower recoveries of \$646M. Provisions in Q3 2020 are relatively low, however prior year included a higher level of recoveries. The unfavorable variance to Q2 2020 is due to the Covid-19 provision overlay.
- The rise in staff costs is due to a \$1.1MM reclass of cost from internal fees. The prior year quarter is also lower by \$675M from accrual reversals for severance costs no longer needed. In addition, there was an increase in benefit costs for Covid-19 work-from-office compensation and WFH grant.
- The decrease in occupancy costs due to reductions in rent expense (\$533M) and premises maintenance costs (\$81M) from reduced office space and reduced operations. These were partly offset by an increase of \$363M in depreciation expense.
- The decrease in communication costs were largely due to lower telephone contracts negotiated with a switch from BTC to Aliv, resulting in telephone cost decreasing by \$250M. Postage & courier, marketing costs and stationary & printing fees also dropped by \$55M, \$81M and \$16M, respectively.
- Increase in sundry and fraud losses due to higher write offs from remediation of aged cash transactions and an operational loss related to hurricane Dorian.
- The drop in business and other taxes is due to lower VAT on management fees. There was also a reduction in stamp taxes of \$186M.

RBC Royal Bank (Bahamas) Limited

Statement of income – Actual versus Plan

(BSD in thousands)

Notes	For the nine months ended		YoY	
	July 31 2020 Actual	July 31 2020 Plan	Actual vs Plan	
			\$	%
Interest income	\$ 75,541	\$ 75,707	\$ (167)	0%
Interest expense	(1,402)	(425)	(977)	N/M
Net interest income	74,139	75,282	(1,144)	-2%
Non-interest income	41,349	48,527	(7,178)	-15%
Total revenue	115,488	123,809	(8,322)	-7%
Non-interest expense	(62,933)	(67,393)	(4,460)	-7%
Provision for credit losses	(28,082)	(4,773)	23,310	N/M
Total non-interest expense	(91,016)	(72,166)	18,850	26%
Net income before tax	\$ 24,472	\$ 51,643	\$ (27,171)	-53%
Non-interest expenses				
Salaries and Allowances	\$ 19,242	\$ 18,294	\$ 949	5%
Variable Compensation	1,553	1,599	(47)	-3%
Benefits and Retentions Compensation	4,923	3,889	5,326	137%
Total Staff Cost	25,718	23,781	1,937	8%
Equipment	1,945	420	1,525	N/M
Occupancy	5,762	5,484	278	5%
Communications	3,095	3,886	(791)	-20%
Professional fees	839	573	265	46%
Deposit insurance premium	510	528	(19)	-4%
Sundry & fraud losses	1,493	3,086	(1,592)	-52%
Business & other taxes	6,990	8,564	(1,574)	-18%
Internal fee & charges	13,501	16,552	(3,051)	-18%
Other expenses	3,080	4,519	(1,438)	-32%
Total non-interest expenses	\$ 62,933	\$ 67,393	\$ (4,460)	-7%
Debts Written off and Recoveries	(123)	7,807	(7,930)	N/M
Provision for Credit Losses - Stage 1	(1,295)	46	(1,341)	N/M
Provision for Credit Losses - Stage 2	28,511	(71)	28,582	N/M
Provision for Credit Losses - Stage 3	989	(3,009)	3,998	N/M
Total provision for credit losses	28,082	4,773	23,309	N/M
Total FTE	485	495	-10	-2.08%
Operating leverage	-	-	-	-0.10%
Efficiency ratio	54.49%	54.43%	0.06%	0.11%

- Net interest income fell below plan by 2%, where overall interest on total loan portfolio, inclusive of impaired loans, were less than plan by \$2.9MM, this was partially offset by an increase in interest earned on investment securities of \$1.7MM. Interest cost was higher than plan given five months of interest paid on the I/G borrowing.
- Non-interest income came in under plan due to decreases in card service revenue (\$4.7MM), service fees (\$2.3MM) and OTC transactions (\$1.2MM), offset by increases in FX revenues (\$686M) and credit fees (\$270M).
- PCL's unfavorable variance is due to the significant increase Stage 2 provisions from the Covid-19 overlay.
- Total staff costs came in unfavourable to plan mainly due to a reclassification and a reversal of severance accruals in the prior year. In addition, there were expenditures related to the pandemic for staff working in the office and at home.
- Equipment came in above plan due to catch-up depreciation recorded on computer software for project related costs.
- Communication costs came in under plan by due to lower telecommunication expenses of \$706M, marketing costs of \$129M and postage & courier expenses of \$14M, offset partially by an increase in stationary expenses of \$70M.
- The drop in sundry and fraud losses when compared to plan resulted from reduced electronic transfer and credit card fraudulent transactions.
- Business taxes reduced given lower VAT charges on management fees and GTI charges.
- Internal fees favourable to plan due reduced management fees, lower GTI fees and reduced shared services costs for FY2020.

RBC Royal Bank (Bahamas) Limited – Turks & Caicos Branch

Statement of financial position

(USD in thousands)

	Notes	July 31 2020	October 31 2019	YTD	
				\$	%
Assets					
Cash and cash equivalent	1	\$ 64,581	\$ 80,131	\$ (15,550)	-24%
Loans and advances to customers		142,063	142,378	(315)	0%
Premises and equipment	2	1,682	372	1,311	78%
Other assets		2,139	1,386	753	35%
Total Assets		\$ 210,465	\$ 224,267	\$ (13,802)	-7%
Liabilities					
Customers' deposits	3	\$ 95,423	\$ 110,195	\$ (14,772)	-15%
Due to affiliated companies		80,220	80,429	(209)	0%
Other liabilities		2,028	1,143	885	44%
Total Liabilities		\$ 177,671	\$ 191,766	\$ (14,096)	-8%
Equity					
Contributed surplus		\$ 15,000	\$ 15,000	\$ -	0%
Other reserves	4	4,965	3,749	1,216	24%
Retained earnings	5	12,830	13,752	(922)	-7%
Total Equity		\$ 32,795	\$ 32,501	\$ 294	1%
Total Liabilities and Equity		\$ 210,465	\$ 224,267	\$ (13,802)	-7%

1. The \$15.6MM reduction in cash and cash equivalents is a result of customer deposit reductions.
2. The increase of \$1.3MM in premises and equipment relate to the capitalization of operating leases on adoption of IFRS 16.
3. The 15% decrease in customer deposits is a result of reductions of \$11.5MM in non-personal accounts and \$4.0MM in personal accounts, offset partially by an increase in bank deposits of \$727M.
4. The \$1.2MM increase in other reserves represents 25% of Turk's FY2019 profit of \$4.9MM transferred to reserves.
5. Retained earnings movement is a result of accumulated profits for the year and the reserve transfer.

RBC Royal Bank (Bahamas) Limited – Turks & Caicos Branch

Statement of income – Year over Year analysis

(USD in thousands)

Notes	For the nine months ended		YoY	
	July 31 2020	July 31 2019	\$	%
Interest income	\$ 6,276	\$ 6,822	\$ (546)	-8%
Interest expense	(1,240)	(1,803)	563	-31%
Net interest income	5,036	5,019	17	0%
Non-interest income	750	839	(90)	-11%
Total revenue	5,786	5,858	(72)	-1%
Non-interest expense	(1,926)	(1,872)	54	3%
Provision for credit losses	(3,566)	156	3,721	N/M
Total non-interest expense	(5,492)	(1,716)	3,775	N/M
Net income before tax	\$ 294	\$ 4,142	\$ (3,848)	-93%
Non-interest expenses				
Salaries and Allowances	\$ 863	\$ 732	\$ 131	18%
Variable Compensation	46	53	(7)	-13%
Benefits and Retentions Compensation	72	61	10	17%
Total Staff Cost	980	846	134	16%
Equipment	87	63	24	38%
Occupancy	323	361	(37)	-10%
Communications	103	127	(24)	-19%
Professional fees	77	105	(28)	-27%
Sundry & fraud losses	10	48	(38)	-79%
Business & other taxes	55	23	32	N/M
Other expenses	290	299	(9)	-3%
Total non-interest expenses	\$ 1,926	\$ 1,872	\$ 54	3%
Debts Written off and Recoveries	(538)	(1,200)	662	-55%
Provision for Credit Losses - Stage 1	569	(84)	653	N/M
Provision for Credit Losses - Stage 2	4,356	415	3,942	N/M
Provision for Credit Losses - Stage 3	(822)	713	(1,535)	N/M
Total provision for credit losses	3,566	(156)	3,721	N/M
Total FTE	21	19	2	11%
Operating leverage	-	-	-	-4%
Efficiency ratio	33.29%	31.96%	1.34%	4.18%

1. The 11% decrease in other income is a result of decreases in service fees of \$80M and card service revenue of \$44M, offset partly by increases in LOCs & guarantee fees of \$14M, gains in FX revenues of \$11M and OTC transactions of \$8M.
2. As noted before, the unfavourable movement in PCL is due to higher Stage 2 provisions driven by the additional overlay for the COVID-19 pandemic.
3. The increase in staff cost are due to increases in staff salaries, staff allowances and staff benefits. There was some reduction in overtime costs.

RBC Royal Bank (Bahamas) Limited

Statement of retained earnings

(BSD in thousands)

	Retained Earnings
Balance at October 31, 2018	\$ 90,307
IFRS 15 transition adjustment	<u>(1,076)</u>
Retained earnings, restated	89,231
Net Profit for the period	54,753
Transfer to reserves	<u>(1,150)</u>
Balance at July 31, 2019	<u><u>\$ 142,834</u></u>

	Retained Earnings
Balance as at October 31, 2019	\$ 147,258
Net profit for the period	24,472
Transfer to reserves	<u>(1,216)</u>
Balance at July 31, 2020	<u><u>\$ 170,514</u></u>