

Financial Statements

For the quarter ended April 30, 2020

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Caribbean Banking Financial Control - Northern Caribbean



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Finance Corporation of 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	
	April 30 2020	January 31 2020	April 30 2019	\$	%	\$	%
Interest income	\$ 11,632	\$ 12,071	\$ 11,755	\$ (439)	-4%	\$ (123)	-1%
Interest expense	(1,951)	(2,084)	(2,105)	132	6%	154	7%
Net interest income	9,681	9,987	9,650	(306)	-3%	31	0%
Non-interest income	577	511	611	66	13%	(34)	-6%
Total revenue	10,258	10,498	10,261	(240)	-2%	(3)	0%
Non-interest expense	(3,598)	(3,517)	(3,403)	(81)	-2%	(195)	-6%
Provision for credit losses	(15,810)	4,097	2,385	(19,907)	N/M	(18,195)	N/M
Total non-interest expense	(19,408)	580	(1,018)	(19,988)	N/M	(18,390)	N/M
Net income before tax	\$ (9,150)	\$ 11,078	\$ 9,243	\$ (20,229)	N/M	\$ (18,393)	N/M
Non-interest expenses							
Salaries and Allowances	\$ 326	\$ 307	\$ 274	\$ (19)	-6%	(52)	-19%
Variable Compensation	22	25	29	3	12%	8	26%
Benefits and Retentions Compensation	63	62	24	(0)	-1%	(38)	N/M
Total Staff Cost	411	394	328	(17)	-4%	(83)	-25%
Equipment	85	95	72	10	11%	(12)	-17%
Occupancy	99	100	105	1	1%	6	6%
Communications	33	30	41	(2)	-8%	8	20%
Professional fees	294	269	113	(26)	-10%	(181)	N/M
Deposit insurance premium	57	61	63	4	7%	7	10%
Sundry & fraud losses	-	32	(1)	32	N/M	(1)	N/M
Business & other taxes	1,108	915	914	(194)	-21%	(194)	-21%
Internal fee & charges	1,492	1,579	1,714	87	6%	221	13%
Other expenses	19	42	53	23	54%	34	63%
Total non-interest expenses	\$ 3,598	\$ 3,517	\$ 3,403	\$ (81)	-2%	\$ (195)	-6%
Impairment losses on loans							
Debts Written Off and Recoveries	(551)	374	3,862	925	N/M	4,413	N/M
Provision for Credit Losses - Stage 1	(478)	(3,710)	(394)	(3,233)	87%	84	-21%
Provision for Credit Losses - Stage 2	25,014	4,168	(9,092)	(20,846)	N/M	(34,106)	N/M
Provision for Credit Losses - Stage 3	(8,175)	(4,928)	3,238	3,247	-66%	11,413	N/M
Total impairment losses on loans	15,810	(4,097)	(2,385)	(19,907)	N/M	(18,195)	N/M
Total FTE	26	26	28	-	0%	(2)	-7%
Operating leverage	0.02	0.07	(0.10)	(0.05)	-68%	0.13	-122%
Efficiency ratio	35.07%	33.50%	33.16%	0.02	0.05	0.02	0.06

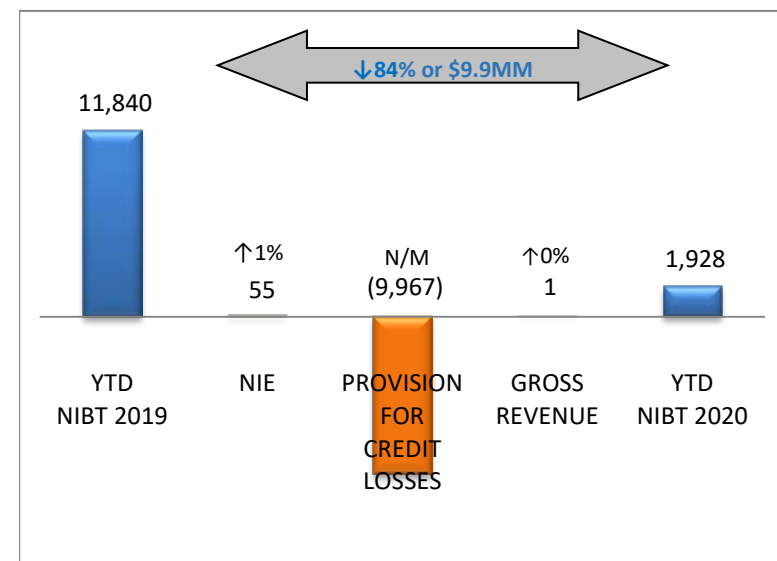
- Net interest income is lower QoQ by 3% or \$306M. Interest earned on impaired loans decreased by \$240M along with a decline in loan fees and interest earned on mortgages, this was partially offset by a 6% decrease in interest expense as a result of lower customer deposits.
- PCL is up \$19.9MM when compared to Q1 2020. Although NAL levels shrunk by 15% and resulted in a \$3.2MM reduction in stage 3 provisions, the unfavourable variance in Q2 is predominantly attributed to a \$24.1MM increase in stage 1 and 2 provisions for the expected impact of COVID 19. Recovery on bad debts was also favourable by \$1.0MM.
- Business license fee for calendar year 2020 increased by 47% resulting in a \$216M increase compared to previous quarter. Meanwhile VAT expense and stamp duty decreased by \$9M and \$13M respectively.

Finance Corporation of Bahamas Limited

Statement of income – YTD Analysis

(BSD in thousands)

Notes	For the six months ended		YoY	
	April 30 2020	April 30 2019	\$	%
Interest income	23,703	23,979	\$ (277)	-1%
Interest expense	(4,035)	(4,321)	286	7%
Net interest income	19,668	19,658	10	0%
Non-interest income	1,089	1,098	(9)	-1%
Total revenue	20,756	20,756	1	0%
Non-interest expense	(7,114)	(7,169)	55	1%
Provision for credit losses	(11,714)	(1,747)	(9,967)	N/M
Total non-interest expense	(18,828)	(8,916)	(9,912)	N/M
Net income before tax	\$ 1,928	\$ 11,840	\$ (9,911)	-84%
Non-interest expenses				
Salaries and Allowances	\$ 633	\$ 607	\$ (25)	-4%
Variable Compensation	47	58	11	19%
Benefits and Retentions Compensation	125	118	(7)	-6%
Total Staff Cost	805	783	(21)	-3%
Equipment	180	236	57	24%
Occupancy	198	207	9	4%
Communications	63	75	12	17%
Professional fees	563	200	(363)	N/M
Deposit insurance premium	118	131	13	10%
Sundry & fraud losses	32	9	(23)	N/M
Business & other taxes	2,023	2,025	2	0%
Internal fee & charges	3,072	3,430	358	10%
Other expenses	62	72	11	15%
Total non-interest expenses	\$ 7,114	\$ 7,169	\$ 55	1%
Impairment losses on loans				
Debts Written Off and Recoveries	(177)	3,099	3,276	N/M
Provision for Credit Losses - Stage 1	(4,188)	(503)	3,685	N/M
Provision for Credit Losses - Stage 2	29,181	(6,973)	(36,154)	N/M
Provision for Credit Losses - Stage 3	(13,103)	6,124	19,226	N/M
Total impairment losses on loans	\$ 11,714	\$ 1,747	\$ (9,967)	N/M
Total FTE	26	28	-2	-7.14%
Operating leverage	0.04	(0.17)	0.21	N/M
Efficiency ratio	34.28%	34.54%	-0.26%	-0.76%



1. PCL of \$11.7MM rose by \$9.9MM and is primarily due to provisioning for the impact of COVID 19. Stage 2 provisions increased by \$36.2MM whereas stage 1 provisions decreased by \$3.7MM and NAL levels decreased by 22% resulting in a \$19.2MM reduction in stage 3 provisions. Recoveries on bad debts also increased by \$3.3MM.
2. Professional fees increased by \$363M due to \$193M increase in legal fees for registration on mortgage documents in addition to \$56M increase in audit fees for 2019 shared service audit support. BISX and Collections Marketing Center also increased by \$45M and \$69M respectively.
3. Internal fees and charges decreased by 10% and is mostly due to the 2019 revision of transfer pricing between RBC Bahamas and FINCO resulting in a \$284M reduction in costs. Head office Toronto allocations also decreased by \$74M.

Finance Corporation of Bahamas Limited

Statement of income – YTD Actual versus Plan

(BSD in thousands)

	Notes	For the six months ended		YoY	
		April 30 2020 Actual	April 30 2020 Plan	Actual vs Plan	
		\$	\$	\$	%
Interest income		\$ 23,703	\$ 22,507	\$ 1,196	5%
Interest expense		(4,035)	(4,412)	377	9%
Net interest income	1	19,668	18,095	1,573	9%
Non-interest income		1,089	1,123	(34)	-3%
Total revenue		20,756	19,218	1,538	8%
Non-interest expense		(7,114)	(7,063)	(51)	-1%
Provision for credit losses	2	(11,714)	(2,543)	(9,170)	N/M
Total non-interest expense		(18,828)	(9,607)	(9,221)	-96%
Net income before tax		\$ 1,928	\$ 9,611	\$ (7,683)	-80%
Non-interest expenses					
Salaries and Allowances		\$ 633	\$ 623	\$ (10)	-2%
Variable Compensation		47	61	14	23%
Benefits and Retentions Compensation		125	118	(7)	-6%
Total Staff Cost		805	802	(3)	0%
Equipment		180	145	(35)	-24%
Occupancy		198	212	14	7%
Communications		63	75	12	16%
Professional fees	3	563	155	(408)	N/M
Deposit insurance premium		118	131	13	10%
Sundry & fraud losses		32	15	(16)	N/M
Business & other taxes		2,023	2,025	2	0%
Internal fee & charges	4	3,072	3,430	358	10%
Other expenses		62	74	12	16%
Total non-interest expenses		\$ 7,114	\$ 7,063	\$ (51)	-1%
Impairment losses on loans					
Debts Written Off and Recoveries		(177)	2,827	3,004	N/M
Provision for Credit Losses - Stage 1		(4,188)	(168)	4,021	N/M
Provision for Credit Losses - Stage 2		29,181	(37)	(29,219)	N/M
Provision for Credit Losses - Stage 3		(13,103)	(79)	13,024	N/M
Total impairment losses on loans		\$ 11,714	\$ 2,543	\$ (9,170)	N/M
Total FTE		26	28	-2	-7.14%
Operating leverage		0.04	(0.26)	0.30	N/M
Efficiency ratio		34.28%	36.75%	-2.48%	-6.74%

1. Net interest income is favourable to plan by \$1.6MM or 9%. Loan volumes are marginally ahead plan by \$1.1MM with average interest yields increasing by 0.37% when compared to plan. Interest expense also added to this favourable variance with a \$377M decrease in interest cost as a result of lower deposit levels.
2. In response to the potential impact of COVID 19 PCL provisioning increased by \$25.2MM compared to plan for Q2 2020. Meanwhile NAL levels fell by 31% resulting in a \$13.0MM decrease in stage 3 provisions and net recoveries are up \$3.0MM when compared to plan.
3. Professional fees are higher than plan by \$408M and is largely due to \$235M increase in legal fees for registration of mortgage documents along with \$59M in audit fees for shared services audit support. BISX and Collection Marketing Center cost also increased by \$114M compared to plan.
4. Internal fees and charges is favourable to plan by 10% due to the 2019 revision of the SLA agreement between RBC Bahamas and FINCO along with a \$60M decrease in head office allocations.

Finance Corporation of Bahamas Limited

Statement of Financial Position

(BSD in thousands)

	Notes	April 30 2020	October 31 2019	YTD	
				\$	%
Assets					
Cash and cash equivalent	1	\$ 24,714	\$ 36,766	\$ (12,052)	-49%
Balance with central banks	2	39,640	43,857	(4,217)	-11%
Loans and advances to customers	3	666,033	685,328	(19,295)	-3%
Investment securities		29,346	29,565	(219)	-1%
Premises and equipment		128	30	98	77%
Other assets	4	12,228	4,504	7,725	63%
Total Assets		\$ 772,089	\$ 800,049	\$ (27,960)	-4%
Liabilities					
Customers' deposits	5	\$ 408,393	\$ 464,510	\$ (56,117)	-14%
Due to associates and affiliated companies	6	144,785	111,988	32,797	23%
Other liabilities		5,214	6,440	(1,227)	-24%
Total Liabilities		\$ 558,391	\$ 582,938	\$ (24,546)	-4%
Equity					
Share capital		\$ 5,333	\$ 5,333	-	0%
Share Premium		2,552	2,552	-	0%
Other components of equity		9	18	(9)	NM
Retained earnings	7	205,803	209,208	(3,405)	-2%
Total equity		\$ 213,697	\$ 217,111	\$ (3,414)	-2%
Total Liabilities and Equity		\$ 772,089	\$ 800,049	\$ (27,960)	-4%

- Cash and cash equivalent decreased by 49% as a result of a reduction in customer deposits.
- Balance with central banks movement is due to a \$5.0MM transfer to the bank's operating account offset by funds received for interest earned on government registered stocks.
- Loans and advances contracted by \$19.3MM or 3% and is due to \$9.5MM net run-offs in addition to \$9.7MM increase in allowances for credit losses. During the period stage 1 and stage 3 ACL decreased by \$18.5MM collectively while stage 2 increased by \$28.2MM due to provisioning for effects of COVID 19.
- Other assets variance of \$7.7MM is due to \$2.4MM prepaid expenses on 2020 business license fees along with \$5.2MM increase in accrued interest on loans as a result of the deferred payment program for COVID 19. Other suspense balance increased by \$125M.
- Customer deposits shrunk by 14% or \$56.1MM and is due to a \$66.1MM decrease term deposits offset by \$10.0MM increase in savings and demand personal deposits. The movement in term deposits is mostly due to non-personal deposits of which \$25.0MM is public corporations and \$33.0MM is due to private financial institutions. Personal term deposits decreased by \$8.0MM.
- Due to affiliated companies increased by 23% due to an additional \$35.0MM draw down on the term loan with RBC Bahamas partly offset by \$1.7MM decrease in I/G payables.
- Retained earnings decreased by \$3.4MM and is due \$5.3MM dividend payment partially offset by \$1.9MM accumulated profits.

Finance Corporation of Bahamas Limited

Statement of retained earnings

(BSD in thousands)

Retained earnings, October 31, 2018	\$	193,715
Net profit for the period		11,840
Dividend		<u>(2,666)</u>
Retained earnings, April 30, 2019	\$	<u>202,889</u>

Retained earnings, October 31, 2019	\$	209,208
Net Profit for the period		1,928
Dividend		<u>(5,333)</u>
Retained earnings, April 30, 2020	\$	<u>205,803</u>

FINANCE CORPORATION OF BAHAMAS LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)
As of April 30, 2020 and October 31, 2019
(Expressed in Bahamian dollars)

ASSETS	April 30, 2020	October 31, 2019
Cash and cash equivalents	\$ 24,713,634	\$ 36,766,118
Balance with central bank	39,639,807	43,857,068
Loans and advances to customers	666,032,678	685,328,230
Investment securities	29,346,492	29,565,031
Premises and equipment	127,786	29,547
Other assets	12,228,289	4,503,631
TOTAL	<u><u>\$ 772,088,686</u></u>	<u><u>\$ 800,049,625</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Customer deposits	\$ 408,392,716	\$ 464,509,564
Due to affiliated companies	144,784,933	111,987,957
Other liabilities	5,213,830	6,440,381
Total liabilities	<u><u>\$ 558,391,479</u></u>	<u><u>\$ 582,937,902</u></u>
SHAREHOLDERS' EQUITY		
Share capital	5,333,334	5,333,334
Share premium	2,552,258	2,552,258
Other components of equity	8,800	17,691
Retained earnings	<u>205,802,815</u>	<u>209,208,440</u>
Total shareholders' equity	<u>213,697,207</u>	<u>217,111,723</u>
TOTAL	<u><u>\$ 772,088,686</u></u>	<u><u>\$ 800,049,625</u></u>

FINANCE CORPORATION OF BAHAMAS LIMITED
CONSOLIDATED STATEMENT OF PROFIT AND LOSS
AND COMPREHENSIVE INCOME (Unaudited)

Six Months Ended April 30, 2020
(Expressed in Bahamian dollars)

	Three Months Ended April 30, 2020	Three Months Ended April 30, 2019	Six Months Ended April 30, 2020	Six Months Ended April 30, 2019
Interest income	\$ 11,632,126	\$ 11,755,395	\$ 23,702,862	\$ 23,979,531
Interest expense	<u>(1,951,432)</u>	<u>(2,105,099)</u>	<u>(4,035,124)</u>	<u>(4,321,188)</u>
Net interest income	9,680,694	9,650,296	19,667,738	19,658,343
Non-interest income	<u>577,223</u>	<u>611,015</u>	<u>1,088,540</u>	<u>1,097,550</u>
Total income	<u>10,257,917</u>	<u>10,261,311</u>	<u>20,756,278</u>	<u>20,755,893</u>
Non-interest expense	(3,597,708)	(3,402,955)	(7,114,288)	(7,168,938)
Provision for credit losses	<u>(16,539,953)</u>	<u>2,383,859</u>	<u>(11,714,281)</u>	<u>(1,747,231)</u>
Net income	(9,879,744)	9,242,215	1,927,709	11,839,724
Other comprehensive income:				
<i>Items that may be reclassified to net income</i>				
Net gains on investments in debt instruments measured at FVOCI	(12,141)	29,183	(12,141)	29,183
Expected credit losses on FVOCI investments	<u>3,250</u>	<u>494</u>	<u>3,250</u>	<u>494</u>
Total comprehensive income for the period	\$ (9,888,635)	\$ 9,271,892	\$ 1,918,818	\$ 11,869,401
Earnings per share	<u><u>\$ (0.37)</u></u>	<u><u>\$ 0.35</u></u>	<u><u>\$ 0.07</u></u>	<u><u>\$ 0.44</u></u>

FINANCE CORPORATION OF BAHAMAS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)
Six Months Ended April 30, 2020
(Expressed in Bahamian dollars)

	Share Capital \$	Share Premium \$	Other Components Equity \$	Retained Earnings \$	Total \$
Balance at October 31, 2018	5,333,334	2,552,258	(15,740)	193,715,621	201,585,473
Net profit for the period	-	-	-	11,839,724	11,839,724
Other comprehensive income	-	-	29,677	-	29,677
Total comprehensive income	-	-	29,677	11,839,724	11,869,401
Dividends	-	-	-	(2,666,668)	(2,666,668)
Balance at April 30, 2019	5,333,334	2,552,258	13,937	202,888,677	210,788,206
Balance at October 31, 2019	5,333,334	2,552,258	17,691	209,208,440	217,111,723
Net profit for the period	-	-	-	1,927,709	1,927,709
Other comprehensive income	-	-	(8,891)	-	(8,891)
Total comprehensive income	-	-	(8,891)	1,927,709	1,918,818
Dividends	-	-	-	(5,333,334)	(5,333,334)
Balance at April 30, 2020	5,333,334	2,552,258	8,800	205,802,815	213,697,207

FINANCE CORPORATION OF BAHAMAS LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
Six Months Ended April 30, 2020
(Expressed in Bahamian dollars)

	April 30, 2020	April 30, 2019
OPERATING ACTIVITIES		
Net income	\$ 1,927,709	\$ 11,839,724
Adjustments for:		
Provision for credit losses	11,714,281	1,747,231
Depreciation and amortization of tangible assets	<u>8,845</u>	<u>7,375</u>
	13,650,835	13,594,330
 (INCREASE)/DECREASE IN OPERATING ASSETS		
Balances with Central Bank	4,217,261	17,672,822
Loans and advances to customers	7,581,271	9,635,097
Other assets	(7,724,657)	(884,494)
INCREASE/(DECREASE) IN OPERATING LIABILITIES		
Due to affiliated companies	32,796,976	(2,249,678)
Customers' deposits	(56,116,848)	(8,194,108)
Other liabilities	<u>(1,226,552)</u>	<u>843,185</u>
Cash from operating activities	<u>(6,821,714)</u>	<u>30,417,154</u>
 INVESTING ACTIVITIES		
Purchase of premises and equipment	(107,084)	-
Net movement in investment securities	<u>221,789</u>	<u>(397,901)</u>
Cash from investing activities	<u>114,705</u>	<u>(397,901)</u>
 FINANCING ACTIVITIES		
Dividends paid	<u>(5,333,334)</u>	<u>(2,666,668)</u>
	<u>(5,333,334)</u>	<u>(2,666,668)</u>
 NET (INCREASE)/DECREASE IN CASH AND CASH EQUIVALENTS	(12,040,343)	27,352,585
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	36,766,118	17,633,063
Effects of fair value changes on cash and cash equivalents	<u>(12,141)</u>	<u>29,677</u>
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	<u><u>\$ 24,713,634</u></u>	<u><u>\$ 45,015,325</u></u>

FINANCE CORPORATION OF BAHAMAS LIMITED
Notes to Unaudited Interim Consolidated Financial Statements
Six Months Ended April 30, 2020

1. ACCOUNTING POLICIES

These interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting. The accounting policies and methods of calculation used in the preparation of these interim financial statements are consistent with those used in the audited financial statements for the year ended October 31, 2019.



FINANCE CORPORATION OF BAHAMAS LIMITED

Chairman's review of the unaudited results For the six months ended April 30, 2020

We wish to report that the Bank's net profit for the six months ended April 30, 2020 was \$1.9 million which represents a decrease of 84% or \$9.9 million when compared to the corresponding period for 2019. This reduction in profit is a result of an increase in provision coverage to guard against potential losses from the impact of COVID 19.

The Bank has its challenges with new credit origination, however non-performing loans decreased by 14% from the previous quarter and by 33% when compared to the same period last year. The Bank's capital ratio continues to be strong and above regulatory requirements at 43.44% and is comprised mainly of Tier 1 capital.

Chairman

Managing Director