ANNUAL REPORT 2011

COMMONWEALTH
BANK

"When we long for life without difficulties, remind us that oaks grow strong in contrary winds and diamonds are made under pressure." - Peter Marshall

The word 'diamond' comes from the Greek term adamas meaning "unconquerable".

In nature, heat and pressure applied to a carbon atom, over millions of years, produces the ultimate symbol of enduring strength and beauty… the diamond.

Most of us marvel at the beauty of the diamond in its finished form but seldom consider the process that it goes through to attain its magnificent end. Diamonds are crystallised at tremendously high temperatures and pressures, deep beneath the earth's crust. The diamond must endure an incredible journey from the earth's core, transcending the unyielding wrath of nature before it becomes the world's most sought-after jewel.

DIAMOND IN THE ROUGH

Fifty-one years ago, at its most basic form, Commonwealth Bank began its journey as a Savings and Loans entity, operating out of a bureau drawer at the rear of a furniture store, offering credit to Bahamians who were not qualified to borrow from the large international banks. From that time, the Bank developed its longest lasting and, in many respects, it's most critical core competency being its ability to effectively manage the credit risk inherent in a consumer loan portfolio.

POLISHING THE STONE

After many years of being constrained by the problems of a foreign parent company, Commonwealth Bank was reborn in 1984 when it became a 100% Bahamian owned institution. The Bahamian founders of our rebirth, directors, and management shaped and polished this institution using sound banking principles and prudent financial strategies thereby ensuring that the people and places in which we conduct business thrived. Throughout the years, Commonwealth Bank has faced many challenges which include economic downturns, liquidity deficiency, undercapitalization and high competition in the marketplace.

MAGNIFICENT GEM

Just like the diamond, through it all, Commonwealth Bank has endured. It is through this endurance that we now stand as a $1.5 billion bank with more than 7,000 shareholders, providing employment for over 500 employees and offering banking services for all Bahamians in a sound and stable environment.

Commonwealth Bank is an industry diamond. It is a strong, trusted financial services leader, delivering outstanding value, exceptional performance and unmatched convenience.

In the current challenging economic environment Commonwealth Bank continues to stand out as an enduring one-of-a-kind symbol of strength and lasting commitment to our customers and our community. We remain strongly optimistic about the country's economic potential, the resilience of the Bahamian people and the enduring strength of our Bank.

We appreciate all the many facets of our Commonwealth Bank diamond — our management, our employees, our shareholders and especially our customers. It is through you that we shine brightest.

Our Vision

First Choice of Bahamians for all Banking Services

Our Mission

To be the leading Bank in The Bahamas providing personal banking services by:

- Delivering superior quality service to our customers
- Retaining and developing employees with outstanding capabilities
- Creating value for our shareholders
- Promoting economic growth and stability in our community

Core Values

We will:

- Ensure that Commonwealth Bank is a great place to work
- Provide meaningful opportunities for Directors and other stakeholders to have input in setting the direction of the Bank as part of an effective governance regime
- Provide customers with outstanding services and help them achieve their financial goals
- Be responsible and effective financial managers so Commonwealth Bank remains strong and prosperous
- Lead by example and use our resources and expertise to effect positive change in The Bahamas

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STRATEGIC PRIORITIES

CORE VALUES	2011 STRATEGIC PRIORITIES	2011 INITIATIVES AND ACCOMPLISHMENTS	2012 STRATEGIC PRIORITIES
Be responsible and effective financial managers.	Marginal expansion of asset base expected. Earnings to remain strong as will measurement criteria against industry results. Expense management and asset quality oversight to remain a priority. Efficiency ratio to remain an industry leader.	Achieved majority of business plan objectives despite sluggish economy. Strong earnings achieved, operating ratios strong and capital levels remain well in excess of Regulatory requirements. Credit quality maintained due primarily to strong collection and risk mitigation techniques and practices. Successful expense management reflected in efficiency ratios well above industry norms.	Marginal expansion of asset base expected – emphasis to be placed on marketing programs. Earnings to remain strong as will measurement criteria against industry results. Expense management and asset quality and loan portfolio oversight to remain a priority. Efficiency ratio to remain an industry leader.
Lead by example to effect positive change.	A sound and effective governance regime to remain a priority. The Bank will continue to support youth development and other social programs in a meaningful way.	Governance regime continues to be reviewed and updated to reflect market realities - governance regime remains an industry leader. Support to Bahamian youth continued through various and extensive social programs. Contribution to Hurricane Irene Relief Fund provided.	A sound and effective governance regime to remain a priority. The Bank will continue to support youth development and other social programs in a meaningful way.
Provide meaningful opportunities for stakeholders to have input.	Emphasis in 2011 will be extended to include intrabank/branch performance metrics. The Bank will continue to be a leader in providing transparency of its operations and compliance with regulatory and international standards.	Further progress was made in expanding the Bank's ability to measure performance attributes for operational and planning purposes. The Bank remains a leader in adopting international standards and communicating results in a complete and timely manner.	Emphasis in 2012 will be extended to include product and intrabank/ branch performance metrics. The Bank will continue to be a leader in providing transparency of its operations and compliance with regulatory and international standards.
Ensure Commonwealth Bank is a great place to work.	Concentrated effort will be applied to implement succession plan for all senior officers. Cost effective training programs will continue both domestically as well as internationally where warranted. Salary surveys will continue to be an integral part of compensation planning.	Further progress made in the development of a comprehensive succession plan. Training of staff remains a priority. In 2011, additional efforts were directed at ensuring value for training allocation. Industry salary surveys carried out annually indicate that the Bank remains an industry leader.	Additional effort including specific objectives to be put in place to deepen succession planning process for senior officers. Cost effective training programs will continue both domestically as well as internationally where warranted. Salary surveys will continue to be an integral part of compensation planning.
Provide customers with outstanding services.	As the economy strengthens marketing efforts will be expanded to provide customers with additional products and services. Banking hours and their availability will remain under constant review.	Delay in economic improvement resulted in low profile marketing efforts through 2011. Full service Saturday Banking continued with upgrades to customer based platforms provided.	Marketing efforts will be expanded to provide customers with additional products and services. Banking hours and their availability will remain under constant review.

FINANCIAL HIGHLIGHTS

For the years ended 31 December (B$ 000's)	2011	2010	2009	2008	2007
INCOME STATEMENT DATA:					
Interest Income	$ 163,757	$ 161,608	$ 158,811	$ 149,896	$ 130,391
Interest Expense	(47,843)	(49,823)	(53,060)	(50,081)	(40,517)
Net Interest Income	115,914	111,785	105,751	99,815	89,874
Loan Impairment Expense	(24,610)	(18,230)	(30,262)	(16,640)	(10,390)
Net Interest Income after Loan Impairment Expense	91,304	93,555	75,489	83,175	79,484
Non-interest Income	13,406	13,297	14,842	15,754	13,793
Non-interest Expenses	(52,909)	(53,052)	(48,059)	(49,637)	(44,743)
Net Income	51,801	53,800	42,272	49,292	48,534
PER SHARE DATA:					
Book Value	1.82	1.65	1.42	1.29	1.18
Cash Dividends	0.30	0.26	0.25	0.31	0.26
Year End Share Price	$ 7.00	$ 7.00	$ 7.00	$ 7.00	$ 8.37
Weighted Average Common Shares Outstanding (000's)	98,350	98,350	98,132	98,114	98,298
Dividend growth (total)	15.38%	4.00%	-19.35%	19.23%	14.71%
BALANCE SHEET DATA:					
Total Assets	$ 1,500,989	$ 1,408,774	$ 1,376,521	$ 1,311,700	$ 1,168,623
Securities	261,179	246,588	196,688	120,827	98,050
Loans	1,139,982	1,088,232	1,086,227	1,063,587	964,691
Net Write-offs	16,933	13,336	19,621	11,202	9,032
Total Deposits	1,203,067	1,131,793	1,122,453	1,069,136	935,730
Total Shareholders Equity	263,540	246,963	223,911	211,388	200,896
PERFORMANCE RATIOS:					
Price/Earnings	14.91	14.39	18.91	15.85	19.32
Price/Book Value	3.86	4.25	4.95	5.43	7.11
Dividend Yield (Annual Dividend/Year End Price)	4.29%	3.71%	3.57%	4.43%	3.11%
Earnings Per Share	0.47	0.49	0.37	0.44	0.43
Return on Average Assets	3.18%	3.42%	2.65%	3.44%	3.87%
Return on Average Shareholders' Equity	26.93%	30.58%	26.99%	35.05%	38.68%
Ordinary Dividend Payout Ratio	63.92%	53.43%	67.54%	70.20%	60.05%
Efficiency Ratio	42.78%	44.53%	41.92%	45.23%	45.75%
Net Interest Margin	7.35%	7.51%	7.25%	7.16%	7.18%
ASSET QUALITY RATIOS:					
Non-accrual Loans to Total Loans	3.21%	2.88%	3.03%	1.73%	1.50%
Non-accrual Loans to Total Assets	2.43%	2.22%	2.39%	1.40%	1.24%
Net Write-offs to Average Loans	1.52%	1.23%	1.80%	1.08%	1.00%
Loan Impairment Allowances to Total Loans	4.30%	3.79%	3.35%	2.42%	2.10%
Loan Impairment Allowances to Non-accrual Loans	134.05%	131.90%	110.48%	139.84%	140.05%
LIQUIDITY RATIO:					
Average Cash and Securities to Average Total Assets	23.76%	21.89%	19.22%	17.02%	16.81%
CAPITAL RATIOS:					
Leverage Ratio Average Shareholders' Equity to Average Total Assets	17.66%	17.23%	16.03%	16.55%	17.73%
CONSOLIDATED CAPITAL ADEQUACY:					
Tier 1 Capital	$ 178,557	$ 161,980	$ 138,928	$ 126,405	$ 115,913
Tier 2 Capital	$ 84,983	$ 84,983	$ 84,983	$ 84,983	$ 84,983
Total Capital	263,540	246,963	223,911	211,388	200,896
Total Risk Adjusted Assets	1,145,667	1,075,192	1,072,796	1,051,305	961,051
Tier 1 Ratio	15.59%	15.07%	12.95%	12.02%	12.06%
Tier 1 + Tier 2 Capital Ratio	23.00%	22.97%	20.87%	20.11%	20.90%

Capital Ratios have been restated to reflect Central Bank of The Bahamas Capital Adequacy Guideline
Certain figures have been restated to be consistent with the current year's presentation.

	2011	2010	2009	2008	2007
Number of Employees Average for the Year	547	547	541	532	495

"Throughout this period of significant challenges, the Bank has never lost sight of the fact that at the core, our business is about serving customers."

William B. Sands, Jr.,
Executive Chairman

While the past year has been a period of transformation and a challenging economy, Commonwealth Bank has continued to demonstrate the strength, stability and prudent management that stakeholders have come to expect.

Without question, the economy and its ongoing impact on a majority of our customers has been a governing factor on the Bank's operations in 2011. We are living in a time when the competitive landscape for the financial services industry will continue to evolve as our customers and other stakeholders adjust to how they look at their personal finances, their future needs, and their financial service providers.

Throughout this period of significant challenges, the Bank has never lost sight of the fact that at the core, our business is about serving customers. Customer service differentiates and drives financial performance. Better served customers lead to improved individual and business financial conditions as well as contribute to market share growth and bank revenue generation. Both are critical to sustaining the growth, safety and soundness of the Bank. Both were also evident in the strong results returned in 2011.

Contributing to the success and stability of the Bank has been the ongoing dedication, support and guidance that has and continues to be provided by the Board of Directors. Achieving good governance cannot be considered static. Board members are acutely aware that good governance must be a flexible series of building blocks that are adaptable to a changing business model that addresses the safety and soundness of the Bank as well as requirements of customers and stakeholders. Over the past year, the Executive Management Team has greatly appreciated the support and insights each of the board members have provided.

As the year closed, certain aspects of the expected incremental regulatory oversight were becoming clearer with the Central Bank's drafting and/or revising specific regulations and/or guidelines to comply with more rigorous international standards that are expected to ultimately impact the financial services industry in a variety of ways.

The regulatory oversight is increasing and with it the cost of compliance. The time, resources and investment required to comply with the additional oversight is expected to be costly. You can be assured that the Bank is committed to ensuring its business model remains competitive in the anticipated regulatory environment and will also seek to mitigate any adverse impact of the expected enhanced regulatory oversight. The Bank remains confident in its ability to sustain the growth patterns that have been achieved and its ability to serve its customers in an effective manner.

A key reason for Commonwealth Bank's success for over 50 years has been the Bank's commitment to knowing what works within The Bahamas. The Bank has always taken a conservative approach to the way it manages its business activities making decisions based on common sense and focus its strategies on areas it knows and understands. This will not change.

The Bank has every reason to feel optimistic about the future and its ability to further develop its capabilities, serve its communities and continue to expand the return on its shareholders' investment. That confidence is built on its superior level of customer service and a well-entrenched conservative business model and solid foundation.

Now is the time to build on the fundamentals that brought the Bank to its current position so it can continue to grow in the future. Our success in 2012 and beyond will be guided by our core principles and strategic objectives which are to remain a consumer based bank; optimize our business model; expand our existing market share and improve operational effectiveness and efficiency while recognizing the value of returning capital to shareholders through common dividends.

At our Annual General Meeting in May 2012, Mr. J. Barrie Farrington will not be standing for re-election to the Board of Directors. Mr. Farrington has served the Bank well for 11 years as a Non Executive Independent Director. He has provided the Board and Management with wise counsel over the years, through supporting its business model and challenging the Bank to be better. Both the Bank and I, personally, are indebted to Mr. Farrington for his counsel and support over the years.

In closing, I would like to thank the 539 members of our staff – the individuals who execute our business model, serve our customers, shareholders, and one another – for their commitment and dedication. Our employees help distinguish Commonwealth Bank from other industry participants each day and have ultimately created a stronger foundation for succession and growth in the future.

William B. Sands, Jr.,
Executive Chairman

From Walker's Cay in the north to Great Inagua in the south and all the islands in between, Commonwealth Bank's commitment to community has remained unwavering. As a good corporate citizen, we are proud of our deep spirit of giving and recognize that a thriving society is critical to our growth and future success.

The Bank has been privileged over the years to make tangible contributions through donations and volunteerisms that made a difference in the lives of the people and organizations that do so much in service to the community. As well, to assist and serve our neighbours makes the Commonwealth Bank family better community members and stronger partners to our customers.

Our commitment to community has never been more important than it is today. Despite the slow economic recovery, Commonwealth Bank's level of giving continued to be stable as community stakeholders and care agents sought to provide even greater assistance to an even larger number of individuals in need.

In 2011, we continued to bridge the gap with financial support to a broad spectrum of not-for-profit and faith based organizations, businesses and government in the critical areas of education, health, humanitarian relief, environment, sport and culture. The accompanying pages include a partial listing of the groups and associations supported by Commonwealth Bank in 2011.

Pictured from left to right: **Dr. Betsy Vogel Boze,** President, College of The Bahamas; **Ian A. Jennings,** President, Commonwealth Bank and **Anthea Cox,** Vice President of Human Resources and Training, Commonwealth Bank

THE COLLEGE OF THE BAHAMAS

Year two of The Emerging Leaders Award program established by Commonwealth Bank brought an infusion of funding in the amount of $50,000. The program continues its mandate in providing scholarships to students pursuing an undergraduate degree. Eligible candidates must be in good academic standing and demonstrate a financial need.

Pictured from left to right: **Hon. T. Desmond Bannister,** Minister of Education; **Ian A. Jennings,** President, Commonwealth Bank and **Elma Garraway,** Permanent Secretary, Ministry of Education

BACK-TO-SCHOOL

In our fifth consecutive year, Commonwealth Bank's education program topped $1.5 million in school supplies, technological teaching tools and scholarships. President Ian Jennings, challenged the students to, "…not let your potential go unfulfilled – seize the opportunities to learn and excel. That would be the best "thank you" to us for making these supplies available to you."

Pictured from left to right: **Patrick McFall,** Vice President & CFO, Commonwealth Bank and **R.E. Barnes,** Chairman of The Sir Victor Sassoon (Bahamas) Heart Foundation

BAHAMAS HEART FOUNDATION

Commonwealth Bank responded to an urgent appeal made by The Sir Victor Sassoon (Bahamas) Heart Foundation with a special $10,000 donation. The notable charity, founded by the late Lady Sassoon, provides life saving operations to children with critical heart conditions. The Foundation's Chairman, R. E. Barnes stated that for the first time in its history the organization was facing an extraordinary budgetary challenge with requests exceeding their annual health care projections.

"Challenges often make us realize that we have more courage than we think and that one person can make a difference in the world... even if it's the world of one other person."

~ Chelle Thompson

"Challenge is the core and the mainspring of all human activity. If there's an ocean, we cross it; if there's a disease, we cure it; if there's a wrong, we right it; if there's a record, we break it; and finally, if there's a mountain, we climb it."

~ James Ramesy Ullman

BAHAMAS RED CROSS

As first responders, the Bahamas Red Cross is in the business of helping people and communities impacted by natural disasters and other social crises. The organization's resources have been stretched considerably during 2011. In addition to its daily assistance programs, the Bahamas Red Cross also provided aid to fire victims and those impacted by Hurricane Irene in August. Commonwealth Bank believes that more than ever it is our duty as a good corporate citizen to help them in their respective mission to bring relief and provide a helping hand to the increased number of individuals seeking assistance. To this end Commonwealth Bank donated $10,000.00 to the Bahamas Red Cross to assist them in emergency responses. We encourage all Bahamians to join with us in making a tangible contribution of time, talent and/or resources to a charitable organization.

Pictured from left to right: **Mavis Burrows,** Vice President, Operations, Commonwealth Bank; **Caroline Turnquest,** Director General, Bahamas Red Cross and **Denise Turnquest,** Sr. Vice President Credit Risk, Commonwealth Bank

Pictured from left to right: **Charles Knowles,** Vice President & CIO, Commonwealth Bank and **Eric Carey,** Executive Director, Bahamas National Trust

BAHAMAS NATIONAL TRUST

Commonwealth Bank, an avid proponent of the environment, donates $20,000 to the Bahamas National Trust (BNT) for added community green spaces. Today, visitors have greater community access to Harrold and Wilson's Ponds National Parks and are able to view an amazing array of tropical island plants and animals that call our country's ecosystem home. As well, the infrastructural additions have also transformed the parks into an ideal outdoor classroom for students studying Bahamian wetlands.

2011 Donations

The following is a partial listing of charitable organizations that have benefitted from Commonwealth Bank's corporate support during 2011

Bahamas Academy School

Bahamas Agricultural and Industrial Corporation

Bahamas Association of Athletic Association

Bahamas National Trust

Bahamas Student of the Year Awards Program

Bahamas Technical and Vocational Institute

Cancer Society of The Bahamas

Freedom Farm Baseball League

Golden Age Retirement Home

Great Commission Ministries

Hands for Hunger

Pictured from left to right: **Carole Strachan,** Vice President, Internal Audit, Commonwealth Bank; **Captain Russell,** NEMA; **Charles Knowles,** Vice President & CIO, Commonwealth Bank and **Deborah Hanna,** Accounts Officer, NEMA

NATIONAL EMERGENCY MANAGEMENT AGENCY

The National Emergency Management Agency (NEMA) was presented with a cheque for $25,000 to aid in the Hurricane Irene Relief Operations. The Agency's rapid evaluation of the country after the passage of Hurricane Irene - the ninth named storm for the 2011 Atlantic Hurricane Season and the first major hurricane - concluded that there were varying degrees of damage from extensive winds and rain to the central and southern islands of Crooked Island, Mayaguana, Cat Island, Eleuthera and Lovely Bay on Acklins Island.

Junior Achievement Bahamas

Music Makers Junkanoo Group

PACE Foundation

Princess Margaret Hospital Foundation

Rotary Clubs of The Bahamas

Special Olympics Bahamas

The Bahamas AIDS Foundation

The Bahamas Institute of Financial Services

The Bahamas Little League Baseball Committee

The Bahamas Red Cross

The National Emergency Management Agency

The National Family Island Regatta

The National L.E.A.D. Institute

The Poop Deck Eagles Golf Club

The Roots Junkanoo Group

The Royal Bahamas Police Force

The Sir Victor Sassoon (Bahamas] Heart Foundation

Unity House

Z-Bandits Junkanoo & Community Organization

Knowing what works sounds like a simple approach to managing a successful business model but the Bank's ability to successfully manage and sustain its performance through various challenges is not, nevertheless this approach is a confirmation of our core values that continue to set us apart. Our goal is not to reinvent how the Bank carries out its business but, rather, to continue to do what we have always done, only better.

We have always taken the conservative road in the way we manage our business. We make decisions based on common sense and focus our strategies in areas of our business profile that we know and understand. At Commonwealth Bank, sustainable revenue and earnings growth comes from our ability to build relationships with our customers and other stakeholders, the development of innovative product offerings and marketing programs, and our continued focus on prudent lending practices while seeking to increase our market penetration.

OUR MARKET - CHALLENGES TO SUSTAINABLE SUCCESS

In our 2010 report, we indicated that the Bahamian economy was expected to improve during the final quarter of 2011 or early 2012. However, our experience over the past year supported by the most current Central Bank outlook for the future has indicated that the recovery will be slower than originally expected with any expansion of the Bahamian economy now projected to be deferred until 2013 or 2014. An unfortunate impact of the slow growth of the economy has been that unemployment throughout the Bahamas remained at high levels in 2011 with Grand Bahama particularly adversely impacted as a result of its long term and significant economic issues.

On the positive side, the BahaMar project finally commenced in early 2011. Construction will continue for a protracted period as this major project in the Cable Beach area is expected to bring an enhanced degree of vitality to this area.

SURPASSING EXPECTATIONS

Despite the challenging marketplace, and at times operating conditions, 2011 was another year in which the Bank met and or exceeded most of its performance objectives. While challenges and uncertainties persist, the Bank has clearly demonstrated that it is a resilient and customer-focused bank with momentum on its side.

Net income for the year was $51.8 million, a decline of 4% over 2010 which reflects the challenging marketplace encountered during the period. However, the level of profitability generated was the second most in the Bank's history.

Performance as measured by Return on Equity (ROE) and Return on Assets (ROA) ratios, commonly used analytical criteria for Banks, also remained strong at 26.9% and 3.2%, respectively. The Bank's overall profitability ratios remain well above reported industry norms and continue to exceed many of the Bank's own strategic objectives which are to generate an annual return of 25% ROE and 2.25% for ROA.

The Bank's Efficiency Ratio, which takes into consideration noninterest expenses compared to revenue generation, improved to 43% compared to 45% in 2010. The efficiency ratio, which is an important interbank measurement tool, reflects a strong balance between revenue generation and the Bank's own expense mitigation process. The results continue to be well above industry norms.

To sustain an objective of achieving positive results during a challenging economy, the Bank was required to once again adjust its business model to meet market conditions. In 2011, the Bank continued to focus on limiting any accelerated growth of the credit risk portfolio in favor of sustaining the strong quality of this portfolio, and ultimately the safety and soundness of the Bank. This action paralleled the action being taken by many of our customers which the Bank has supported in a number of ways including restructuring advances to customers due to certain distress situations, while acknowledging and recording any related loan impairment requirements. The total restructured loan portfolio at December 31, 2011 amounted to 10.8% of the credit risk portfolio a marginal increase over the previous year (10.4%).

BALANCE SHEET GROWTH IN A CHALLENGING ECONOMY

Total assets as at December 31, 2011 exceeded $1.5 billion, an increase of 6.5% over the previous year, resulting in a new level of total assets for the Bank. The credit risk portfolio, which is well diversified and is concentrated in the consumer lending area, experienced marginal net growth of approximately $50 million to $1.14 billion. The credit risk portfolio accounts for almost 77% of the Bank's total assets and this ratio remains consistent with the previous year and the Bank's strategy.

The success and overall quality of the Bank's credit risk portfolio and ultimately the quality of its revenue generation remains closely linked to the longstanding and conservative credit risk management and reporting systems employed by the Bank. The Board of Directors has and continues to provide strong guidance and support in the development of the Bank's credit risk management and reporting guidelines. An advanced credit risk scoring and risk rating system is utilized to ensure a consistent and controlled approach to credit risk is applied throughout the Bank. The Bank will only assume credit risk that it understands and that can be managed profitably within the established credit risk policies, procedures and guidelines.

Any deterioration in the credit risk portfolio is closely monitored with aggressive collection and conservative provisioning processes in place in order to address the possible downside potential of the credit risk portfolio. The Bank, as part of its

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Ian A. Jennings
President

impairment identification and provisioning process, also considers the probability of loss in its performing portfolio as well as the nonaccrual portfolio when establishing the prudential impairment allowance. As at December 31, 2011, the ratio of nonaccrual loans to total loans was 3.2% with the allowance well in excess of the total nonaccrual loans. The provisioning profile achieved exceeds the Bank's own internal loan quality objectives and compares very favorably to the industry analysis provided by the Central Bank.

THE CHALLENGE TO PROVIDE SAFETY AND SOUNDNESS WITH A BALANCED RETURN TO SHAREHOLDERS

An important element of a bank's safety and soundness is the quality and strength of its capital. The quality of capital becomes even more important during times of distress. As at December 31, 2011, Tier 1 Capital, which is considered a bank's core capital, was 16% with the Total Capital Ratio reaching 23.0%. Both of these ratios have been strengthened in 2011 as a result of the Bank's policy to retain a minimum of 35% of net income, less preference share dividend, for further development, safety and soundness. The current quality and overall level of capital continues to exceed internal objectives as well as the enhanced Central Bank regulatory requirements of 17% total capital. The levels of capital currently available are also in excess of the proposed Basel III levels which are expected to be in place for the 2013 fiscal year.

A further component of a Bank's overall safety and soundness is the need for a bank to have available an appropriate level of liquidity to support internal and anticipated liquidity requirements. In 2011, market conditions allowed for excess liquidity to exist throughout the Bahamian financial system.

The Bank's Liquidity Ratio (total liquid assets as a percentage of total deposits) was close to 30%, exceeded internal Board guidelines and was approximately 50% higher than the prescribed Central Bank liquidity guidelines. The strong capital base augmented by the existence of an effective liquidity risk management system provided the Bank with additional tools and techniques to advance the Bank's revenue generation program during 2011.

To achieve a balanced return on shareholder's investment, the Bank continued its conservative, consistent and sustained common dividend distribution policy to shareholders. Common dividends distributed in 2011 were increased to $0.30 from $0.26 an increase of approximately 15% over the level of common dividends paid in 2010. The payment of preferred dividends was reduced in accordance with the Bahamian Prime rate reduction of 75 basis points, and had a trickle down effect on preferred shareholders with effect from July 2011.

SHARING OUR SUCCESS WITH BAHAMIANS

Commonwealth Bank continues to work with Bahamians through our Back To School program by contributing equipment to schools and school supplies to students across all areas of the country. The Bank also supports The College of The Bahamas through our Emerging Leaders Award and we are currently working with Junior Achievement to strengthen the financial skills learned through their excellent programs.

The aforementioned undertakings are long term programs that complement our shorter term humanitarian programs through distress and emergency relief such as our commitment to the victims of Hurricane Irene in 2011 through the National Emergency Management Agency (NEMA) and the Bahamas Red Cross Society.

In 2011, Commonwealth Bank contributed $450 thousand to various services and agencies throughout the Bahamas.

A SOLID FUTURE

Going forward, we believe we are living in a time when the competitive landscape for the financial services industry will continue to evolve. However, despite the expected slow improvement in the Bahamian economy over the short term, our strong capital position, supported by the effective execution of our proven business model, will allow us to continue to be the market leader in the Bahamas. We will continue to build on the momentum generated since the Bank's inception.

In conclusion, I want to thank the individual board members for their ongoing and beneficial guidance as well as our shareholders and customers for their continuing support and confidence.

Finally, I want to extend my appreciation to the management and all employees of Commonwealth Bank for delivering strong financial results in the past year. Their continued commitment to our core values, to our clients and communities, and to one another is the primary contributor to the Bank's success.

Ian A. Jennings
President

Pictured from left to right: **Neil Strachan,** AVP, Mortgage and Commercial Lending, **Silbert Cooper,** AVP, Consumer Lending and **Marcus Cleare,** Manager, Oakes Field Branch

COMMONWEALTH BANK IS A GREAT PLACE TO WORK! One of the many distinguishing factors that set us apart from our competitors is the Bank's philosophy on employee development. Commonwealth Bank promotes a results-oriented culture that engages employees by aligning organizational needs with personal skills and aspirations.

Our employees are the drivers of our mission and our most important asset. Commonwealth Bank fosters an environment that encourages innovative thinking and new ways to exceed our customers' expectations. It is our belief that an engaged workforce is our competitive advantage and we strive to provide a work environment where all staff members can pursue a rewarding career and reach their fullest potential.

In fact, we've designed an extensive breadth of programs to help our employees grow; not only in their careers, but in their lives outside Commonwealth Bank and in the communities we serve.

In 2011 we were pleased to send three of the Bank's top performers to the Ivy Executive and Leadership programmes at the Richard Ivy School of Business at the University of Western Ontario. Consistent with our mission to retain and develop employees with outstanding capabilities, we will work to ensure that current and future Commonwealth Bank leaders are provided with the necessary leadership skills to accomplish their organizational goals.

Attending the Ivey Executive Program:
Silbert Cooper, AVP, Consumer Lending and
Neil Strachan, AVP, Mortgage and Commercial Lending.

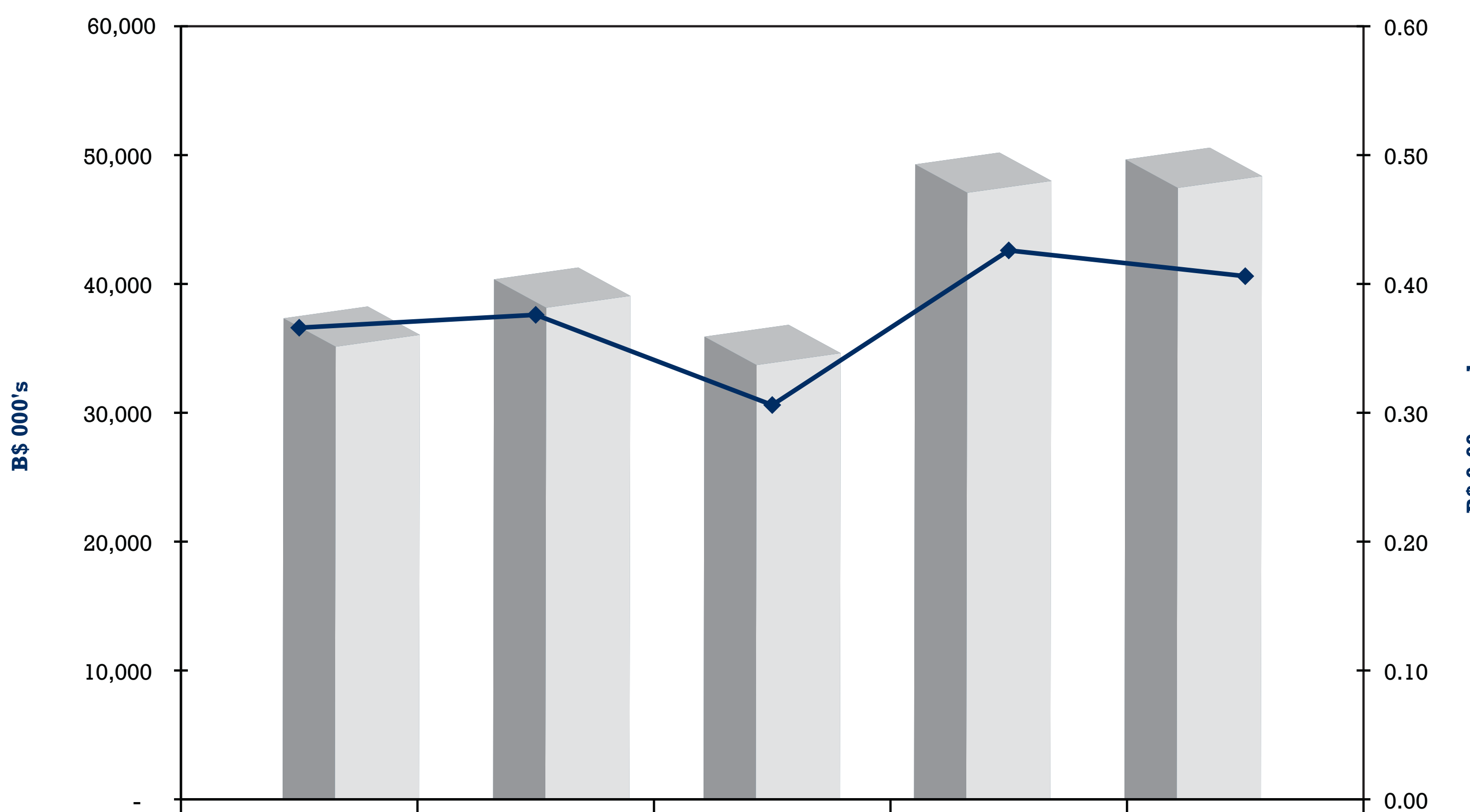
Ivey Leadership Program:
Marcus Cleare, Manager, Oakes Field Branch

MD&A GRAPHS

FINANCIAL HIGHLIGHTS 2011

	2011	2010	Change
Net Income	$51.8 million	$53.8 million	-3.72%
Total Assets	$1.501 billion	$1.409 billion	6.53%
Earnings per share	47 cents	49 cents	-4.08%
Return on Common Shareholders Equity	26.90%	30.60%	-12.09%
Common Share Dividends	30 cents	26 cents	15.38%
Comprehensive Income Available to Common Shareholders	46.2 million	$47.9 million	-3.55%
Gross Revenues	129.3 million	$125.1 million	3.36%
Efficiency Ratio	42.78%	44.53%	-3.93%
Total Capital	264 million	$247 million	6.88%
Regulatory Capital	23.00%	23.00%	0.00%

NET INCOME AND EARNINGS PER SHARE



	2007	2008	2009	2010	2011
Net Income	48,534	49,292	42,272	53,800	51,801
EPS	0.43	0.44	0.37	0.49	0.47

This Management's Discussion and Analysis of our financial condition and results of operations is provided to enable a reader to assess our financial condition, material changes in our financial condition and our results of operations, including our liquidity and capital resources, for the fiscal year ended December 31, 2011, compared to the preceding years. For a complete understanding of trends, events, uncertainties and the effect of critical accounting estimates on our results of operations and financial condition, this Management's Discussion and Analysis should be read carefully together with our Consolidated Financial Statements and related notes. This Management's Discussion and Analysis is dated February 16th, 2012. All amounts reported are based on financial statements prepared in accordance with International Financial Reporting Standards.

The Bank's President and Vice President and Chief Financial Officer have signed a statement outlining management's responsibility for financial information in this Annual Report.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, we make written or oral forward-looking statements. By their very nature, forward-looking statements involve numerous factors and assumptions which give rise to the possibility that these forward-looking statements may not be achieved. The Bank cautions readers not to place undue reliance on these statements as a number of important factors, including external influences, could cause our actual results to differ materially from the expectations expressed in these forward-looking statements.

EXECUTIVE SUMMARY

Commonwealth Bank is the largest wholly owned Bahamian Clearing Bank in The Commonwealth of The Bahamas as measured by assets and market capitalization. The Bank continues to increase its stature throughout the Caribbean where it is one of the largest and well capitalized indigenous banks.

Since the fall of 2008, the global economy has struggled through a severe recession. Signs of recovery were expected late in 2011; however, the global recovery was much slower to materialize than had been anticipated. As a result, unemployment continued at high levels with some amelioration coming from ongoing public infrastructure works and foreign capital investment from the Baha Mar project, which commenced in early 2011. In general, we do not expect a notable expansion of the Bahamian economy until the 2013 – 2014 periods.

We maintained our well-entrenched business strategies and business model in 2011. This model emphasizes personal banking services in a safe and sound manner to all Bahamians. Throughout this period of significant challenge, the Bank has never lost sight of the fact that at the core, our business is about servicing customers.

The Bank's core values are not impacted by the global recession; neither has the Bank's vision and mission statements changed. These are designed to support the business model of the Bank and are dedicated to create and maintain an effective governance regime while expanding its market share in a cost effective manner. As part of its core values, the Bank is committed to continue to create economic and social value for the communities it serves as well as other stakeholders in a safe and sound manner.

At December 31, 2011, the Bank employed 539 Bahamians and Bahamian permanent residents. A critical factor in the growth and continuing success of the Bank has been the commitment of staff to achieve the Bank's goals, and thus building teamwork from within the Bank.

Throughout this Annual Report and highlighted in the appropriate Management Discussion and Analysis comments and representations are comments supporting and linking how the important elements of an effective governance regime are inextricably linked to ensuring the Bank continues to prosper.

OVERVIEW OF 2011

The Bank's plan for 2011 focused on further expansion of its inherent strengths, specifically the consumer banking sector, sustaining strong credit risk quality while applying effective expense management techniques and practices supported by a strong and conservative process of control. These objectives were stringently applied throughout the year and were critical factors in the Bank's success in 2011.

Centered in our implementation strategy was the premise that out of more difficult times strong financial institutions become stronger and that there is still an opportunity for controlled and profitable growth if applied in an effective manner.

Our strategy for 2011 was correct. Despite volatile financial markets, rising unemployment and ongoing uncertainty, the Bank passed another milestone in recording Total Assets at December 31, 2011 in excess of $1.5 billion. Comprehensive and Net Income reported for the year exceeded $50 million for the second time. Key financial analysis reflected a marginal decrease from 2010, but continued to surpass well-respected industry metrics such as the Return on Assets (ROA) 3.18%, Earnings Per Share (EPS) $0.47 and Return on Equity (ROE) at 26.9%.

Throughout the year, industry wide loan quality as reported by The Central Bank of The Bahamas continued to deteriorate. The main driving factors in this deterioration were the performance of the commercial and mortgage portfolios. At year end, however, Commonwealth Bank's exposure to these two types of facilities was considerably less than the industry at large. For our business model, close focus on credit quality and loss mitigation across all Credit Risk products continues to be a key objective in 2012.

CREDIT EXPANSION

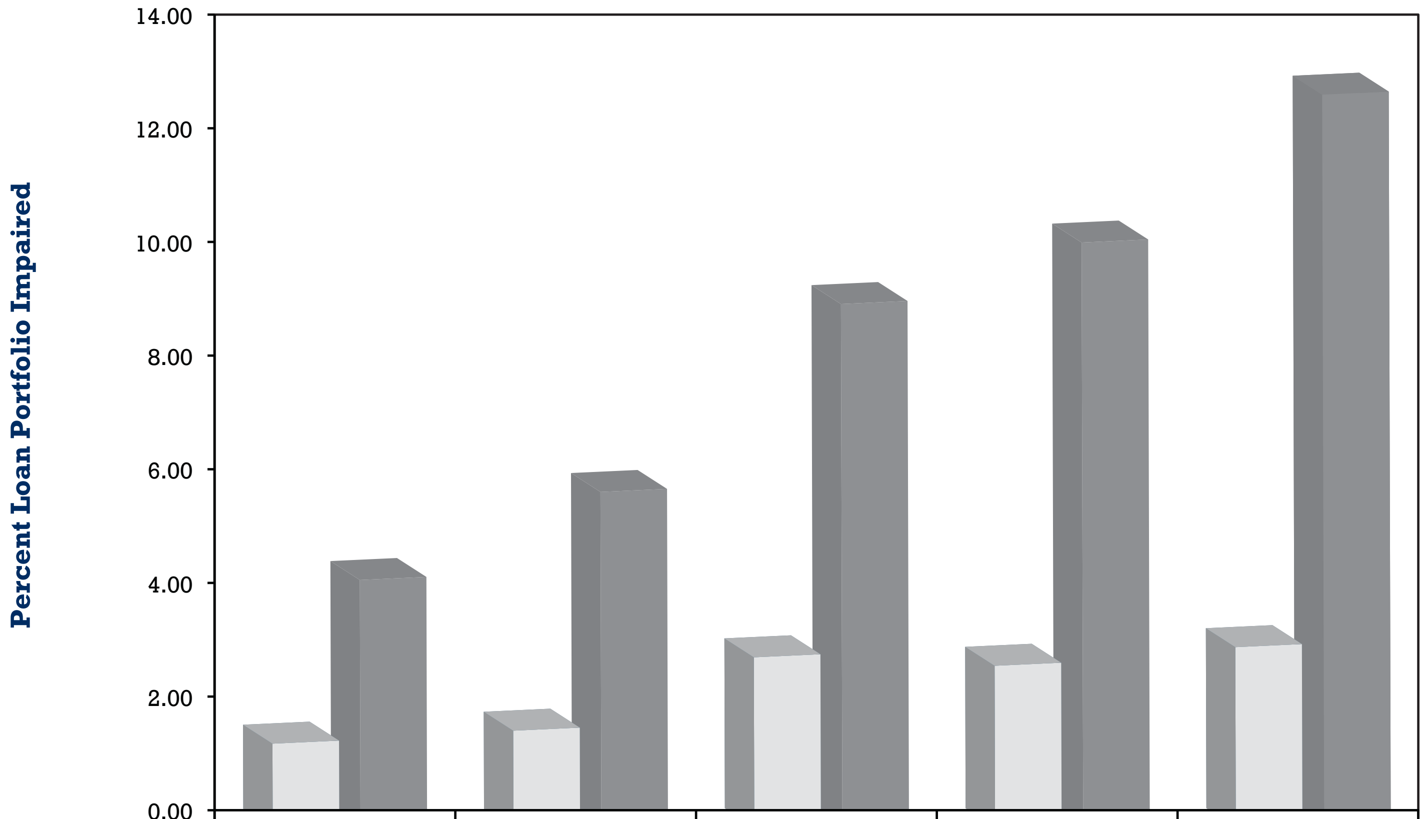
Non government domestic credit expansion showed marginal growth in 2011 at 1.9%, but an improvement over the negligible 0.4% in 2010. Our loan portfolio grew by 4.76% in the year compared to less than two tenths of one per cent in 2010 and 2.1% in 2009. While this indicates some improvement in the economy, it is still far below the rate of Credit Risk growth experienced in prior years. Expansion of the Bank's limited mortgage portfolio in 2011 continued at the same marginal rate as 2010 – 1.8% vs. 1.5%. In 2011, the commercial loan portfolio expanded by 3.85% to $49.5 million.

While aggregate consumer credit extended by all commercial banks grew marginally by 0.7% in 2011, the Bank's consumer portfolio grew by 6.28%, expanding to over $792 million. However, our credit card portfolio shrank for the third successive year. Card balances declined 4.0% to $38 million, an indication of the continuing difficult environment for customers to fund discretionary credit with significant debt consolidation reducing this total and the Bank's application of more focused credit quality techniques and practices.

LIQUIDITY

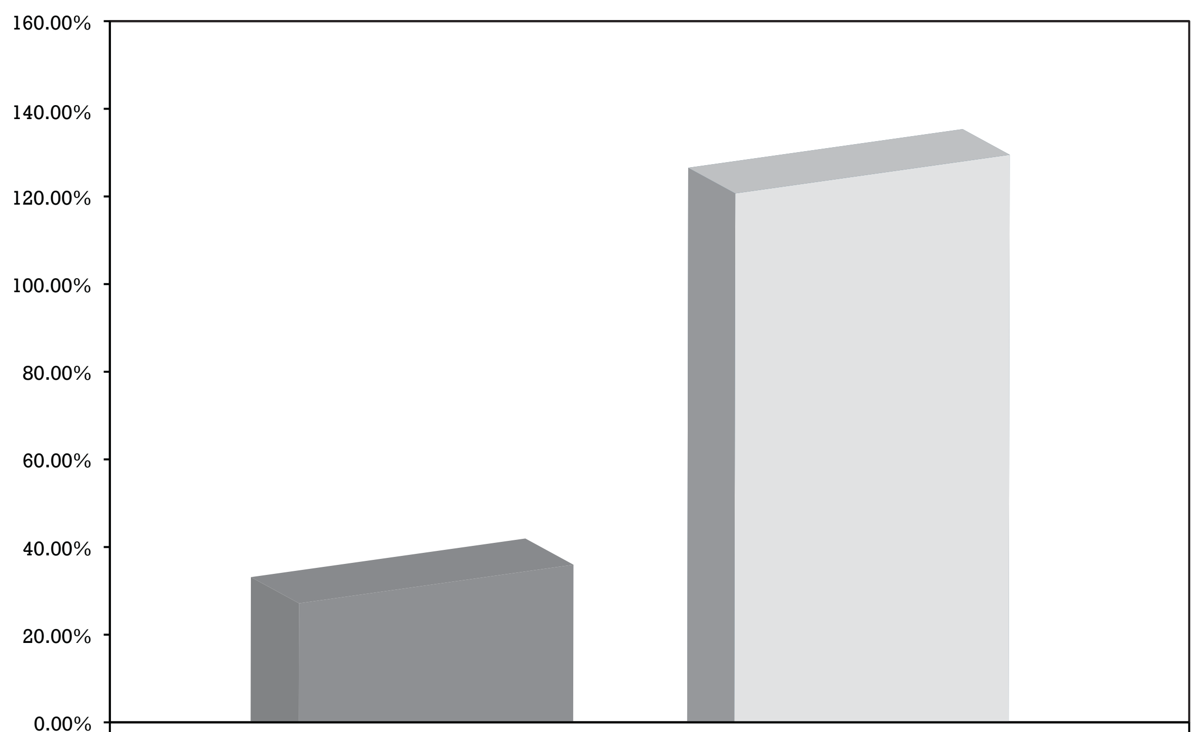
Liquidity in the banking sector remained strong throughout the year. This condition resulted in a significant reduction in interest expense during the year. Also in June 2011, the Bahamian prime rate was reduced by 0.75%. This acted to accelerate the reduction in deposit rates, although the attendant decreases in loan rates had a compensating

PERFORMANCE AGAINST INDUSTRY: IMPAIRED LOANS - 90 DAYS + ARREARS



	2007	2008	2009	2010	2011
Commonwealth Bank	1.50	1.73	3.03	2.88	3.21
Industry Impairment	4.40	5.96	9.29	10.38	13.00

IMPAIRMENT ALLOWANCE COVER OF IMPAIRED LOANS AT DECEMBER 2011



Industry	36.70%
Commonwealth Bank	133.94%

reduction on interest income. Average Cash and Securities to Average Total Assets increased to 23.8% from 21.9%. The Bank's level of liquidity remained well in excess of regulatory and internal policies.

PREMISES

As part of the Baha Mar redevelopment of Cable Beach, the Bank was required to move its Cable Beach branch to the new Commercial Village located in the Cable Beach area. The relocation was seamless to the Bank's customers which was a tribute to the dedication of the Bank's staff and the co-operative spirit exhibited by the Baha Mar team. As a result of the disposal of the old Cable Beach branch, the Bank was able to recognize a gain of approximately $1.6 million.

OUTLOOK FOR 2012

Our success in 2012 and beyond will be guided by our vision, mission and core values and four broad objectives: remain a consumer based bank; optimize our business model; expand the existing market share; and continue to improve expenses and operational efficiency and effectiveness.

The outlook for 2012 indicates a slowly improving economy with elections in both The Bahamas and the USA during the year. However, significant reductions in levels of unemployment are not expected until 2013 at the earliest.

The Bank could not be successful without the full engagement of its staff. In keeping with our core value of "Ensuring that Commonwealth Bank is a Great Place to Work", the Bank continues to review and enhance its training and guidance activities and provide an atmosphere that both challenges and develops our staff.

For the year ended December 31, 2011, the Bank reported Net Income of $51.8 million, a marginal decrease of $2.0 million or 3.72% below 2010. Net Income Available to Common Shareholders (Net Income less Preference Share Dividends) decreased $1.7 million or 3.55% to $46.2 million.

Earnings per share were 47 cents per share compared to 49 cents per share in 2010, a decrease of 4.08%. Return on equity was 26.94% compared to 30.58% in 2010.

Dividends paid to shareholders increased 15.4% to 30 cents (2010: 26 cents per share). Total dividends paid in the accounting period represented 63.9% of Net Income available to Common Shareholders (2010: 26 cents 53.4%). The increase in the percentage of earnings paid as dividends resulted from the Bank paying increased quarterly dividends to 6 cents per quarter (2010: 5 cents per quarter) and an extra-ordinary dividend associated with 2010 earnings in February 2011 of 6 cents. The Bank has proposed an extra-ordinary dividend of 5 cents per common share to be paid in February 2012 to bring total dividends related to 2011 to 61.7% of net income attributable to common shareholders. The financial results for 2011 compared very favorably to other domestic banks within The Bahamas.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are outlined in Note 3 of the Consolidated Financial Statements. Certain of these policies along with estimates made by management in applying these policies are recognized as critical since they require the Bank to make judgments about matters that are inherently uncertain or because of the possibility that significantly different numbers could be reported if different assumptions were applied or different conditions prevailed. Our critical accounting policies and estimates relate to the allowances for loan impairment, the estimation of fair value, accounting for pension benefits, the actuarial assumptions underlying unearned life assurance and accounting for the deferment of loan fees. These are discussed further in Note 4 of the Consolidated Financial Statements. Our critical accounting policies and estimates are reviewed and approved at least annually by the Audit Committee in consultation with management.

CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

The Bank has indicated in Note 2 of the Consolidated Financial Statements new International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) that will be shortly forthcoming. The goal of the changes in IFRS and IAS is to improve the transparency of reporting to the Bank's stakeholders. In its commitment to be a leader in the governance process, the Bank will adopt new IAS and IFRS wherever possible prior to mandatory implementation dates.

MANAGEMENT OF FINANCIAL POSITION

The Bank's risk management structure promotes the making of sound business decisions by balancing risk and reward. As a result, policies managing our financial position and procedures coupled with our revenue generating activities are consistent with the level of risk the Bank wishes to accept and as prescribed in the corporate policies approved by the Board of Directors. Risk management policies address, amongst other factors, credit risk, liquidity risk and operational risk which are measured and monitored through the Bank's governance regime and overall process of control. Risk management policies and procedures are monitored closely by the Board and senior management of the Bank throughout each year. When appropriate, the risk management policies and procedures are updated and enhanced in order to address safety and soundness as well as market, regulatory and operational issues.

Total loans amounted to $1.140 billion in 2011, an increase of $52 million or 4.76% (2010: $1.088 billion an increase of 0.2% over 2009). Deposits grew by $71.3 million to $1.203 billion or an increase of 6.3% (2010: $9.3 million growth; an increase of 0.8%). Cash and balances at banks increased $26.4 million to $104.1 million in 2011 (2010: $14.6 million decrease) reflecting the high level of liquidity in the economy and the limited opportunities to wisely reinvest it.

The stagnation in credit expansion in the economy ameliorated slightly in 2011 but still reflected a struggling economy. Personal consumer credit increased marginally by 0.7% compared to a 2010 reduction of 1.8%, while the Banks portfolio increased by more than 6.28%. Industry mortgage lending growth was almost nonexistent at under 0.1% compared to 2.2% in 2010. The Bank's mortgage portfolio recorded a marginal improvement in the growth rate from 1.5% in 2010 to 1.8% in 2011. Mortgage balances at December 31, 2011 were $259.9 million with additional commitments of $12.5 million compared to $255.2 million balances with $7.7 million commitments outstanding at December 31, 2010. The $1.8 million increase (3.9%) in the relatively small commercial portfolio was not indicative of any philosophical change in the Bank's commitment to small businesses in The Bahamas (2010 decrease -4.8% or $2.4 million to $ 47.6 million).

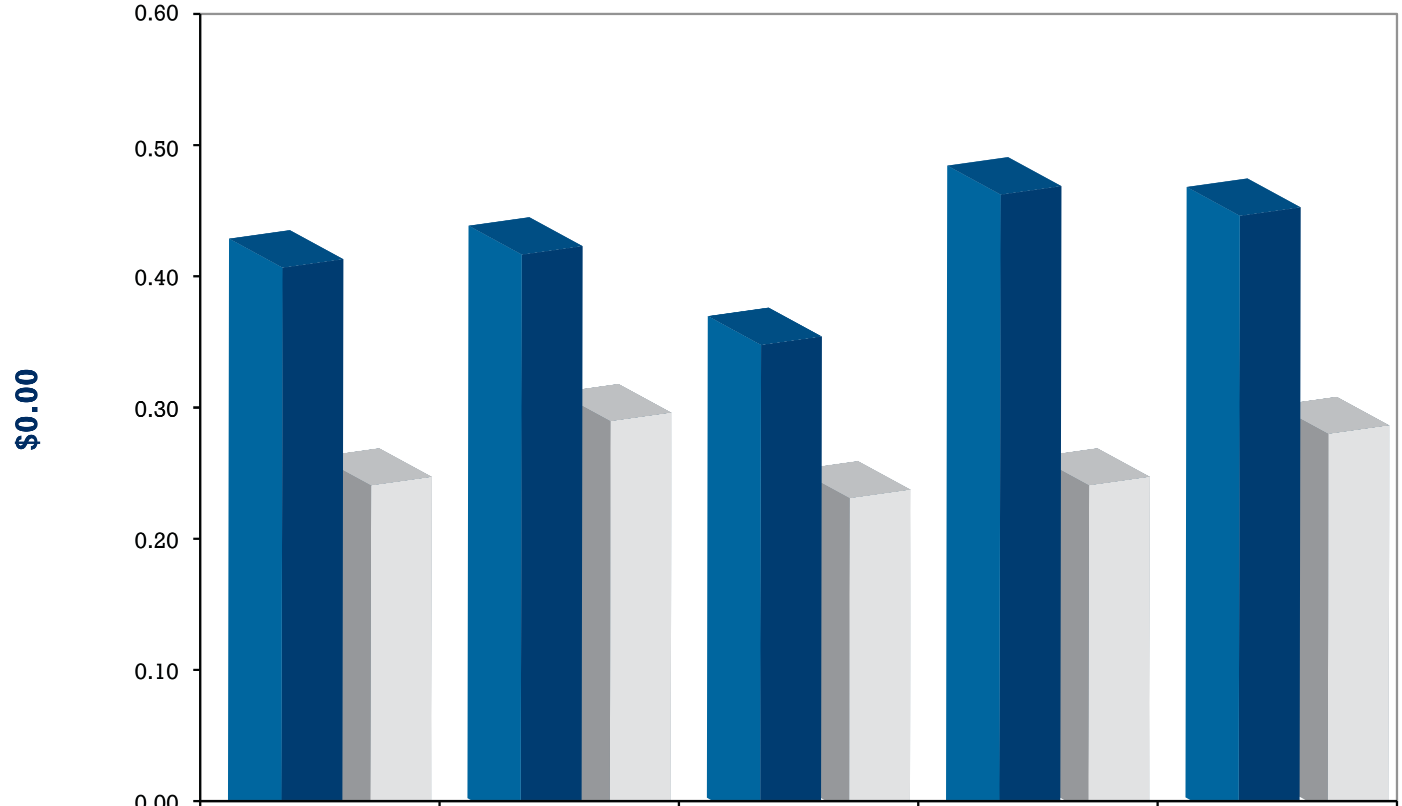
For the third year, our Credit Card operations also reflected the prevailing economic environment as marketing and the level of economic activity was constrained leading to a significant level of debt consolidation as noted earlier. As a result, year-end credit card receivables decreased 4.0% or $1.6 million (2010: decrease $3.6 million or 8.4%).

MANAGEMENT OF CAPITAL RESOURCES

The Bank's total available capital resources continued to expand in 2011 with Shareholder Equity increasing 6.7% to

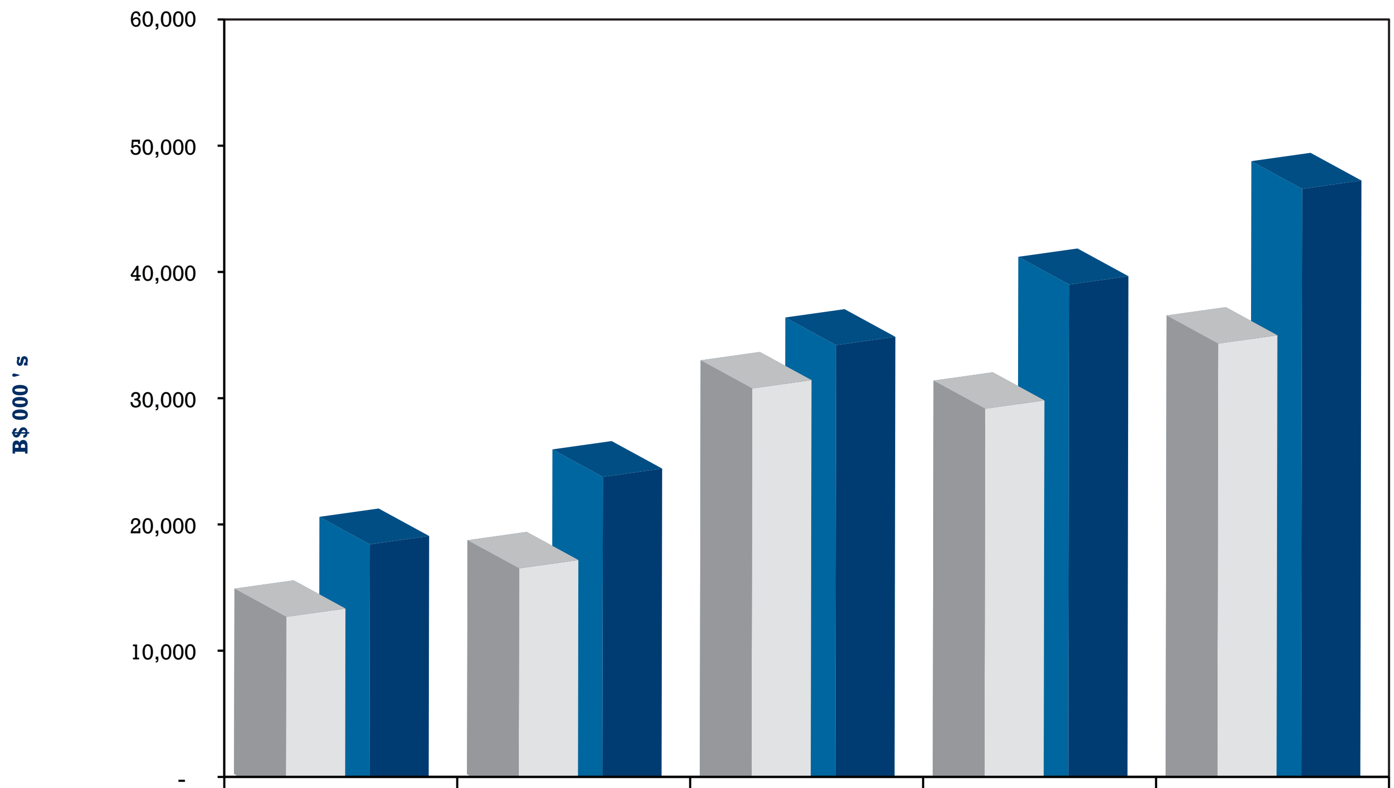
MD&A GRAPHS

EARNINGS PER SHARE AND DIVIDENDS PER SHARE



	2007	2008	2009	2010	2011
Earnings Per Share	0.43	0.44	0.37	0.49	0.47
Dividends Per Share	0.26	0.31	0.25	0.26	0.30

IMPAIRED LOANS AND IMPAIRMENT ALLOWANCES



	2007	2008	2009	2010	2011
Impaired Loans	14,494	18,405	32,928	31,290	36,545
Impairment Allowances	20,299	25,737	36,378	41,272	48,989

$263.5 million. The source of the increase was the retention of earnings after dividends. As a result, $16.6 million was re-invested in the Bank (2010: $22.3 million).

THE COMPONENTS OF CAPITAL

A strong capital base is a foundation for building and expanding the Bank's operations and services in a safe and sound manner. Capital adequacy is governed by regulatory agencies and encompasses two parts:

- Tier 1 Capital, which consists primarily of Common Shareholders Equity, totaled $178.6 million at December 31, 2011 up $16.6 million or 10.2 % over 2010. During the year, the Bank reissued $0.07 million (2010: $1.3 million) of shares held by its subsidiary C.B. Securities Ltd, resulting in $0.39 million still held by the subsidiary at December 31, 2011 (2010: $0.46 million). These shares fund the Bank's Stock Compensation Plans and are sold to participants in due course. The Bank determined that purchase of the shares from the market in small quantities, would inject liquidity into the local market and was preferable to issuing new shares from Treasury for these plans.

- Tier 2 Capital consists mainly of Cumulative Preference Shares and cannot exceed Tier 1 Capital. At December 31, 2011, the Bank had $85.0 million of Preference Shares, which qualified as Tier 2 Capital, unchanged from 2010.

Tier 1 Capital, is considered more permanent by stakeholders and is the principal focus of markets and regulators.

In November 2009, The Central Bank of The Bahamas increased the required levels of capital from 8% to 17% while retaining mandatory levels of liquidity. The Bank's Total Capital ratio, at 23.0%, at December 31, 2011 (2010: 23.0%) well exceeds the revised minimum capital levels by 35.3%. During the year, The Central Bank of The Bahamas issued guidelines outlining anticipated changes to capital requirements as the Basel III concord is introduced into the Bahamian jurisdiction.

It is clear that the expected incremental regulatory oversight will be material. The time, resources and investment required to comply with the additional oversight is expected to be costly, but the Bank is committed to meet all requirements.

CONSOLIDATED RESULTS FROM CONTINUING OPERATIONS

The Bank's earnings for 2011 were $51.8 million (2010: $53.8 million). Operational results prior to loan impairment expenses reveal a higher level of activity for the Bank as they show an increase of $4.4 million or 6.1% increase; (2010: a decrease of -0.7%). The improvement in the level of activity was not without increasing loan impairment allowances as segments of the economy continued to struggle to overcome the impact of the recession. Loan impairment expenses were $24.6 million in 2011 (2010: $18.2 million). The increase in loan impairment expenses was reflective of the Bank's conservative credit risk management policies and procedures.

The status of the economy coupled with stronger credit risk management policies and procedures and the reduced credit demand resulted in surplus liquidity being available throughout the year. The excess liquidity allowed for closer control or reduced deposit interest rates. In addition, the decrease in the Bahamian prime rate further reduced deposit interest rates (as well as loan rates according to the instruments terms and conditions).

The Bank's efficiency ratio remained strong at 42.8%, which continues to be amongst the most productive in the industry.

NET INTEREST INCOME

Net interest income represents the amount by which interest income on interest earning assets exceeds interest expense incurred on interest bearing deposits and other liabilities. Net interest income is the current principal source of the Bank's earnings. Interest rate fluctuations, as well as changes in the amount and type of earning assets and liabilities combine to affect net interest income.

Net interest income for the year ended December 31, 2011, was impacted by the reduction in the Bahamian Prime Rate in June 2011. However, loan growth and an even sharper decline in deposit interest rates resulted in net interest income totaling $115.9 million in the year (2010: $111.8 million), an increase of $4.1 million or 3.7% (2010: 5.7%). Net interest margin declined marginally to 7.35% (2010: 7.5%) reflecting the change in the prime rate plus the impact on earnings of increased nonperforming assets.

Year-end deposits were $1.20 billion, an increase of $71.2 million or 6.3% over 2010. However, interest expense at $47.8 million decreased by $2.0 million or -4.0 % to reflect a lower deposit interest rate environment. As noted, we anticipate the current levels of liquidity continuing through 2012.

LOAN LOSS IMPAIRMENT

Credit quality remains strong. The Bank's overall credit quality ratios marginally deteriorated in 2011 compared to 2010. Despite the slippage, the Bank continues to outperform the market in reported delinquency and non-accrual ratios. Part of the reason for this performance is the Bank's ongoing commitment to credit quality and following the international best practice of writing off consumer loans at 180 days contractually past due. Total write-offs for the Bank increased in 2011 by 12.8% to $23.8 million from 2010's $21.1 million. As a result, the 2011 ratio of net loans written off to average loans rose to 1.5%, up from 2010's 1.2%, although still below 2009's ratio of 1.8%.

Amounts recovered on written-off loans also declined in the year by 11.6% or $0.9 million to $6.9 million from $7.8 million in 2010.

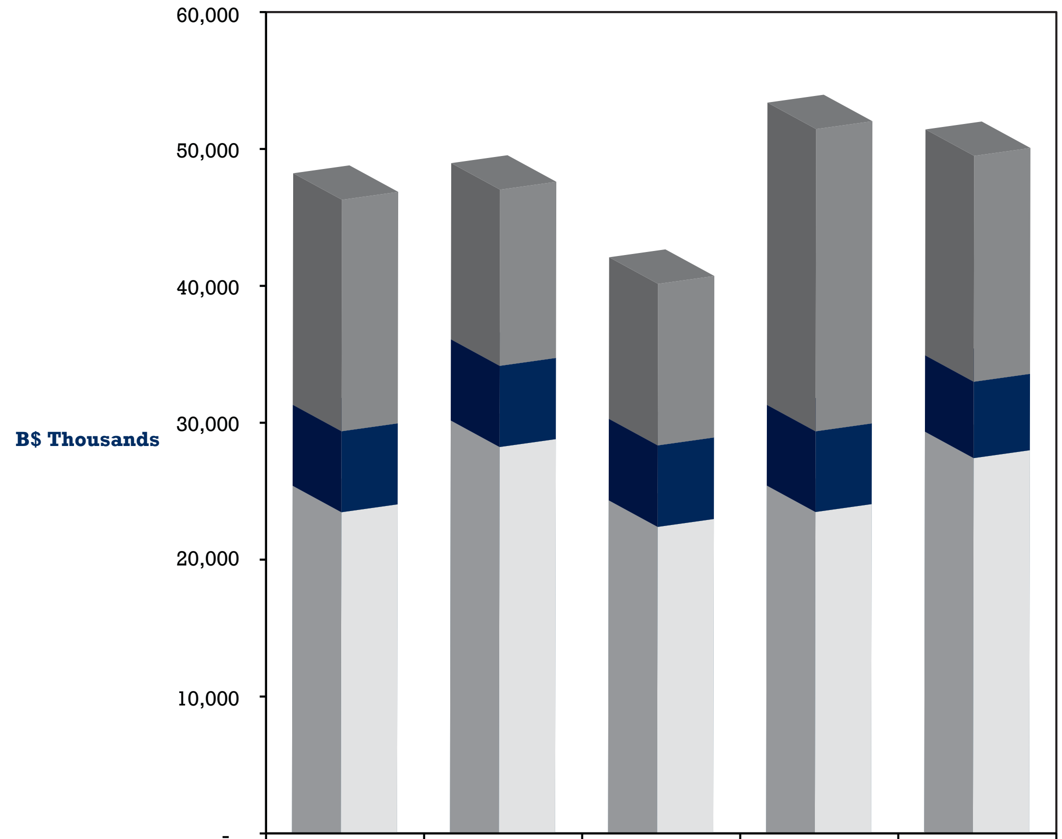
The Bank will continue to monitor and enhance its credit risk rating and scoring models in 2012 to ensure our credit assessment criteria is directed at maintaining and sustaining the strong quality of the portfolio as the economy slowly recovers.

Rigorous write-off policies supported by a conservative and anticipatory allowance for impairment methodology will continue in 2012. During 2011, the Bank reviewed its loan impairment allowance models. Using experience and economic expectations, the Bank maintained its more aggressive anticipatory impairment allowance methodology.

Total impaired loans increased to 3.21% from 2.88% in 2010 (2011: $36.5 million; 2010: $31.3 million). The Bank's level of impairment remains appreciably less than the industry at large which was 13.0% at December 2011 (10.4% December 2010). The Bank's impaired personal loans increased by $3 million and impaired mortgage loans increased $2.7 million.

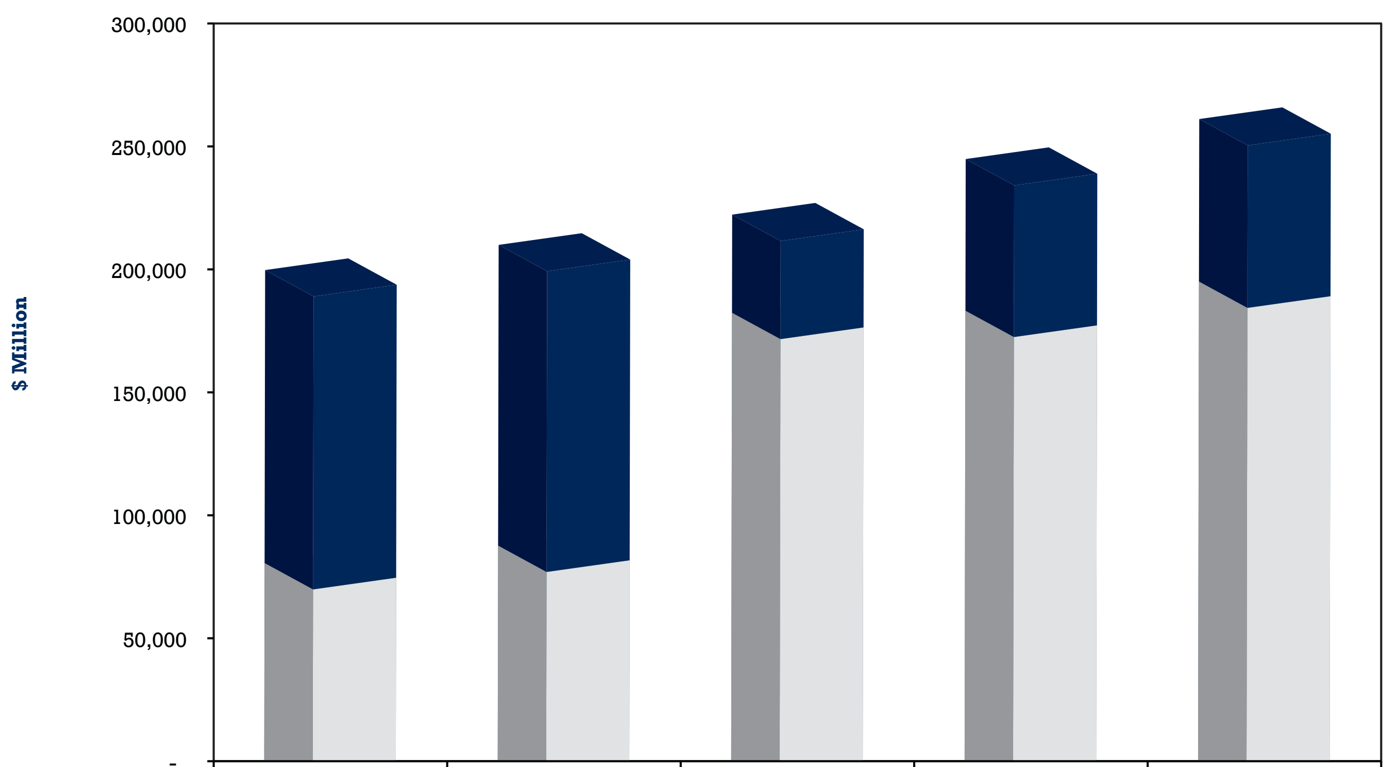
While the increase in the mortgage segment was a reflection of the ongoing stagnation in the real estate foreclosure market, the increase in impaired personal loans reflected the fact that many of the customers with whom the Bank has worked with since 2008 have not experienced any improvement in their financial conditions and were unable to resume their commitments once the Bank's assistance programs had been completed. As a result, our conservative write-off policies have been applied to reflect market realities.

NET INCOME DISTRIBUTION



	2007	2008	2009	2010	2011
Available for Reinvestment	17,012	12,916	11,790	22,283	16,658
Preference Dividend	5,949	5,949	5,949	5,949	5,630
Common Dividends	25,573	30,427	24,533	25,568	29,513

CAPITAL VERSUS REGULATORY CAPITAL



	2007	2008	2009	2010	2011
Excess Capital	124,012	127,284	41,536	64,180	68,777
Regulatory Capital	76,884	84,104	182,375	182,783	194,763

The Bank's total allowances for loan impairment were $48.9 million compared to $41.3 million in 2010. The percentage of impaired allowances to impaired loans increased to 54.8% in 2011 from 42.8% in 2010 ($6.7 million), while the collective impairment allowance on non impaired loans was unchanged at 2.6% in 2011 (2010: 2.6%), an increase of $1.0 million resulted from the loan portfolio increase. Allowances for loan impairment are lower for mortgage loans where there is significant cash value underlying the collateral securing the loan in contrast to the personal consumer loan portfolio.

Loan impairment expense in 2011 was $24.6 million for the year compared to $18.2 million in 2010, an increase of $6.4 million or 35.0%. With the increase in loan loss impairment expense, allowances for impairment in the Statement of Financial Position increased by $7.7 million to $48.9 million (13.5% increase over 2010: $41.3 million).

The steps and added discipline to managing credit risk has provided the Bank with a more effective approach to credit risk and moved the Bank to the forefront of international best practices that are associated with measuring and monitoring overall credit quality. Note 23 in the Consolidated Financial Statements shows the overall quality of the portfolio from different perspectives. The analysis of restructured accounts confirms this approach to credit risk management. The Bank's restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate repayment is likely. Restructured accounts disclosed in the Note include assistance outside normal underwriting criteria. The total restructured accounts amounted to $123.26 million or 10.8% of the portfolio; (2010: 10.4% $113.28 million).

NON-INTEREST INCOME

Credit life insurance income was $3.6 million, a decrease of $630 thousand from 2010. Death claims experience declined by 21% to $1.7 million, (2010: $1.4 million) while net premiums collected recovered by $3.4 million (24%) over 2010 levels. The overall earnings decrease was associated with the increased unearned reserve of $1.0 million in 2011.

Other non-interest income expanded to $9.7 million, an increase of $0.7 million or 8.1% over 2010 indicating that the levels of this non-capital intensive category is beginning to show signs of recovery.

Card products reflected the same general decline but are still important to the Bank as MasterCard, SunCard and ComCard all made significant contributions to the Bank's profitability in 2011. The Bank plans to continue to leverage its entrenched card products going forward albeit on a conservative basis.

CB Online, our internet banking service, increased its customer base in 2011. This product forms a natural part of the expanded portfolio of advanced technology-based products which is being demanded by the marketplace. Further emphasis of this product will be forthcoming in 2012.

NON-INTEREST EXPENSE

Non-interest expense of $52.9 million decreased $0.1 million or -0.3% over 2010 ($53.0 million). Staff costs also declined by $0.5 million or -1.4% as the Bank rationalized its staffing levels through attrition.

The Bank continues to offer Saturday Banking at three Branch locations in New Providence. This service continues to be widely accepted by our customers. Increases in general expenses were experienced in increased bank licence fees ($0.6 million) and the efforts the Bank made to improve its technology, enhancing physical and logical security and developing staff which must be funded on a continuous basis in order to retain the Bank's competitive edge.

Close control of all expense categories will continue to be a major focus for the Bank in 2012.

OPERATIONAL EFFICIENCY

The adjusted efficiency ratio for the twelve months ended December 31, 2011 (calculated by dividing total non-interest expense by net interest income plus non-interest income less preference share dividends) was 42.8% and remains well ahead of the industry average. To achieve the levels attained, emphasis was again placed on introducing enhanced technology and, where possible, continued centralization of operational functions in order to bring additional expertise, concentration and cost containment to repetitive and volume based activities.

Efforts in 2012 will continue to be directed at further assessment of existing policies, procedures and work measurement processes in order to provide the level of service required by customers in a cost-effective and increasingly efficient manner. Our objective for 2012 is to retain a level of efficiency of less than 50%.

At year-end the Bank employed a full-time equivalent complement of 539. This represented a significant reduction from the 562 on staff at December 2010. The reduction in numbers resulted from attrition following reassessment of staffing levels in sections of the Bank. The average number of staff employed for 2011 compared to 2010 was unchanged at 547.

RISK MANAGEMENT

The Bank's risk management process is a series of fully integrated set of building blocks that are designed to promote sound business decisions and provide the required balance of risk and reward with the primary element of success being the maximization of shareholder return.

To be successful, a sound risk management process must be evolutionary and flexible enough to address varying market conditions and opportunities. The Bank reviews the critical elements of its risk management process at least annually to ensure the process continues to reflect market conditions and the Bank's current overall risk appetite.

The risk management and process is set out in the Bank's policies, procedures and processes and is confirmed at least annually by the Board of Directors. Amongst other risk elements, the Board of Directors address the specific risk parameters associated with Credit Risk, Liquidity Risk and Operational Risks that are supported by the Bank's overall process of control. The management of these risks is summarized in the Notes to the Consolidated Financial Statements.

Pictured from left to right:

G. Clifford Culmer, Vaughn W. Higgs, Earla J. Bethel, Rupert W. Roberts, Jr., OBE, **William B. Sands, Jr.,** Executive Chairman

Ian A. Jennings, President**, R. Craig Symonette, J. Barrie Farrington,** CBE**, Dr. Marcus R. C. Bethel, Larry R. Gibson**

EXECUTIVE TEAM

Pictured in the new Cable Beach Branch lobby (left to right): **Patrick McFall,** V.P. & CFO, **Mavis Burrows,** V.P. Operations, **Anthea Cox,** V.P. Human Resources & Training, **Ian A. Jennings,** President, **Denise Turnquest,** Sr. V.P. Credit Risk, **Carole Strachan,** V.P. Internal Audit and **Charles Knowles,** V.P. & CIO

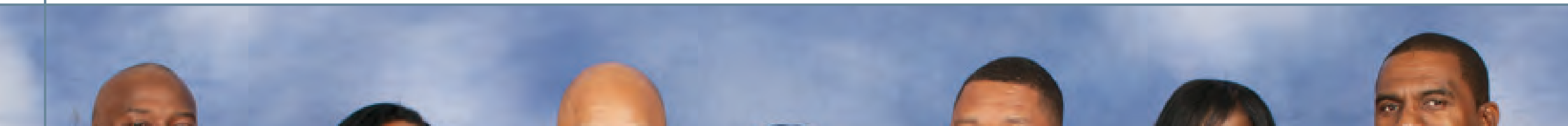
"I find the great thing in this world is not so much where we stand, as in what direction we are moving; we must sail sometimes with the wind and sometimes against it... but we must sail, and not drift, nor lie at anchor."~ Oliver Wendell Holmes

ASSISTANT VICE PRESIDENTS

Pictured from left to right: **Ian Wilkinson,** Asst. V.P. Information Technology, **Kenrick Brathwaite,** Asst. V.P. Internal Audit & Credit Inspection, **Maxwell Jones,** Asst. V.P. Business Development, **Neil Strachan,** Asst. V.P. Mortgage & Commercial Lending and **Silbert Cooper,** Asst. V.P. Consumer Lending

BRANCH MANAGERS

Pictured from left to right: **Matthew Sawyer,** Manager, Abaco; **J. Rupert Roberts,** Sr. Manager, Freeport; **Daria Bain,** Manager, The Plaza; **Charlene Low,** Manager, Lucaya; **Frienderick Dean,** Sr. Manager, East Bay Street and **Franklyn Thomas,** Sr. Manager, Cable Beach



Pictured from left to right: **Lavado Butler,** Manager, Prince Charles Drive; **Juliette Fraser,** Sr. Manager, Town Centre Mall; **Jeffrey Kerr,** Sr. Manager, Wulff Road; **Kayla Darville,** Manager, Mortgage Centre; **Marcus Cleare,** Manager, Oakes Field; **Monique Mason,** Manager, Credit Card Centre and **Demetri Bowe,** Manager, Golden Gates

Pictured from left to right: **Lernix Williams,** Manager, Accounts Control; **Lynda Burrows,** Manager, IT Operations; **Jasmin Strachan,** Manager, Operations; **Tameka Cooke,** Manager, Recruitment; **Derick Moss,** Manager, Systems Operations & Network and **Felipe Vega,** Manager, Information Technology

Pictured from left to right: **Erald Thompson,** Sr. Manager, Internal Audit; **Gina Greene,** Manager, Marketing; **Gladys Fernander,** Sr. Manager, Financial & Business Planning; **Perry Thompson,** Manager, Accounts Control; **Tanya Astwood,** Manager, Compensation & Benefits; **Hope Sealey,** Manager, Commercial Lending and **Godwin Blyden,** Manager, Security & Administration

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

Commonwealth Bank's management is responsible for the presentation and preparation of the annual Consolidated Financial Statements, Management's Discussion and Analysis ("MD&A") and all other information in the Annual Report.

The Consolidated Financial Statements have been prepared in accordance with International Accounting Standards and the requirements of the relevant provisions of the Bank and Trust Act and related regulations.

The Consolidated Financial Statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the estimated impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected. The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

In meeting our responsibility for the reliability of financial information, we maintain and rely on a comprehensive system of internal control and internal audit, including organizational, procedural controls and internal controls over financial reporting. Our process of control includes written communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and sound and conservative accounting policies which we regularly update. This structure ensures appropriate internal control over transactions, assets and records. We also regularly audit internal controls. These controls and audits are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements.

In order to provide their opinion on our Consolidated Financial Statements, the Shareholders' Auditors review our system of internal control and conduct their work to the extent that they consider appropriate.

The Board of Directors, based on recommendations from its Audit and Executive Committees, reviews and approves the financial information contained in the Annual Report, including the MD&A, and oversees management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls, management and control of major risk areas and assessment of significant and related party transactions.

The Bank's auditors and its VP Internal Audit, have full and free access to the Audit Committee of the Board of Directors to discuss audit, financial reporting and related matters.

Ian A. Jennings
President

Patrick McFall
VP & CFO
February 16th, 2012

Deloitte & Touche
Chartered Accountants
and Management Consultants
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Deloitte.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Commonwealth Bank Limited:

We have audited the accompanying Consolidated Financial Statements of Commonwealth Bank Limited (the "Bank") which comprise the Consolidated Statement of Financial Position as at December 31, 2011, and the related Consolidated Statements of Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and 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 the Bank as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

February 17th, 2012
2nd Terrace West, Centreville
Nassau, Bahamas

A member firm of
Deloitte Touche Tohmatsu

OLIVER WYMAN

Certification of Actuary

This Certificate is prepared in accordance with the provisions of the Insurance Act, 2005 in respect of the life and health insurance business of Laurentide Insurance and Mortgage Company Limited, a wholly-owned subsidiary of Commonwealth Bank Limited.

I have examined the financial position, and valued the policy liabilities for its balance sheet as at December 31, 2011, and the corresponding change in the policy liabilities in the income statement for the year then ended.

In my opinion:

1. The methods and procedures used in the verification of the valuation data are sufficient and reliable, and fulfill the required standards of care.
2. The methods and assumptions used to calculate the actuarial and the other policy liabilities are appropriate to the circumstances of the company and of the said policies and claims.
3. The valuation of actuarial and other policy liabilities has been made in accordance with generally accepted actuarial practice (with such changes as determined and any directions made by the Commission).
4. The valuation is appropriate under the circumstances of the company and the financial statements fairly reflect its results.
5. Having regard for the results of the investigation performed pursuant to section 62 of the Insurance Act, 2005 the value of actuarial and other policy liabilities, when taken together with the total capital available makes good and sufficient provisions for all unmatured obligations under the terms of the policies in force.

Leslie P. Rehbeli
Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries
Member of American Academy of Actuaries
January 31, 2012

Oliver, Wyman Limited
Oliver, Wyman Limitée

MARSH & McLENNAN COMPANIES

COMMONWEALTH BANK LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2011

(Expressed in Bahamian $'000s)

	2011	2010
ASSETS		
Cash and deposits with banks (Note 7)	$ 19,926	$ 21,537
Balances with The Central Bank of The Bahamas (Note 7)	84,202	56,198
Investments (Note 8)	261,179	246,588
Loans receivable (Notes 9, 18, 21 and 23)	1,091,033	1,046,960
Premises and equipment (Note 10)	41,505	34,452
Other assets	3,144	3,039
TOTAL	$ 1,500,989	$ 1,408,774
LIABILITIES AND EQUITY		
LIABILITIES:		
Deposits (Notes 11, 18 and 21)	$ 1,203,067	$ 1,131,793
Unearned life assurance (Notes 12 and 21)	16,472	15,436
Other liabilities (Notes 18 and 21)	17,910	14,582
Total liabilities	1,237,449	1,161,811
EQUITY:		
Share capital (Note 13)	86,950	86,950
Share premium	26,641	26,722
General reserve (Note 14)	10,500	10,500
Retained earnings	139,449	122,791
Total equity	263,540	246,963
TOTAL	$ 1,500,989	$ 1,408,774

The accompanying notes form an integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Board of Directors on February 3, 2012, and are signed on its behalf by:

Executive Chairman

President

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2011

(Expressed in Bahamian $'000s)

	2011	2010
INCOME		
Interest income (Notes 5, 8 and 18)	$ 163,757	$ 161,608
Interest expense (Notes 5 and 18)	(47,843)	(49,823)
Net interest income	115,914	111,785
Loan impairment expense (Note 9)	(24,610)	(18,230)
	91,304	93,555
Life assurance, net	3,609	4,260
Fees and other income (Notes 5 and 16)	9,797	9,037
Total income	104,710	106,852
NON-INTEREST EXPENSE		
General and administrative (Notes 17 and 18)	51,641	49,935
Depreciation and amortization (Note 10)	1,078	2,926
Directors' fees	190	191
Total non-interest expense	52,909	53,052
TOTAL COMPREHENSIVE INCOME	$ 51,801	$ 53,800
BASIC AND DILUTED EARNINGS PER COMMON SHARE (expressed in dollars)	$ 0.47	$ 0.49

The accompanying notes form an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2011

(Expressed in Bahamian $'000s)

	2011	2010
SHARE CAPITAL		
Preference shares (Note 13)		
Balance at beginning and end of year	$ 84,983	$ 84,983
Common shares (Note 13)		
Balance at beginning of year	1,967	1,963
Issuance of common shares	-	4
Balance at end of year	1,967	1,967
Total share capital	86,950	86,950
SHARE PREMIUM		
Balance at beginning of year	26,722	25,957
(Repurchase) issuance of common shares	(103)	644
Share based payments (Note 15)	22	121
Balance at end of year	26,641	26,722
GENERAL RESERVE		
Balance at beginning and end of year (Note 14)	10,500	10,500
RETAINED EARNINGS		
Balance at beginning of year	122,791	100,508
Total comprehensive income	51,801	53,800
Common share dividends: 30 cents per share (2010: 26 cents)	(29,513)	(25,568)
Preference share dividends	(5,630)	(5,949)
Balance at end of year	139,449	122,791
EQUITY AT END OF YEAR	$ 263,540	$ 246,963

The accompanying notes form an integral part of the Consolidated Financial Statements.

COMMONWEALTH BANK LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2011

(Expressed in Bahamian $'000s)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	$ 150,752	$ 141,248
Interest payments	(47,843)	(49,823)
Life assurance premiums received, net	8,658	7,362
Life assurance claims and expenses paid	(3,977)	(3,237)
Fees and other income received	9,761	9,022
Recoveries	6,902	7,805
Cash payments to employees and suppliers	(48,608)	(51,245)
	75,645	61,132
Increase in loans receivable	(75,585)	(15,341)
Increase in deposits	71,274	9,340
Net cash from operating activities	71,334	55,131
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(50,648)	(135,428)
Interest receipts and redemption of investments	49,062	98,085
Purchase of premises and equipment (Note 10)	(8,195)	(1,729)
Proceeds from sale of premises and equipment	64	110
Net cash used in investing activities	(9,717)	(38,962)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(35,143)	(31,517)
(Repurchase) issuance of common shares	(103)	648
Share based payments (Note 15)	22	121
Net cash used in financing activities	(35,224)	(30,748)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	26,393	(14,579)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	77,735	92,314
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 7)	$ 104,128	$ 77,735

The accompanying notes form an integral part of the Consolidated Financial Statements.

(All tabular amounts are expressed in Bahamian $'000s, except per share amounts)

1. INCORPORATION AND ACTIVITIES

Commonwealth Bank Limited (the "Bank") is incorporated in The Commonwealth of The Bahamas and is licensed by The Ministry of Finance to carry out banking business under the provisions of the Banks and Trust Companies Regulations Act 2000.

The principal activities of the Bank and its subsidiaries (which are wholly owned) are described in Note 6.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to their operations and effective for accounting periods beginning on January 1, 2011.

Revised Standard	
IAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to Standards	
Amendments to IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
Amendments to IAS 32	Classification of Rights Issues
Improvements to IFRSs (issued in 2010)	
IFRS 1	Accounting policy changes in the year of adoption (effective for annual periods beginning on or after 1 January 2011)
IFRS 1	Revaluation basis as deemed cost (effective for annual periods beginning on or after 1 January 2011)
IFRS 1	Use of deemed cost for operations subject to rate regulation (effective for annual periods beginning on or after 1 January 2011)
IFRS 3 (as revised in 2008)	Measurement of non-controlling interests (effective for annual periods beginning on or after 1 July 2010)
IFRS 3 (as revised in 2008)	Un-replaced and voluntary replaced share-based payment awards (effective for annual periods beginning on or after 1 July 2010)
IFRS 3 (as revised in 2008)	Transitional requirements for contingent consideration from a business combination that occurred before the effective date of IFRS 3 (as revised in 2008) (effective for annual periods beginning on or after 1 July 2010)
IFRS 7	Clarification of disclosures (effective for annual periods beginning on or after 1 January 2011)
IAS 1	Clarification of presentation of items of other comprehensive income in the statement of changes in equity (effective for annual periods beginning on or after 1 January 2011)
IAS 27 (as revised in 2008)	Transitional requirements for consequential amendments as a result of IAS 27 Consolidated and Separate Financial Statements (as revised in 2008) to IAS 21, IAS 28 and IAS 31 (effective for annual periods beginning on or after 1 July 2010)
IAS 34	Significant events and transactions (effective for annual periods beginning on or after 1 January 2011)
IFRIC 13	Fair value of award credit (effective for annual periods beginning on or after 1 January 2011)
New Interpretation	
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
Amendments to Interpretation	
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement

At the date of authorization of these financial statements, the following relevant Standards and Interpretations were in issue but not yet effective:

New Standard

IFRS 9	Financial Instruments (as revised in 2010)
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IAS 27 (as revised in 2011)	Separate Financial Statements
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
IFRS 13	Fair Value Measurement
IAS 19 (as revised in 2011)	Employee Benefits
Amendments to Standards	
Amendments to IFRS 1	Severe Hyperinflation
Amendments to IFRS 1	Removal of Fixed Dates for First-time Adopters
Amendments to IFRS 7 Disclosures	Transfers of Financial Assets
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
Amendments to IAS 12	Deferred Tax - Recovery of Underlying Assets

The Directors anticipate that the adoption of these standards will have no material impact on the Company's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance - These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards.

Principles of consolidation - The Consolidated Financial Statements include the accounts of the Bank and its wholly-owned subsidiaries made up to December 31, 2011. All intra-group transactions, balances, income and expenses have been eliminated in full on consolidation.

Basis of preparation - These Consolidated Financial Statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out below:

a. ***Recognition of income***

i. ***Interest revenue*** is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, except for impaired loans receivable. When a loan is classified as impaired, all uncollected interest and fees are provided for in full and the Bank discontinues accruing additional interest and fees while the loan is deemed impaired.

ii. ***Fee income*** is recorded in the Consolidated Statement of Comprehensive Income as "Fees and Other Income" unless otherwise noted. The accounting treatment for loan fees varies depending on the transaction.

- Income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan origination and commitment fees) and recorded in interest income in the Consolidated Statement of Comprehensive Income.
- Income earned from the provision of services is recognised as revenue as the services are provided.
- Fees in respect of deposit account services are generally charged on a per transaction basis and recognised as the right to consideration accrues through the provision of the service to the customer.
- Fees from credit card processing are accrued to revenue as the service is performed.

iii. ***Rental income*** is recognized on a straight line basis over the term of the relevant lease and is recorded in "Fees and Other Income" in the Consolidated Statement of Comprehensive Income.

iv. ***Life insurance income*** is recognized on the "Rule of 78" basis over the term of the life policy. The amount taken to income is adjusted by the amount of any deficit after an annual actuarial valuation.

b. ***Loans receivable***

Loans receivable are advances to customers which are not classified either as held for trading or designated at fair value. Loans receivable are recognised when cash is advanced to borrowers. They are derecognised when either borrowers repay their obligations, or the loans are sold or written off. They are initially recorded at amortised cost using the effective interest method.

c. ***Impairment of Loans Receivable***

Losses for impaired loans receivable are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Whenever principal and/or interest is 90 days contractually past due on a loan it is assessed as impaired. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the Consolidated Statement of Comprehensive Income. The carrying amount of impaired loans on the Consolidated Statement of Financial Position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

When a loan is classified as impaired, all uncollected interest and fees are provided for in full and the Bank discontinues accruing additional interest and fees while the loan is deemed impaired.

Payments received on loans that have been classified as impaired are applied first to outstanding interest and then to the remaining principal.

Individually significant loans receivable

For all loans that are considered individually significant, the Bank assesses on a case-by-case basis at each date of Financial Position whether there is any objective evidence that a loan is impaired. For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- the Bank’s aggregate exposure to the customer;
- the amount and timing of expected receipts and recoveries;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession; and
- the likely deduction of any costs involved in recovery of amounts outstanding.

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan’s current carrying amount.

Collectively assessed loans receivable

Impairment is assessed on a collective basis in two circumstances:

- to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- for homogeneous groups of loans that are not considered individually significant.

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Bank has incurred as a result of events occurring before the reporting date, which the Bank is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- management’s experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the Consolidated Statement of Financial Position date is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of loans and advances
Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans that are not considered individually significant, because individual loan assessment is impracticable.

Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group.

The Bank adopts a formulaic approach which allocates progressively higher percentage loss rates the longer a customer's loan is overdue. Loss rates are based on historical experience.

In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio. In certain circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the Consolidated Statement of Financial Position date, for example, where there have been changes in economic, regulatory or behavioural conditions, such that the most recent trends in the portfolio risk factors are not fully reflected in the statistical models.

These additional portfolio risk factors may include recent loan portfolio growth and product mix, unemployment rates, bankruptcy trends, geographic concentrations, loan product features, economic conditions such as trends in housing markets and interest rates, portfolio seasoning, account management policies and practices, current levels of write-offs, changes in laws and regulations and other items which can affect customer payment patterns on outstanding loans, such as natural disasters. These risk factors, where relevant, are taken into account when calculating the appropriate level of impairment allowances by adjusting the impairment allowances derived solely from historical loss experience.

Impairment assessment methodologies are regularly benchmarked against actual outcomes to ensure they remain appropriate.

Write-off of loans and advances
A loan (and the related impairment allowance account) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised loan, when the proceeds from realising the security have been received. Consumer installment and credit card loans are written-off in the month after principal and/or interest payments become 180 days contractually in arrears.

Reversals of impairment
If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the Consolidated Statement of Comprehensive Income.

Renegotiated loans
Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as new loans for measurement purposes once the minimum number of payments required under the new arrangements have been received. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due. The carrying amount of loans that have been classified as renegotiated retain this classification until maturity or derecognition.

The Bank has decided that the collective impairment allowance on loans where losses have occurred but have not yet been identified should amount to a minimum of 1% of those outstanding loan balances.

d. ***Foreign currency translation -*** Assets and liabilities in other currencies have been translated into Bahamian dollars at the appropriate rates of exchange prevailing as at the year end. Income and expense items have been translated at actual rates on the date of the transaction. Gains and losses arising on foreign exchange translation are immediately recognized in the Consolidated Statement of Comprehensive Income.

e. ***Premises and equipment -*** These assets are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis and are charged to non-interest expenses over the estimated useful lives of the assets as follows:

Buildings	The shorter of the estimated useful life or a maximum of 40 years
Leasehold improvements	Lease term
Furniture, fittings and equipment	3 - 10 years
Site improvements	5 - 10 years

The gain or loss arising on the disposal or retirement of an item of premises and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the Consolidated Statement of Comprehensive Income.

f. ***Impairment of assets -*** At each date of the Consolidated Statement of Financial Position, management reviews the carrying amount of tangible and intangible 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 asset is estimated to determine the extent of the impairment loss. Recoverable amount is the higher of fair value less costs to sell and value in use. An impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent that there is revaluation surplus.

g. ***Earnings per share -*** Earnings per share is computed by dividing total comprehensive income, after deducting dividends declared on preference shares, by the weighted average number of common shares outstanding during the year and not held by group companies (2011: 98.357 million; 2010: 98.357 million). There is no material difference between basic earnings per share and fully diluted earnings per share.

h. ***Retirement benefit costs -*** The Bank maintains a defined benefit plan covering all employees in the active employment of the Bank who have at least 3 years of service or have reached the age of 25. The plan provides pensions based on years of service, contributions and weighted average earnings at retirement. The Bank's funding policy is to make monthly contributions to the plan based on triennial valuations. The Bank pays on demand to the plan such periodic contributions as may be required to meet the costs and expenses of the plan.

Investments held by the pension fund are primarily comprised of equity securities, preference shares, bonds and government stock.

Pension costs for the year are the present value of the current year service cost based on estimated final salaries, interest expense on the liability, expected investment return on the market value of the plan assets and the amortization of both deferred past service costs and deferred actuarial gains and losses. Amortization is charged over the expected average remaining service life of employees covered by the plan. Past service cost is recognized immediately to the extent that the benefits are already vested.

Pension costs are charged to general and administrative expenses.

The retirement benefit obligation recognized in the Consolidated Statement of Financial Position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

i. ***Share-based payments -*** The Bank issues equity-settled share-based payments to certain management staff. The Bank determines the fair value of stock options on their grant date using the Black Scholes Model and records this amount as compensation expense. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. The fair value determined at the grant date of the equity-settled share-based payments was expensed on a straight-line basis over the vesting period. When the stock options are exercised the proceeds are recorded in share capital and share premium.

Other Stock Based Compensation Plan: The Bank offers non-management staff the option of purchasing common shares at a 10% discount from the prevailing market rate at the time of the offer. The amount of discount is recorded as compensation expense with a corresponding increase to share premium. Payments by staff for the shares are credited to share capital and share premium.

The share based payments expense has been included in staff costs in the general and administrative expenses line of the Consolidated Statement of Comprehensive Income.

j. ***Deposits -*** Deposits are stated at amortised cost.

k. ***Interest expense -*** Interest expense is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

l. ***Investments -*** Investments are classified as held-to-maturity and are stated at cost plus accrued interest. Investment income is recorded in interest income in the Consolidated Statement of Comprehensive Income using the effective interest rate method.

m. ***Related parties*** - Related parties include:

   i. Key Management Personnel, close family members of Key Management Personnel, and entities which are controlled individually and/or jointly, or significantly influenced, or for which significant voting power is held, by Key Management Personnel or their close family members; or

   ii. Non-Key Management Personnel who have significant influence over the Bank and their close family members. Non-Key Management Personnel who control in excess of 5% of the outstanding common shares are considered to have significant influence over the Bank.

   Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Commonwealth Bank, being the Officers and Directors of the Bank.

   Close family members include the spouse of Key and Non-Key Management Personnel and the children and dependents of Key and Non-Key Management personnel or their spouse.

n. ***Equity instruments -*** An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

o. ***Financial assets -*** Financial assets are:

   i. Cash;
   ii. An equity instrument of another entity;
   iii. A contractual right to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the Bank;
   iv. A contract that will or may be settled in the Bank's own equity instrument and is either a non-derivative for which the Bank is or may be obliged to receive a variable number of the Bank's own equity instruments, or a derivative that will or may be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of the Bank's own equity instruments.

   Financial assets are classified into the following categories: "Fair Value Through Profit or Loss" (FVTPL); "Held-To-Maturity"; "Available-For-Sale" (AFS); and "Loans and Receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

   Financial assets are classified as FVTPL where the financial asset is either held for trading or is designated as FVTPL. FVTPL assets are stated at fair value, with any resultant gain or loss recognized in the Consolidated Statement of Comprehensive Income.

   Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity are classified as Held-To-Maturity investments. Held-To-Maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

   Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as Loans and Receivables. Loans and Receivables are measured at amortised cost using the effective interest method, less any impairment.

   AFS financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as a) FVTPL, b) Held-To-Maturity or c) Loans and Receivables. AFS assets are stated at fair value. Cost is used to approximate the fair value of AFS assets. Cash and equivalents are classified as AFS instruments.

The Bank considers that the carrying amounts of financial assets recorded at amortised cost, less any impairment allowance, in the Consolidated Financial Statements approximate their fair values.

p. ***Financial liabilities -*** Financial liabilities are any liabilities that are:

i. Contractual obligations to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank;
ii. Contracts that will or may be settled in the Bank's own equity instruments and are either a non-derivative for which the Bank is or may be obliged to deliver a variable number of its own equity instruments, or a derivative that will or may be settled either by exchange of a fixed amount of cash or another financial asset for a fixed number of the Bank's own equity instruments.

Financial liabilities are classified as either a) FVTPL or b) other financial liabilities.

Financial liabilities are classified as FVTPL where the financial liability is either held for trading or it is designated as FVTPL. Financial liabilities at FVTPL are stated at fair value with any resulting gain or loss recognised in the Consolidated Statement of Comprehensive Income.

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

The Bank considers that the carrying amounts of financial liabilities recorded at amortised cost in the Consolidated Financial Statements approximate their fair values.

q. ***Leases -*** All of the Bank's leases are operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the term of the lease.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the judgments and estimates that management has made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognized in the Consolidated Financial Statements.

a. ***Loan impairment allowances -*** The allowance for loan impairment represents management's estimate of identified credit related losses in the credit portfolios, as well as losses that have not yet been identified at the Consolidated Statement of Financial Position date. The impairment allowance for credit losses is comprised of an individual impairment allowance and a collective impairment allowance. The process for determining the allowance involves quantitative and qualitative assessments using current and historical credit information. The process requires assumptions, judgments and estimates relating to i) assessing the risk rating and impaired status of loans; ii) estimating cash flows and realizable collateral values; iii) developing default and loss rates based on historical data; iv) estimating the changes on this historical data by changes in policies, processes and credit strategies; v) assessing the current credit quality based on credit quality trends and vi) determining the current position in the economic cycle. Management's estimate is that whenever principal and/or interest on a loan is 90 days contractually past due, the loan is assessed as impaired.

b. ***Fair value of financial instruments -*** Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The best evidence of fair value is quoted price in an active market. In most cases, however, the financial instruments are not typically exchangeable or exchanged and therefore it is difficult to determine their fair value. In these cases, the Bank considers that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the Consolidated Financial Statements approximate their fair values.

Premises and equipment are not considered to be financial assets.

IFRS 7 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. This classification uses the following three-level hierarchy:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	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 the prices).
Level 3	Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Since the calculation of fair value is based on management's estimates, which involve uncertainties, the actual fair value realised in a sale or immediate settlement of the instruments may differ from the estimated amount.

c. ***Pension benefits -*** The Bank maintains a defined benefit plan covering all employees in the active employment of the Bank who have at least 3 years of service or have reached the age of 25. Due to the long term nature of pension plans, 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.

   Any difference between the actual experiences and actuarial assumptions will affect the benefit obligation and expense. Actuarial work on the pension plan was undertaken by Mercer (Canada) Limited, Toronto, Canada.

d. ***Unearned life assurance -*** A deficit on the life assurance fund arising from an actuarial valuation in excess of the unearned premium reserve is charged to income. Due to the nature of actuarial valuations which depend on various assumptions such as discount rates, expected rates of return on assets, projected mortality, and policy termination rates, actual experience may differ from the actuarial assumptions.

e. ***Loan fee income -*** Loan fee income and the related incremental costs are treated as an adjustment to the effective interest rate. Management estimates the impact of the adjustment.

   The adjustment to the effective interest rate has been determined by using the estimated terms of loans to maturity or repayment if earlier.

f. ***Share-based payments -*** The fair value of options granted was determined by an independent valuation sponsored by the Bank. The valuation used a Black-Scholes pricing model to determine fair value. The model was based on publicly available historical information and management's estimates and assumptions with regard to future dividend policy, average term of options before exercise and average lapse rate.

   The weighted average fair value of options at December 31, 2011 was valued at $1.54 (2010: $1.02) per option and was calculated using the assumptions shown in Note 15.

5. FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial assets and financial liabilities as defined by IAS 39 Financial Instruments: Recognition and Measurement:

	2011				
	Loans and Receivables	Held-To-Maturity	Available-For-Sale	Amortised Cost	Total
FINANCIAL ASSETS					
Cash and cash equivalents	$ -	$ -	$ 104,128	$ -	$ 104,128
Investments	$ -	$ 261,104	$ 75	$ -	$ 261,179
Loans receivable	$ 1,139,982	$ -	$ -	$ -	$ 1,139,982
FINANCIAL LIABILITIES					
Deposits	$ -	$ -	$ -	$ 1,203,067	$ 1,203,067

	2010				
	Loans and Receivables	Held-To-Maturity	Available-For-Sale	Amortised Cost	Total
FINANCIAL ASSETS					
Cash and cash equivalents	$ -	$ -	$ 77,735	$ -	$ 77,735
Investments	$ -	$ 246,513	$ 75	$ -	$ 246,588
Loans receivable	$ 1,088,232	$ -	$ -	$ -	$ 1,088,232
FINANCIAL LIABILITIES					
Deposits	$ -	$ -	$ -	$ 1,131,793	$ 1,131,793

At December 31, 2011 there were no assets or liabilities that were classified as FVTPL (2010: $Nil).

	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Available For Sale				
Cash and cash equivalents	$ 104,128	$ -	$ -	$ 104,128
	$ 104,128	$ -	$ -	$ 104,128
Held To Maturity				
Investments	$ -	$ 261,104	$ 75	$ 261,179
	$ -	$ 261,104	$ 75	$ 261,179
Amortised Cost				
Loans receivable	$ -	$ -	$ 1,139,982	$ 1,139,982
	$ -	$ -	$ 1,139,982	$ 1,139,982
FINANCIAL LIABILITIES				
Amortised Cost				
Deposits	$ -	$ -	$ 1,203,067	$ 1,203,067
	$ -	$ -	$ 1,203,067	$ 1,203,067

Financial assets and liabilities classified as level 3 are equity investments classified as held-to-maturity and customer loans and deposits whose arrangements are negotiated with the Bank.

There were no transfers between levels during the year.

The following table shows Consolidated Statement of Comprehensive Income information on financial instruments:

	2011	2010
Interest income		
Loans and Receivables	$ 150,724	$ 148,937
Held-to-Maturity Investments	13,005	12,557
Available-For-Sale financial assets	28	114
	$ 163,757	$ 161,608
Interest expense		
Financial Liabilities at Amortised Cost	$ 47,843	$ 49,823
Fees and other income		
Loans and Receivables	$ 1,586	$ 1,097
Fee expense		
Available-For-Sale financial assets	$ 144	$ 124

6. BUSINESS SEGMENTS

For management purposes, the Bank including its subsidiaries is organized into five operating units - Bank, Insurance Company, Real Estate Holdings, Investment Company and Insurance Agency. The principal business of the Bank is that of providing full service personal banking including the acceptance of savings, fixed and demand deposits, providing consumer financing through loans, overdrafts and credit cards and mortgage financing on real estate and the sale of foreign exchange. The insurance company provides credit life insurance in respect of the Bank's borrowers through Laurentide Insurance and Mortgage Company Limited. Laurentide Insurance Agency Limited is the Agent for the insurance company, its sole client. The Bank also has a real estate company, C. B. Holding Co. Ltd. that owns and manages real property which is rented to various Group Companies, including the parent company. C.B. Securities Ltd. was incorporated as an investment company on September 2, 1996. C.B. Securities Ltd. purchased Bank common shares during the year to fund the Bank's stock based compensation plans.

All of the activities of the Bank and its subsidiaries are deemed to be operating within the same geographical area. Non Bahamian dollar assets and liabilities are not material and are therefore not divided out into a separate segment. Inter-segment revenues are accounted for at competitive market prices. Inter-segment expenses are transferred at cost. All transactions between segments are eliminated on consolidation.

The following table shows financial information by business segment:

	2011						
	Bank	Insurance Company	Real Estate Holdings	Investment Company	Insurance Agency	Eliminations	Consolidated
Revenue							
External	$ 95,164	$ 9,512	$ 34	$ 7	$ -	$ (7)	$ 104,710
Internal	6,143	182	2,437	14	1,771	(10,547)	-
Total revenue	$ 101,307	$ 9,694	$ 2,471	$ 21	$ 1,771	$ (10,554)	$ 104,710
Net profit							
Segment net profit	$ 49,229	$ 5,355	$ 485	$ (5)	$ 884	$ (4,147)	$ 51,801
Assets	$ 1,435,447	$ 42,012	$ 26,846	$ 638	$ 1,117	$ (5,071)	$ 1,500,989
Liabilities	$ 1,220,795	$ 16,627	$ 23,653	$ 338	$ 6	$ (23,970)	$ 1,237,449
Other Information							
Capital additions	$ 2,366	$ -	$ 9,694	$ -	$ -	$ -	$ 12,060
Depreciation	$ 2,184	$ -	$ 501	$ -	$ -	$ -	$ 2,685

	2010						
	Bank	Insurance Company	Real Estate Holdings	Investment Company	Insurance Agency	Eliminations	Consolidated
Revenue							
External	$ 97,988	$ 8,817	$ 47	$ (203)	$ -	$ 203	$ 106,852
Internal	5,791	858	2,597	22	1,422	(10,690)	-
Total revenue	$ 103,779	$ 9,675	$ 2,644	$ (181)	$ 1,422	$ (10,487)	$ 106,852
Net profit							
Segment net profit	$ 50,313	$ 6,098	$ 509	$ (224)	$ 721	$ (3,617)	$ 53,800
Assets	$ 1,353,989	$ 39,180	$ 17,786	$ 921	$ 804	$ (3,906)	$ 1,408,774
Liabilities	$ 1,146,189	$ 15,581	$ 15,078	$ 617	$ 6	$ (15,660)	$ 1,161,811
Other Information							
Capital additions	$ 1,479	$ -	$ 250	$ -	$ -	$ -	$ 1,729
Depreciation	$ 2,443	$ -	$ 485	$ -	$ -	$ -	$ 2,928

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents is represented by cash and deposits with banks plus accrued interest and non-interest bearing balances with The Central Bank of The Bahamas as follows:

	2011	2010
Cash and deposits with banks	$ 19,926	$ 21,537
Balances with The Central Bank of The Bahamas	84,202	56,198
Total cash and cash equivalents	$ 104,128	$ 77,735

The Bank is required to maintain a percentage of customers' deposits as cash or deposits with The Central Bank of The Bahamas. At December 31, 2011, this reserve requirement was $45.7 million (2010: $45.8 million).

8. INVESTMENTS

Investments is as follows:

	Term to Maturity						2011		2010	
	Within 12 months		Over 12 to 60 months		Over 60 months		Total		Total	
	$	Yield %	$	Yield %	$	Yield %	$	Yield %	$	Yield %
Bahamas Government Treasury Bills	14,969	0.715%	-	-	-	-	14,969	0.715%	4,985	1.797%
Bahamas Government Registered Stock	4,125	8.542%	12,247	5.879%	212,099	4.917%	228,471	5.034%	229,227	5.940%
Bridge Authority Bonds	-	-	-	-	237	6.267%	237	6.267%	238	6.995%
Mortgage Corporation Bonds	-	-	-	-	14,148	5.015%	14,148	5.015%	9,032	5.688%
Clifton Heritage Bonds	-	-	-	-	2,021	5.305%	2,021	5.305%	2,023	6.045%
College of The Bahamas Bonds	-	-	-	-	250	7.000%	250	7.000%	-	-
United States Treasury Notes	-	-	-	-	1,008	6.947%	1,008	6.947%	1,008	6.948%
Other investments	-	-	-	-	75	-	75	-	75	-
Total investments	19,094	2.406%	12,247	5.879%	229,838	4.937%	261,179	4.797%	246,588	5.685%

Income from investments is included in the Consolidated Statement of Comprehensive Income as follows:

	2011	2010
Interest income	$ 13,005	$ 12,557

9. LOANS RECEIVABLE

Loans receivable is as follows:

	2011	2010
Residential mortgage	$ 259,922	$ 255,245
Business	49,487	47,652
Personal	792,574	745,755
Credit card	37,999	39,580
	1,139,982	1,088,232
Less: Impairment Allowances	48,949	41,272
	$ 1,091,033	$ 1,046,960

Impairment Allowances on Loans Receivable:

	2011	2010
Gross Loans Receivable		
Individually Assessed Impaired Loans	$ 6,066	$ 5,623
Collectively Assessed		
Impaired Loans	30,479	25,667
Non-Impaired Loans	1,103,437	1,056,942
	1,133,916	1,082,609
Gross Loans and Advances	$ 1,139,982	$ 1,088,232
Individually Assessed allowances as % of individually assessed loans receivable	31.17%	22.07%
Collectively Assessed allowances as % of Collectively assessed loans receivable	4.15%	3.70%
Total allowances as % of total loans receivable	4.29%	3.79%

Movement in Impairment Allowances:

	2011				
	Balance at Beginning of Year	Loans Written off	Recoveries	Provision for Credit Losses	Balance at End of Year
Individually Assessed					
Residential mortgage	$ 619	$ -	$ -	$ 505	$ 1,124
Business	622	-	-	145	767
Total Individually Assessed	$ 1,241	$ -	$ -	$ 650	$ 1,891
Collectively Assessed					
Residential mortgage	$ 8,269	$ (46)	$ 10	$ 1,479	$ 9,712
Business	654	(140)	-	622	1,136
Personal	30,272	(22,591)	6,441	21,267	35,389
Credit card	836	(1,058)	451	592	821
Total Collectively Assessed	$ 40,031	$ (23,835)	$ 6,902	$ 23,960	$ 47,058
Total Impairment Allowances	$ 41,272	$ (23,835)	$ 6,902	$ 24,610	$ 48,949
Impaired Loan Allowance					
Impaired Loans Individually Assessed Allowances	$ 1,241	$ -	$ -	$ 650	$ 1,891
Impaired Loans Collective Assessed Allowances	12,137	(23,835)	6,902	22,938	18,142
Impaired Loans Total Allowances	$ 13,378	$ (23,835)	$ 6,902	$ 23,588	$ 20,033
Collective Allowances Non Impaired Loans	27,894	-	-	1,022	28,916
Total Allowances	$ 41,272	$ (23,835)	$ 6,902	$ 24,610	$ 48,949

9. LOANS RECEIVABLE (continued)

	2010				
	Balance at Beginning of Year	Loans Written off	Recoveries	Provision for Credit Losses	Balance at End of Year
Individually Assessed					
Residential mortgage	$ 57	$ -	$ -	$ 562	$ 619
Business	50	-	-	572	622
Total Individually Assessed	$ 107	$ -	$ -	$ 1,134	$ 1,241
Collectively Assessed					
Residential mortgage	$ 4,632	$ (184)	$ 24	$ 3,797	$ 8,269
Business	645	(4)	-	13	654
Personal	30,001	(19,778)	7,295	12,754	30,272
Credit card	993	(1,175)	486	532	836
Total Collectively Assessed	$ 36,271	$ (21,141)	$ 7,805	$ 17,096	$ 40,031
Total Impairment Allowances	$ 36,378	$ (21,141)	$ 7,805	$ 18,230	$ 41,272
Impaired Loan Allowance					
Impaired Loans Individually Assessed Allowances	$ 107	$ -	$ -	$ 1,134	$ 1,241
Impaired Loans Collective Assessed Allowances	12,870	(21,141)	7,805	12,603	12,137
Impaired Loans Total Allowances	$ 12,977	$ (21,141)	$ 7,805	$ 13,737	$ 13,378
Collective Allowances Non Impaired Loans	23,401	-	-	4,493	27,894
Total Allowances	$ 36,378	$ (21,141)	$ 7,805	$ 18,230	$ 41,272

Impaired loans receivable is as follows:

	2011			2011			2011		
	Individually Assessed Impaired	Collectively Assessed Impaired	Total Impaired	Individually Assessed Allowance	Collectively Assessed Impaired Allowance	Total Impaired Allowance	Net Impaired Individually Assessed	Net Impaired Collectively Assessed Impaired	Total Net Impaired
Residential mortgage	$ 4,044	$ 17,202	$ 21,246	$ 1,124	$ 6,277	$ 7,401	$ 2,920	$ 10,925	$ 13,845
Business	2,022	1,204	3,226	767	512	1,279	1,255	692	1,947
Personal	-	11,264	11,264	-	11,008	11,008	-	256	256
Credit card	-	809	809	-	345	345	-	464	464
	$ 6,066	$ 30,479	$ 36,545	$ 1,891	$ 18,142	$ 20,033	$ 4,175	$ 12,337	$ 16,512

Percentage of loan portfolio	3.21%	
Percentage of total assets	2.43%	
Percentage of Impaired Allowance to Impaired Loans		54.82%

	2010			2010			2010		
	Individually Assessed Impaired	Collectively Assessed Impaired	Total Impaired	Individually Assessed Allowance	Collectively Assessed Impaired Allowance	Total Impaired Allowance	Net Impaired Individually Assessed	Net Impaired Collectively Assessed Impaired	Total Net Impaired
Residential mortgage	$ 2,707	$ 15,801	$ 18,508	$ 619	$ 4,640	$ 5,259	$ 2,088	$ 11,161	$ 13,249
Business	2,916	828	3,744	622	124	746	2,294	704	2,998
Personal	-	8,375	8,375	-	7,038	7,038	-	1,337	1,337
Credit card	-	663	663	-	335	335	-	328	328
	$ 5,623	$ 25,667	$ 31,290	$ 1,241	$ 12,137	$ 13,378	$ 4,382	$ 13,530	$ 17,912

Percentage of loan portfolio	2.88%	
Percentage of total assets	2.22%	
Percentage of Impaired Allowance to Impaired Loans		42.75%

The collective impairment allowance on non impaired loans is 2.62% (2010: 2.64%) of the non-impaired loans receivable.

10. PREMISES AND EQUIPMENT

The movement of premises and equipment is as follows:

	Land/Site Improvements	Buildings	Leasehold Improvements	Furniture, Fittings and Equipment	Total
Cost					
December 31, 2009	$ 8,499	$ 27,465	$ 794	$ 16,432	$ 53,190
Additions	56	235	-	1,438	1,729
Disposals	-	-	-	(281)	(281)
December 31, 2010	8,555	27,700	794	17,589	54,638
Additions	3,943	5,889	-	2,228	12,060
Disposals	(817)	(2,395)	-	(253)	(3,465)
December 31, 2011	11,681	31,194	794	19,564	63,233
Accumulated Depreciation and Amortization					
December 31, 2009	70	6,209	668	10,482	17,429
Charge for the year	61	746	21	2,100	2,928
Disposals	-	-	-	(171)	(171)
December 31, 2010	131	6,955	689	12,411	20,186
Charge for the year	70	748	20	1,847	2,685
Disposals	(1)	(949)	-	(193)	(1,143)
December 31, 2011	200	6,754	709	14,065	21,728
Net Book Value					
December 31, 2011	$ 11,481	$ 24,440	$ 85	$ 5,499	$ 41,505
December 31, 2010	$ 8,424	$ 20,745	$ 105	$ 5,178	$ 34,452

Depreciation and amortization expense is as follows:

		2011		2010
Land/Site Improvements	$	70	$	61
Buildings		748		746
Leasehold improvements		20		21
Furniture, fittings and equipment		1,847		2,100
Total depreciation and amortization		2,685		2,928
Net gain on disposal of fixed assets		(1,607)		(2)
Net depreciation and amortization	$	1,078	$	2,926

In 2011, the Bank acquired a new building and associated land with a combined fair value of $3.8 million in an arm's length, non-cash exchange of an existing building and associated land with a net book value of $2.2 million. In accordance with IAS 16 "Property, Plant and Equipment", the new assets were measured at fair value and the transaction resulted in a gain of $1.6 million.

11. DEPOSITS

The composition of deposits is as follows:

		2011		2010
Demand deposits	$	91,092	$	77,230
Savings accounts		133,017		112,685
Certificates of deposit		978,958		941,878
	$	1,203,067	$	1,131,793

12. UNEARNED LIFE ASSURANCE

The Bank provides credit life insurance in respect of its borrowers through Laurentide Insurance and Mortgage Company Limited ("Laurentide"), a wholly-owned subsidiary of the Bank.

An actuarial valuation of the Unearned Life Assurance was conducted as at December 31, 2011 by Oliver Wyman of Toronto, Canada. The result of the valuation was an aggregate actuarial reserve of $12,272,014 (2010: $13,909,154). The valuation included a provision of $867,493 (2010: $717,313) for claims incurred but not yet reported.

Laurentide calculates its liabilities for individual life insurance policies using the Canadian Policy Premium Method ("PPM"). The calculation of these policy reserves is based on assumptions as to future rates for mortality and morbidity, investment yields, policy lapse and expenses, which contain margins for adverse deviations.

Actuarial Assumption Sensitivities:

The total of funds to be set aside is not affected by a 10% change in the actuarial assumptions for mortality rates, policy lapse rates and the rate of return on fund assets.

The unearned premium using the rule of 78 method to recognize life assurance income over the life of the policy is $16,472,008 (2010: $15,436,369).

13. SHARE CAPITAL

Share capital is as follows:

Preference Shares:

B$ 000's	Beginning and end of year, 2010, 2011		AUTHORISED Beginning and end of year,	AUTHORISED Beginning and end of year,	OUTSTANDING Beginning and end of year,	OUTSTANDING Beginning and end of year,
			2011	2010	2011	2010
Authorized	**Rate**	**Par $**				
Class A	Prime + 1.5%	500	$ 15,000	$ 15,000	$ 15,000	$ 15,000
Class B	Prime + 1.5%	500	5,000	5,000	4,985	4,985
Class C	Prime + 1.5%	100	5,000	5,000	5,000	5,000
Class D	Prime + 1.5%	100	10,000	10,000	10,000	10,000
Class E	Prime + 1.5%	100	10,000	10,000	9,999	9,999
Class F	Prime + 1.5%	100	10,000	10,000	9,999	9,999
Class G	Prime + 1.5%	100	10,000	10,000	10,000	10,000
Class H	Prime + 1.5%	100	10,000	10,000	10,000	10,000
Class I	Prime + 1.5%	100	10,000	10,000	10,000	10,000
Class J	Prime + 1.5%	100	10,000	10,000	-	-
Class K	Prime + 1.5%	100	10,000	10,000	-	-
Class L	Prime + 1.5%	100	10,000	10,000	-	-
Class M	Prime + 1.5%	100	10,000	10,000	-	-
Class N	Prime + 1.5%	100	10,000	10,000	-	-
			$ 135,000	$ 135,000	$ 84,983	$ 84,983

All classes of Preference Shares are cumulative, non-voting and redeemable at the discretion of the Board. Dividend rates are variable with Bahamian Prime Rate. On June 8, 2011, Bahamian prime rate was reduced to 4.75% from 5.5% (2010: 5.5% for the entire year). As a result, the rate paid on preference shares became 6.25% effective July 1, 2011.

Common Shares:

	B$ 000's	B $0.02 each Number 000's
Authorized:		
December 31, 2009, 2010 and 2011	225,000	$ 4,500
Issued and outstanding:		
December 31, 2009	98,173	1,963
Net issue of shares	184	4
December 31, 2010	98,357	1,967
Net issue of shares	-	-
December 31, 2011	98,357	$ 1,967

On February 3, 2012, the Bank declared an extra-ordinary dividend of $0.05 per common share payable on February 29, 2012.

14. GENERAL RESERVE

The general reserve is non-distributable and was created with a $10 million allocation from retained earnings in 2003 to allow the Bank to address unusual issues or distress situations should they occur. In 2007, the Bank increased the General Reserve by $0.5 million to further allow for the potential impact of hurricanes.

15. EMPLOYEE SHARE BASED PAYMENT PLANS

Stock Option Plan:

On May 16, 2007, the shareholders approved an employee stock option plan ("the Plan") of 2 million shares for designated officers and management staff. On October 17, 2007, the shareholders amended the Plan to 6 million shares as a result of the share split.

The main details of the new plan are as follows:

a. Options will be granted annually to participants at the prevailing market price on the date of the grant.
b. Options vest on a straight-line basis over a three year period.
c. Vested options expire one year after the date of vesting.
d. Options may only be exercised while in the employment of the Bank or subsidiary or affiliated companies unless otherwise approved by the Board.
e. Exercised options are subject to a six month restriction period before they can be transferred by the participant.
f. Unless otherwise terminated by the Board, the Plan shall continue until the pool of common shares has been exhausted.

The plan is being funded by CB Securities purchasing shares from the market in advance of the options being exercised. The Bank recognized expenses of $22 thousand (2010: $121 thousand) related to this equity settled share based payment plan during the year.

Other share based payment plan:

Under the Bank's employee share purchase plan, non-management staff may purchase the Bank's shares at 90% of the closing market price on the date of grant for a restricted period each year. Employees' ability to purchase shares is restricted to a percentage of their salary according to their position. Shares so purchased vest immediately but are released to the employee on payment for the shares. 7,575 shares were made available under this plan in 2011 (2010: $Nil).

The expense recognized in 2011 for this equity settled share based payment plan was $4 thousand (2010: $Nil).

The following tables summarize information about the Stock Option Plans:

	2011	
	Nominal Value $0.02 Number of Stock Options (000's)	Weighted Average Exercise Price
Outstanding at beginning of year	467	6.07
Expired or forfeited	(210)	6.21
Exercised	(128)	4.77
Outstanding at end of year	129	7.13
Of which vested at the end of the year	129	7.13
Options available to be granted at end of year	4,678	
Outstanding Stock Options as a percentage of outstanding shares	0.13%	
Expected Dividend Yield	1.57%	
Expected Share Price Volatility	22.0%	
Risk Free Rate of Return	5.75%	
Weighted Average Expected Period Until Exercise (in years)	3	

	2010 Nominal Value $0.02 Number of Stock Options (000's)	Weighted Average Exercise Price
Outstanding at beginning of year	983	5.70
Expired or forfeited	(212)	6.21
Exercised	(304)	4.77
Outstanding at end of year	467	6.07
Of which vested at the end of the year	338	5.67
Options available to be granted at end of year	4,678	
Outstanding Stock Options as a percentage of outstanding shares	0.47%	

16. FEES AND OTHER INCOME

Fees and other income is as follows:

	2011	2010
Fees and commissions	$ 2,713	$ 1,801
Service charges	3,077	3,163
Card service revenue	857	957
Net foreign exchange revenue and other income	3,150	3,116
	$ 9,797	$ 9,037

17. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses is as follows:

	2011	2010
Staff costs	$ 34,450	$ 34,945
Other	17,191	14,990
	$ 51,641	$ 49,935

Staff costs include pension costs of $1.53 million (2010: $1.56 million) (see Note 19).

18. RELATED PARTIES' BALANCES AND TRANSACTIONS

Related parties' balances and transactions are as follows:

	2011			2010		
	Key Management Personnel	Other Related Party	Total	Key Management Personnel	Other Related Party	Total
Loans Receivable	10,017	3,028	13,045	11,598	805	12,403
Deposits	151,746	3,842	155,588	129,331	1,796	131,127
Other Liabilities	298	-	298	203	-	203
Interest Income	630	29	659	759	46	805
Interest Expense	7,116	11	7,127	6,480	32	6,512
Rental Expense	198	-	198	195	-	195
General & Administrative Expense	3,617	-	3,617	2,989	-	2,989
Commitments under revolving credit lines	4,552	2,035	6,587	4,933	260	5,193

Rental commitments to related parties are as follows:

Year	B$
2012	198
2013	198
2014	198
2015	17
2016	0

Compensation of Key Management Personnel

The remuneration of Directors and other members of key management personnel, those persons having the authority and responsibility for planning, directing and controlling the activities of the Bank, in addition to Directors' fees disclosed on the Consolidated Statement of Comprehensive Income is as follows:

	2011	2010
Short term benefits	$ 6,369	$ 6,142
Post employment benefits	$ 441	$ 374
Share based payments	$ 27	$ 76

19. BANK PENSION SCHEME

The following tables present information related to the Bank's Defined Benefit Pension Plan, including amounts recorded on the Consolidated Statement of Financial Position and the components of net periodic benefit cost:

	2011	2010
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	$ 46,056	$ 42,635
Actual return on plan assets	2,118	1,827
Company contributions	1,742	1,643
Participant contributions	1,194	1,107
Benefits paid	(457)	(373)
Withdrawals from plan	(1,121)	(783)
Fair value of plan assets at end of year	$ 49,532	$ 46,056
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 43,071	$ 38,982
Employer service cost	1,744	1,827
Participant contributions	1,194	1,106
Interest cost	2,709	2,448
Benefits paid	(1,578)	(1,156)
Actuarial gain on obligation	6,770	(136)
Benefit obligation at end of year	$ 53,910	$ 43,071
Reconciliation of funded status:		
Present value of plan assets in excess of obligations	$ (4,377)	$ 2,985
Unrecognized actuarial gain	4,562	(3,011)
Balance at end of year	$ 185	$ (26)
Components of pension benefit expense:		
Current employer service costs	$ 1,744	$ 1,826
Interest cost	2,709	2,448
Expected return on plan assets	(2,922)	(2,717)
Pension benefit expense included in staff costs	$ 1,531	$ 1,557

	2011	2010
Movement in accrued pension liability recognized in the Consolidated Statement of Financial Position:		
Balance at beginning of year	$ (26)	$ (112)
Expense as above	(1,531)	(1,557)
Contributions paid	1,742	1,643
Balance at end of year	$ 185	$ (26)
Actual return on plan assets:		
Expected return on plan assets	$ 2,922	$ 2,717
Actuarial loss on plan assets	(804)	(890)
Actual return on plan assets	$ 2,118	$ 1,827
Assumptions at beginning of year:		
Discount rate	6.00%	6.00%
Long term rate of return on plan assets	6.25%	6.25%
Rate of increase in future compensation	4.50%	4.50%
Mortality Table	UP 1994 Fully generational	UP 1994 Fully generational
Assumptions at end of year:		
Discount rate	5.25%	6.00%
Long term rate of return on plan assets	5.75%	6.25%
Rate of increase in future compensation	4.00%	4.50%
Mortality Table	UP 1994 Fully generational	UP 1994 Fully generational

Actuarial assumption sensitivities

The discount rate is sensitive to changes in market conditions arising during the reporting period. The following table shows the effect of changes in this and the other key assumptions on the plan:

Results of a 25 basis points increase or decrease over the assumption used:

	Discount Rate	Rate of increase in Compensation	Rate of increase in Pension	Rate of Return on Plan Assets
Benefit obligation	$ 2,530	$ 1,090	$ 1,190	$ -
Pension benefits expense	$ 240	$ 160	$ 150	$ 130

The Bank administers its own pension fund. The pension fund owns 1,631,425 (2010: 1,631,425) common shares and $3.87 million (2010: $3.87 million) preference shares of the Bank. These shares have a market value of $15.29 million (2010: $15.29 million) which represents 30.9% (2010: 33.2%) of the pension fund's assets.

The major categories of plan assets and the expected rate of return at December 31, 2011 for each category are as follows:

	Expected Return		**Fair Value of Plan Assets**	
	2011	**2010**	**2011**	**2010**
Balance at Banks	3.25%	4.50%	$ 2,530	$ 1,409
Equity Instruments	7.60%	7.45%	16,163	16,026
Government Bonds	5.15%	5.86%	23,518	21,268
Preferred Equity	6.50%	7.10%	6,967	6,967
Other Assets	0.00%	0.00%	381	412
Weighted Average Expected Return	6.00%	6.50%	$ 49,559	$ 46,082

The overall expected rate of return for 2011 is the weighted average of the expected future returns of the various categories of plan assets as shown above, less a provision for expenses paid from the pension fund. The expected future returns for each category are reviewed periodically and may be changed in future years to reflect developments in financial markets.

The Bank expects that in 2012 the amount recognized in the Statement of Comprehensive Income in respect of the pension plan will be $2.4 million.

Pension funds held at the Bank and related interest expense are as follows:

		2011		2010
Deposits	$	1,692	$	1,092
Interest expense	$	78	$	57

20. MATURITY OF ASSETS AND LIABILITIES

The maturity of assets and liabilities are as follows:

		2011		2010
ASSETS				
On demand	$	102,094	$	73,622
3 months or less		28,876		34,202
Over 3 months through 6 months		14,897		7,652
Over 6 months through 12 months		18,053		13,396
Over 12 months through 24 months		44,905		46,700
Over 24 months through 5 years		250,895		303,044
Over 5 years		1,041,269		930,158
	$	1,500,989	$	1,408,774

		2011		2010
LIABILITIES				
On demand	$	96,702	$	81,316
3 months or less		396,614		369,982
Over 3 months through 6 months		114,507		131,548
Over 6 months through 12 months		235,919		200,217
Over 12 months through 24 months		199,923		150,098
Over 24 months through 5 years		193,002		217,833
Over 5 years		782		10,817
	$	1,237,449	$	1,161,811

21. CONCENTRATION OF LOANS RECEIVABLE AND LIABILITIES

The concentration of loans receivable and liabilities are as follows:

	2011			2010		
		$ 000's	Number of Accounts		$ 000's	Number of Accounts
Loans receivable:						
Under $50,000	$	710,447	69,615	$	721,895	68,739
$50,001 - $100,000		184,394	2,980		128,312	2,045
$100,001 - $150,000		67,513	544		67,216	545
$150,001 - $300,000		110,584	544		108,997	538
$300,001 - $500,000		35,853	99		34,139	93
$500,001 - $1,000,000		21,540	32		18,543	27
$1,000,001 and over		9,651	7		9,130	7
Impairment Allowance		(48,949)	-		(41,272)	-
	$	1,091,033	73,821	$	1,046,960	71,994

	2011			2010	
	$ 000's	Number of Accounts		$ 000's	Number of Accounts
Liabilities:					
Under $50,000	$ 175,547	56,650		$ 172,758	54,886
$50,001 - $100,000	88,518	1,226		85,060	1,174
$100,001 - $150,000	57,344	471		57,866	473
$150,001 - $300,000	100,232	467		95,069	435
$300,001 - $500,000	90,604	224		91,738	228
$500,001 - $1,000,000	184,918	231		175,660	216
$1,000,001 and over	505,904	220		453,642	199
Unearned life assurance	16,472	-		15,436	-
Other liabilities	17,910	-		14,582	-
	$ 1,237,449	59,489		$ 1,161,811	57,611

22. COMMITMENTS AND CONTINGENCIES

a. In the ordinary course of business, the Bank had commitments as at December 31, 2011, as follows:

	2011	2010
Mortgage commitments	$ 12,468	$ 7,650
Revolving credit lines	36,750	28,564
Standby letters of credit	2,676	2,071
Capital expenditures contracted	1,319	3,304
Capital expenditure approved but not yet contracted	1,005	1,235
	$ 54,218	$ 42,824

Revolving credit lines - are undrawn lending facilities that have been approved by the Bank to meet the requirements of customers. They are revocable at the Bank's discretion. The amount shown represents the maximum amount of additional credit that the Bank could be obligated to extend. In practice many of these commitments will remain undrawn and the amount is not indicative of future cash requirements.

Standby letters of credit - are short-term instruments used to facilitate international trade typically on behalf of an importer, subject to specific terms and conditions. They are collateralized by the underlying shipments of goods to which they relate.

b. The Bank is obligated under non-cancelable leases on property, all of which are operating leases, expiring no later than 2016, and on maintenance contracts for computer equipment and software expiring no later than 2017 on which the minimum annual rentals are approximately as follows:

	Minimum Rental Commitments	
	Leases	Computer Equipment and Software
Year	**B$**	**B$**
2012	530	486
2013	525	512
2014	514	492
2015	146	462
2016	79	462
2017	-	128

c. The Bank has an undrawn line of credit with Bank of America, Miami for US$1 million which was established to service customer transactions. This credit line is secured by United States Government Treasury Notes in the amount of US$1,008 thousand as disclosed in Note 8.

d. The Bank has a standby letter of credit with Citibank N.A. for US$1.4 million, which was established to secure settlement transactions with MasterCard. This standby credit line is secured by a time deposit of B$1.4 million, which is included in Cash and Deposits with Banks in the Consolidated Statement of Financial Position.

23. RISK MANAGEMENT

a. ***Capital management -*** The Bank manages its capital to ensure that it has a strong capital base to support the development of its business. The capital maintained exceeds regulatory capital requirements. The Bank maximizes the return to shareholders through optimization of its debt and equity balance. The Bank's risk management structure promotes making sound business decisions by balancing risk and reward. It promotes revenue generating activities that are consistent with the Bank's risk appetite, the Bank's policies and the maximization of shareholder return.

The capital structure of the Bank consists of preference shares and equity attributable to the common equity holders of the Bank, comprising issued capital, general reserves, share premium and retained earnings as disclosed in notes 13 and 14. The Board Executive Committee reviews the capital structure at least annually. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the committee the Bank manages its capital structure through the payment of dividends, new share issues, (common or preference) and the redemption of preference shares.

Capital Regulatory requirements for subsidiary companies are managed through the parent company. The Bank's strategy is unchanged from 2010.

Laurentide is licensed to conduct long term insurance business under The Insurance Act 2005 (the "Act").

Under paragraph 60(1)a of The Insurance (General) Regulations, 2010 (the "Regulations") an insurance company is required to have a minimum paid-up and unencumbered share capital of not less than three million dollars. As at December 31, 2011 Laurentide has $300,300 in share capital and $2,750,000 in contributed surplus. Laurentide's board passed a resolution on December 6, 2011 making the contributed surplus non-distributable.

Laurentide is required to establish and maintain a minimum statutory deposit of $2 million, such deposit to be held in trust pursuant to section 43(2) of the Act and paragraph 62 of the Regulations. The LIM Statutory Reserve Trust was established on December 20, 2011 with assets valued at $2,289,300 as at December 31, 2011.

Laurentide is required to maintain a solvency margin pursuant to paragraph 90 of the Regulations. For the purposes of the Regulations, margin of solvency means the excess of the value of its admissible assets over the amount of its liabilities. The required margin of solvency is the greater of (a) twenty per cent of the premium income, including annuity premiums, in its last financial year; or (b) five hundred thousand dollars, plus the minimum amount of capital required. As at December 31, 2011, the minimum margin of solvency was $6,449,377. Laurentide's solvency margin at December 31, 2011 was $21,943,144 resulting in a surplus of $15,493,767.

Paragraph 68 of the Regulations stipulates that of the value of the admissible assets which Laurentide must at any time have in order to maintain the minimum margin of solvency required by the Act, at least sixty per cent shall be in the form of qualifying assets. As at December 31, 2011, Laurentide had $38,570,024 in qualifying assets and $38,570,024 in admissible assets as defined under paragraphs 70 and 72 of the Regulations, respectively.

b. ***Interest rate risk -*** Interest rate risk is the potential for a negative impact on the Consolidated Statement of Financial Position and/or Consolidated Statement of Comprehensive Income arising from adverse changes in the value of financial instruments as a result of changes in interest rates.

Interest rate risk or interest rate sensitivity results primarily from differences in the repricing dates of assets and liabilities. Interest rate risk exposures, or "gaps" may produce favourable or unfavourable effects on interest margins depending on the nature of the gap and the direction of interest rate movement and/or the expected volatility of those interest rates. When assets have a shorter average maturity than liabilities, an increase in interest rates would have a positive impact on net interest margins, and conversely, if more liabilities than assets mature or are repriced in a particular time interval then a negative impact on net interest margin would result. The consolidated gap position shows more assets than liabilities repriced in periods greater than one year. This is a typical position for a financial institution with a large personal customer base. The following table sets out the Bank's interest rate risk exposure as at December 31, 2011, and represents the Bank's risk exposure at this point in time only.

Interest Rate Sensitivity:

If interest rates increase by 50 basis points and all other variables remain constant, the Bank's profit over the next 12 months is estimated to decrease by $428 thousand.

If interest rates decrease by 50 basis points and all other variables remain constant, the Bank's profit over the next 12 months is estimated to increase by $428 thousand.

	Repricing date of interest sensitive instruments						
As of December 31, 2011	Within 3 months	3 - 5 months	6-12 months	Over 1 - 5 years	Over 5 years	Non interest rate sensitive	Total
Assets							
Cash equivalents	$ 765	$ 1,282	$ -	$ -	$ -	$ 102,081	$ 104,128
	1.00%	0.84%	0.00%	-	-	-	0.02%
Investments	242,630	10,103	4,059	3,044	1,268	75	261,179
	4.91%	0.87%	8.75%	9.00%	7.00%	-	4.87%
Loans receivable	60,035	333,266	61,155	471,255	165,322	-	1,091,033
	17.39%	8.76%	14.75%	14.79%	14.40%	-	13.03%
Premises and equipment	-	-	-	-	-	41,505	41,505
Other assets	-	-	-	-	-	3,144	3,144
TOTAL	$ 303,430	$ 344,651	$ 65,214	$ 474,299	$ 166,590	$ 146,805	$ 1,500,989
Liabilities and shareholders' equity							
Deposits	416,031	137,045	235,240	413,897	854	-	1,203,067
	2.60%	3.41%	3.63%	5.05%	5.92%	-	3.74%
Other liabilities	-	-	-	-	-	34,382	34,382
Preference shares	84,983	-	-	-	-	-	84,983
	6.25%	-	-	-	-	-	6.25%
Other equity	-	-	-	-	-	178,557	178,557
TOTAL	$ 501,014	$ 137,045	$ 235,240	$ 413,897	$ 854	$ 212,939	$ 1,500,989
INTEREST RATE SENSITIVITY GAP	(197,584)	207,606	(170,026)	60,402	165,736	(66,134)	0
CUMULATIVE INTEREST RATE SENSITIVITY GAP	**$ (197,584)**	**$ 10,022**	**$(160,004)**	**$ (99,602)**	**$ 66,134**	**$ 0**	**$ 0**
COMPARATIVE 2010	**$ (157,992)**	**$ 21,927**	**$(109,006)**	**$ (21,536)**	**$ 81,316**	**$ (0)**	**$ (0)**
Average Yield - Earning Assets	7.37%	8.50%	14.37%	14.75%	14.35%		11.44%
Average Yield - Paying Liabilities	3.22%	3.41%	3.63%	5.05%	5.92%		3.90%
Average Margin 2011	4.15%	5.09%	10.74%	9.69%	8.43%		7.53%
Average Margin 2010	4.28%	5.49%	10.54%	9.34%	7.38%		7.32%

c. ***Credit risk -*** Credit and counterparty risk is the potential for loss due to the failure of a borrower, endorser, guarantor or counterparty to repay a loan or honour a financial obligation. This is the most significant measurable risk the Bank faces.

The Bank's credit policies are designed to maximize the risk/return trade off. The Bank's credit policies including authorized lending limits are based on a segregation of authority and centralized management approval with periodic independent review by the Bank's Internal Audit Department. Consumer credit is assessed and authorized in branches within credit policies established by the Bank. Credit scoring systems are used to ensure these policies are consistently applied across the Bank. A key factor in the Bank managing and constraining its credit risk exposure is the close review and follow up of its credit portfolios to quickly identify indications of potential failure to perform according to the terms of the contract and to take the appropriate steps to maintain or restore these accounts to performing according to the terms of the contracts.

Maximum Exposure to Credit Risk

For financial assets recognised on the Consolidated Statement of Financial Position, the exposure to credit risk equals their carrying amount. For standby letters of credit, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the standby letters of credit are called upon.

For mortgage commitments and revolving credit lines that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The following table is an analysis of financial instruments by credit quality:

	2011			2010		
	Original Contract	Restructured	Total	Original Contract	Restructured	Total
Cash and cash equivalents						
Neither past due or impaired	$ 104,128	$ -	$ 104,128	$ 77,735	$ -	$ 77,735
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	$ 104,128	$ -	$ 104,128	$ 77,735	$ -	$ 77,735
Investments						
Neither past due or impaired	$ 261,179	$ -	$ 261,179	$ 246,588	$ -	$ 246,588
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	$ 261,179	$ -	$ 261,179	$ 246,588	$ -	$ 246,588
Loans receivable						
Neither past due or impaired	$ 868,507	$ 58,420	$ 926,927	$ 830,800	$ 58,362	$ 889,162
Past due but not impaired	125,614	50,896	176,510	123,141	44,639	167,780
Impaired	22,597	13,948	36,545	21,016	10,274	31,290
	$ 1,016,718	$ 123,264	$ 1,139,982	$ 974,957	$ 113,275	$ 1,088,232

Financial Assets are past due when a counterparty has failed to make a payment when contractually due.

The credit quality of loans receivable is shown in the following table.

	2011			2010		
	Original Contract	Restructured	Total	Original Contract	Restructured	Total
Loans receivable						
Residential mortgage						
Neither past due or impaired	$ 162,174	$ 14,132	$ 176,306	$ 167,402	$ 11,871	$ 179,273
Past due but not impaired	47,309	15,061	62,370	44,781	12,683	57,464
Impaired	14,677	6,569	21,246	13,053	5,455	18,508
	$ 224,160	$ 35,762	$ 259,922	$ 225,236	$ 30,009	$ 255,245
Business						
Neither past due or impaired	$ 26,114	$ 1,905	$ 28,019	$ 23,161	$ 2,129	$ 25,290
Past due but not impaired	17,900	342	18,242	18,037	581	18,618
Impaired	2,579	647	3,226	3,091	653	3,744
	$ 46,593	$ 2,894	$ 49,487	$ 44,289	$ 3,363	$ 47,652
Personal						
Neither past due or impaired	$ 649,546	$ 42,383	$ 691,929	$ 607,990	$ 44,362	$ 652,352
Past due but not impaired	53,888	35,493	89,381	53,653	31,375	85,028
Impaired	4,532	6,732	11,264	4,209	4,166	8,375
	$ 707,966	$ 84,608	$ 792,574	$ 665,852	$ 79,903	$ 745,755
Credit card						
Neither past due or impaired	$ 30,673	$ -	$ 30,673	$ 32,247	$ -	$ 32,247
Past due but not impaired	6,517	-	6,517	6,670	-	6,670
Impaired	809	-	809	663	-	663
	$ 37,999	$ -	$ 37,999	$ 39,580	$ -	$ 39,580
	$ 1,016,718	$ 123,264	$ 1,139,982	$ 974,957	$ 113,275	$ 1,088,232

The table below shows the distribution of loans that are neither past due or impaired:

	2011	2010
Satisfactory risk	$ 913,703	$ 876,253
Watch list	13,043	12,756
Sub-standard but not impaired	181	153
	$ 926,927	$ 889,162

The analysis of the age of loans receivable that were past due but not impaired is as follows.

	2011									
		Residential mortgage		Business		Personal		Credit card		Total
Past due up to 29 days	$	50,045	$	16,681	$	65,519	$	4,537	$	136,782
Past due 30 - 59 days		7,463		744		14,196		1,449		23,852
Past due 60 - 89 days		4,862		817		9,666		531		15,876
	$	62,370	$	18,242	$	89,381	$	6,517	$	176,510

	2010									
		Residential mortgage		Business		Personal		Credit card		Total
Past due up to 29 days	$	42,176	$	12,336	$	65,950	$	4,505	$	124,967
Past due 30 - 59 days		10,064		5,670		12,703		1,512		29,949
Past due 60 - 89 days		5,224		612		6,375		653		12,864
	$	57,464	$	18,618	$	85,028	$	6,670	$	167,780

Restructured loans

Restructuring activity is designed to manage customer relationships, maximise collection opportunities and, if possible, avoid foreclosure or repossession. Such activities include extended payment arrangements, approved debt management plans, deferring foreclosure, modification, loan rewrites and/or deferral of payments pending a change in circumstances. Restructuring of consumer loans normally results in either additional collateral, a co-signer or guarantor or a garnishee of salary being added to the loan. Following restructuring, an overdue consumer account is normally reset from delinquent to current status. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that repayment will probably continue. These policies are required to be kept under continual review and their application varies according to the nature of the market, the product, and the availability of empirically based data. Management has determined that due to a potential increased propensity to default on restructured accounts, both the impairment allowance on collectively assessed accounts on performing accounts and the impairment allowance on non-performing have been increased to take this into account.

Loans receivable collateral

It is the Bank's policy to determine that, at the time of origination, loans are within the customer's capacity to repay, rather than to rely excessively on security. Loans classified as personal typically take into account the customer's standing and employment and credit histories and are generally unsecured. The Bank has guidelines as part of its credit policy on the acceptability of specific classes of collateral which are reviewed regularly.

The principal collateral types are as follows:

- in the personal sector - garnishees over salary and chattel mortgages;
- in the residential mortgage sector - mortgages over residential properties;
- in the commercial and industrial sector - charges over business assets such as premises, stock and debtors;
- in the commercial real estate sector - charges over the properties being financed.

d. ***Liquidity risk -*** Liquidity risk is the potential for loss if the Bank is unable to meet financial commitments in a timely manner at reasonable prices as they fall due. Financial commitments include liabilities to depositors and suppliers, and lending, pledging and investment commitments. Managing liquidity and funding risk is essential to maintaining both depositor confidence and stability in earnings.

The Bank manages liquidity and funding risk by ensuring that sufficient liquid assets and funding capacity are available to meet financial commitments, even in times of stress. The Board of Directors' Executive Committee oversees the Bank's liquidity and funding risk management framework which includes operating within clearly defined Board limits, regulatory liquidity requirements and strong effective processes to monitor and manage risk, including contingency plans to facilitate managing through a distress situation. Standby lines of credit are a significant part of the contingency plan and are disclosed in Note 22.

e. ***Operational risk*** - Operational risk is the potential for loss resulting from inadequate or failed internal processes or systems, human error or external events not related to credit, market or liquidity risks. The Bank manages this risk by maintaining a comprehensive system of internal control and internal audit, including organizational and procedural controls. The system of internal control includes written communication of the Bank's policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel and sound and conservative accounting policies, which are regularly updated. These controls and audits are designed to provide the Bank with reasonable assurance that assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and the Bank is in compliance with all regulatory requirements.

NOTES

Left to Right: **Earla J. Bethel, Vaughn W. Higgs, William B. Sands, Jr., R. Craig Symonette, Rupert W. Roberts, Jr., OBE**

The Nominating Committee. As part of its mandate, the Committee identifies and recommends candidates for nomination to the Board as Directors, monitors the orientation program for new Directors and maintains a process for assessing the performance of the Board and its committees.

Year In Review

- Assessed the composition and size of the Board, examining its breadth and diversity of experience and the appropriateness of the number of Directors and the required allocation of Executive and Non-Executive Directors.

- Continued to maintain a list of prospective Director Candidates with input from the Board.

- Recommended to the Board a list of nominees to stand for election as Directors at the Annual Meeting.

- Conducted the annual formal evaluation of the effectiveness of the Board and its committees, with participation by all Directors. The conclusions were reviewed with the Board, and form the foundation for changes and compliance with the required certification to The Central Bank.

- Reviewed the self assessments and self evaluations completed by individual Board members, which measure the effectiveness of the individual Board members as well as the overall Board and reviewed the overall results with the Board and the Executive Chairman.

- Reviewed the roles of the executive positions – those of the Executive Chairman and President and recommends these remain separated.

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2011.

Rupert W. Roberts, Jr., OBE
Chairman
Nominating Committee

2011 SUMMARY OF BOARD AND COMMITTEE MEETINGS (for the year ended December 31, 2011)

COMMITTEE MEETING ATTENDANCE	
Board	7
Audit Committee	5
Nominating Committee	1
Executive Committee	6
Compensation Committee	2
Premises Committee	4
Information Technology Committee	4
Pension Fund Trustees Committee (a)	2

BOARD MEETING ATTENDANCE	
W. B. Sands, Jr.	7
I. A. Jennings	7
E. J. Bethel	7
M. Bethel	7
G. C. Culmer	7
J. B. Farrington, CBE	4
V. W. Higgs	5
R. W. Roberts Jr, OBE	6
R. C. Symonette	7
L. R. Gibson	5

(a) The Pension Fund Trustees Committee is not a Board Committee but certain Directors of the Bank serve as members.

EXECUTIVE COMMITTEE REPORT

Left to Right: **William B. Sands, Jr., Vaughn W. Higgs, Ian A. Jennings, R. Craig Symonette, Rupert W. Roberts, Jr., OBE**

The Executive Committee has the power to direct and transact all business of the Bank except that required to be performed by the Board as a whole. The Executive Committee supports the Board in fulfilling its oversight responsibilities in relation to the identification, documentation, measurement and management of significant risks affecting the Bank. The Committee also monitors the Bank's compliance with risk-related regulatory requirements and with its internal risk management policies and procedures. It is responsible for developing and maintaining governance practices consistent with high standards of corporate governance.

Year In Review

During the year, the Committee reviewed strategic, organizational and leadership issues. In fulfilling its role, the Committee:

- Approved corporate policies that address risk management by means of controls, including controls on the authorities and limits delegated to the President. These policies and controls are aligned with prudent, proactive risk management principles, prevailing market conditions and the business requirements of the approved strategies. They are also designed to be in compliance with the requirements of the laws and regulatory bodies that govern the Bank and its subsidiaries.

- Reviewed the allowance for loan impairment recommended by the Audit Committee.

- Reviewed core methods and procedures established by management to control key risks, and deemed by the Committee to be appropriate for prudent business practice.

- Reviewed significant credit and market risk exposures, industry sector analyses, topical risk issues and the strategies of the Bank's major business units, including related risk methodologies.

- Continued to assess the Bank's system of corporate governance and recommend new initiatives with a view to maintaining high standards of corporate governance.

- Reviewed the mandates of the Board Subcommittees, and secured its approval by the Board.

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2011.

William. B. Sands Jr.
Executive Chairman
Executive Committee

Left to Right: **J. Barrie Farrington, CBE, Dr. Marcus R. C. Bethel, Earla J. Bethel, Larry R. Gibson, G. Clifford Culmer**

The Audit Committee supports the Board in overseeing the integrity of the Bank's financial reporting, its internal control, disclosure control and internal audit function, and its compliance with legal and regulatory requirements. The Committee also reviews and assesses the qualifications, independence and performance of the Bank's Auditors.

Year In Review

The charter setting out the roles and responsibilities of the Audit Committee was reviewed and amended to take into account applicable regulatory requirements, including the rules and regulations issued by The Central Bank of The Bahamas, Securities Commission and The Bahamas International Securities Exchange giving effect to the best practices in today's governance environment.

Financial Reporting

- Reviewed with management adoption by the Bank of new accounting standards and emerging best practices in response to changes in regulatory guidelines. The Bank's President and Vice President and Chief Financial Officer certified the Consolidated Financial Statements and related disclosure materials.

- Reviewed with management and the Bank's Auditors: the appropriateness of the Bank's accounting and financial reporting, the impact of adopting new accounting standards, the accounting treatment of significant risks and uncertainties, the key estimates and judgments of management that were material to the Bank's financial reporting, and the disclosure of critical accounting policies.

- Reviewed and recommended for approval by the Board: the Audited Consolidated Financial Statements, Management's Discussion and Analysis and unaudited financial releases on a quarterly basis. Also reviewed and recommended for approval by their respective Boards the annual financial statements of certain subsidiaries. The Committee concluded these documents were complete, fairly presented and in accordance with International Financial Reporting Standards that were consistently applied.

Internal Control and Disclosure Control

- Reviewed the processes involved in evaluating the Bank's internal control environment. Specifically, the Committee approved the annual audit plan; reviewed quarterly reports of the VP Internal Audit related to internal control; evaluated internal audit processes; and reviewed on a regular basis the adequacy of resources and independence of the Internal Audit function.

- Reviewed and approved significant policies and procedures relating to internal control and financial governance, as well as the Audit and Inspection mandate.

- Met regularly with the Vice President Internal Audit as necessary without management present.

- Reviewed and approved the Bank's disclosure policy.

- Examined key regulatory developments and assessed their implications for the Bank.

- Reviewed the Bank's adherence to the Guidelines and Financial Practices prescribed by The Central Bank of The Bahamas.

- Examined reports of the VP Internal Audit and General Counsel on matters relating to compliance and litigation.

- Reviewed recommendations of the Bank's Auditors and External Regulators, as well as management's response.

- Assessed and recommended to the Board qualified persons to serve on the Audit Committee.

Bank's Auditors

- Recommended to the Board that Deloitte and Touche are best positioned to meet the Bank's extensive service requirements.

- Confirmed that appropriate practices are being followed to safeguard the independence of the Bank's Auditors.

- Reviewed and approved all audit and permitted non-audit services performed by the Bank's Auditors in accordance with the Committee's Auditor Independence Policy.

- Reviewed the performance of the Bank's Auditors, including the scope and results of the audit conducted by the Bank's Auditors, and communications to the Committee that are required under Generally Accepted Auditing Standards.

- Met as necessary with the Bank's Auditors.

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2011.

G. C. Culmer

G. Clifford Culmer
Chairman
Audit Committee

PREMISES COMMITTEE REPORT

Left to Right: **Earla J. Bethel, Dr. Marcus R. C. Bethel, Larry R. Gibson, Ian A. Jennings**

The Premises Committee provides oversight of significant management and Board of Directors approved premises related opportunities by ensuring that the associated development programs are facilitated in accordance with approved designs and plans and that the development process is sustained in a cost effective, controlled and secure manner.

Year In Review:

During the year, the Committee in fulfilling its role:

- Reviewed proposals of Senior Management for expansion of the Bank into non-serviced geographical areas.

- Reviewed proposals of Senior Management to purchase land and/or buildings for new locations or redevelopment of existing premises/structure.

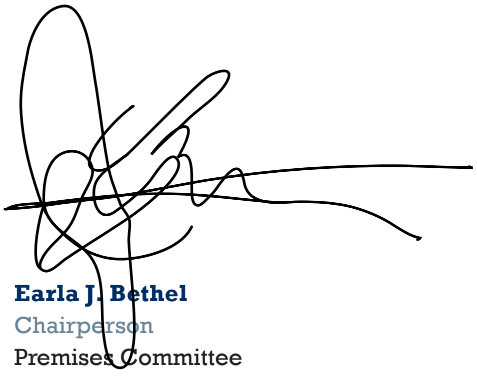
- Reviewed cost allocations proposed by Senior Management for all significant leases, leasehold allocations with a view of ensuring the most cost effective policies and procedures are in place to sustain the ongoing operations of the Bank.

- Assessed the monitoring of Management's control of significant premises undertakings to ensure an effective oversight and reporting process is in place and that to the extent possible an appropriate level of attention is placed on the effective and efficient use of allocated funds.

- Assessed the monitoring of the Bank's maintenance and administration of significant owned and leased property expense allocations to ensure the Bank's owned and leased properties present the Bank in a most favorable position and in a cost effective manner.

- Provided the appropriate recommendations to the Board of Directors.

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2011.



Earla J. Bethel
Chairperson
Premises Committee

INFORMATION TECHNOLOGY COMMITTEE REPORT

Left to Right: **Ian A. Jennings, Vaughn W. Higgs, J. Barrie Farrington, CBE, R. Craig Symonette**

The Information Technology Committee provides independent oversight of significant management and Board of Director approved technology based platforms and the associated business applications to ensure they are developed in accordance with established system development guidelines and are maintained and sustained in a cost effective, controlled and secure manner.

Year In Review

Reviewed and recommended for approval by the Board of Directors the Bank's Technology Development and Maintenance-based Plan.

- Reviewed significant technology-based proposals to ensure they are compatible with the strategic and business plans of the Bank and for those significant projects:

- Ensured cost-benefit analyses are an integral part of the project development process.

- Reviewed on a quarterly basis, project development plans and progress to ensure progress being achieved parallels established performance objectives and project development plans.

- Ensured that post-implementation reviews are part of the project implementation process.

- Monitored the ongoing development and sustainability of an effective contingent and back-up plan that is designed to be cost-effective, while providing protection to the Bank in times of distress.

- Provided the Board on a quarterly basis with a summary of technology-based activities/concerns and where warranted, provide recommendations for management approval and implementation.

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2011.

R. Craig Symonette
Chairman
IT Committee

COMPENSATION COMMITTEE REPORT

Left to Right: **Rupert W. Roberts, Jr., OBE, Vaughn W. Higgs, R. Craig Symonette**

The Compensation Committee is responsible for assisting the Board of Directors in ensuring that human resources strategies support the Bank's objectives and sustain shareholder value. As part of this responsibility, members of the committee review the performance and approve the compensation of Executive Officers of the Bank.

Year in Review

During the year, the Committee in fulfilling its role:

- Reviewed and approved the Bank's overall approach to executive compensation, including compensation principles and objectives for total compensation, any changes to short, mid and long-term incentive programs, and the policies that govern the ongoing administration of all components of compensation.

- Recommended to the Board of Directors the appointment of Officers of The Bank.

- Assessed the performance of the Bank's Executive Chairman and reviewed the assessment with the Board of Directors; determined the Executive Chairman's compensation in relation to the Bank's performance for the fiscal year.

- Reviewed annual performance assessments submitted by the President for Bank Officers.

- Reviewed the human resources strategic priorities and progress being made against them, which included:

  - enhancing the management of talent and succession; strengthening employee engagement while introducing cultural change; and

  - matching training and development with business needs and implementing more cost-efficient training delivery models.

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2011.

Rupert W. Roberts, Jr., OBE
Chairman
Compensation Committee

Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way in which the Bank is directed, administered and controlled. The corporate governance structure specifies the rules and procedures for making decisions on corporate affairs. It also provides the structure through which the Bank's objectives are set, as well as the means of attaining and monitoring the performance of those objectives. The process of Governance is illustrated by the chart below.

Corporate governance is used to monitor whether outcomes are in accordance with plans and to motivate the organization to be more fully informed in order to maintain or alter organizational activity. Corporate governance is the mechanism by which individuals are motivated to align their actual behaviors with the approved corporate direction.

Corporate governance also includes the relationships among the stakeholders and the goals for which the Bank is governed. The principal stakeholders are the shareholders, management and the board of directors. Other stakeholders include employees, suppliers, customers, regulators, and the community at large.

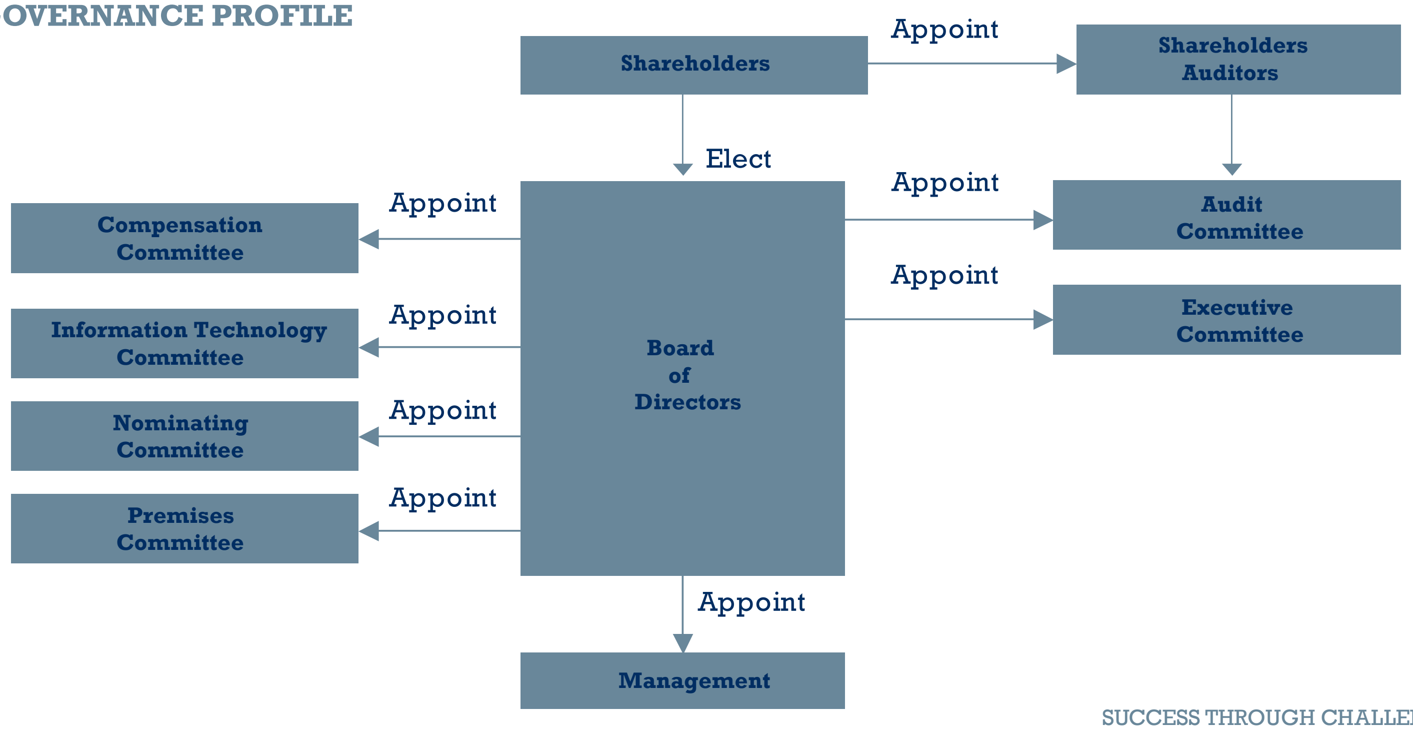
An important theme of corporate governance deals with issues of accountability and fiduciary duty, essentially advocating the implementation of policies and mechanisms to ensure good behaviour and protect shareholders.

Another key focus is the economic efficiency view, through which the corporate governance system should aim to optimize economic results, with a strong emphasis on shareholders welfare.

Of importance is how Directors and Management develop a model of governance that aligns the values of the corporate participants and then evaluate this model periodically for its effectiveness. In particular, senior executives should conduct themselves honestly and ethically, especially concerning actual or apparent conflicts of interest, and disclosure in financial reports.

The Directors and Executives of the Bank take their responsibilities seriously. To ensure the individual Directors and Executives comply with the form and substance prescribed in the Bank's governance regime, a Charter of Expectations is in place and compliance with the governance expectations is confirmed by all Directors on an annual basis. The direction provided in the Charter of Expectations is outlined in the following schedule.

COMMONWEALTH BANK CORPORATE GOVERNANCE PROFILE



CHARTER OF EXPECTATIONS

ROLE OF THE BOARD

The Board needs a range of skills and understanding to be able to deal with various business issues and have the ability to review and challenge management performance.

MONITORING BY THE BOARD OF DIRECTORS

The Board of Directors, with its legal authority to hire, fire and compensate top management, safeguards invested capital. Regular board meetings allow potential problems to be identified, discussed and avoided.

Issues involving corporate governance principles include:

i) oversight of the preparation of the entity's financial statements;
ii) internal controls and the independence of the entity's auditors;
iii) review of the compensation arrangements for the Executive Chairman, President and other senior executives;
iv) the way in which individuals are nominated for positions on the Board;
v) the resources made available to Directors in carrying out their duties;
vi) oversight and management of risk;
vii) dividend policy;
viii) capital management; and
ix) Annual Certification to regulatory authorities that the Bank is in compliance with mandated and best practice standards of Governance.

BOARD RESPONSIBILITIES

The Board of Directors is explicitly responsible for the stewardship of the Bank. The Board of Directors establishes formal delegations of authority, defining the limits of management's power and authority and delegating to management certain powers to manage the business of the Bank. The delegations of authority conform to statutory limitations specifying responsibilities of the Board that cannot be delegated to management. Any responsibilities not delegated to management remain with the Board. To discharge the Board's responsibility for stewardship, the Board should assume responsibility in the following areas:

Internal corporate governance controls

Internal corporate governance controls monitor activities and then take corrective action to accomplish organisational goals. Examples include:

Strategic Planning Process

- Provide input to management on emerging trends and issues.

- Review and approve management's strategic plans.

- Review and approve the Bank's financial objectives, plans and actions, including significant capital allocations and expenditures.

Monitoring Tactical Process

- Monitor corporate performance against the strategic and business plans, including assessing operating results to evaluate whether the business is being properly managed.

Risk Assessment

- Identify and review, at least annually, the principal risks of the Bank's businesses and receive reasonable assurance on an ongoing basis that appropriate policies, procedures and systems are in place to manage these risks

- Review the processes that ensure respect for any compliance with applicable regulatory, corporate and any other legal requirements.

- Review the processes and practices to ensure that prudent and effective policies are in place to identify, measure and monitor the Bank's cumulative positions in respect of its capital and liquidity management.

Senior Level Staffing

- Select, monitor, evaluate (including the Executive Chairman, President and other Senior Executives) and ensure that an effective management succession plan is in place and that the Bank's compensation plans are consistent with the sustainable achievement of the Bank's business objectives, the prudent management of its operations and the risks to which it is exposed, and adherence to its processes, policies procedures and controls;

- Remuneration: Performance-based remuneration is designed to relate some proportion of salary to individual performance. It may be in the form of cash or non-cash payments such as shares and share options.

Integrity

- Ensure the integrity of the Bank's process of control and management information systems.

- Ensure ethical behavior and compliance with laws and regulations, audit and accounting principles, and the Bank's own governing documents.

Oversight of communications and public disclosure

- Assess the effectiveness of the Bank's communications policy and processes to ensure accurate, timely and full public disclosure.

Material Transactions

- Review and approve material transactions not in the ordinary course of business.

Monitoring Board Effectiveness

- Assess its own effectiveness in fulfilling the above and other Board responsibilities, including monitoring the effectiveness of individual Directors.

Other

- Perform such other functions as prescribed by law or assigned to the Board in the Bank's governing documents. The Charter also stipulates the personal and professional characteristics of Directors. This stipulation forms a recruitment model for use in screening and selecting Board nominees.

DIRECTOR ATTRIBUTES

- To execute these Board responsibilities, Directors must possess certain characteristics and traits including:

Integrity and Accountability

- Directors must demonstrate high ethical standards and integrity in their personal and professional dealings, and be willing to act on – and remain accountable for – their boardroom decisions.

Governance

- The ability to provide thoughtful and wise counsel on a broad range of issues ranks high among the qualities required in Directors. They must develop a depth of knowledge of banking, in order to understand and question the assumptions upon which the strategic and business plans are based, and to form and exercise independent judgement in directing and overseeing the operations of the Bank.

Financial Literacy

- One of the most important roles of the Board is to monitor financial performance. To do this, Directors must know how to read financial statements, and they should understand the use of financial ratios and other indices for evaluating the Bank's performance.

Communication

- Openness to others' opinions and the willingness to listen should rank as highly as the ability to communicate persuasively. Directors must approach others assertively, responsibly and supportively, and be willing to raise tough questions in a manner that encourages open discussion.

Track Record and Experience

- In today's highly competitive world, only companies capable of performing at the highest levels are likely to prosper. Directors must bring a history of achievement that reflects high standards for themselves and others.

Independence

- The Board of Directors of Commonwealth Bank has adopted standards for determining whether a Director is unrelated or independent. The process adopted by the Board complies with regulatory standards and international best practices. A copy of the standards developed is available to shareholders on request.

Premises Committee pictured in front of the new Cable Beach Branch (left to right): **Ian A. Jennings,** President, Commonwealth Bank, **Earla Bethel,** CB Director, **Marcus Bethel,** CB Director and **Larry Gibson,** CB Director

COMMONWEALTH BANK'S NEW CABLE BEACH BRANCH… As part of the Cable Beach redevelopment project in November 2011 Commonwealth Bank has relocated its Cable Beach Branch to the southern end of the new Commercial Village.

The new branch, which is approximately 11,000 square feet, features Commonwealth Bank's brand of signature amenities and services including a spacious customer friendly lobby, loans and deposit services, safe deposit boxes, drive thru teller services, a walk in automated banking machine (ABM) at the front and a drive through ABM at the rear of the building. As with all of our branches, ample parking is also available to customers.

The relocation begins a new chapter for the Cable Beach Branch, which has served the western district of New Providence for almost 20 years by providing service excellence to residents, businesses and the neighbouring hotels.

TOP HONOURS FOR COMMONWEALTH BANK

Pictured from left to right: **Brent Symonette,** Deputy Prime Minister; **Ian A. Jennings,** President of Commonwealth Bank and **Reece Chipman,** BICA's President (Photo courtesy: David Knowles, Pro Photo)

Commonwealth Bank's President **Ian A. Jennings** was awarded the **Lifetime Achievement Award** at the Bahamas Institute of Chartered Accountants' (BICA) 40th Anniversary Banquet. The event served to honour accounting professionals for their valuable contributions to the country's national and economic development.

The Bahamas Financial Services Board (BFSB) honoured the top industry professionals of 2011 at the 11th Industry of Excellence Awards. Commonwealth Bank's **Kenrick L. Brathwaite,** Assistant Vice President of Audit & Credit Inspection was awarded Professional of the Year.

Pictured from left to right: **Kenrick Brathwaite; John Delaney** Attorney General and **Wendy Warren,** Chief Executive BFSB (Photo courtesy: TLC Group Ltd.)

"Champions do not become champions when they win the event, but in the hours, weeks, months and years they spend preparing for it. The victorious performance itself is merely the demonstration of their championship character."

~ T. Alan Armstrong

SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

WILLIAM B. SANDS, JR.
Executive Chairman
Commonwealth Bank Ltd.

IAN A. JENNINGS
President
Commonwealth Bank Ltd.

RUPERT W. ROBERTS, JR., OBE
President
Super Value Food Stores Ltd.

R. CRAIG SYMONETTE
Chairman
Bahamas Ferries Ltd.

VAUGHN W. HIGGS
VP & General Manager
Nassau Paper Co. Ltd.

LARRY R. GIBSON
Vice President
Colonial Pension Services

G. CLIFFORD CULMER
Partner
BDO Mann Judd

J. BARRIE FARRINGTON, CBE
Vice President
Kerzner International

EARLA J. BETHEL
President
DanBrad Ltd.

DR. MARCUS R. C. BETHEL
Consultant Internist & Administrator
Lucayan Medical Centre

REGISTERED OFFICE
GTC Corporate Services Ltd.
P.O. Box SS-5383
Nassau, Bahamas

PRINCIPAL ADDRESS
Commonwealth Bank Ltd.
Head Office
The Plaza, Mackey St.
P.O. Box SS-5541
Nassau, Bahamas
Tel: 242-502-6200
Fax: 242-394-5807

AUDITORS
Deloitte & Touche
P.O. Box N-7120
Nassau, Bahamas

TRANSFER AGENT & REGISTRAR
Bahamas Central Securities Depository
50 Exchange Place
Bay Street
P.O. Box EE-15672
Nassau, Bahamas
Tel: 242-322-5573

STOCK EXCHANGE LISTING
(Symbol: CBL)
COMMON SHARE LISTING
Bahamas International Securities Exchange (BISX)

INTERNET ADDRESS
www.combankltd.com

SHAREHOLDER'S CONTACT
For change of address, change to dividend instructions and estate transfers, Shareholders are requested to write the Bank's Transfer Agent, Bahamas Central Securities Depository, at their mailing address or call the Transfer Agent at Tel: 242-322-5573.

Other Shareholder inquiries may be directed to our Investor Relations Department, by writing to:

THE CORPORATE SECRETARY COMMONWEALTH BANK LTD.
Head Office
The Plaza, Mackey St.
P.O. Box SS-5541
Nassau, Bahamas
Tel: 242-502-6200
Fax: 242-394-5807

DIRECT DEPOSIT SERVICE
Shareholders may have their dividends deposited directly to an account at any financial institution. To arrange this, please write to Bahamas Central Securities Depository at their mailing address.

INSTITUTIONAL INVESTOR, BROKER & SECURITY ANALYST CONTACT
Institutional investors, brokers and security analysts requiring financial information should contact the Corporate Secretary, Investor Relations, by writing us at our Principal Address or by calling:
Tel: 242-502-6200
Fax:242-394-5807

Charlene A. Bosfield
Corporate Secretary
Commonwealth Bank Ltd.

SERVICES

- **AUTO LOANS**
- **PERSONAL LENDING**
- **MORTGAGE FINANCING**
- **REAL ESTATE FINANCING**
- **SMALL BUSINESS LENDING**
- **COMMERCIAL LENDING**
- **OVERDRAFT FACILITIES**
- **SUNCARD**
- **MASTERCARD**
- **CERTIFICATES OF DEPOSIT**
- **SAVINGS ACCOUNTS**
- **CHRISTMAS CLUB SAVINGS**
- **STUDENT SAVINGS ACCOUNTS**
- **PERSONAL CHEQUING ACCOUNTS**
- **PLATINUM CHEQUING ACCOUNTS**
- **BUSINESS CHEQUING ACCOUNTS**
- **FOREIGN EXCHANGE SERVICES**
- **AUTOMATED BANKING MACHINES**
- **ONLINE BANKING**
- **SATURDAY BANKING**
- **SAFE DEPOSIT BOXES**
- **BTC PREPAID CELL MINUTES**

LOCATIONS

NEW PROVIDENCE

Head Office	502-6200
The Plaza, Mackey St.	
P.O. Box SS-5541	
Nassau, Bahamas	

NEW PROVIDENCE BRANCHES

The Plaza, Mackey St.	502-6100
Bay & Christie Streets	322-1154
Oakes Field**	322-3474
Town Centre Mall	322-4107
Cable Beach*	327-8441
Wulff Road*	394-6469
Golden Gates*/**	461-1300
Mortgage Centre	394-6469
Prince Charles Drive */**	364-9900

GRAND BAHAMA BRANCHES

The Mall Drive*	352-8307
Lucaya	373-9670

*DRIVE THRU ABMS AVAILABLE
** SATURDAY BANKING

ABACO BRANCH

Marsh Harbour	367-2370

CREDIT CARD CENTRE

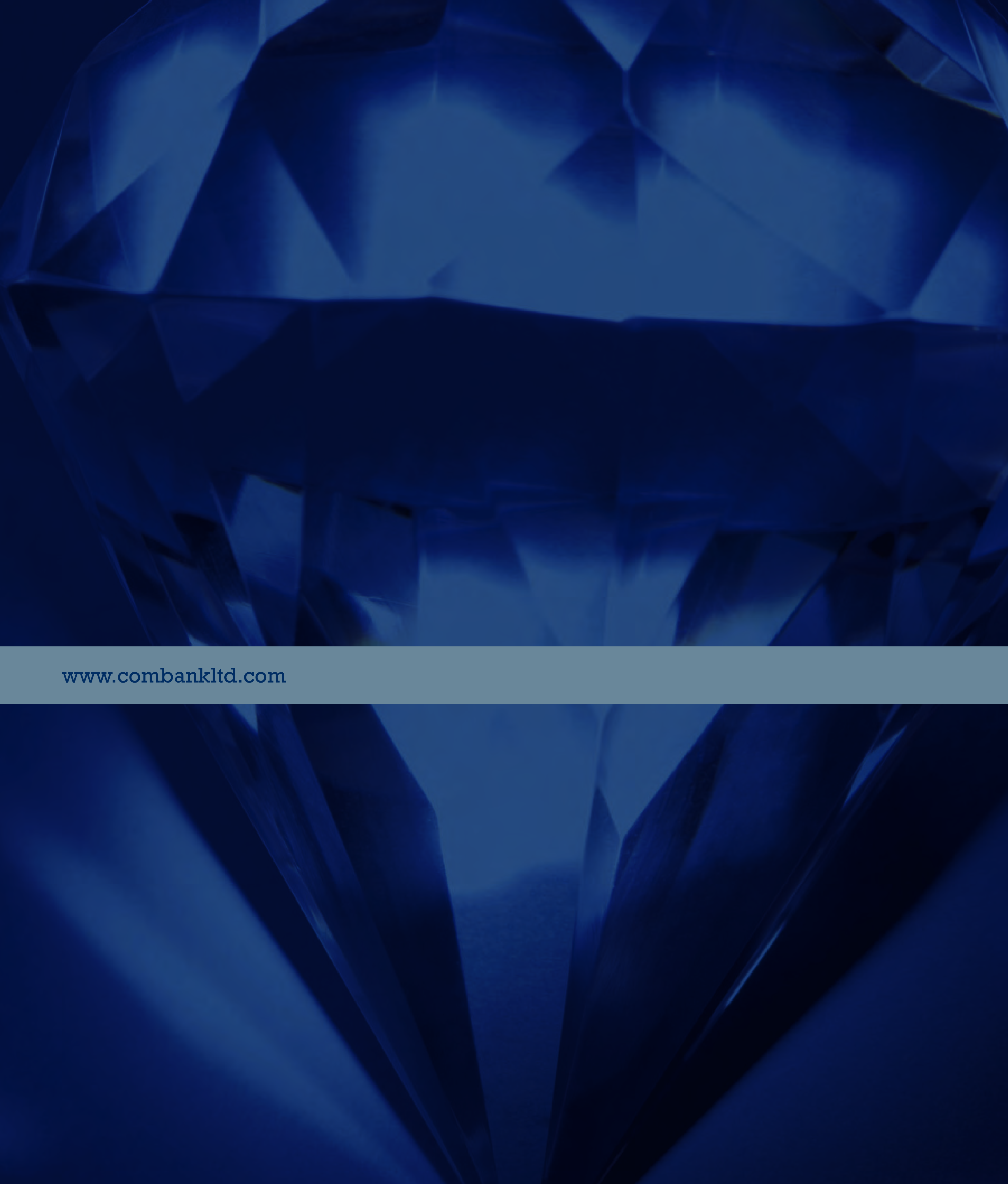
Nassau	502-6150
Freeport	352-4428
Merchant Help Line	502-6150
Online Banking Call Centre	502-6282

OFF-SITE ABM LOCATIONS

Super Value (Cable Beach, Winton, Golden Gates & Prince Charles) Freeport Airport, Cost Right, Freeport & Maxwell's, Marsh Harbour, Abaco

CB ONLINE

www.combankltd.com



www.combankltd.com

COMMONWEALTH BANK