# BAHAMIAN…IT'S WHAT WE HAVE IN COMMON

As we prepare to celebrate the fortieth anniversary of our country's independence, our 2012 Annual Report is aptly themed, "Bahamian…It's what we have in common".

In every sense imaginable, being Bahamian means being proud of our country. It means being proud and profoundly happy to be a citizen of the Commonwealth of The Bahamas. It also means being prepared to defend our country in times of danger and standing by our country in difficult times.

Although we are a diverse and varied people with very different dreams and goals and multifarious hopes and ambitions, being Bahamian is the common and unbreakable thread that unites us all. Bahamians are united by a shared set of values, including love of country, commitment to family, vast opportunities, strong sense of independence and the unwavering desire to succeed.

Commonwealth Bank too shares these characteristics and values. We are mothers, fathers, sisters, brothers. We are members of the community, the same society and the same Bahamian family. We believe that our future success depends on us focusing on one common endeavour - the interests of our primary stakeholders - Bahamians. For this reason, we invest all of our physical and financial resources in Bahamian employees, in Bahamian assets, in the Bahamian islands, to Bahamian customers and for Bahamian shareholders. We strive to achieve this by helping each of them pursue their dreams, realize their financial aspirations, and celebrate their accomplishments. We believe that the pursuit of the common good enables us to achieve a good that is greater than any we can ever achieve alone. "I pledge my allegiance to the flag and to the Commonwealth of The Bahamas for which it stands, one people united in love and service."

*"I pledge my allegiance to the flag and to the Commonwealth of The Bahamas for which it stands, one people united in love and service."*

## 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

## OUR 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

| | |
|---|---|
| Strategic Priorities | 6 |
| Financial Highlights | 7 |
| Chairman's Report | 8 |
| Our Community | 10 |
| Tribute to Timothy B. Donaldson | 13 |
| President's Report | 14 |
| Our Employees | 17 |
| Management Discussion & Analysis | 19 |
| Board of Directors | 26 |
| Executive Team | 28 |
| Assistant Vice Presidents | 29 |
| Branch Managers | 30 |
| Department Managers | 31 |
| Management Responsibility for Financial Reporting | 32 |

FINANCIAL STATEMENTS

| | |
|---|---|
| Independent Auditors' Report | 33 |
| Certification of Actuary | 34 |
| Consolidated Statement of Financial Position | 35 |
| Consolidated Statement of Comprehensive Income | 36 |
| Consolidated Statement of Changes in Equity | 37 |
| Consolidated Statement of Cash Flows | 38 |
| Notes to Consolidated Financial Statements | 39 |

| | |
|---|---|
| Nominating Committee Report | 69 |
| Executive Committee Report | 70 |
| Audit Committee Report | 71 |
| Premises Committee Report | 72 |
| Information Technology Committee Report | 73 |
| Compensation Committee Report | 74 |
| Corporate Governance | 75 |
| Charter of Expectations | 76 |
| Shareholder Information | 77 |
| Services & Locations | 78 |

| CORE VALUES | 2012 STRATEGIC PRIORITIES | 2012 INITIATIVES AND ACCOMPLISHMENTS | 2013 STRATEGIC PRIORITIES |
|---|---|---|---|
| Be responsible and effective financial managers. | Marginal expansion of asset base expected – emphasis to be placed on marketing programs. | Asset base slipped marginally – the Bank focused on loan quality and overall safety and soundness during this extended period of the slow economy. | Marketing and business development opportunities will be expanded – to include an extension of card products and other innovative products and services. |
| | Earnings to remain strong as will measurement criteria against industry results. | Operating earnings were actually better in 2012 however the Bank's focus on loan quality necessitated larger loan loss expenses than planned. | Continued focus will be placed on credit quality and safety and soundness to support greater opportunities for additional revenue generation. |
| | Expense management and asset quality and loan portfolio oversight to remain a priority. | Strong expense controls were sustained throughout the year. | Cost mitigation practices will continue. |
| | Efficiency ratio to remain an industry leader. | Efficiency ratio was strong and the Bank remains an industry leader. | Efficiency ratio indicators to remain industry leader. |
| Lead by example to effect positive change. | A sound and effective governance regime to remain a priority. | Sustaining an effective governance regime remains an important objective for the Board – Board governance was reviewed again in 2012 and refreshed where warranted. | Board governance will be subject to further review in order to comply with anticipated additional regulatory requirements. |
| | The Bank will continue to support youth development and other social programs in a meaningful way. | Despite lower profitability the Bank was able to continue its support of youth development and other social support programs. | The Bank will continue to sustain its contributions to youth development and charities. |
| Provide meaningful opportunities for stakeholders to have input. | Emphasis in 2012 will be extended to include product and intrabank/branch performance metrics. | Some progress made – intrabank and interbank and other performance assessment techniques will continue to be emphasized in 2013. | Performance techniques and practices will continue to be developed and expanded. |
| | The Bank will continue to be a leader in providing transparency of its operations and compliance with regulatory and international standards. | The Bank remains an industry leader in providing transparency of its operating results and compliance with domestic and international regulatory standards and guidelines. | Transparency of operating results and regulatory requirements that also focus on safety and soundness practices will be emphasized. |
| Ensure Commonwealth Bank is a great place to work. | Additional effort including specific objectives to be put in place to deepen the succession planning process for senior officers. | Some progress has been made in developing a detailed intrabank succession plan for senior officers. | An integrated bank-wide succession planning program will be introduced in 2013. |
| | Cost effective training programs will continue both domestically as well as internationally where warranted. | Strong emphasis was again placed on selected training programs. | Training programs will become more closely linked with succession planning as well as day to day operational and regulatory requirements. |
| | Salary surveys will continue to be an integral part of compensation planning. | Emphasis continues to be placed on the Bank's remuneration policies to ensure they remain competitive. | Salary and benefit policies will continue to be reviewed against industry comparisons. |
| Provide customers with outstanding services. | Marketing efforts will be expanded to provide customers with additional products and services. | A standalone Marketing Department was reinstated in 2012 in order to address the Bank's perceived need going forward. | Marketing and Product Development activities to become more proactive – emphasis placed on advanced card products. |
| | Banking hours and their availability will remain under constant review. | Saturday Banking a success – other opportunities for expansion are planned. | Extended banking hours and services will continue to be reviewed for opportunities. |

| For the years ended 31 December B$ (000's) | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| **INCOME STATEMENT DATA:** | | | | | |
| Interest Income | $ 161,492 | $ 163,757 | $ 161,608 | $ 158,811 | $ 149,896 |
| Interest Expense | (41,977) | (47,843) | (49,823) | (53,060) | (50,081) |
| Net Interest Income | 119,515 | 115,914 | 111,785 | 105,751 | 99,815 |
| Loan Impairment Expense | (44,004) | (24,610) | (18,230) | (30,262) | (16,640) |
| Net Interest Income after Loan Impairment Expense | 75,511 | 91,304 | 93,555 | 75,489 | 83,175 |
| Non-interest Income | 14,249 | 13,406 | 13,297 | 14,842 | 15,754 |
| Non-interest Expenses | (53,771) | (52,909) | (53,052) | (48,059) | (49,637) |
| Net Income | 35,989 | 51,801 | 53,800 | 42,272 | 49,292 |
| **PER SHARE DATA:** | | | | | |
| Book Value | 1.82 | 1.82 | 1.65 | 1.42 | 1.29 |
| Cash Dividends | 0.29 | 0.3 | 0.26 | 0.25 | 0.31 |
| Year End Share Price | $ 6.58 | $ 7.00 | $ 7.00 | $ 7.00 | $ 7.00 |
| Weighted Average Common Shares Outstanding ( 000's) | 98,339 | 98,350 | 98,350 | 98,132 | 98,114 |
| Dividend growth (total) | -3.33% | 15.38% | 4.00% | -19.35% | 19.23% |
| **BALANCE SHEET DATA:** | | | | | |
| Total Assets | $ 1,432,409 | $ 1,500,989 | $ 1,408,774 | $ 1,376,521 | $ 1,311,700 |
| Securities | 268,196 | 261,179 | 246,588 | 196,688 | 120,827 |
| Loans | 1,105,966 | 1,139,982 | 1,088,232 | 1,086,227 | 1,063,587 |
| Net Write-offs | 37,032 | 16,933 | 13,336 | 19,621 | 11,202 |
| Total Deposits | 1,136,609 | 1,203,067 | 1,131,793 | 1,122,453 | 1,069,136 |
| Total Shareholders Equity | 263,608 | 263,540 | 246,963 | 223,911 | 211,388 |
| **PERFORMANCE RATIOS:** | | | | | |
| Price/Earnings | 21.09 | 14.91 | 14.39 | 18.91 | 15.85 |
| Price/Book Value | 3.61 | 3.86 | 4.25 | 4.95 | 5.43 |
| Dividend Yield (Annual Dividend/Year End Price) | 4.41% | 4.29% | 3.71% | 3.57% | 4.43% |
| Earnings Per Share | 0.31 | 0.47 | 0.49 | 0.37 | 0.44 |
| Return on Average Assets | 2.08% | 3.18% | 3.42% | 2.65% | 3.44% |
| Return on Average Shareholders' Equity | 16.65% | 26.93% | 30.58% | 26.99% | 35.05% |
| Ordinary Dividend Payout Ratio | 92.94% | 63.92% | 53.43% | 67.54% | 70.20% |
| Efficiency Ratio | 41.86% | 42.78% | 44.53% | 41.92% | 45.28% |
| Net Interest Margin | 7.97% | 7.35% | 7.51% | 7.25% | 7.16% |
| **ASSET QUALITY RATIOS:** | | | | | |
| Non-accrual Loans to Total Loans | 5.01% | 3.21% | 2.88% | 3.03% | 1.73% |
| Non-accrual Loans to Total Assets | 3.87% | 2.43% | 2.22% | 2.39% | 1.40% |
| Net Write-offs to Average Loans | 3.29% | 1.52% | 1.23% | 1.80% | 1.08% |
| Loan Impairment Allowances to Total Loans | 5.06% | 4.30% | 3.79% | 3.35% | 2.42% |
| Loan Impairment Allowances to Non-accrual Loans | 100.91% | 134.05% | 131.90% | 110.48% | 139.84% |
| **LIQUIDITY RATIO:** | | | | | |
| Average Cash and Securities to Average Total Assets | 23.83% | 23.76% | 21.89% | 19.22% | 17.02% |
| **CAPITAL RATIOS:** | | | | | |
| Leverage Ratio Average Shareholders' Equity to Average Total Assets | 18.26% | 17.66% | 17.23% | 16.03% | 16.55% |
| **CONSOLIDATED CAPITAL ADEQUACY:** | | | | | |
| Tier 1 Capital | $ 178,625 | $ 178,557 | $ 161,980 | $ 138,928 | $ 126,405 |
| Tier 2 Capital | $ 98,694 | $ 99,304 | $ 98,423 | $ 98,393 | $ 98,124 |
| Total Capital | 263,608 | 263,540 | 246,963 | 223,911 | 211,388 |
| Total Risk Adjusted Assets | 1,096,892 | 1,145,667 | 1,075,192 | 1,072,796 | 1,051,305 |
| Tier 1 Ratio | 16.28% | 15.59% | 15.07% | 12.95% | 12.02% |
| Tier 1 + Tier 2 Capital Ratio | 25.28% | 24.25% | 24.22% | 22.12% | 21.36% |
| Number of Employees Average for the Year | 547 | 547 | 547 | 541 | 532 |

WILLIAM B. SANDS, JR. , **EXECUTIVE CHAIRMAN**

## AN OVERVIEW OF 2012

We began the year certain that the regulatory and economic environment would be tough. As it turned out, this forecast proved to be correct. 2012 was not only a challenging time for the Bank but in general for all financial institutions. Economic uncertainty fueled by the European debt crisis and the slower than anticipated recovery in the United States has had a significant trickle-down effect on the Bahamian economy as well as individual Bahamians.

In the face of the ongoing uncertainty of the Bahamian economy, changing market variables and the difficult times for many Bahamians, the Board of Directors requested that additional emphasis be placed on the ensuring the risk appetite of the Bank paralleled the market realities. These efforts were directed at reassuring the ongoing safety and soundness of the Bank while positioning the Bank for a sustainable, productive and profitable future.

Our stakeholders expect that the Bank will demonstrate and sustain a strong risk management process coupled with the application of leading edge conservative accounting principles and practices. The Board of Directors also provided guidance and strong oversight over the risk management and reporting processes reinforcing the Bank's executive management's action programs which have been designed to identify changes in the Bank's risk profile in a timely manner.

Of course, the Bank has not been immune to the difficult market forces it has faced during 2012 or how these forces have impacted a large number of Bahamians. However, despite the difficult economic operating environment, the Bank was able to continue its long record of strong performance and sustainable profitability. This marks many years of being able to deliver a program of sustainable dividend distribution to shareholders while continuing to fulfill its beneficial humanitarian programs.

The success achieved is even more satisfying as the Bank was able to reduce its overall balance sheet risk while also strengthening the capital base of the Bank which remains amongst the strongest in the Caribbean. We are proud of this longstanding record of success.

## CORPORATE GOVERNANCE

As Executive Chairman of the Board, my goal is to provide leadership to the Board of Directors - directing its collective strengths and experience in order to oversee and guide management to ensure ongoing stability and create long-term value to shareholders. To assist the board members to better appreciate their ever-increasing fiduciary responsibilities, the Bank in 2012, refreshed the individual board mandates and expanded its orientation guidance to better reflect the ever-increasing regulatory oversight requirements.

Commonwealth Bank's reputation for the development and application of a sound governance regime continues to be cited as being amongst the strongest when compared to its peers. The effective and accountable governance of the Bank will remain an integral part of our culture. It is this disciplined regime that contributes to the continuing success and stability of the Bank.

The Board has in the past and remains committed to an ongoing and continual review of the governance process in order to ensure that the established regime reflects the risks undertaken and the core values of the Bank. This culture not only exists at the board level but also through the actions of the employees of the Bank and the many stakeholders that contribute to practically every segment and level of the Bank's business activities.

In addition to reviewing strategies for managing risk and the continuing safety and soundness of the Bank, the Board also contributed to the refreshment of the Bank's strategic plan and strategies that will contribute to potential opportunities and challenges that will be associated with the further development of the Bank. Throughout 2012, each board member was actively engaged and contributed to overall direction and soundness of the Bank.

In 2012, the Bank also welcomed Mr. Robert Sands to its Board of Directors. Mr. Sands brings a great deal of experience and knowledge to the Bank as well as a valuable strategic perspective to the Board. He is currently bringing his knowledge and expertise to the IT and Logics and Premises committees.

## GOING FORWARD

In our 2011 Annual Report I reported *"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 focusing its strategies on areas it knows and understands…"*

The Bank has not deviated from these objectives despite the economic downturn the Bahamas has faced since 2008. While economic stimulus within The Bahamas may be somewhat protracted throughout 2013 and into 2014, the Bank has every reason to be optimistic about the future. We are confident in the Bank's ability to expand its market share and capabilities to serve its communities in an effective manner while continuing to enhance the return to shareholders and other stakeholders. This confidence is built upon superior customer service and a well-entrenched and conservative business model supported by a safe and sound financial base.

In addition to its focus on the further development of the Bank, the Board has and remains proud to have been able to continue to support its charitable activities. The Bank's participation has and continues to place emphasis on education and financial awareness at various levels as well as many other Bahamian based charitable and service organizations.

An additional and extremely important element in achieving any success the Bank has made has been the ongoing contribution of the 548 members of our staff – the individuals who are responsible for executing and sustaining the approved business model and serving our customers, shareholders and other stakeholders. Their efforts and contribution have ultimately created a stronger foundation for continued success and growth in the future.

In closing, The Bank looks forward to 2013 for another reason. In 2013, we will celebrate the 40th anniversary of our country's independence. This is an opportunity to acknowledge and advance the achievements of the Bank which is owned and directed by Bahamians and confirms our theme of the Bank's 2012 Annual Report: ***We are Bahamian….It's what we have in Common.***

William B. Sands, Jr.
**Executive Chairman**

## COMMUNITY INVOLVEMENT

We believe in Bahamians helping Bahamians and take pride in our social responsibility as a good corporate citizen and as a dedicated champion of the communities in which we work and live. It is our privilege to nurture and support our communities and to contribute to the health and wealth of our nation.

Commonwealth Bank's approach to Corporate Giving in 2012 focused on enriching education opportunities for our youth, improving the lives of the underprivileged, building healthier communities, invigorating our diverse cultural lives and creating partnerships for positive change.

The Bank's community efforts are dedicated to building on the foundation of our nation. Our charitable footprint reached more than 150 benevolent initiatives aided by an investment of a half million dollars. As well, our team members extended their reach both inside and outside our branch network to make a positive difference through the gift of their time.

At Commonwealth Bank, we wish to encourage all like-minded citizens to be of service to our remarkable nation. Let us not only march together, but let us appreciate that by investing in our neighbourhoods, we are investing in each other and in our future.

### MINISTRY OF EDUCATION

Pictured L to R: Charles Knowles, Vice President, Information Technology, Commonwealth Bank; Ian Jennings, President, Commonwealth Bank and Jerome Fitzgerald, Ministry of Education, Science and Technology.

Commonwealth Bank recognizes that today's youth are tomorrow's leaders and nation builders and through our Corporate Giving Program we have made the education of primary and high school students a priority. This year marked the sixth consecutive year that Commonwealth Bank has taken up the mantle to help prepare our young students for the classroom; equipping 10,000 students with the basic tools and educators with technological tools needed for a successful start to the new school year.

### DOWNTOWN REDEVELOPMENT

Commonwealth Bank continued its support of the Downtown Nassau Partnership (DNP) project to revitalize, redevelop and better the heart of Nassau's downtown core. Partnering in the Revitalization of Downtown Nassau aligns with the Bank's mission to promote economic growth and stability in our communities, as well as to stimulate economic partnerships and activity throughout The Bahamas. DNP's master development plan to upgrade the downtown area will include the new $2.1 million Pompey Square which is described by the project's officials as the signature piece in the downtown transformation that is sure to continue the positive momentum for the new downtown direction and enhance the overall Bahamian experience.

Pictured L to R: Carole Rodgers, Vice President, Internal Audit, Commonwealth Bank and Ed Fields, Director, Downtown Nassau Partnership

## JUNIOR ACHIEVEMENT


Pictured L to R: Denise Turnquest, Sr. VP, Credit Risk, Commonwealth Bank; Philip A. Simon, Executive Vice-Chairman/Acting Executive Director, Junior Achievement; Ian Jennings, President, Commonwealth Bank; Raymond Winder, Junior Achievement Chairman and Mavis Burrows, VP Operations, Commonwealth Bank

Commonwealth Bank has partnered with Junior Achievement Bahamas, the country's largest youth program, to introduce the JA Investment Fund. The established fund of $100,000 will provide JA companies not only with funding, but also educate its student participants about financial management – learning to borrow and repay money. This is a new aspect to the JA program and one the Bank's President Ian Jennings is 'banking on' to provide the relevant hands-on learning experience to help students achieve better financial literacy.



## THE CRISIS CENTRE

Service is at the very heart of our company's mission and not just serving customers with our banking products — it includes serving and caring about each other, our families and our communities. Within every community we serve there are many wonderful organizations — from those dedicated to meeting basic needs of the less fortunate, to those protecting and enhancing the quality of life we all enjoy as Bahamians.

The Crisis Centre is such an organization. It is a non-profit organization that provides services to people who are the victims of physical, sexual and emotional abuse. In 2012 The Crisis Centre celebrated 30 years of advocacy in The Bahamas. During the year, Commonwealth Bank was the Silver Sponsor of The Crisis Centre's "Peace at Home, Peace in our Community - Creating partnerships and solutions to transform our homes and communities" conference.

Pictured L to R: Anthea Cox, VP Human Resources and Training, Commonwealth Bank and Dr. Sandra Dean Patterson, Director of the Bahamas Crisis Centre

## THE RANFURLY HOME


Pictured L to R: Ranfurly Home Board Members, John Robertson and Joey Ann Gordon Premock; Dr. Alex Roberts, Administrator – Ranfurly Home; Patrick McFall, Vice President & CFO, Commonwealth Bank; Kayla Darville, Mortgage Manager, Commonwealth Bank and Stephen Johnson, Commonwealth Bank Branch Manager, Town Centre Mall



The "Build a Roof over Ranfurly" initiative launched by the Ranfurly Home for Children during the summer was a tremendous success thanks to the generous donations by private citizens and corporate Bahamas. Commonwealth Bank was proud to be counted among the supporters of the Home and was pleased to be able to contribute financially to this initiative. The outpouring of support allowed the Home to address its deteriorating roof; a project that was critical to the general safety and protection of its occupants.

## CB 2012 COMMUNITY INVESTMENTS

- BAHAMAS AGRICULTURAL AND INDUSTRIAL CORPORATION
- BAHAMAS ASSOCIATION OF ATHLETIC ASSOCIATIONS
- BAHAMAS ASSOCIATION OF SOCIAL HEALTH
- BAHAMAS NATIONAL SYMPHONY ORCHESTRA
- BAHAMAS OLYMPIC COMMITTEE
- BAHAMAS PRIMARY SCHOOL STUDENT OF THE YEAR
- BAHAMAS TECHNICAL & VOCATIONAL INSTITUTE
- BAHAMIAN CONTRACTORS' ASSOCIATION
- CANCER SOCIETY OF THE BAHAMAS
- DOWNTOWN NASSAU PARTNERSHIP
- FALCON'S BOYS CLUB
- FANCY DANCERS JUNKANOO GROUP
- GIDEON BAHAMAS INTERNATIONAL
- HANDS FOR HUNGER
- JUNIOR ACHIEVEMENT BAHAMAS (INVESTMENT FUND)
- JUNIOR ACHIEVEMENT BAHAMAS SCHOLARSHIP PROGRAMME
- KEVA M. BETHEL YOUTH SERVICE DAY
- KINGDOR NATIONAL PARKINSON FOUNDATION
- LATOYA RILEY-ROBERTS
- MAJESTIC CRUSADES JUNKANOO GROUP
- MDR 1ST LEGO LEAGUE TOURNAMENT
- MUSIC MAKERS JUNKANOO GROUP
- NATIONAL FAMILY ISLAND REGATTA
- PACE FOUNDATION
- POOP DECK EAGLES GOLF CLUB
- PRODIGAL SONS JUNKANOO GROUP
- R.E.A.C.H.
- RANFURLY HOMES FOR CHILDREN
- RED RIBBON BALL
- SALVATION ARMY
- SHAKESPEARE IN PARADISE
- SIR VICTOR SASSOON HEART FOUNDATION
- SWINGERS JUNKANOO GROUP
- TEEN CHALLENGE - TEMPERAMENT DEVELOPMENT PROGRAM
- THE BAHAMAS DIABETIC ASSOCIATION
- THE CRISIS CENTRE
- THE LINKS INCORPORATED DONATION
- UNITY HOUSE

It is with great sadness that the Commonwealth Bank family notes the passing of Timothy Baswell Donaldson, Chairman from March 1998 to December 2010.'Basie', as he was known to his friends, was a Chairman Extraordinaire, a leader who understood what it took to grow the Bank, never losing sight of the importance of uniting and rewarding team members who interacted with customers every day. He had a way of making everyone who performed well feel important and in the most challenging of economic times could bring just the right touch of humour to a shareholder's meeting, turning the mundane into the memorable, making an AGM a coming together of people from every walk of life who felt good about owning a little piece of the Bank that the man at the podium was steering from strength to strength.

We at Commonwealth Bank remember him as Chairman and friend. The Bahamas will remember him as a great Bahamian, born in humble circumstances and rising to prominence as a diplomat and in education, a pioneer in financial services.

We remember and we thank him for providing the insight that led Commonwealth Bank's first IPO in 2000, making us the largest most widely held public company in the Bahamas. We thank him for helping us grow our assets and profits from $400 million and $11 million, respectively in 1998, to $1.4 billion and $53.8 million in 2010.

Mostly, we remember him and miss the man he was, the man whose very presence seemed to ignite in all of us a passion for perfection, a desire for excellence, to be as good at whatever we were doing, as he was at whatever he was doing.

As an icon in both the public and financial sectors and a true ambassador for the country he loved, Timothy Donaldson's influence and kindness extended throughout the Commonwealth of The Bahamas and beyond the borders of our nation.



*"Example isn't another way to teach, it is the only way to teach."*

*~ Albert Einstein*

IAN A. JENNINGS, **PRESIDENT**

At its core, Commonwealth Bank works to produce, long term profitable returns by building our franchise and delivering value to our customers, shareholders and communities. There is a clear reason this strategy hasn't fundamentally changed: it's simple, it's adaptable and has proven to be a winning formula for many years. To sustain the Bank's success going forward we will adjust the model to meet market activities but the fundamental model will remain – we start by making banking simple and easy to understand by all Bahamians.

Our results over the past year have reflected the difficult economy experienced by individual Bahamians as well as the country at large. However, despite the ongoing challenges, the Bank was able to generate solid earnings from its operations and ultimately distribute a significant portion of these earnings to shareholders. This achievement has been indicative of the Bank's conservative and well entrenched business model.

The challenges encountered in 2012 are likely to continue into 2013 and could be extended through to 2014 before any material expansion of the economy benefits the Bahamas. This possible scenario appears to be echoed by the Central Bank of the Bahamas which has reported in its Monthly Economic and Financial Development for November 2012, the following possible scenario:

*"Available indicators of domestic economic activity continue to suggest a modest growth momentum concentrated in tourism and construction-related foreign investment projects. With limited spillover benefits to other areas of the economy, employment conditions stayed weak and private demand was dampened by the persistence of high loan arrears".*

*"… the outlook remains subject to a number of downside risks"*

## 2012–A CHALLENGE TO SUSTAINABLE SUCCESS

To reinforce an objective of mitigating the downside potential of a weak economy, slow growth and increasing unemployment coupled with a certain degree of uncertainty about the future the Bank continued its efforts in 2012 to strengthen its balance sheet through prudent management of its asset base.

In general and in view of economic environment we have been pleased with the results achieved during 2012. The action taken by the Bank parallels the action taken by many of the Bank's own customers as they reassess their business models in an effort to address current market requirements and prepare themselves for an improved business environment.

In our last two annual reports, we indicated that as a result of the current market environment it was going to get tougher to repeat the Bank's past successes. The remedial action taken by the Bank over the past few years including 2012, addresses the expected market environment while continuing to place strong emphasis on the sustainable soundness of the Bank. As a result of the proactive and conservative approach to its business model in 2012 the Bank did not achieve a number of the planned profitability based strategic objectives. This proactive approach is however expected to position the Bank to be able to take advantage of any business expansion that takes place in the future in a cost effective manner.

Income from operating activities actually increased in 2012 over levels reported in 2011. However, net income of $36 Million declined by 30.6% compared to 2011. The decline in net income reflected the challenging marketplace and was attributable to a loan impairment expense increase of approximately 79% in 2012 to $44 Million. The increase in the allocation to this expense was reflective of the Bank's determined approach to sustaining sound and credit risk management techniques and practices.

Performance as measured by Return on Equity (ROE) and Return on Assets (ROA) were also reflective of reduced profitability but continued to respectable at 16.6% and 2.1% respectively. Liquidity ratios remain strong and with a Liquid Asset Ratio (LAR) in excess of 168%, a regulatory defined ratio, and an actual liquidity ratio in excess of 33% both of these ratios well exceed regulatory minimums and internal objectives.

The Bank's Efficiency Ratio which takes into consideration noninterest expenses compared to revenue generation actually improved in 2012 to 40.2% and exceeded plan expectations. 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. These operating ratios continue to be well above industry norms.

The Bank's ability to continue to generate worthwhile earnings from operations and ultimately distribute a significant portion of these earnings to shareholders has been indicative of the Bank's conservative and well entrenched business model. This long standing model also reflects the confidence the Board of Directors has in the Bank's ability to sustain long-term earnings growth.

The level of capital a bank maintains is sometimes referred to as a bank's safety net. International and domestic regulatory agencies have in the past and continue to review and recommend minimum guidelines covering the quality and levels of capital necessary in order to operate in particular jurisdictions. The Central Bank of The Bahamas has prescribed minimum quality and levels of capital required to operate within The Bahamas. Minimum capital levels have been increased by the Central Bank of The Bahamas. Further adjustments to the required minimum capital ratios are expected to continue into 2013 as what is referred to as Basel III rules come into force and effect.

The Bank's total capital as at December 31, 2012 amounted to $263.6 Million a marginal increase over the level of $ 263.5 Million in 2011. Tier 1 capital which is considered to be the stronger quality capital was $178.6 Million also a nominal increase over 2011 while tier 2 capital amounted to $ 98.7 Million. The ratios of capital to Risk Adjusted Assets were Tier 1 capital 16.3% and total capital of 25.28% compared to 15.6% and 24.3% at year-end 2011. The existing capital ratios are in excess of current and anticipated regulatory guidance.

## 2012 – A TIME FOR CLOSE MANAGEMENT CONTROL

Total assets as at December 31, 2012 were in excess of $1.43 Billion a marginal decrease over the previous year. The decrease in outstanding balances of the credit risk portfolio accounted for approximately 72% of the Bank's total assets. This portfolio remains well diversified and is concentrated amongst our consumer loan base.

The Bank's underlying credit risk management model and guidelines are anchored by the objective that the Bank will only assume credit risk it understands and that the credit risk undertaken can be managed profitably within the established credit risk policies, procedures, guidelines and timely reporting processes.

The ongoing quality of the credit risk portfolio is the prime determinant in the Bank's overall revenue generation. As a result, careful attention is placed on the credit risk management techniques and practices and the overall credit quality of the Bank's credit risk products and services. Any credit deterioration is closely monitored with aggressive collection and conservative provisioning processes in place to address the possible downside potential in a timely manner.

As at year-end the Bank was maintaining a provisioning ratio of almost 104% of its non-accrual loans and in excess of 5% of the total loan portfolio. These ratios continue to compare favorably to industry peers.

The Board provides emphasized and ongoing attention to the Bank's credit risk profile and provides guidance, oversight and approval of the recommended credit risk appetite, limits and reporting guidelines prepared by the Bank's executive.

An advanced credit risk scoring and risk rating methodology is also used to supplement individual lender judgment to ensure a consistent and controlled approach is applied to all segments of the credit risk management process. The credit risk scoring and risk rating criteria are reviewed on a regular basis to ensure they remain reflective of the of the ongoing business environment.

## PROMOTING ECONOMIC GROWTH AND STABILITY IN OUR COMMUNITY

The Bank's ongoing contribution to the Bahamas is focused on the development and training of our children and youth. The Bank supports children through its "Back to School" program and is a significant contributor to the sustainability of the College of The Bahamas as well as Junior Achievement which aids in increasing financial literacy amongst the youth. In addition, a significant number of other charitable organizations receive donations from the Bank to fulfill and expand their mandates which are designed to improve and support many Bahamians.

## GOING FORWARD

We have spoken in the past about the Bank maintaining a conservative approach to our business model during the current less than constructive business environment. We had expected the environment to ameliorate after a relatively short period only to find the marketplace to be faced with flat interest rates, slow economic growth and a tough operating climate. The Bank is acutely aware that it cannot be complacent in this type of environment. We are continually rethinking how we do business and how we can optimize our operations in order to work smarter for our customers as we continue to build a better bank. Additional emphasis is now being placed on new and innovative marketing and business development activities.

Our financial strength provides the Bank with a competitive advantage and flexibility going forward in order to take advantage of available business opportunities. In the current environment, operational excellence and efficiencies and dedication to customers is more critical than ever.

On behalf of the Executive, I want to thank our customers, shareholders, employees for their ongoing and dedicated support of Commonwealth Bank. We truly believe our employees are second to none and acknowledge their values and the spirit and commitment they bring to work each day. They are an important reason why Commonwealth Bank stands out in the crowded financial services sector and demonstrates our support to an important core value of the Bank: *Ensure Commonwealth Bank is a great place to work.*

We are a bank with a history of helping others and with Bahamian staff and customers supporting the Bank; ***we are Bahamian… It's what we have in common***

Ian A. Jennings
President

Our employees have a passion to serve, lead and inspire, and an unwavering commitment to the success of Commonwealth Bank and are our most productive investment. The Bank's high employee retention rate highlights the personal nature of our organization. We are fortunate to have colleagues who truly believe in the Bank and its efforts to make far-reaching and positive differences and we will continue to build on our combined strengths to be the best-run, most integrated and relentlessly customer-focused Bank in The Bahamas.

It is our shared values of integrity, passion to excel, unity of purpose and love of country that connect us. The Executive Chairman, President, Board of Directors and members of Team CB salute each of you.

WE ARE PRIVILEGED TO INCLUDE AMONG OUR LONG-SERVING EMPLOYEES:-

## 30+ Years

| | |
|---|---|
| WILLIAM B. SANDS, JR. | 42 YEARS |
| FRANKLYN E. THOMAS | 37 YEARS |
| LUELLA A. MCINTOSH | 35 YEARS |
| CHARLENE D. LOW | 35 YEARS |
| JANICE C. DAVIS | 34 YEARS |
| MAXWELL R. JONES | 32 YEARS |
| JACKLYN P. KING-LANGNER | 31 YEARS |
| CARLA Y. CARTWRIGHT | 30 YEARS |
| KATHERINE Y. HAMILTON | 30 YEARS |



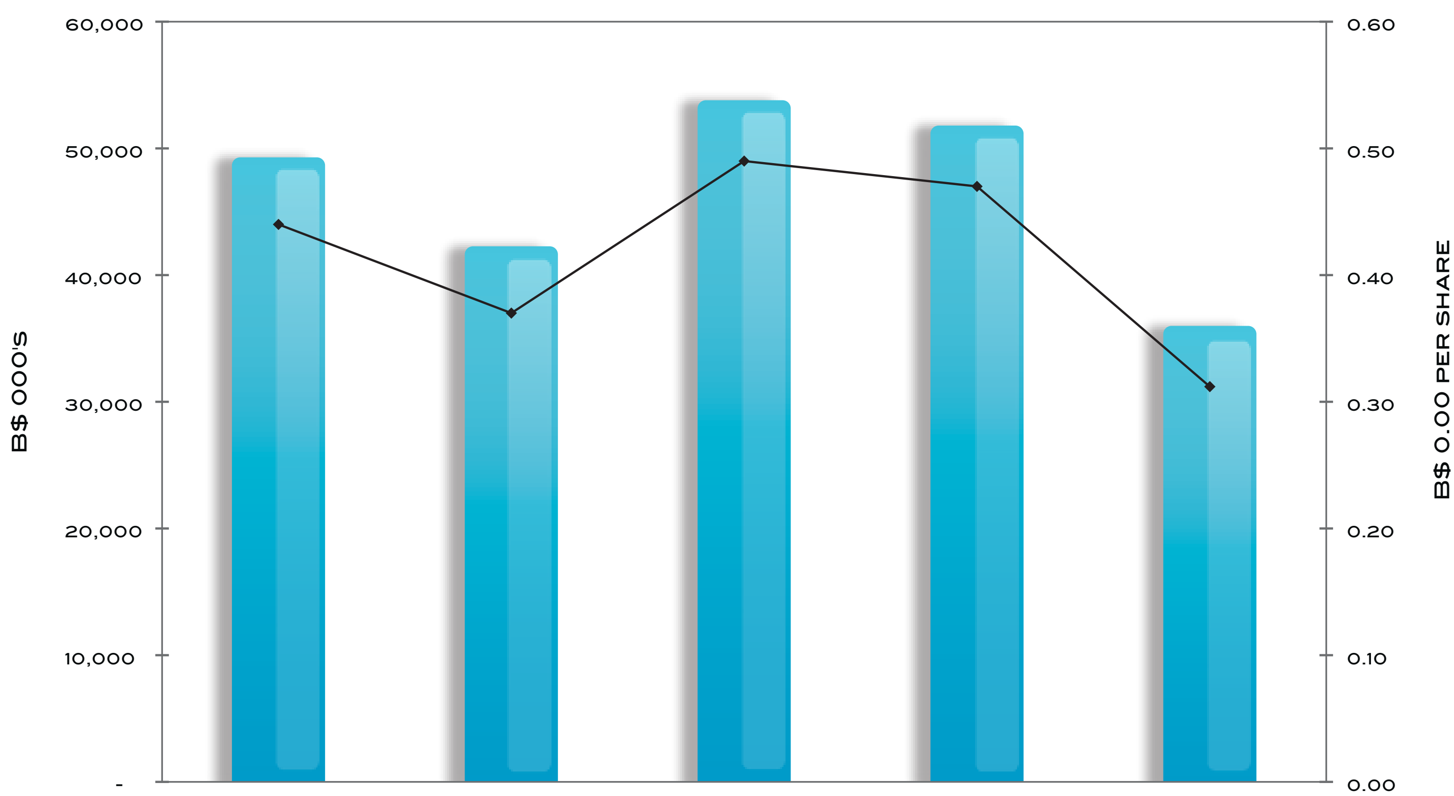
## 25+ Years

ADDERLEY, ANDREW
ADDERLEY, BARBARA
ANDERSON, CHARMAINE
BAIN, DARIA
BAIN, MICHAEL
BENOIT, LESLIE
BETHEL, DENICE
BOWE, DEMETRI
BURROWS, MAVIS
BURROWS, MARY
BUTLER, KEVIN
BUTLER, MONA
CARTWRIGHT, PATRONA
CARTWRIGHT, CAROL
CURTIS, CINDY
DAMES, AUDREY
DAMES, SHERILYN
DORSETTE, SHARON
EDGECOMBE, CHARMAINE
FERGUSON, WYETTE
FRASER, JULIETTE
GIBSON, GRACE
GIBSON, DARLENE
HAMILTON, EARLE
HANNA, MONIQUE
JENNINGS, IAN
JOHNSON, PATRICE
JOHNSON, STEPHEN
LIGHTBOURNE, MONIQUE
MASON, MONIQUE
MCDONALD, SYCHE
MINNIS, RAWSON
MISSICK, CHERRY
MOSS, DEREK
NORTH, RAYNARD
PALACIOUS, CHANTAL
RIGBY, JOHN
ROBERTS, J. RUPERT
ROLLE, ANGELA
SIMMS, KAREN
SMITH, DENISE
STRACHAN, JASMIN
STYLES, YVETTE
SWEETING, CATHERINE
WILKINSON, IAN
WILLIAMS, CHARMAINE
WILLIS, MICHELLE

## FINANCIAL HIGHLIGHTS 2012

| | 2012 | 2011 | CHANGE |
|---|---|---|---|
| NET INCOME | **36.0 MILLION** | $51.8 MILLION | -30.52% |
| TOTAL ASSETS | **1.432 BILLION** | $1.501 BILLION | 4.57% |
| EARNINGS PER SHARE | **31 CENTS** | 47 CENTS | -33.55% |
| RETURN ON COMMON SHAREHOLDERS EQUITY | **16.64%** | 26.940% | -38.16% |
| COMMON SHARE DIVIDENDS | **29 CENTS** | 30 CENTS | -3.33% |
| COMPREHENSIVE INCOME AVAILABLE TO COMMON SHAREHOLDERS | **30.7 MILLION** | 46.2 MILLION | -33.56% |
| GROSS REVENUES | **133.8 MILLION** | 129.3 MILLION | 3.45% |
| EFFICIENCY RATIO | **41.88%** | 42.78% | -2.12% |
| TOTAL CAPITAL | **264 MILLION** | 264 MILLION | 0.03% |
| REGULATORY CAPITAL | **25.28%** | 23.00% | 4.24% |

NET INCOME AND EARNINGS PER SHARE




| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| NET INCOME | 49,292 | 42,272 | 53,800 | 51,801 | 35,989 |
| EPS | 0.44 | 0.37 | 0.49 | 0.47 | 0.31 |

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, 2012, compared to the preceding year. 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 19th, 2013. 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 domestic and external influences, including unknown and unplanned economic and operational factors, 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 Bahamian owned 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 remains one of the largest and well capitalized indigenous banks. Our core business strategy is to lead all Bahamian banks in providing personal banking services to consumers.

Since the fall of 2008, the Bahamian economy has struggled through a severe downturn. A significant contributing factor to the downturn was the trickle-down impact of the decline in the global economy, and most particularly the United States of America (US).

In 2012, the Bahamian economy grew modestly. However, the growth was narrowly based in the tourism and construction segments and was insufficient to improve employment which was 14.7% in 2012. These, factors had two profound effects on the personal banking sector in 2012. Credit to consumers declined while loan arrearages grew. Subject to the ongoing economic challenges faced by the US, Europe and most other economies, we do not expect any material expansion of the Bahamian economy before the fourth quarter 2014. This forecast appears to be supported by The Central Bank of the Bahamas' economic forecast which suggests modest growth for 2013.

In 2012 we maintained our focus on our well-entrenched business model, a strategy that continues to pay copious benefits to the Bank and our shareholders. Because of the economic realities, we placed greater emphasis on improving the safety and soundness of the Bank while positioning it for a productive and profitable future.

The Bank's vision and mission statements have not changed. They have been designed to support the Bank's business model and are dedicated to sustaining an effective and transparent governance regime supported by sound policies and procedures while taking advantage of opportunities to expand market share in a cost effective manner.

A critical element that has contributed to the growth and success of the Bank has been the Bank's commitment to Bahamians and the support of our Bahamian staff which has and continues to be dedicated to achieving the Bank's principles and practices. At December 31, 2012, Commonwealth Bank employed 548 Bahamians and Bahamian Permanent Residents, thus having no employees requiring work permits on staff. Equally important to our success is the effective oversight and governance provided by our Executive Management and Board of Directors.

## FINANCIAL OVERVIEW OF 2012

The Bank's business strategy for 2012 was directed at achieving further expansion of its inherent strengths, specifically the consumer banking sector, sustaining strong credit quality and credit risk management practices while applying effective expense mitigation and management techniques and practices.

Our strategy for 2012 has proven to be beneficial. Despite volatile financial markets, rising unemployment and ongoing uncertainty, the Bank has been able to retain a strong Balance Sheet with Total Assets at December 31, 2012 in excess of $1.43 billion. Comprehensive Net Income reported for the year approximated $36 million and while lower than reported in 2011, reflected the Bank's conservative lending standards and aggressive provisioning methodology.

Key financial analytics which reflected the reduced profitability in 2012 continued to surpass industry peers. The level of such analytics, Return on Assets (ROA) 2.08%, Earnings Per Share (EPS) $0.31 and Return on Equity (ROE) at 16.6% were also appropriate to sustain the historical pattern of dividend distribution to shareholders.

The less than opportune performance of the industry's commercial and mortgage portfolios were the main contributors to the deterioration in overall industry credit quality. During 2012, the Bank was not immune to the deterioration of the aforementioned loan portfolios. However, as the Bank's exposure to these two types of credit risk facilities was considerably less than the industry at large, the loss impact was also considerably less than its peers.

## CONSOLIDATED RESULTS FROM CONTINUING OPERATIONS

The Bank's earnings for 2012 were $36.0 million (2011: $51.8 million). The decline is directly attributable to elevated loan impairment expenses which were due to the economic challenges within the economy as evidenced by both high unemployment and underemployment which hindered many customers' ability to maintain their loan service commitments. Our positive growth of $3.5 million or 4.7% in operational results, prior to loan impairment expenses, on the heels of a strong 2011, where we recorded $4.4 million for a 6.1% increase, pinpoints this fact.

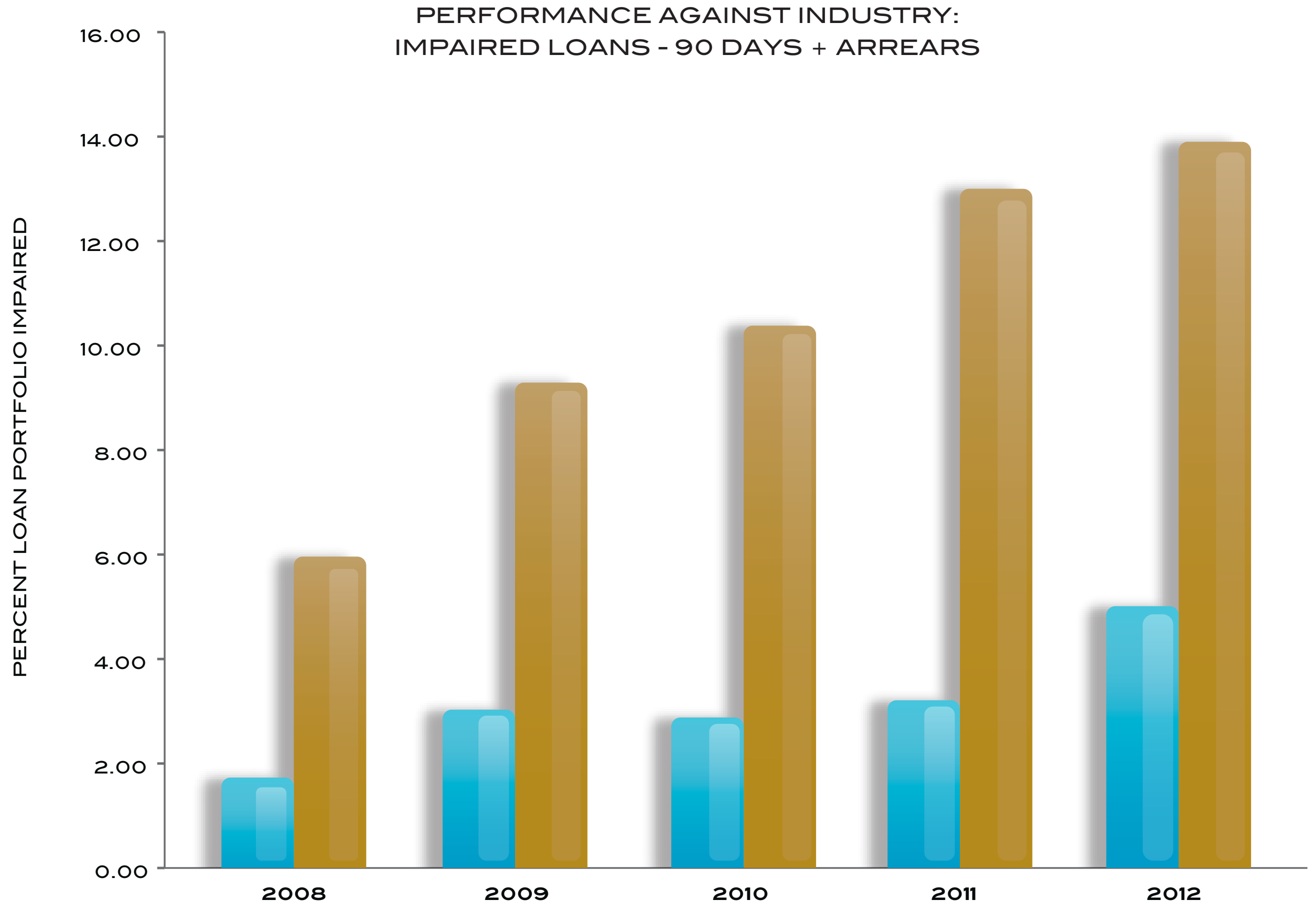
Loan impairment expenses were $44 million in 2012 compared to 24.6 million in 2011 representing an increase of 78.9%.

Net Income Available to Common Shareholders (Net Income less Preference Share Dividends) decreased $15.5 million or 33.5% to $30.7 million.

Current year earnings were 31 cents per share compared to 47 cents per share in 2011, a decrease of 34%. Return on equity was 16.6%. Dividends paid to shareholders decreased marginally (3.3%) to 29 cents per share (2011: 30 cents per share). While continuing to remain strong all of the reported results reflected the reduced profitability prevalent in 2012 which was driven by the increased loan loss expense being the product of the continuing economic realities.

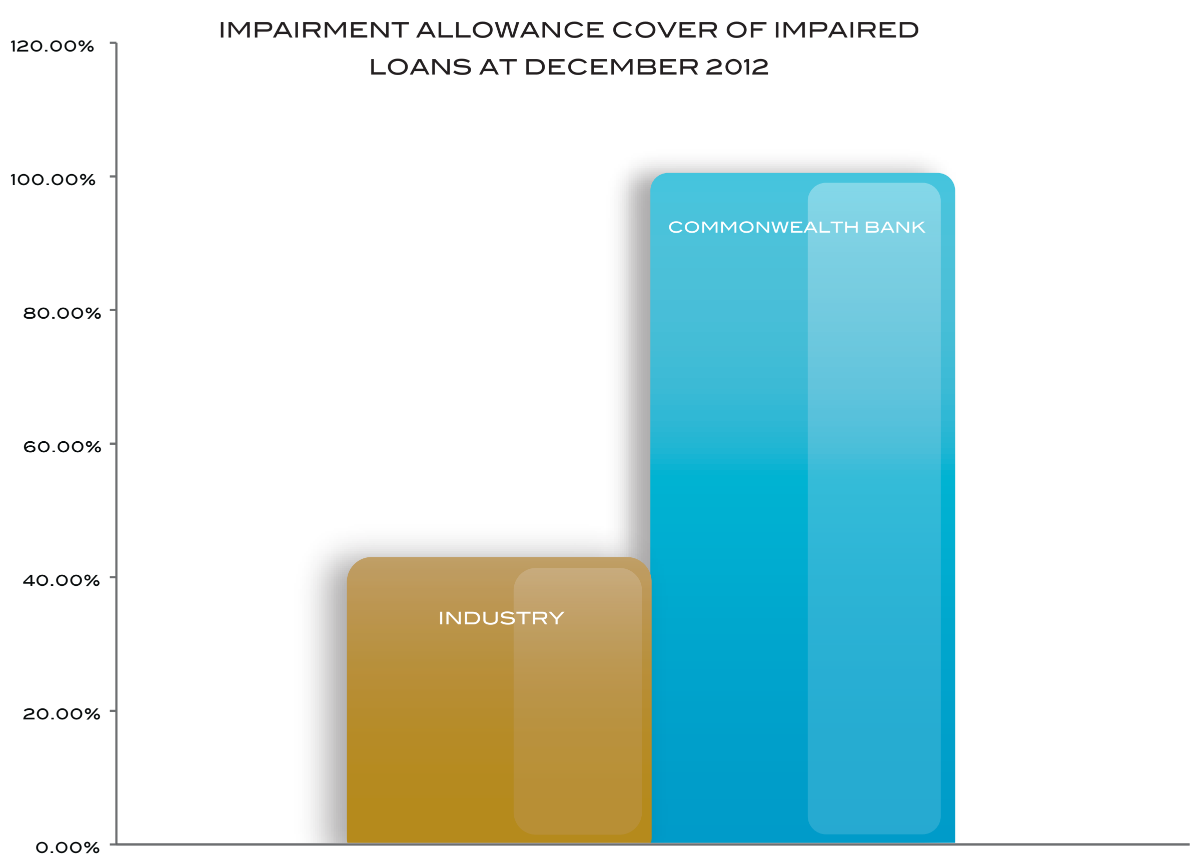
## NET INTEREST INCOME

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 principal source of the Bank's earnings. Interest rate fluctuations, as well as changes in the amount and type of




| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| COMMONWEALTH BANK | 1.73 | 3.03 | 2.88 | 3.21 | 5.01 |
| INDUSTRY IMPAIRMENT | 5.96 | 9.29 | 10.38 | 13.00 | 13.90 |






| | |
|---|---|
| INDUSTRY - IMPAIRED LOAN COVERAGE | 43.05% |
| CB - IMPAIRED LOAN COVERAGE | 100.91% |

earning assets and liabilities combine to affect Net Interest Income.

Net interest income for the year ended December 31, 2012, was impacted by two major factors – credit contraction and high liquidity prompting lower deposit rates; both of which were direct results of external factors, particularly the existing economic environment.

Total private sector Bahamian dollar consumer credit contracted by $33.3 million in 2012. As the market leader in personal (consumer) lending, the Bank bore the full force of this contraction, decreasing $29.6 million (3.7%) from December 31, 2011 to $763.0 million as at December 31, 2012. This decreased the Bank's interest income to $162 million in 2012, a 1.4% decrease compared to 2011. This was more than offset by a 12.3% reduction in total interest expense reflecting the better utilization of the Banks surplus liquidity, the decrease in Bahamian Prime Rate in mid-2011 and the lower deposit interest rate environment.

The combined effect was net interest income totaling $119.5 million in the year (2011: $115.9 million), an increase of $3.6 million or 3.1%. Net interest margin also increased marginally to 7.7% (2011: 7.6%) as the Bank strategically took advantage of the current economic environment through the management of its interest rate risk.

### LOAN LOSS IMPAIRMENT

Against the backdrop of declining credit quality indicators throughout the industry, Commonwealth Bank's credit quality remains strong. The Bank continues to report stronger credit quality ratings than the industry at large with reported delinquency and non-accrual ratios more positive than its peers in all major credit – consumer, mortgages and commercial loans. The reason for this is the Bank's ongoing commitment to safety and soundness wherein strong credit quality remains a focal point for the Bank.

International Financial Reporting Standards require that loans be assessed regularly for impairment losses. Some evidence of loan impairment includes significant financial difficulty of the borrower, a breach of the loan contract (e.g. default on loan payments), local economic conditions (e.g. increase in unemployment rate) and others. Commonwealth Bank fully incorporates these and other factors in its determination of impairment losses. The Bank has an ongoing commitment to the international best practice of writing off consumer loans at 180 days contractually past due. The Bank's loan losses also incrementally increase as customers' rate of default rises. The Bank also proactively recognizes loan impairment arising from delays in real estate security realization. Additionally, the Bank strengthened its policies on restructured consumer loans to address the higher risk with this group resulting in an increased allowance and loan loss expense.

Total write-offs for the Bank increased in 2012 by 85.7% to $44.3 million from 2011's $23.8 million. As a result, the 2012 ratio of net loans written off to average loans rose to 3.3%, up from 2011's 1.5%.

Amounts recovered on written-off loans increased in the year by 4.7% or $0.3 million to $7.2 million from $6.9 million in 2011.

Total impaired loans increased to 5.01% from 3.21% in 2011 (2012: $55.4 million; 2011: $36.5 million). The Bank's level of impairment remains appreciably less than the industry at large which was 13.9% at December 2012 (13.0% December 2011). The Bank's impaired personal loans increased by $9.2 million and impaired mortgage loans increased $8.2 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 sustained high unemployment in the economy.

The Bank's total allowances for loan impairment were $55.9 million which represented 5.06% of total loans as at December 31, 2012 (2011: $48.9 million and 4.29%) underscoring the Bank's conservatism in provisioning and prudence in managing credit risk in the current environment. The percentage of impaired allowances to impaired loans increased to 59.5% in 2012 from 54.8% in 2011 ($12.9 million growth), while the collective impairment allowance on non-impaired loans declined to 2.2% in 2012 (2011: 2.6%), a decrease of $6.0 million. Allowances for loan impairment are lower for mortgage and commercial loans where there is significant collateral value underlying the loan in contrast to the personal consumer loan portfolio.

Loan impairment expense in 2012 was $44.0 million for the year compared to $24.6 million in 2011, an increase of $19.4 million or 78.8%. With the increase in loan loss impairment expense, allowances for impairment in the Consolidated Statement of Financial Position increased by $7.0 million to $55.9 million (14.2% increase over 2011: $48.9 million).

### NON-INTEREST INCOME

Net Credit life insurance income was $5.7 million, an increase of $0.3 million over 2011. Death claims experience declined by 12.2% to $1.5 million (2011 $1.7 million) while net premiums collected declined by $4.4 million (25.3%) below 2011 levels, a fallout from the credit contraction. The overall credit life insurance earnings increase was associated with the decreased variable costs associated with premium taxes and lower death claims.

Other non-interest income expanded to $8.6 million, an increase of $0.5 million or 6.3% over 2011 indicating that the levels of this non-capital intensive category continues to show signs of recovery.

Card products reflected a general decline but are still important to the Bank as MasterCard, SunCard and ComCard continued to make positive contributions to the Bank's overall success in 2012. During the year, the Bank became a Principal Member of VISA. The Bank plans to continue to leverage its entrenched card products going forward albeit on a conservative basis.

CB Online, our internet banking service, continued to increase its customer base and activity in 2012 grew 18% and 11% respectively, over 2011. This product forms a natural part of the expanded portfolio of advanced technology-based products which is being demanded by the marketplace. Further development of this product will be made in 2013. The Bank is actively looking at new delivery channels for our customers in 2013.

### NON-INTEREST EXPENSE

The Bank continued to emphasize cost mitigation in 2012. Total non-interest expense was $53.8 million compared to $52.9 million in 2011, a marginal increase of $0.9 million or 1.6%. However 2011 non-interest expense was positively impacted by a one-time gain of $1.6 million in a non-cash exchange of property. Eliminating this nonrecurring transaction results in a decline of $0.7 million in total non-interest expense compared to 2011. General and Administrative expenses declined by 1.1% ($0.5 million) since 2011 to close at $51.1 million (2011: $51.6 million). Included in this were staff costs, which declined by $1.3 million or 3.8%. The foregoing underscores management's recognition of the need for tight expense control and commitment to judiciously manage the Bank's resources in this environment.

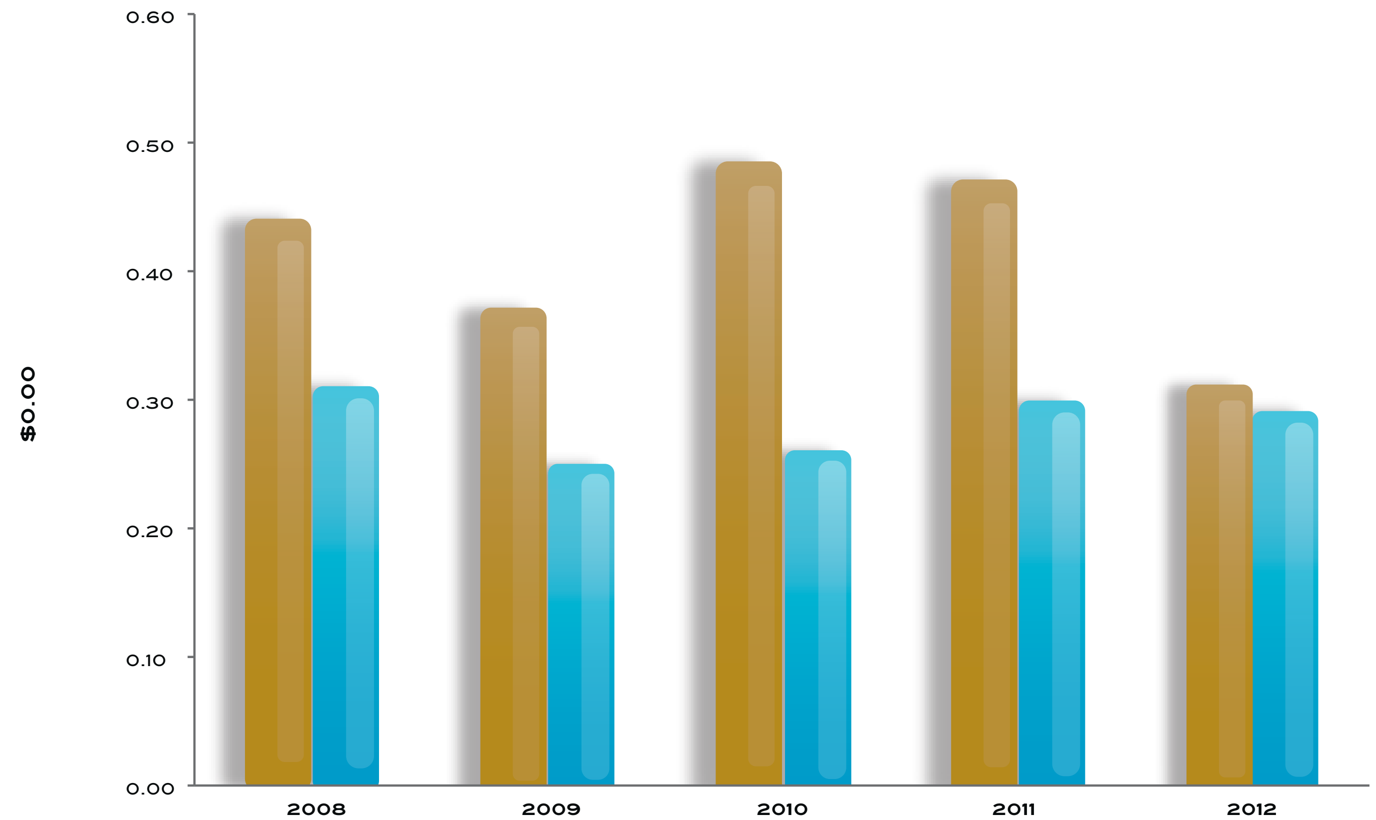
The Bank continues to offer full service Saturday Banking at three Branch locations in New Providence. This service continues to be widely accepted by our customers.

Close control of all expense categories will continue to be a major focus for the Bank in 2013.

### OPERATIONAL EFFICIENCY

The efficiency ratio for the twelve months ended December 31, 2012 (calculated by dividing total non-interest expense by net interest income plus non-interest income less preference share dividends) was 41.9% and remains well ahead of the industry average. This also represents an improvement from 2011 where the Bank's efficiency was at 42.8%. To achieve the levels attained, emphasis was again placed on

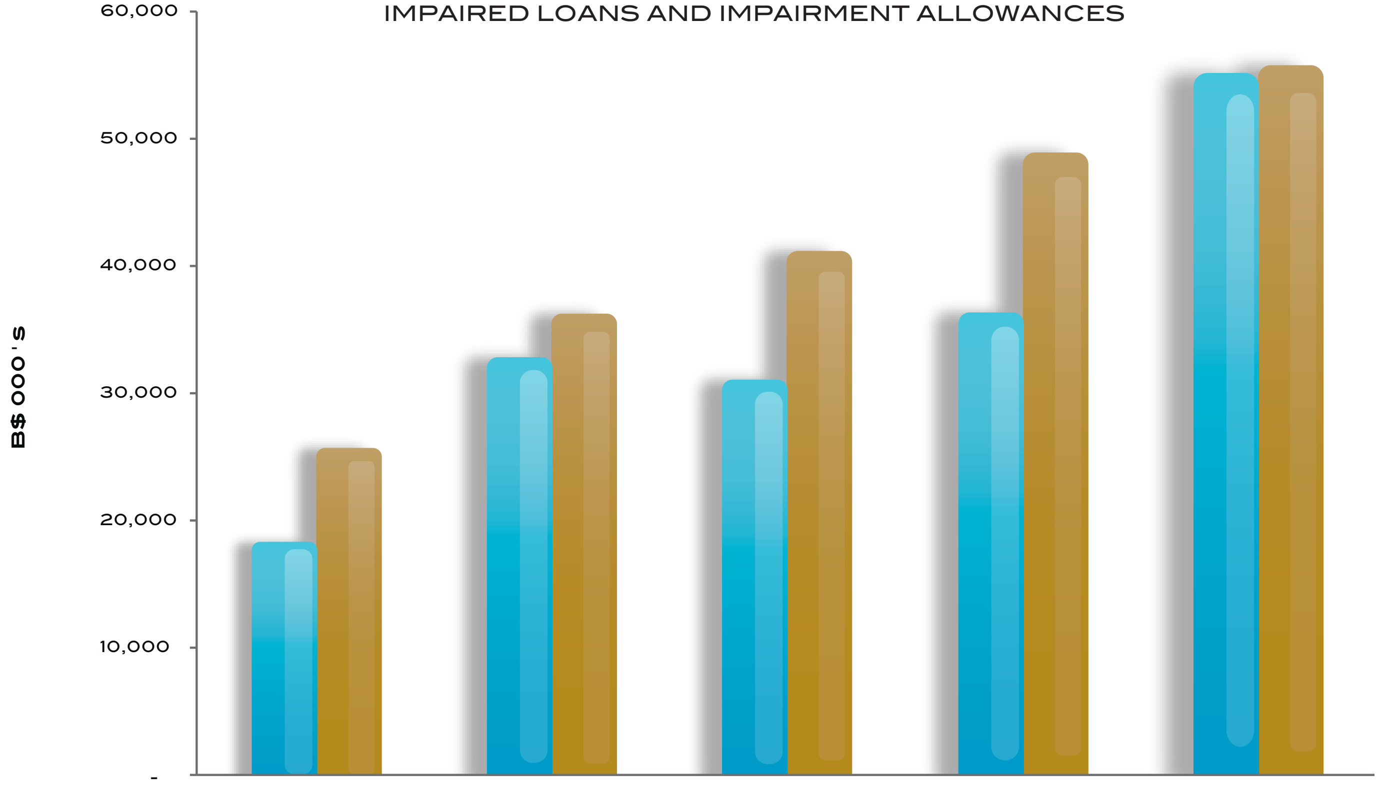
## EARNINGS PER SHARE AND DIVIDENDS PER SHARE




| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| EARNINGS PER SHARE | 0.44 | 0.37 | 0.49 | 0.47 | 0.31 |
| DIVIDENDS PER SHARE | 0.31 | 0.25 | 0.26 | 0.30 | 0.29 |



## IMPAIRED LOANS AND IMPAIRMENT ALLOWANCES




| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Impaired Loans | 18,405 | 32,928 | 31,290 | 36,545 | 55,418 |
| Impairment Allowances | 25,737 | 36,378 | 41,272 | 48,989 | 55,921 |

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 2013 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 2013 is to retain a level of efficiency of less than 50%.

### MANAGEMENT OF FINANCIAL POSITION

Total loans amounted to $1.106 billion at December 31, 2012, a reduction of $34 million or 3.0% (2011: $1.140 billion an increase of $52 million over 2010). The decrease was experienced across all products and is generally indicative of the market conditions in 2012 where the industry experienced declines in consumer and commercial loans which exceeded the increase in mortgages. In the light of high write offs which impacted the credit reduction, the Bank tightened its credit standards to ensure the quality of its loan portfolio remained a top priority.

The Bank's consumer loans were $763.0 million as at December 31, 2012, a decrease of $29.6 million (3.7%) from December 31, 2011. The decrease represented the combined impact of the write offs and the general economic conditions in 2012. Industry consumer loans contracted by $33 million (1.6%) in 2012. The Bank continued to be "the leader in personal lending" with a market share of approximately 38%.

The value of Bank's mortgage portfolio recorded a marginal decline in 2012. Mortgage balances at December 31, 2012 were $258.8 million with additional commitments of $11.6 million compared to $259.9 million with $12.5 million in commitments outstanding at December 31, 2011. At December 31, 2012 the mortgage portfolio made up approximately 23.4% of the total loan portfolio. Industry mortgage lending expanded marginally by 0.9% in 2012.

The commercial loan portfolio at December 31, 2012 was $47.8 million or 4.3% of the loan portfolio, a marginal reduction of 3.4% from the $49.5 million as at December 31, 2011. The commercial loan portfolio is small but the Bank remains receptive to expansion of this portfolio within the approved risk appetite and the established credit quality control standards. Commercial loans in the industry contracted by 1.7% in 2012.

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 a result, year end credit card receivables amounted to $36.4 million a reduction of $1.6 million or 4.3% below 2011.

Total deposits as at December 31, 2012 closed at $1.137 billion a reduction of $66.5 million or 5.5% compared to the deposit levels as at December 31, 2011. The market-driven low CD rates induced customers to redeem these deposits for operating purposes and higher yield investment opportunities.

Cash and balances at banks decreased by $35 million to $69.1 million in 2012 (2011: $24.6 million increase) reflecting the reduction in deposits. However, the Bank's liquidity continues to be strong with a liquidity ratio of 33% compared to Central Bank's minimum required liquidity ratio of 20%.

### MANAGEMENT OF CAPITAL RESOURCES

The Bank's total capital increased marginally in 2012 to $263.6 million. Capital was $263.5 million in 2011. Although total capital is unchanged, it exceeded Central Bank's 17% target ratio by $90.8 million which has grown by $7.8 million in 2012.

### 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, the same level that existed at December 31, 2011. During the year, the Bank purchased $2.1 million in shares (2011: 1.0 million) and reissued $7 thousand (2011: $1.1 million) of shares through its wholly-owned subsidiary C.B. Securities, resulting in $2.5 million in shares held by the Subsidiary at December 31, 2012 (2011: $0.39 million). These shares fund the Bank's Stock Compensation Plans. They also aim to facilitate the Bank's plan to address the impact of Basel III on its preference shares as noted below and inject liquidity into the local market by the purchase of shares from the market in small quantities.

- Tier 2 Capital consists mainly of Cumulative Preference Shares and loan loss allowance up to a maximum of 1.25% of risk adjusted assets and cannot exceed Tier 1 Capital. At December 31, 2012, the Bank had $85.0 million of Preference Shares, which qualified as Tier 2 Capital, unchanged from 2011 and a balance of $13.7 million associated with loan loss allowance (2011: 14.3 million). In December 2012, Central Bank pronounced that beginning January 1, 2013, based on the existing rights and entitlements, the Bank's preference shares will no longer qualify as Tier 2 Capital at a declining rate of 10% per year. The Bank has a plan that will address this in the short term to ensure that the regulatory capital of the Bank is maintained at the highest levels.

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% of risk adjusted assets while retaining mandatory levels of liquidity. In December 2012, Central Bank confirmed that these requirements will not be adjusted in respect to the implementation of Basel III, including the additional capital requirements for a conservation buffer as these are all deemed to be covered by the 17% target ratio. The Bank's Total Capital Ratio at 25.3% at December 31, 2012 (2011: 24.3%) well exceeds the minimum capital levels by 48.7%.

### BANK-WIDE RISK MANAGEMENT

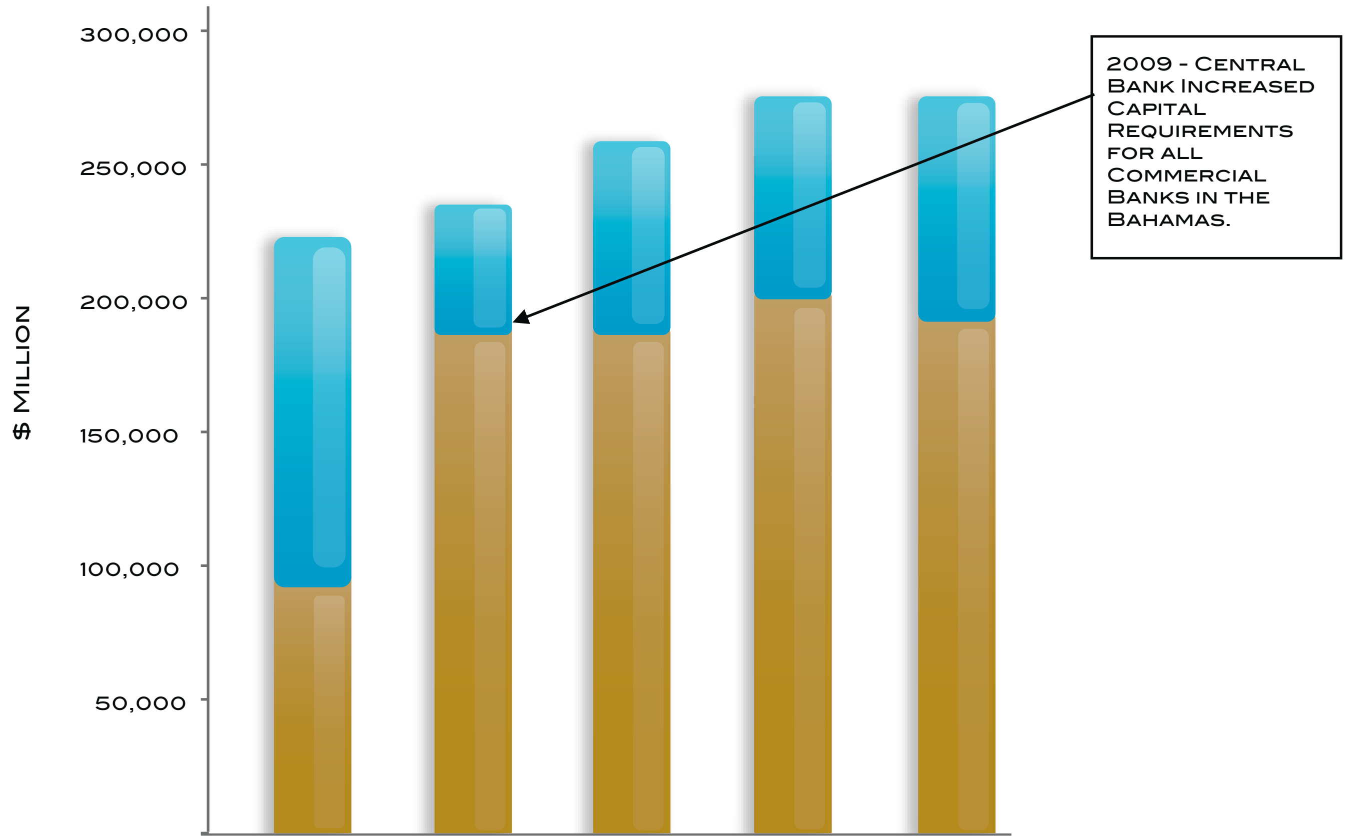
The Bank's risk management structure promotes the making of sound business decisions by balancing risks and rewards. The Bank's risk profile and risk appetite are confirmed by the Board of Directors at least annually and updated as required in the corporate policies approved by the Board of Directors. Clearly defined policies, procedures and processes address the approved risk appetite and any anticipated risk potential.

The Bank's risk management process is also a series of fully integrated set of building blocks that are designed to promote sound business decisions and provide the required balance of risk. Risk management policies address all known risks and are measured and monitored through the Bank's corporate governance regime and overall process of control.

To be successful, a sound risk management process must be evolutionary and flexible enough to address varying market conditions and opportunities. 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 refreshed and enhanced in order to address safety and soundness as well as market, regulatory and operational issues.

The Central Bank has also identified a series of specific risk parameters that parallel international regulatory guidance for Banks. Included in this group of generally accepted risks to Banks are Credit Risk, Liquidity Risk and Operational Risk. As part of the internal

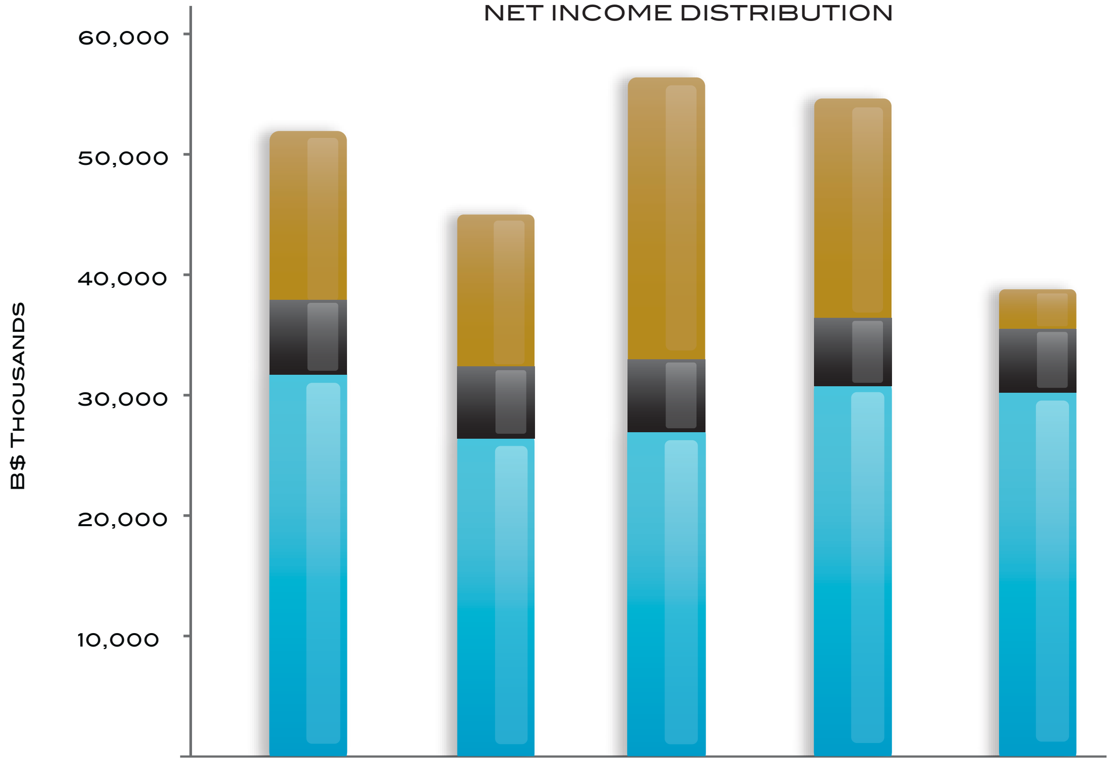
## CAPITAL VERSUS REGULATORY CAPITAL




| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Excess Capital | 127,284 | 41,536 | 64,180 | 68,777 | 77,136 |
| Regulatory Capital | 84,104 | 182,375 | 182,783 | 194,763 | 186,472 |



## NET INCOME DISTRIBUTION




| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Available for Reinvestment | 12,916 | 11,790 | 22,283 | 16,658 | 2,165 |
| Preference Dividend | 5,949 | 5,949 | 5,949 | 5,630 | 5,311 |
| Common Dividends | 30,427 | 24,533 | 25,568 | 29,513 | 28,513 |

corporate governance process, ongoing and focused attention is placed on ensuring that generally accepted industry best practices are applied and monitored in an effective manner by the Bank.

The Bank's business is also impacted by the international environment. Consequently, the Bank monitors changes in international regulations to ensure that they are properly managed and to minimize their impact on the Bank's operations. The most significant new international regulation that will impact the Bank in the near term is the US Foreign Account Tax Compliance Act (FATCA) which seeks to impose a significant withholding on US dollar activities from Foreign Financial Institutions that do not establish a relationship with the Internal Revenue Service (IRS) of the United States for the purpose of reporting certain financial information to the IRS regarding accounts maintained at the Institution on substantial United States persons. The final regulations were issued in January 2013 by the US Treasury. The Bank has already begun preparation to address FATCA, and is closely monitoring the local developments with respect to FATCA including the Bahamas Government's response.

The management and processes of controls designed to mitigate these risks are summarized in the Notes to the Consolidated Financial Statements and in other sections of this representation.

### CREDIT RISK MANAGEMENT

The Board of Directors and the Executive Management work together to ensure the Bank's credit risk management process and supporting policies, procedures and reporting guidelines remain appropriate in order to effectively manage the Bank's approved credit risk profile through various market conditions. Clearly defined credit risk limits are established, reassessed annually and are supported by the mandatory use of the instituted credit risk rating and scoring systems to ensure a consistent approach is applied throughout the Bank. An aggressive monitoring and reporting process is supported by a strong and proactive credit risk provisioning methodology.

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 compliance with 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 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 Notes include assistance outside normal underwriting criteria. The total restructured accounts amounted to $116.9 million or 10.6% of the portfolio; (2011: $123.3 million or 10.8%).

During 2013, the Bank will continue to monitor and refresh its credit risk rating and scoring models to ensure our credit assessment criteria is directed at maintaining and sustaining the strong quality of the credit risk portfolios. In addition, rigorous write-off policies supported by a conservative and anticipatory allowance for impairment methodology will continue and will be reinforced or expanded in 2013.

### LIQUIDITY AND FUNDING RISK MANAGEMENT

Liquidity and Funding risk (liquidity risk) is the risk that the Bank could be unable to generate or obtain sufficient cash or an equivalent in a cost-effective manner should a distress situation occur. The Bank's liquidity position is closely monitored to ensure that, coupled with the Bank's strong capital position, sufficient resources are available to address unforeseen distress situations as well as unplanned business opportunities. A liquidity and funding contingency plan has also been developed and is reviewed on a regular basis.

Throughout 2012, liquidity in the banking sector remained strong. This condition resulted in lower market deposit rates, which in turn benefited the Bank by reducing interest expense. Additionally, the Bank had the benefit of the reduced Bahamian Prime Rate for the full 2012 fiscal year. Average Cash and Securities to Average Total Assets was 23.8% as at December 31, 2012 which was unchanged from 2011. The Bank's liquidity levels continue to exceed the minimum level of 20% prescribed by the Central Bank and also indicate closer control was being maintained over any surplus liquidity.

### COMMUNITY AND SOCIAL CONTRIBUTIONS

Community and social responsibilities remain important to the Bank. 2012 was another year wherein the Bank maintained its substantial commitment to the betterment of the Bahamas and Bahamians. Significant contributions were sustained to support children and youth through the Back to School program, the Junior Achievement Investment Fund program, and the College of the Bahamas Endowment Fund. In excess of 40 other charitable organizations received financial assistance that was made available by the Bank according to their perceived needs.

### OUR STAFF – A SIGNIFICANT STRENGTH

At year-end the Bank employed 548 employees, unchanged compared to the previous year. 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.

### OUTLOOK FOR 2013

The Bank is acutely cognizant of the challenges of the Bahamian and global financial conditions and their ultimate impact on its operations. At least annually, the Bank reviews its business strategies against both internal and external factors for the short and medium terms to ensure that our objectives remain financially viable both for the Bank and its stakeholders. Our review in 2012 confirmed that we remain on the right path to offer the Bank the best opportunities to maximize shareholders returns. Consequently, the Bank will be steadfast in our established vision, mission and core values and key broad objectives to:

1. Remain a consumer based bank
2. Optimize our business model
3. Expand the existing market share
4. Continue to improve expenses and operational efficiency and effectiveness
5. Broaden succession planning throughout the Bank

The outlook for 2013 is one of cautious optimism. In general, the economy and the linked level of unemployment are not expected to show material improvement in the near term as the world economies continue to find its way.

In 2013, we plan to build on the fundamentals that have assisted the Bank to achieve its leadership position and sharing our success with Bahamians.

Pictured L to R (Standing):
Dr. Marcus R. C. Bethel
Larry R. Gibson
Earla J. Bethel

Pictured L to R (Seated):
Rupert W. Roberts, Jr., OBE
Vaughn W. Higgs

Pictured L to R (Standing):
G. Clifford Culmer
Robert D. L. Sands
R. Craig Symonette

Pictured L to R (Seated):
Ian A. Jennings, President
William B. Sands, Jr., Executive Chairman



Pictured L to R (Standing):

Patrick McFall, V.P. & CFO

Anthea Cox, V.P. Human Resources & Training

Charles Knowles, V.P. & CIO

Carole Rodgers, V.P. Internal Audit

Pictured L to R (Seated):

Denise Turnquest, Sr. V.P. Credit Risk

Ian A. Jennings, President

Mavis Burrows, V.P. Operations



Pictured L to R (Standing):

**Kenrick Brathwaite,** Asst. V.P. Internal Audit

**Ian Wilkinson,** Asst. V.P. Information Technology

Pictured L to R (Seated):

**Maxwell Jones,** Asst. V.P. Accounts Control & Recovery

**Neil Strachan,** Asst. V.P. Marketing & Business Development

**Silbert Cooper,** Asst. V.P. Consumer Lending

Pictured L to R (Standing):

Matthew Sawyer, Manager, Abaco
Stephen Johnson, Manager, Town Centre Mall
Frienderick Dean, Sr. Manager, East Bay Street
Perry Thompson, Manager, Prince Charles Branch
Lavado Butler, Manager, Wulff Road
Demetri Bowe, Manager, Golden Gates
Marcus Cleare, Manager, Oakes Field
J. Rupert Roberts, Sr. Manager, Freeport
Daria Bain, Manager, Commonwealth Bank Plaza

Pictured L to R (Seated):

Monique Mason, Manager, Credit Card Centre
Charlene Low, Manager, Lucaya
Franklyn Thomas, Sr. Manager, Cable Beach
Kayla Darville, Manager, Mortgage Centre

Pictured L to R (Standing):

**Jacqueline Hunt,** Sr. Manager, Internal Audit
**Derick Moss,** Manager, Systems Operations & Network
**Felipe Vega,** Manager, IT Projects
**Jasmin Strachan,** Manager, Data Proof
**Tameka Cooke,** Manager, Recruitment
**Gina Greene,** Manager, Marketing
**Lernix Williams,** Manager, Accounts
**Juliette Fraser,** Sr. Manager, Operations

Pictured L to R (Seated):

**Hope Sealey,** Manager, Mortgage & Commercial Lending
**Tanya Astwood,** Manager, Compensation & Benefits
**Lynda Burrows,** Manager, IT Operations
**Godwin Blyden,** Manager, Administration
**Gladys Fernander,** Sr. Manager, Financial & Business Planning
**Rekell Griffin,** Manager, Business Development

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 Financial Reporting Standards and the requirements of the relevant provisions of the Bank and Trust Companies Regulation Act and related amendments and 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 controls and internal audit, including organizational, procedural and internal controls over financial reporting. Our processes of controls include 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 controls 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 preparation and presentation 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 Vice President 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 19, 2013

**2012 Summary of Board and Committee Meetings**
**For the year ended December 31, 2012**

| | |
|---|---|
| Board | 5 |
| Audit Committee | 4 |
| Nominating Committee | 1 (a) |
| Executive Committee | 4 |
| Compensation Committee | 1 |
| Premises Committee | 5 |
| Information Technology Committee | 4 |
| | |
| Pension Fund Trustees Committee (b) | 1 |
| | |
| **Board Meeting Attendance** | |
| W. B. Sands, Jr. | 5 |
| I. A. Jennings | 5 |
| E. J. Bethel | 5 |
| M. Bethel | 5 |
| G. C. Culmer | 5 |
| J. B. Farrington, CBE (retired May 2012) | 2 |
| L. R. Gibson | 4 |
| V. W. Higgs | 4 |
| R. W. Roberts, Jr., OBE | 4 |
| R. D. L. Sands (appointed May 2012) | 3 |
| R. C. Symonette | 4 |

(a) The Nominating Committee for 2012 was held in January 2013.

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

Deloitte.

Deloitte & Touche
Chartered Accountants
and Management Consultants
2nd Terrace, Centreville
P.O. Box N-7120
Nassau, Bahamas

Tel: +1 (242) 302-4800
Fax: +1 (242) 322-3101
http://www.deloitte.com.bs

To the Shareholders of
Commonwealth Bank Limited:

We have audited the accompanying Consolidated Financial Statements of Commonwealth Bank Limited which comprise the Consolidated Statement of Financial Position as at December 31, 2012, and the related Consolidated Statements of Comprehensive Income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and 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 Commonwealth Bank Limited as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

February 20, 2013
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, 2012, 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, 2013

Oliver, Wyman Limited
Oliver, Wyman Limitée

MARSH & McLENNAN COMPANIES

COMMONWEALTH BANK LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT DECEMBER 31, 2012

(Expressed in Bahamian $'000s)

| | | 2012 | | 2011 |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and deposits with banks (Notes 5 and 7) | $ | 21,224 | $ | 19,926 |
| Balances with The Central Bank of The Bahamas (Notes 5 and 7) | | 47,913 | | 84,202 |
| Investments (Notes 5 and 8) | | 268,196 | | 261,179 |
| Loans receivable (Notes 5, 9, 18, 21 and 23) | | 1,050,045 | | 1,091,033 |
| Premises and equipment (Note 10) | | 41,285 | | 41,505 |
| Other assets | | 3,746 | | 3,144 |
| **TOTAL** | $ | 1,432,409 | $ | 1,500,989 |
| LIABILITIES AND EQUITY | | | | |
| LIABILITIES: | | | | |
| Deposits (Notes 5, 11, 18 and 21) | $ | 1,136,609 | $ | 1,203,067 |
| Life assurance fund (Notes 12 and 21) | | 15,070 | | 16,472 |
| Other liabilities (Notes 18 and 21) | | 17,122 | | 17,910 |
| Total liabilities | | 1,168,801 | | 1,237,449 |
| EQUITY: | | | | |
| Share capital (Note 13) | | 86,943 | | 86,950 |
| Share premium | | 24,551 | | 26,641 |
| General reserve (Note 14) | | 10,500 | | 10,500 |
| Retained earnings | | 141,614 | | 139,449 |
| Total equity | | 263,608 | | 263,540 |
| TOTAL | $ | 1,432,409 | $ | 1,500,989 |

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

These Consolidated Financial Statements were approved by the Board of Directors on February 7, 2013, and are signed on its behalf by:

Executive Chairman

President

COMMONWEALTH BANK LIMITED

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## YEAR ENDED DECEMBER 31, 2012

(Expressed in Bahamian $'000s)

| | | 2012 | | 2011 |
|---|---|---|---|---|
| **INCOME** | | | | |
| Interest income (Notes 5, 8 and 18) | $ | 161,492 | $ | 163,757 |
| Interest expense (Notes 5 and 18) | | (41,977) | | (47,843) |
| Net interest income | | 119,515 | | 115,914 |
| Loan impairment expense (Note 9) | | (44,004) | | (24,610) |
| | | 75,511 | | 91,304 |
| Life assurance, net | | 5,668 | | 5,334 |
| Fees and other income (Notes 5 and 16) | | 8,581 | | 8,072 |
| Total income | | 89,760 | | 104,710 |
| **NON-INTEREST EXPENSE** | | | | |
| General and administrative (Notes 5, 17 and 18) | | 51,056 | | 51,641 |
| Depreciation and amortization (Note 10) | | 2,520 | | 1,078 |
| Directors' fees | | 195 | | 190 |
| Total non-interest expense | | 53,771 | | 52,909 |
| **TOTAL COMPREHENSIVE INCOME** | $ | 35,989 | $ | 51,801 |
| **BASIC AND DILUTED EARNINGS PER COMMON SHARE** (expressed in dollars) | $ | 0.31 | $ | 0.47 |



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

COMMONWEALTH BANK LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## YEAR ENDED DECEMBER 31, 2012

(Expressed in Bahamian $'000s)

| | 2012 | 2011 |
|---|---|---|
| **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 | 1,967 |
| Repurchase of common shares | (7) | - |
| Balance at end of year | 1,960 | 1,967 |
| Total share capital | 86,943 | 86,950 |
| | | |
| **SHARE PREMIUM** | | |
| Balance at beginning of year | 26,641 | 26,722 |
| Repurchase of common shares | (2,090) | (103) |
| Share based payments (Note 15) | - | 22 |
| Balance at end of year | 24,551 | 26,641 |
| | | |
| **GENERAL RESERVE** | | |
| Balance at beginning and end of year (Note 14) | 10,500 | 10,500 |
| | | |
| **RETAINED EARNINGS** | | |
| Balance at beginning of year | 139,449 | 122,791 |
| Total comprehensive income | 35,989 | 51,801 |
| Common share dividends: 29 cents per share (2011: 30 cents) | (28,513) | (29,513) |
| Preference share dividends | (5,311) | (5,630) |
| Balance at end of year | 141,614 | 139,449 |
| | | |
| **EQUITY AT END OF YEAR** | $ 263,608 | $ 263,540 |

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

## CONSOLIDATED STATEMENT OF CASH FLOWS
## YEAR ENDED DECEMBER 31, 2012

(Expressed in Bahamian $'000s)

| | 2012 | 2011 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Interest receipts | $ 148,628 | $ 150,752 |
| Interest payments | (41,977) | (47,843) |
| Life assurance premiums received, net | 6,175 | 8,658 |
| Life assurance claims and expenses paid | (3,199) | (3,977) |
| Fees and other income received | 9,870 | 9,761 |
| Recoveries | 7,228 | 6,902 |
| Cash payments to employees and suppliers | (52,641) | (48,608) |
| | 74,084 | 75,645 |
| Increase in loans receivable | (10,244) | (75,585) |
| (Decrease) increase in deposits | (66,458) | 71,274 |
| Net cash (used in) from operating activities | (2,618) | 71,334 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of investments | (69,212) | (50,648) |
| Interest receipts from investments | 10,875 | 13,359 |
| Redemption of investments | 64,185 | 35,703 |
| Purchase of premises and equipment (Note 10) | (2,379) | (8,195) |
| Proceeds from sale of premises and equipment | 79 | 64 |
| Net cash from (used in) investing activities | 3,548 | (9,717) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Dividends paid | (33,824) | (35,143) |
| Repurchase of common shares | (2,097) | (103) |
| Share based payments (Note 15) | - | 22 |
| Net cash used in financing activities | (35,921) | (35,224) |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | (34,991) | 26,393 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 104,128 | 77,735 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** (Note 7) | $ 69,137 | $ 104,128 |
| **MINIMUM RESERVE REQUIREMENT** (Note 7) | 44,594 | 45,671 |
| **CASH AND CASH EQUIVALENTS IN EXCESS OF THE MINIMUM RESERVE REQUIREMENT** | $ 24,543 | $ 58,457 |

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 Bank 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 its operations and effective for accounting periods beginning on January 1, 2012.

| | |
|---|---|
| **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 12 | Deferred Tax - Recovery of Underlying Assets |
| **New Interpretation** | |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine |

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

| | |
|---|---|
| **New Standards** | |
| 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 |
| IFRS 13 | Fair Value Measurement |
| **Amendments to Standards** | |
| IFRS 1 | Government Loans |
| IFRS 7 | Offsetting Financial Assets and Financial Liabilities and the related disclosures |
| IAS 1 | Presentation of Items of Other Comprehensive Income |
| IAS 32 | Offsetting Financial Assets and Financial Liabilities |
| IAS 19 | Employee Benefits |
| IFRS 10, 11 and 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance |
| IAS 27 | Separate Financial Statements (as revised in 2011) |
| IAS 28 | Investments in Associates and Joint Ventures (as revised in 2011) |
| **Improvements to IFRSs** | |
| IFRS 1 | First-time Adoption of International Financial Reporting Standards |
| IFRS 1 | Borrowing costs |
| IAS 1 | Presentation of Financial Statements |
| IAS 16 | Property, Plant and Equipment |
| IAS 32 | Financial Instruments Presentation |
| IAS 34 | Interim Financial Reporting |

**IAS 19 Employee Benefits (as revised in 2011)**

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

Another significant change to IAS 19 relates to the presentation of changes in defined benefit obligations and plan assets with changes being split into three components:

1. Service cost - recognised in profit or loss and includes current and past service cost as well as gains or losses on settlements.

2. Net interest - recognised in profit or loss and calculated by applying the discount rate at the beginning of the reporting period to the net defined benefit liability or asset at the beginning of each reporting period.

3. Remeasurement - recognised in other comprehensive income and comprises actuarial gains and losses on the defined benefit obligation, the excess of the actual return on plan assets over the change in plan assets due to the passage of time and the changes, if any, due to the impact of the asset ceiling.

As a result, the profit or loss will no longer include an expected return on plan assets; instead, imputed finance income is calculated on the plan assets and is recognised as part of the net interest cost in profit or loss. Any actual return above or below the imputed finance income on plan assets is recognised as part of remeasurement in other comprehensive income.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions.

The Directors anticipate that with the exception of IAS 19, the adoption of these standards will have no material impact on the Bank's Consolidated 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, 2012. 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 Consolidated Statement 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.

*Recovery of previously written-off loans*
Recovery of principal and/or interest on previously written off loans are recognized in the Statement of Comprehensive Income on a cash basis or when the loan is rewritten on normal terms prevailing at the time of the rewrite.

*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 (2012: 98.037 million; 2011: 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 in the Consolidated Statement of Comprehensive Income.

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 is 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.

In 2012, the Bank recognized $0 (2011: $26 thousand) associated with employee share-based payment plans 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.

r. ***Reclassification*** - Certain comparative figures have been restated to comply with the current year's presentation.

Commissions received by Laurentide Insurance Agency (a wholly owned subsidiary) totaling $1.3 million (2011: $1.7 million) have been reclassified from fees and other income to life assurance, net.

## 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.

## 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:

| 2012 | Loans and Receivables | Held-To-Maturity | Available-For-Sale | Amortised Cost | Total |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | |
| Cash and cash equivalents | $ - | $ - | $ 69,137 | $ - | $ 69,137 |
| Investments | $ - | $ 267,921 | $ 275 | $ - | $ 268,196 |
| Loans receivable | $ 1,105,966 | $ - | $ - | $ - | $ 1,105,966 |
| **FINANCIAL LIABILITIES** | | | | | |
| Deposits | $ - | $ - | $ - | $ 1,136,609 | $ 1,136,609 |

| 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 |

At December 31, 2012 there were no assets or liabilities that were classified as FVTPL (2011: $Nil).



| 2012 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | |
| Investments | $ - | $ 267,921 | $ 275 | $ 268,196 |

| 2011 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | |
| Investments | $ - | $ 261,104 | $ 75 | $ 261,179 |

Financial assets and liabilities classified as level 3 are equity investments classified as held-to-maturity. The increase in level 3 financial assets is due to an addition in 2012.

There were no transfers between levels during the year.

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

| | 2012 | 2011 |
|---|---|---|
| **Interest income** | | |
| Loans and Receivables | $ 148,579 | $ 150,724 |
| Held-to-Maturity Investments | 12,865 | 13,005 |
| Available-For-Sale financial assets | 48 | 28 |
| | $ 161,492 | $ 163,757 |
| **Interest expense** | | |
| Financial Liabilities at Amortised Cost | $ 41,977 | $ 47,843 |
| **Fees and other income** | | |
| Loans and Receivables | $ 1,811 | $ 1,586 |
| **General and administrative expense** | | |
| Available-For-Sale financial assets | $ 130 | $ 144 |

## 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:

| 2012 | Bank | Insurance Company | Real Estate Holdings | Investment Company | Insurance Agency | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| External | $ 80,252 | $ 9,483 | $ 25 | $ 52 | $ - | $ (52) | $ 89,760 |
| Internal | 6,617 | 198 | 3,343 | 30 | 1,350 | (11,538) | - |
| Total revenue | $ 86,869 | $ 9,681 | $ 3,368 | $ 82 | $ 1,350 | $ (11,590) | $ 89,760 |
| **Net profit** | | | | | | | |
| Segment net profit | $ 32,874 | $ 6,116 | $ 731 | $ 49 | $ 683 | $ (4,464) | $ 35,989 |
| **Assets** | $ 1,362,312 | $ 42,706 | $ 27,124 | $ 2,578 | $ 1,355 | $ (3,666) | $ 1,432,409 |
| **Liabilities** | $ 1,153,538 | $ 15,194 | $ 23,200 | $ 2,230 | $ 6 | $ (25,367) | $ 1,168,801 |
| **Other Information** | | | | | | | |
| Capital additions | $ 2,177 | $ - | $ 353 | $ - | $ - | $ - | $ 2 ,530 |
| Depreciation | $ 1,944 | $ - | $ 573 | $ - | $ - | $ - | $ 2 ,517 |

## 6. BUSINESS SEGMENTS (CONTINUED)

| | 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 | 6,176 | 182 | 2,437 | 14 | 1,771 | (13,580) | (3,000) |
| Total revenue | $ 101,340 | $ 9 ,694 | $ 2,471 | $ 21 | $ 1,771 | $ (13,587) | $ 101,710 |
| **Net profit** | | | | | | | |
| Segment net profit | $ 49,235 | $ 5,355 | $ 485 | $ (5) | $ 884 | $ (4,153) | $ 51,801 |
| **Assets** | $ 1,433,421 | $ 42,012 | $ 26,847 | $ 638 | $ 1,117 | $ (3,046) | $ 1,500,989 |
| **Liabilities** | $ 1,212,554 | $ 16,627 | $ 23,653 | $ 338 | $ 6 | $ (15,729) | $ 1,237,449 |
| **Other Information** | | | | | | | |
| Capital additions | $ 2,366 | $ - | $ 9,694 | $ - | $ - | $ - | $ 12,060 |
| Depreciation | $ 2,184 | $ - | $ 501 | $ - | $ - | $ - | $ 2 ,685 |

## 7. CASH AND DEPOSITS WITH BANKS

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:

| | 2012 | 2011 |
|---|---|---|
| Cash and deposits with banks | $ 21,224 | $ 19,926 |
| Balances with The Central Bank of The Bahamas | 47,913 | 84,202 |
| Total cash and deposits with banks | $ 69,137 | $ 104,128 |



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, 2012, this reserve requirement was $44.6 million (2011: $45.7 million).

## 8. INVESTMENTS

Investments is as follows:

| | Term to Maturity | | | | | | 2012 | | 2011 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Within 12 months | | Over 12 to 60 months | | Over 60 months | | Total | | Total | |
| | $ | Yield % | $ | Yield % | $ | Yield % | $ | Yield % | $ | Yield % |
| Bahamas Government Treasury Bills | 4,982 | 0.999% | - | - | - | - | 4,982 | 0.999% | 14,969 | 0.715% |
| Bahamas Government Registered Stock | 3,080 | 8.767% | 17,847 | 4.872% | 222,296 | 4.869% | 243,223 | 4.919% | 228,471 | 5.034% |
| Bridge Authority Bonds | - | - | - | - | 237 | 6.267% | 237 | 6.267% | 237 | 6.267% |
| Mortgage Corporation Bonds | - | - | - | - | 16,191 | 5.000% | 16,191 | 5.000% | 14,148 | 5.015% |
| Clifton Heritage Bonds | - | - | - | - | 2,021 | 5.305% | 2,021 | 5.305% | 2,021 | 5.305% |
| College of The Bahamas Bonds | - | - | - | - | 259 | 6.760% | 259 | 6.760% | 250 | 7.000% |
| United States Treasury Notes | - | - | - | - | 1,008 | 6.943% | 1,008 | 6.943% | 1,008 | 6.947% |
| Other investments | - | - | - | - | 275 | 35.678% | 275 | 35.678% | 75 | - |
| Total investments | 8,062 | 3.966% | 17,847 | 4.872% | 242,287 | 4.917% | 268,196 | 4.886% | 261,179 | 4.797% |

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

| | 2012 | 2011 |
|---|---|---|
| Interest income | $ 12,865 | $ 13,005 |

## 9. LOANS RECEIVABLE

Loans receivable is as follows:

| | 2012 | 2011 |
|---|---|---|
| Residential mortgage | $ 258,818 | $ 259,922 |
| Business | 47,787 | 49,487 |
| Personal | 762,987 | 792,574 |
| Credit card | 36,374 | 37,999 |
| | 1,105,966 | 1,139,982 |
| Less: Impairment Allowances | 55,921 | 48,949 |
| | $ 1,050,045 | $ 1,091,033 |

Impairment Allowances on Loans Receivable:

| | 2012 | 2011 |
|---|---|---|
| **Gross Loans Receivable** | | |
| Individually Assessed Impaired Loans | $ 8,230 | $ 6,066 |
| Collectively Assessed | | |
| Impaired Loans | 47,188 | 30,479 |
| Non-impaired Loans | 1,050,548 | 1,103,437 |
| | 1,097,736 | 1,133,916 |
| Gross Loans and Advances | $ 1,105,966 | $ 1,139,982 |
| Individually Assessed allowances as % of individually assessed impaired loans receivable | 31.42% | 31.17% |
| Collectively Assessed allowances as % of Collectively assessed loans receivable | 4.86% | 4.15% |
| Total allowances as % of total loans receivable | 5.06% | 4.29% |

Movement in Impairment Allowances:

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Balance at Beginning of Year | Loans Written off | Recoveries | Provision for Credit Losses | Balance at End of Year |
| **Individually Assessed** | | | | | |
| Residential mortgage | $ 1,124 | $ - | $ - | $ 355 | $ 1,479 |
| Business | 767 | - | - | 340 | 1,107 |
| Total Individually Assessed | 1,891 | - | - | 695 | 2,586 |
| **Collectively Assessed** | | | | | |
| Residential mortgage | 9,712 | (737) | 7 | 2,414 | 11,396 |
| Business | 1,136 | (14) | - | (193) | 929 |
| Personal | 35,389 | (42,177) | 6,671 | 40,149 | 40,032 |
| Credit card | 821 | (1,332) | 550 | 939 | 978 |
| Total Collectively Assessed | 47,058 | (44,260) | 7,228 | 43,309 | 53,335 |
| Total Impairment Allowances | $ 48,949 | $ (44,260) | $ 7,228 | $ 44,004 | $ 55,921 |
| **Impairment Allowance** | | | | | |
| Impaired Loans Individually Assessed Allowances | $ 1,891 | $ - | $ - | $ 695 | $ 2,586 |
| Impaired Loans Collectively Assessed Allowances | 18,142 | (44,260) | 7,228 | 49,286 | 30,396 |
| Impaired Loans Total Allowances | 20,033 | (44,260) | 7,228 | 49,981 | 32,982 |
| Collective Allowances - Incurred but not yet identified | 28,916 | - | - | (5,977) | 22,939 |
| Total Allowances | $ 48,949 | $ (44,260) | $ 7,228 | $ 44,004 | $ 55,921 |

| | 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 |
| **Impairment Allowance** | | | | | |
| Impaired Loans Individually Assessed Allowances | $ 1,241 | $ - | $ - | $ 650 | $ 1,891 |
| Impaired Loans Collectively 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 - Incurred but not yet identified | 27,894 | - | - | 1,022 | 28,916 |
| Total Allowances | $ 41,272 | $ (23,835) | $ 6,902 | $ 24,610 | $ 48,949 |

Impaired loans receivable is as follows:

| | 2012 | | | 2012 | | | 2012 | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | $ 5,178 | $ 24,233 | $ 29,411 | $ 1,479 | $ 9,052 | $ 10,531 | $ 3,699 | $ 15,181 | $ 18,880 |
| Business | 3,052 | 1,415 | 4,467 | 1,107 | 488 | 1,595 | 1,945 | 927 | 2,872 |
| Personal | - | 20,462 | 20,462 | - | 20,403 | 20,403 | - | 59 | 59 |
| Credit card | - | 1,078 | 1,078 | - | 453 | 453 | - | 625 | 625 |
| | $ 8,230 | $ 47,188 | $ 55,418 | $ 2,586 | $ 30,396 | $ 32,982 | $ 5,644 | $ 16,792 | $ 22,436 |

| | |
|---|---|
| Percentage of loan portfolio | 5.01% |
| Percentage of total assets | 3.87% |
| Percentage of Impaired Allowance to Impaired Loans | 59.51% |

| | 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% |
| Percentage collective allowance to non impaired | |

Impairment allowance on collectively assessed incurred but not yet identified loans is 2.18% (2011: 2.62%) of the incurred but not yet identified 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, 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 |
| Additions | 81 | 611 | 16 | 1,822 | 2,530 |
| Transfers | 3 | (19) | 19 | (3) | - |
| Disposals | - | - | - | (721) | (721) |
| December 31, 2012 | 11,765 | 31,786 | 829 | 20,662 | 65,042 |
| **Accumulated Depreciation and Amortization** | | | | | |
| 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 |
| Charge for the year | 52 | 732 | 22 | 1,711 | 2,517 |
| Disposals | - | - | - | (488) | (488) |
| December 31, 2012 | 252 | 7,486 | 731 | 15,288 | 23,757 |
| **Net Book Value** | | | | | |
| December 31, 2012 | $ 11,513 | $ 24,300 | $ 98 | $ 5,374 | $ 41,285 |
| December 31, 2011 | $ 11,481 | $ 24,440 | $ 85 | $ 5,499 | $ 41,505 |

Depreciation and amortization expense is as follows:

| | 2012 | 2011 |
|---|---|---|
| Land/Site Improvements | $ 52 | $ 70 |
| Buildings | 732 | 748 |
| Leasehold improvements | 22 | 20 |
| Furniture, fittings and equipment | 1,711 | 1,847 |
| Total depreciation and amortization | 2,517 | 2,685 |
| Net loss (gain) on disposal of fixed assets | 3 | (1,607 ) |
| Net depreciation and amortization | $ 2,520 | $ 1,078 |

## 11. DEPOSITS

The composition of deposits is as follows:

| | 2012 | 2011 |
|---|---|---|
| Demand deposits | $ 82,195 | $ 91,092 |
| Savings accounts | 135,688 | 133,017 |
| Certificates of deposit | 918,726 | 978,958 |
| | $ 1,136,609 | $ 1,203,067 |

## 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, 2012 by Oliver Wyman of Toronto, Canada. The result of the valuation was an aggregate actuarial reserve of $11,252,935 (2011: $12,272,014). The valuation included a provision of $761,417 (2011: $867,493) for claims incurred but not yet reported.

Laurentide calculates its actuarial 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 $15,069,800 (2011: $16,472,008).

## 13. SHARE CAPITAL

Share capital is as follows:

**Preference Shares:**

| | Beginning and end of year 2011, 2012 | | AUTHORISED Beginning and end of year, 2012 | AUTHORISED Beginning and end of year, 2011 | OUTSTANDING Beginning and end of year, 2012 | OUTSTANDING Beginning and end of year, 2011 |
|---|---|---|---|---|---|---|
| **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%. At December 31, 2012 Prime Rate remained at 4.75%.

**Common Shares:**

| | $0.02 each Number 000's | $ |
|---|---|---|
| **Authorized:** | | |
| December 31, 2010, 2011 and 2012 | 225,000 | $ 4,500 |
| **Issued and outstanding:** | | |
| December 31, 2010 | 98,357 | 1,967 |
| Net issue of shares | - | - |
| December 31, 2011 | 98,357 | 1,967 |
| Net repurchase of shares | (320) | ( 7) |
| December 31, 2012 | 98,037 | $ 1,960 |

## 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 $0 (2011: $22 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; no shares were made available under this plan in 2012 (2011: 7,575 shares).

The expense recognized in 2012 for this equity settled share based payment plan was $0 (2011: $4 thousand).

The following tables summarize information about the Stock Option Plans:

| | **2012** | |
|---|---|---|
| | Nominal Value $0.02 Number of Stock Options (000's) | Weighted Average Exercise Price |
| Outstanding at beginning of year | 129 | 7.13 |
| Expired or forfeited | (129 ) | 7.13 |
| Exercised | - | - |
| Outstanding at end of year | - | - |
| Of which vested at the end of the year | - | - |
| Options available to be granted at end of year | 4,678 | |
| Outstanding Stock Options as a percentage of outstanding shares | 0.00% | |

| | 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 ) | 5 |
| 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 | |

## 16. FEES AND OTHER INCOME

Fees and other income is as follows:



| | 2012 | 2011 |
|---|---|---|
| Fees and commissions | $ 1,212 | $ 988 |
| Service charges | 3,183 | 3,077 |
| Card service revenue | 786 | 857 |
| Net foreign exchange revenue and other income | 3,400 | 3,150 |
| | $ 8,581 | $ 8,072 |

## 17. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses is as follows:

| | 2012 | 2011 |
|---|---|---|
| Staff costs | $ 33,157 | $ 34,450 |
| Other | 17,899 | 17,191 |
| | $ 51,056 | $ 51,641 |

Staff costs include pension costs of $2.57 million (2011: $1.53 million) (see Note 19).

## 18. RELATED PARTIES' BALANCES AND TRANSACTIONS

Related parties' balances and transactions are as follows:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Key Management Personnel $ | Other Related Party $ | Total $ | Key Management Personnel $ | Other Related Party $ | Total $ |
| Loans Receivable | 12,702 | 808 | 13,510 | 10,017 | 3,028 | 13,045 |
| Deposits | 160,893 | 503 | 161,396 | 151,746 | 3,842 | 155,588 |
| Other Liabilities | 472 | - | 472 | 298 | - | 298 |
| Interest Income | 884 | 84 | 968 | 630 | 29 | 659 |
| Interest Expense | 7,611 | 5 | 7,616 | 7,116 | 11 | 7,127 |
| General and Administrative Expense | 4,307 | - | 4,307 | 3,815 | - | 3,815 |
| Mortgage commitments | 2,246 | 3,000 | 5,246 | - | - | - |
| Commitments under revolving credit lines | 2,290 | 924 | 3,214 | 4,552 | 2,035 | 6,587 |

Rental commitments to related parties are as follows:

| Year | $ |
|---|---|
| 2013 | 198 |
| 2014 | 198 |
| 2015 | 17 |
| 2016 | 0 |
| 2017 | 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:

| | 2012 | 2011 |
|---|---|---|
| Short term benefits | $ 5,132 | $ 6,369 |
| Post employment benefits | $ 531 | $ 441 |
| Share based payments | $ - | $ 27 |

## 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:

| | 2012 | 2011 |
|---|---|---|
| Change in fair value of plan assets: | | |
| Fair value of plan assets at beginning of year | $ 49,532 | $ 46,056 |
| Actual return on plan assets | 1,676 | 2,118 |
| Company contributions | 2,645 | 1,742 |
| Participant contributions | 1,251 | 1,194 |
| Benefits paid | (335) | (457) |
| Withdrawals from plan | (1,226) | (1,121) |
| Fair value of plan assets at end of year | $ 53,543 | $ 49,532 |

## 19. BANK PENSION SCHEME (CONTINUED)

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Change in benefit obligation: | | | | |
| Benefit obligation at beginning of year | $ | 53,910 | $ | 43,071 |
| Employer service cost | | 2,359 | | 1,744 |
| Participant contributions | | 1,251 | | 1,194 |
| Interest cost | | 2,964 | | 2,709 |
| Benefits paid | | (1,561) | | (1,578) |
| Actuarial gain on obligation | | (65) | | 6,770 |
| Benefit obligation at end of year | $ | 58,858 | $ | 53,910 |
| Reconciliation of funded status: | | | | |
| Present value of plan assets in excess of obligations | $ | 5,314 | $ | (4,377) |
| Unrecognized actuarial gain | | (5,435) | | 4,562 |
| Balance at end of year | $ | (121) | $ | 185 |
| Components of pension benefit expense: | | | | |
| Current employer service costs | $ | 2,359 | $ | 1,744 |
| Interest cost | | 2,964 | | 2,709 |
| Expected return on plan assets | | (2,756) | | (2,922) |
| Pension benefit expense included in staff costs | $ | 2,567 | $ | 1,531 |
| Movement in accrued pension liability recognized in the Consolidated Statement of Financial Position: | | | | |
| Balance at beginning of year | $ | 185 | $ | (26) |
| Expense as above | | (2,567) | | (1,531) |
| Contributions paid | | 2,645 | | 1,742 |
| Adjustment to Prior Period Contributions | | (143) | | - |
| Balance at end of year | $ | 120 | $ | 185 |
| Actual return on plan assets: | | | | |
| Expected return on plan assets | $ | 2,756 | $ | 2,922 |
| Actuarial loss on plan assets | | (1,097) | | (804) |
| Actual return on plan assets | $ | 1,659 | $ | 2,118 |
| Assumptions at beginning 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 |
| Assumptions at end of year: | | | | |
| Discount rate | | 5.25% | | 5.25% |
| Long term rate of return on plan assets | | 5.50% | | 5.75% |
| Rate of increase in future compensation | | 4.00% | | 4.00% |
| 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 Pension | | Rate of Return on Plan Assets |
|---|---|---|---|---|
| Benefit obligation | $ 2,760 | $ 1,190 | $ 1,300 | $ - |
| Pension benefits expense | $ 180 | $ 160 | $ 150 | $ 140 |

The Bank administers its own pension fund. The pension fund owns 1,631,425 (2011: 1,631,425) common shares and $3.87 million (2011: $3.87 million) preference shares of the Bank. These shares have a market value of $14.60 million (2011: $15.29 million) which represents 27.25% (2011: 30.9%) of the pension fund's assets.

The major categories of plan assets and the expected rate of return at December 31, 2012 for each category are as follows:

| | **Expected Return** | | **Fair Value of Plan Assets** | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Balance at Banks | 3.00% | 3.25% | $ 5,074 | $ 2,530 |
| Equity Instruments | 7.50% | 7.60% | 15,533 | 16,163 |
| Government Bonds | 5.15% | 5.15% | 25,518 | 23,518 |
| Preferred Equity | 6.50% | 6.50% | 6,967 | 6,967 |
| Other Assets | 0.00% | 0.00% | 502 | 381 |
| Weighted Average Expected Return | 5.75% | 6.00% | $ 53,594 | $ 49,559 |

The overall expected rate of return for 2012 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 2013 the amount, recognized in the Statement of Comprehensive Income in respect of the pension plan, will be $2.8 million.

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

| | **2012** | **2011** |
|---|---|---|
| Deposits | $ 3,076 | $ 1,692 |
| Interest expense | $ 83 | $ 78 |

## 20. MATURITY OF ASSETS AND LIABILITIES

The maturity of assets and liabilities are as follows:

| | 2012 | 2011 |
|---|---|---|
| **ASSETS** | | |
| On demand | $ 67,087 | $ 102,094 |
| 3 months or less | 23,739 | 28,876 |
| Over 3 months through 6 months | 3,374 | 14,897 |
| Over 6 months through 12 months | 6,911 | 18,053 |
| Over 12 months through 24 months | 31,327 | 44,905 |
| Over 24 months through 5 years | 159,071 | 250,895 |
| Over 5 years | 1,140,900 | 1,041,269 |
| | $ 1,432,409 | $ 1,500,989 |

| | 2012 | 2011 |
|---|---|---|
| **LIABILITIES** | | |
| On demand | $ 87,912 | $ 96,702 |
| 3 months or less | 1,065,127 | 396,614 |
| Over 3 months through 6 months | 114 | 114,507 |
| Over 6 months through 12 months | 227 | 235,919 |
| Over 12 months through 24 months | 15,192 | 199,923 |
| Over 24 months through 5 years | 225 | 193,002 |
| Over 5 years | 4 | 782 |
| | $ 1,168,801 | $ 1,237,449 |

## 21. CONCENTRATION OF LOANS RECEIVABLE AND LIABILITIES

The concentration of loans receivable and liabilities are as follows:



| | 2012 | | 2011 | |
|---|---|---|---|---|
| | $ | # | $ | # |
| Loans receivable: | | | | |
| Under $50,000 | 674,713 | 70,099 | 710,447 | 69,615 |
| $50,001 - $100,000 | 182,456 | 2,936 | 184,394 | 2,980 |
| $100,001 - $150,000 | 66,807 | 537 | 67,513 | 544 |
| $150,001 - $300,000 | 113,650 | 552 | 110,584 | 544 |
| $300,001 - $500,000 | 35,387 | 95 | 35,853 | 99 |
| $500,001 - $1,000,000 | 22,020 | 33 | 21,540 | 32 |
| $1,000,001 and over | 10,933 | 7 | 9,651 | 7 |
| Impairment Allowance | (55,921) | - | (48,949) | - |
| | 1,050,045 | 74,259 | 1,091,033 | 73,821 |

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | $ | # | $ | # |
| Liabilities: | | | | |
| Under $50,000 | 172,002 | 57,371 | 175,547 | 56,650 |
| $50,001 - $100,000 | 91,464 | 1,272 | 88,518 | 1,226 |
| $100,001 - $150,000 | 57,258 | 471 | 57,344 | 471 |
| $150,001 - $300,000 | 96,404 | 447 | 100,232 | 467 |
| $300,001 - $500,000 | 87,522 | 216 | 90,604 | 224 |
| $500,001 - $1,000,000 | 184,467 | 232 | 184,918 | 231 |
| $1,000,001 and over | 447,492 | 207 | 505,904 | 220 |
| Life assurance fund | 15,070 | - | 16,472 | - |
| Other liabilities | 17,122 | - | 17,910 | - |
| | 1,168,801 | 60,216 | 1,237,449 | 59,489 |

## 22. COMMITMENTS AND CONTINGENCIES

a. In the ordinary course of business, the Bank had commitments as at December 31, 2012, as follows:

| | 2012 | 2011 |
|---|---|---|
| Mortgage commitments | $ 11,603 | $ 12,468 |
| Revolving credit lines | 26,311 | 36,750 |
| Standby letters of credit | 550 | 2,676 |
| Capital expenditures contracted | 274 | 1,319 |
| Capital expenditure approved but not yet contracted | 1,850 | 1,005 |
| | $ 40,588 | $ 54,218 |

***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** | **$** | **$** |
| 2013 | 545 | 829 |
| 2014 | 533 | 674 |
| 2015 | 151 | 584 |
| 2016 | 79 | 534 |
| 2017 | - | 128 |
| 2018 | - | - |

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 million 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 2011.

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, 2012 Laurentide has $300,300 (2011: $300,300) in share capital and $2,750,000 (2011: $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, 2012 (2011: $2,289,300).

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, 2012, the minimum margin of solvency was $5,577,508 (2011: $6,449,377). Laurentide's solvency margin at December 31, 2012 was $24,860,607 ($21,943,144) resulting in a surplus of $19,283,099 (2011: $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, 2012, Laurentide had $40,055,034 (2011: $38,570,024) in qualifying assets and $40,055,034 (2011: $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, 2012, 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 $222 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 $222 thousand.

| | Repricing date of interest sensitive instruments | | | | | Non interest | |
|---|---|---|---|---|---|---|---|
| As of December 31, 2012 | Within 3 Months | 3 - 5 months | 6-12 months | Over 1 - 5 Years | Over 5 years | rate sensitive | Total |
| **Assets** | | | | | | | |
| Cash equivalents | $ 3,155 | $ 511 | $ 762 | $ - | $ - | $ 64,709 | $ 69,137 |
| | 0.24% | 0.25% | 0.26% | - | - | - | 0.02% |
| Investments | 258,554 | 8,098 | - | - | 1,269 | 275 | 268,196 |
| | 4.96% | 4.01% | - | - | 7.00% | - | 4.93% |
| Loans receivable | 66,976 | 321,467 | 57,513 | 446,333 | 157,756 | - | 1,050,045 |
| | 15.33% | 9.01% | 14.89% | 14.90% | 14.53% | | 13.07% |
| Premises and equipment | - | - | - | - | - | 41,285 | 41,285 |
| Other assets | - | - | - | - | - | 3,746 | 3,746 |
| TOTAL | $ 328,685 | $ 330,076 | $ 58,275 | $ 446,333 | $ 159,025 | $ 110,015 | $ 1,432,409 |
| **Liabilities and shareholders' equity** | | | | | | | |
| Deposits | $ 399,919 | $ 122,739 | $ 207,299 | $ 402,789 | $ 3,863 | $ - | $ 1,136,609 |
| | 2.38% | 3.17% | 3.35% | 4.44% | 3.35% | - | 3.37% |
| Other liabilities | - | - | - | - | - | 32,192 | 32,192 |
| Preference shares | 84,983 | - | - | - | - | - | 84,983 |
| | 6.25% | - | - | - | - | - | 6.25% |
| Other equity | - | - | - | - | - | 178,625 | 178,625 |
| TOTAL | $ 484,902 | $ 122,739 | $ 207,299 | $ 402,789 | $ 3,863 | $ 210,817 | $ 1,432,409 |
| **INTEREST RATE SENSITIVITY GAP** | **$ (156,217)** | **$ 207,337** | **$ (149,024)** | **$ 43,544** | **$ 155,162** | **$ (100,802)** | **$ 0** |
| **CUMULATIVE INTEREST RATE SENSITIVITY GAP** | **$ (156,217)** | **$ 51,120** | **$ (97,904)** | **$ (54,360)** | **$ 100,802** | **$ 0** | **$ 0** |
| **COMPARATIVE 2011** | $ (197,584) | $ 10,021 | $ (160,004) | $ (99,602) | $ 66,134 | $ 0 | $ 0 |
| **Average Yield - Earning Assets** | 7.03% | 8.88% | 14.69% | 14.90% | 14.47% | | 11.38% |
| **Average Yield - Paying Liabilities** | 3.05% | 3.17% | 3.35% | 4.44% | 3.35% | | 3.57% |
| **Average Margin 2012** | 3.97% | 5.71% | 11.35% | 10.45% | 11.12% | | 7.80% |
| **Average Margin 2011** | 4.15% | 5.09% | 10.74% | 9.69% | 8.43% | | 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:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Original Contract | Restructured | Total | Original Contract | Restructured | Total |
| **Cash and cash equivalents** | | | | | | |
| Neither past due or impaired | $ 69,137 | $ - | $ 69,137 | $ 104,128 | $ - | $ 104,128 |
| Past due but not impaired | - | - | - | - | - | - |
| Impaired | - | - | - | - | - | - |
| | $ 69,137 | $ - | $ 69,137 | $ 104,128 | $ - | $ 104,128 |
| **Investments** | | | | | | |
| Neither past due or impaired | $ 268,196 | $ - | $ 268,196 | $ 261,179 | $ - | $ 261,179 |
| Past due but not impaired | - | - | - | - | - | - |
| Impaired | - | - | - | - | - | - |
| | $ 268,196 | $ - | $ 268,196 | $ 261,179 | $ - | $ 261,179 |
| **Loans receivable** | | | | | | |
| Neither past due or impaired | $ 820,655 | $ 45,487 | $ 866,142 | $ 868,507 | $ 58,420 | $ 926,927 |
| Past due but not impaired | 135,082 | 49,324 | 184,406 | 125,614 | 50,896 | 176,510 |
| Impaired | 33,313 | 22,105 | 55,418 | 22,597 | 13,948 | 36,545 |
| | $ 989,050 | $ 116,916 | $ 1,105,966 | $ 1,016,718 | $ 123,264 | $ 1,139,982 |

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:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Contract | Original Restructured | Total | Contract | Original Restructured | Total |
| **Loans receivable** | | | | | | |
| **Residential mortgage** | | | | | | |
| Neither past due or impaired | $ 150,800 | $ 12,378 | $ 163,178 | $ 162,174 | $ 14,132 | $ 176,306 |
| Past due but not impaired | 47,858 | 18,371 | 66,229 | 47,309 | 15,061 | 62,370 |
| Impaired | 19,573 | 9,838 | 29,411 | 14,677 | 6,569 | 21,246 |
| | $ 218,231 | $ 40,587 | $ 258,818 | $ 224,160 | $ 35,762 | $ 259,922 |
| **Business** | | | | | | |
| Neither past due or impaired | $ 25,085 | $ 726 | $ 25,811 | $ 26,114 | $ 1,905 | $ 28,019 |
| Past due but not impaired | 16,055 | 1,454 | 17,509 | 17,900 | 342 | 18,242 |
| Impaired | 4,000 | 467 | 4,467 | 2,579 | 647 | 3,226 |
| | $ 45,140 | $ 2,647 | $ 47,787 | $ 46,593 | $ 2,894 | $ 49,487 |
| **Personal** | | | | | | |
| Neither past due or impaired | $ 616,219 | $ 32,383 | $ 648,602 | $ 649,546 | $ 42,383 | $ 691,929 |
| Past due but not impaired | 64,424 | 29,499 | 93,923 | 53,888 | 35,493 | 89,381 |
| Impaired | 8,662 | 11,800 | 20,462 | 4,532 | 6,732 | 11,264 |
| | $ 689,305 | $ 73,682 | $ 762,987 | $ 707,966 | $ 84,608 | $ 792,574 |
| **Credit card** | | | | | | |
| Neither past due or impaired | $ 28,551 | $ - | $ 28,551 | $ 30,673 | $ - | $ 30,673 |
| Past due but not impaired | 6,745 | - | 6,745 | 6,517 | - | 6,517 |
| Impaired | 1,078 | - | 1,078 | 809 | - | 809 |
| | $ 36,374 | $ - | $ 36,374 | $ 37,999 | $ - | $ 37,999 |
| | $ 989,050 | $ 116,916 | $ 1,105,966 | $ 1,016,718 | $ 123,264 | $ 1,139,982 |



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

| | 2012 | 2011 |
|---|---|---|
| Satisfactory risk | $ 857,225 | $ 913,703 |
| Watch list | 7,600 | 13,043 |
| Sub-standard but not impaired | 1,317 | 181 |
| | $ 866,142 | $ 926,927 |

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

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Residential mortgage | Business | Personal | Credit card | Total |
| Past due up to 29 days | $ 49,956 | $ 13,690 | $ 66,050 | $ 4 ,766 | $ 134,462 |
| Past due 30 - 59 days | 7,706 | 3,104 | 18,037 | 1,316 | 30,163 |
| Past due 60 - 89 days | 8,567 | 715 | 9,836 | 663 | 19,781 |
| | $ 66,229 | $ 17,509 | $ 93,923 | $ 6,745 | $ 184,406 |

| | 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 |

***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.

Pictured L to R:

Vaughn W. Higgs
William. B. Sands, Jr.
Rupert Roberts, Jr., OBE
R. Craig Symonette
Earla J. Bethel

As part of its mandate, The Nominating 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 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, 2012.

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

Pictured L to R:

Rupert Roberts, Jr., OBE
R. Craig Symonette
William B. Sands, Jr.
Vaughn W. Higgs
Ian A. Jennings



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 prior to its approval 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, 2012.

William. B. Sands Jr.
**Executive Chairman**
Executive Committee

Pictured L to R:

Larry R. Gibson
G. Clifford Culmer
Earla J. Bethel
Marcus R. C. Bethel

**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 and made recommendations to the Board to ensure compliance with new and changing regulations.
- **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 be reappointed as the Bank's Auditors.
- **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, 2012.

G. C. Culmer

G. Clifford Culmer
**Chairman**
Audit Committee

Pictured L to R:

Ian A. Jennings
Marcus R. C. Bethel
Earla J. Bethel
Robert D. L. Sands
Larry R. Gibson

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.
- **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, 2012.

Earla J. Bethel
**Chairperson**
Premises Committee

Pictured L to R:

Vaughn W. Higgs
Ian A. Jennings
R. Craig Symonette
Robert D. L. Sands



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, 2012.

R. Craig Symonette
**Chairman**
IT Committee

Pictured L to R:

Vaughn W. Higgs
R. Craig Symonette
Rupert Roberts, Jr., OBE

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, medium 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, 2012.

Rupert 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.

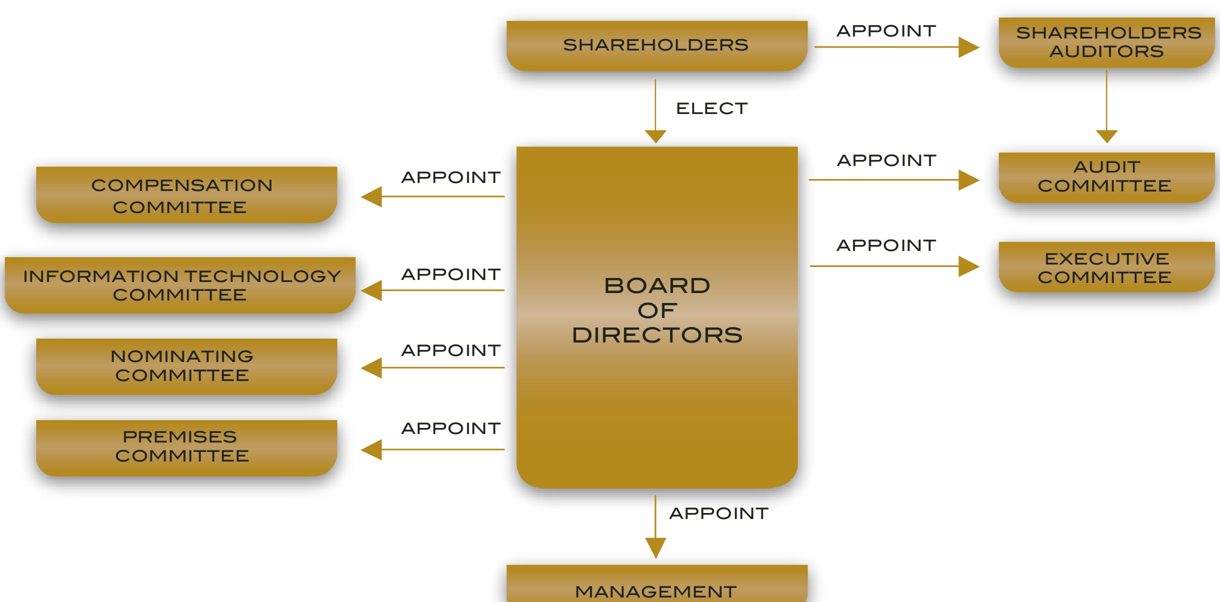
An important theme of corporate governance deals with issues of accountability and fiduciary duty, essentially advocating the implementation of policies and mechanisms to ensure good behaviour and protect shareholders. Another key focus is the economic efficiency view, through which the corporate governance 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



## 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;
- 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.

## 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

**ROBERT D. L. SANDS**
**Sr. V.P., Administration & External Affairs**
Baha Mar Ltd.

**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
Commonwealth Bank 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
Commonwealth Bank 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 CREDIT CARD
- MASTERCARD CREDIT CARD
- MASTERCARD PREPAID CARD
- MASTERCARD GIFT CARD
- CERTIFICATES OF DEPOSIT
- SAVINGS ACCOUNTS
- CHRISTMAS CLUB SAVINGS
- STUDENT SAVINGS ACCOUNTS
- PERSONAL CHEQUING ACCOUNTS
- PLATINUM CHEQUING ACCOUNTS
- BUSINESS CHEQUING ACCOUNTS
- AUTOMATED BANKING MACHINES
- FOREIGN EXCHANGE SERVICES
- SATURDAY BANKING
- ONLINE BANKING
- SAFE DEPOSIT BOXES
- BTC PREPAID CELL MINUTES

## LOCATIONS



### NEW PROVIDENCE

| | |
|---|---|
| Head Office | 502-6200 |
| Commonwealth Bank Plaza, | |
| Mackey St. | |
| P.O. Box SS-5541 | |

### BRANCHES

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

### GRAND BAHAMA

| | |
|---|---|
| The Mall Drive | 352-8307 |
| Lucaya | 373-9670 |

### ABACO

| | |
|---|---|
| Marsh Harbour | 367-2370 |

*DRIVE THROUGH ABM LOCATIONS

** SATURDAY BANKING LOCATIONS

### CREDIT CARD CENTRE

| | |
|---|---|
| Nassau | 502-6150 |
| Freeport | 352-4428 |
| Merchant Services | 502-6150 |

### CALL CENTRE 502-6206

### OFF-SITE ABM LOCATIONS

**Nassau**

- Super Value:
  - Cable Beach
  - Winton
  - Golden Gates
  - Prince Charles Shopping Centre
- The College Of The Bahamas Harry C. Moore Library

**Freeport**

- Freeport Airport
- Cost Right

**Abaco**

- Maxwell's Supermarket