FIRM FOUNDATION › FUTURE FOCUSED

COMMONWEALTH BANK

ANNUAL REPORT › 2013

Oakes Field Branch, pictured above, was devastated by fire in May 2013, relocated to Burns House building on JFK Drive and Bethel Avenue and "came home" to proudly reopen its doors to serve the community on Monday, February, 24, 2014. Bahamians helping Bahamians is the cornerstone upon which Commonwealth Bank was built. Rooted in the proud tradition of providing personalized community-based banking services, Commonwealth Bank continues to be a strong organization of local people making local decisions and providing sensible future focused financial advice.

Commonwealth Bank celebrated its 50th anniversary a few short years ago while at the same time our country was preparing for its 40th year of independence. There are parallels of the continuing success associated with the passing of the years for Commonwealth Bank and the Commonwealth of The Bahamas. Each year has allowed for the expansion and creation of the building blocks necessary to create a Firm Foundation that is also, Future Focused.

The foundation that has been created and continually reinforced over the years is the safe and sound application of its business model. This cornerstone of the business model and strategic direction has been based on Commonwealth Bank's commitment to Bahamians and knowing what works in the Bahamas for Bahamians. 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 products and services it knows and understands.

Time does not stand still. The complexity of banking and the needs of banking services and products for Bahamians are also ever increasing. The foundation that Commonwealth Bank has put in place over the years will allow us to continue to build and expand on this foundation in a safe and sound manner while at the same time servicing our customers, stakeholders and the communities in the manner they have come to expect.

The continued success of Commonwealth Bank will remain dependent on the ongoing dedication of many people. Their support and guidance has contributed to the many building blocks that form the Firm Foundation of the Bank and their continuing support will allow the Bank to be Future Focused in a safe, transparent and sound manner.

Commonwealth Bank looks forward to the future and the opportunity to expand its firm foundation and its ongoing support of Bahamians and their communities.

OUR VISION TO BE THE FIRST CHOICE OF BAHAMIANS FOR ALL PERSONAL 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** TO 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

TABLE OF CONTENTS

CORE VALUES	2013 STRATEGIC PRIORITIES	2013 INITIATIVES AND ACCOMPLISHMENTS	2014 STRATEGIC PRIORITIES
Be responsible and effective financial managers.	Marketing and business development opportunities will be expanded – to include an extension of card products and other innovative products and services.	Marketing activities were expanded in 2013 to ensure current products and services were appropriate for services were appropriate for existing and anticipated market. Focused activities resulted in positive returns to the Bank.	Focused marketing activities will continue in 2014 and will be complemented by an expanded card offering including a new debit and expanded credit card product line. Online banking products will also be expanded.
	Continued focus will be placed on credit quality and safety and soundness to support greater opportunities for additional revenue generation.	Ongoing and dedicated efforts to enhance credit quality continued and were successful as evidenced by the Bank's improved profitability.	No change in this important priority – the loan portfolio is the major asset of the Bank and required ongoing and dedicated oversight.
	Cost mitigation practices will continue.	Good control was maintained over expenses with actual expenses marginally above business plan.	Expense mitigation will remain a key objective for the Bank.
	Efficiency ratio indicators to remain industry leader.	At 43.9% the Bank remains an industry leader.	Remain an industry leader and ensure revenue generation parallels expense allocations.
Lead by example to effect positive change.	Board governance will be subject to further review in order to comply with anticipated additional regulatory requirements.	Board governance review completed and prescribed representation prepared for the Board confirmation. no non-compliance issues noted.	A review of board mandates will be carried out to ensure the mandates and focus parallel market realities.
	The Bank will continue to sustain its contributions to youth development and charities.	In 2013 the Bank contributed almost $500 thousand to youth development and other charities.	Commitment to youth development and selected charities will continue in 2014.
Provide meaningful opportunities for stakeholders to have input.	Performance techniques and practices will continue to be developed and expanded.	Computer based performance criteria was further developed to provide more timely measurement criteria.	The need for timely measurement of the Bank's operations will continue – focused projects have been identified.
	Transparency of operating results and regulatory requirements that also focus on safety and soundness practices will be emphasized.	The Bank remains a leader in the transparency of operating results and in addressing regulatory requirements.	The Bank's focus on safety and soundness and transparency of the of financial results will continue to be a key objective.
Ensure Commonwealth Bank is a great place to work.	An integrated bank-wide succession planning program will be introduced in 2013.	Programs introduced in 2013.	Succession planning throughout the Bank will be a significant objective in 2014 – High potential staff have been identified for special development and training with results being monitored by the Board on an ongoing basis.
	Training programs will become more closely linked with succession planning as well as day to day operational and regulatory requirements.	Specialized training programs continued for all staff.	Specialized training programs will continue for all staff members.
	Salary and benefit policies will continue to be reviewed against industry comparisons.	Salary and benefits plans continue to compare favorably with peers.	Ongoing peer reviews will continue.
Provide customers with outstanding services.	Marketing and Product Development activities to become more proactive products.	Some progress made – emphasis in 2013 was directed at credit risk assessment and collection activities.	Advanced card products to be introduced.
	Extended banking hours and services will continue to be reviewed for opportunities.	Saturday banking hours introduced where market were supportive of action.	Customer surveys will continue to ensure that Bank's products and services address market requirements.

(B$ 000's)	2013	2012	2011	2010	2009
INCOME STATEMENT DATA:					
Interest Income	$ 156,910	$ 161,492	$ 163,757	$ 161,608	$ 158,811
Interest Expense	(35,537)	(41,977)	(47,843)	(49,823)	(53,060)
Net Interest Income	121,373	119,515	115,914	111,785	105,751
Loan Impairment Expense	(24,797)	(44,004)	(24,610)	(18,230)	(30,262)
Net Interest Income after Loan Impairment Expense	96,576	75,511	91,304	93,555	75,489
Non-interest Income	13,244	14,249	13,406	13,297	14,842
Non-interest Expenses	(59,051)	(54,023)	(52,977)	(53,282)	(48,379)
Total Profit	50,769	35,737	51,733	53,570	41,952
Other Comprehensive Income	3,737	(763)	(7,363)	(525)	2,600
Total Comprehensive Income	54,506	34,974	44,228	53,045	44,552
PER SHARE DATA:					
Book Value	1.96	1.77	1.77	1.68	1.45
Cash Dividends	0.30	0.29	0.30	0.26	0.25
Year End Share Price	$ 6.91	$ 6.58	$ 7.00	$ 7.00	$ 7.00
Script Dividends					
Weighted Average Common Shares Outstanding (000's)	97,725	98,339	98,350	98,350	98,132
Dividend growth (total)	3.45%	-3.33%	15.38%	4.00%	-19.35%
BALANCE SHEET DATA:					
Total Assets	$ 1,432,705	$ 1,432,288	$ 1,500,947	$ 1,411,785	$ 1,380,287
Securities	278,785	268,196	261,179	246,588	196,688
Loans	1,085,277	1,105,966	1,139,982	1,088,232	1,086,227
Net Write-offs	26,347	37,032	16,933	13,336	19,621
Total Deposits	1,121,583	1,136,609	1,203,067	1,131,793	1,122,453
Total Shareholders Equity	276,048	258,173	259,120	249,974	227,677
PERFORMANCE RATIOS:					
Price/Earnings	14.85	21.27	14.93	14.46	19.08
Price/Book Value	3.57	3.72	3.96	4.17	4.82
Dividend Yield (Annual Dividend/Year End Price)	4.34%	4.41%	4.29%	3.71%	3.57%
Earnings Per Share	0.47	0.31	0.47	0.48	0.37
Return on Average Assets	3.16%	2.06%	3.17%	3.40%	2.63%
Return on Average Shareholders' Equity (Unadjusted)					
Return on Average Shareholders' Equity	23.49%	16.52%	26.89%	30.44%	26.75%
Ordinary Dividend Payout Ratio	64.61%	93.71%	64.02%	53.69%	68.14%
Efficiency Ratio	45.66%	42.06%	42.83%	44.72%	42.20%
Net Interest Margin	8.10%	7.97%	7.35%	7.50%	7.23%
ASSET QUALITY RATIOS:					
Non-accrual Loans to Total Loans	4.03%	5.01%	3.21%	2.88%	3.03%
Non-accrual Loans to Total Assets	3.05%	3.87%	2.43%	2.22%	2.39%
Net Write-offs to Average Loans	2.41%	3.29%	1.52%	1.23%	1.80%
Loan Impairment Allowances to Total Loans	5.01%	5.06%	4.30%	3.79%	3.35%
Loan Impairment Allowances to Non-accrual Loans	124.46%	100.91%	134.05%	131.90%	110.48%
LIQUIDITY RATIO:					
Average Cash and Securities to Average Total Assets	24.07%	23.83%	23.76%	21.89%	19.22%
CAPITAL RATIOS:					
Leverage Ratio Average Shareholders' Equity to Average Total Assets	19.32%	18.26%	17.66%	17.23%	16.03%
CONSOLIDATED CAPITAL ADEQUACY:					
Tier 1 Capital	$ 241,063	$ 173,190	$ 174,137	$ 164,991	$ 142,694
Tier 2 Capital	$ 44,947	$ 98,693	$ 99,302	$ 98,461	$ 98,440
Total Capital	276,048	258,173	259,120	249,974	227,677
Total Risk Adjusted Assets	1,076,868	1,096,837	1,145,483	1,078,203	1,076,562
Tier 1 Ratio	22.39%	15.79%	15.20%	15.30%	13.25%
Tier 1 + Tier 2 Capital Ratio	26.56%	24.79%	23.87%	24.43%	22.40%
Number of Employees Average for the Year	555	547	547	547	541

"While the market environment in recent years has forced many of our competitors to change direction, our business model has and will continue to be consistent, reinforced and focused on being the **First Choice of Bahamians for all Personal Banking Services.**"

WILLIAM B. SANDS, JR. / Executive Chairman

The results achieved during 2013 are reassuring when viewed against the continued concerns and the actual market realities that have faced Bahamians since 2008. Our confidence comes from the financial strength and consistent application of the Bank's business model that is focused on personal banking for Bahamians, and has been in place and sustained for more than 50 years.

While the market environment in recent years has forced many of our competitors to change direction, our business model has and will continue to be consistent, reinforced and focused on being the First Choice of Bahamians for all Personal Banking Services.

The success of Commonwealth Bank remains dependent on a strong and effective governance regime. Having a knowledgeable and skilled Board ensures the strength and stability of the Bank and is an important attribute of the overall safety and soundness of the Bank.

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 discipline exists at all times in order to create and sustain long term value to shareholders. To assist the board members to better appreciate their ever-increasing fiduciary responsibilities, Board mandates are reviewed on an ongoing basis with individual board mandates refreshed as required to address the increased complexity and expansion of business activities undertaken by the Bank.

Commonwealth Bank's Board follows the best practices set out by The Central Bank of The Bahamas' Guidelines for the Corporate Governance of Banks and Trust Companies Licensed to do Business Within and from Within The Bahamas. An annual compliance review is facilitated by the Board to ensure it is providing sound stewardship for the benefit of our customers and other stakeholders.

In doing so, the Board annually or more often as required reviews and approves Commonwealth Bank's strategic and risk appetite standards, sets and monitors corporate policies and is responsible for overseeing management and ensuring that Commonwealth Bank complies with regulatory and statutory requirements. The Board fosters a culture of transparency and accountability through disciplined standards of conduct and ethical behavior which are directed at emphasizing the continuing safety and soundness of the Bank and sustainable dividend distribution to its various shareholders.

Commonwealth Bank's reputation for the quality and application of a sound governance regime continues to be cited as being amongst the strongest and transparent when compared to its peers. The effectiveness and accountability that forms part of the Bank's governance regime will remain an integral part of our culture. It is this discipline and transparent regime that has and will continue to be a significant contributor to the success and stability of the Bank.

One of the most critical responsibilities of the Board is to ensure the Bank has effective talent recruitment, development and succession planning policies and practices. During 2013 the Board has increased its strong focus on succession planning at the most senior levels of the Bank. The Board's objective is to ensure clarity in the roles and responsibilities of the entire senior management team, to preserve the vital asset that the team represents and to avoid the loss of the embedded momentum of the Bank that can exist during a period of transition.

Commonwealth Bank is now a more complex and respected organization with total assets of in excess of $1.4 Billion. Ongoing profitability and consistent dividend distribution remains a core element of the Bank's continuing success.

Being a good corporate citizen is fundamental to our purpose as a licensed financial institution, and supporting the community and our customers is at the heart of this objective. As examples of the Bank's community activities, in 2013 the Bank was able to pass on close to $500 Thousand through continued contributions to a number of schools and charitable organizations.

Commonwealth Bank's ongoing success has been result of the ongoing dedication of many people. I want to thank the members of the Board of Directors for their contribution during 2013. Underlying their support and guidance is the strength that comes from our 551 employees who are united by our vision and core values. I want to sincerely thank these individuals for their continued support of the Bank.

As we plan for 2014, the difficulties associated with the less than opportune credit conditions that have existed for several years are likely to continue throughout 2014. These long standing challenges are now coupled with additional challenges such as significantly increased regulatory costs and the uncertainty surrounding the possible impact of the proposed introduction of a value-added tax regime.

However we look forward to 2014 and remain confident in the strength and resilience of the Bank's business model and the people behind it.

WILLIAM B. SANDS, JR.,
Executive Chairman

At Commonwealth Bank, we have strived to develop a culture of commitment to our customers, communities and our country. Service is an essential part of who we are and it is that firm foundation upon which, we are privileged to lend a helping hand. In 2013 we were honoured to have supported an assortment of initiatives that have a future focused on education, community, health, culture, environment, athletics, youth activities and care of our senior citizens. Through partnerships with civic, religious and non-government organisations, we have been able to extend our collective reach into the areas and to the causes, which have made a positive impact in the neighbourhood where we all live, work and play and the beautiful country that we call home.

We are all here to make a difference and it is with great appreciation that we acknowledge the hundreds of dedicated volunteers and advocates of change that tirelessly toiled in 2013 serving others.

Commonwealth Bank's vision for the future is wider than our product and service offerings. As an active member in the communities we serve, we too work hard every day to ensure we are able to fulfill our mission to make our society stronger, more vibrant and prosperous.

Moreover, this year's corporate contributions would not have been as meaningful were it not for our loyal employees engaging in the community by way of volunteering their time, talent and expertise to effect positive change.

Our firm foundation of commitment to our customers and our country over the years has laid the framework for a future focused on education and youth development, neighbourhood improvement and community outreach. To this end, we are pleased to share with you a partial listing of organizations and groups supported by Commonwealth Bank in 2013.

Pictured L to R: **Jerome Fitzgerald,** Ministry of Education, Science and Technology; **Denise Turnquest,** Sr. Vice President, Credit Risk, Commonwealth Bank and **Ian Jennings,** President, Commonwealth Bank

MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY

As the "Education Bank" we recognize that today's youth are tomorrow's leaders and nation builders, and through our Corporate Giving Program we have made support of education at primary, high school and college levels a priority, 2013 was no exception to this commitment. This year marked the sixth consecutive year that Commonwealth Bank has taken up the mantle to help prepare our young students for the classroom. Over the past 5 years the Bank has donated to the Ministry of Education, Science and Technology in excess of $1.5 million in essential school supplies and classroom materials ranging from backpacks and composition books; to LCD projectors, laptops and Promethean Boards.

Also, this was the 4th consecutive year that the Bank sponsored the Annual Parenting Forum hosted by the New Providence Association of Public High School Principals (NPAPHSP), in conjunction with the Ministry of Education, Science and Technology. The forum is designed to encourage greater parental involvement in the schools and to bridge the gap between educators and parents.

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

$500,000 ENDOWMENT FOR COB "THE EMERGING LEADERS AWARDS"

Precious Bethell, Brill Carey, Shamara Burrows, Nicolette Knowles, Kenwood Cartwright, Giovanni Clarke, Gailin Rolle and Kendrick Anderson. These college students are among the proud recipients of Commonwealth Bank's Emerging Leaders Endowment Fund at The College of The Bahamas. Now in its third year, the $500,000 endowment pledged over ten years has provided funding for students in various academic disciplines that hail from across The Bahamas. In the latest report from the COB, five of the ten recipients of the awards achieved Dean's List standing in the past two academic years. Three have graduated.

Pictured L to R: **Tameka Cooke,** Employee Relations Manager, Commonwealth Bank; **Major Lester Ferguson,** Divisional Commander, The Salvation Army; **Charles Knowles,** Vice President & CIO**,** Commonwealth Bank (The bank matched funds)

THE SALVATION ARMY AND GREAT COMMISSION MINISTRIES

Making ends meet. That is today's reality for nonprofit organizations like The Salvation Army and Great Commission Ministries International. Every day hundreds of Bahamians rely on their charitable service – to provide a hot meal, the warmth from clothing, and the counsel and care, in order to make it to another day. Their collective service to communities across the length and breadth of The Bahamas is unquestionable.

It's been estimated that 900 people a day in New Providence would go hungry if it were not for organizations like The Salvation Army, Great Commission Ministries International and other feeding programs and soup kitchens that provide sustenance to adults and children in need.

Team CB recognize and support the good work of The Salvation Army and the Great Commission Ministries International and made a generous contribution in the amount of $5,600. At Commonwealth Bank, we are truly proud of our team taking the lead to effect positive change as it reinforces the institution's philosophy of partnership, purpose and pride in the community. In recognition of our employees' selfless act, the Bank made a matching gift, and both organizations were presented with a donation of over $5,000.

Pictured L to R: **Tanya Astwood,** Compensation and Benefits, Commonwealth Bank; **Maxine Bethel,** Great Commission Ministries International and **Carole Rodgers,** Vice President, Internal Audit, Commonwealth Bank

COMMONWEALTH BANK DONATIONS 2013

- A.F.A. Hugh Campbell Basketball Classic
- All Abaco Junkanoo Committee
- Andros Conservancy and Trust Bahamas (ANCAT)
- Bahamas Air & Sea Rescue (BASRA)
- Bahamas Association of Athletic Associations
- Bahamas Girls Guide Association
- Bahamas Primary School Student of the Year
- Bahamas Red Cross (Abaco)
- Bahamas Red Cross Centre for the Deaf
- Bahamas Red Cross Society
- Bahamas Technical and Vocational Institute (BTVI)
- British Legion Bahamas Branch
- Cancer Society of The Bahamas
- Cape Eleuthera Island School
- Culture Up - A Children's Leadership Congress
- Embassy of The Bahamas
- Epworth Methodist Chapel in Cherokee Sound
- Falcons Boys Club
- Fancy Dancers Junkanoo Group
- FIRST LEGO League (FLL)
- Great Commission Ministries International
- Kevin Johnson Annual Basketball Camp
- Kidney Foundation of the Bahamas
- Ministry of Health, Bahamas National Drug Council
- Music Makers Junkanoo Group & Community Organization
- National Family Island Regatta
- Pace Foundation
- Prodigal Sons Junkanoo & Community Group
- R.E.A.C.H.
- Rotary Club of South East Nassau
- Royal Bahamas Police Force Summer Youth Program
- Shakespeare in Paradise
- Sherlin Bootle High School
- Swingers Junkanoo Group
- Teen Challenge Bahamas Temperament Development Program
- The Bahamas Diabetes Association
- The Bahamas Down Syndrome
- The Bahamas Swimming Federation
- The National L.E.A.D. Institute
- The Salvation Army
- The Sir Victor Sassoon (Bahamas) Heart Foundation
- Urban Renewal Commission
- Urban Renewal Commission 2.0 After School Program Abaco
- Z-Bandits Junkanoo & Community Group

Pictured L to R: **Lovern Wildgoose,** President of Cancer Society of The Bahamas and **Mavis Burrows,** Vice President of Operations, Commonwealth Bank

CANCER SOCIETY OF THE BAHAMAS

For over 35 years, The Cancer Society of The Bahamas has extended help, healing and support to patients and their families coping with the challenges of a cancer diagnosis. With the number of new cases of cancer increasing every year, the care and comfort provided to the community by the Cancer Society is indeed invaluable. Commonwealth Bank, too, is dedicated to making the communities we serve a healthier and better place for our neighbours, friends and family. Our corporate giving benchmark is to help organizations that impact many…in this case hundreds. The Cancer Society meets that standard. Over the years the Bank has been fortunate enough to provide a financial boost to this notable organization that has educated the wider community about cancer, the research and available treatments. Commonwealth Bank's employees have also been able to show their appreciation for the work the Society does by volunteering their time during annual community initiatives.

This year our donation aids the Cancer Caring Centre located East Terrace, Centreville. This facility makes available free lodging, treatment, day-to-day care and counselling for cancer patients visiting from the Family Islands. According to Lovern Wildgoose, President of the Cancer Society, the majority of the funds raised annually goes to the Cancer Caring Centre which serves as a temporary home away from home.

Pictured L to R: **Corporal Nathalie Ranger; Stephen Seymour,** Assistant Commissioner of Police; **Patrick McFall;** Vice President and CFO, Commonwealth Bank; **Hulan Hanna,** Assistant Commissioner of Police; **Walter Evans,** RBPF Fire Chief Superintendent and **Corporal Kikiya Smith**

ROYAL BAHAMAS POLICE FORCE – FIRE DEPARTMENT

Commonwealth Bank extended a heartfelt thank you to the brave members of the Royal Bahamas Police Force's (RBPF) Fire Unit for their assistance during a fire at the Oakes Field Branch location in May. On behalf of the Bank, Mr. Patrick J. McFall Vice President & CFO made a donation to the Royal Bahamas Police Force Welfare.

The Bank is also privileged to be a regular supporter and partner of the RBPF Annual Summer Youth Program. This program held during the long summer months enable children ages 7 to 16, from all facets of the community to learn and grow in a safe and positive environment.

2013 - AN ENCOURAGING RESPONSE TO A DIFFICULT ECONOMY

In 2013, the Bank was able to continue to build on its long standing strengths which at their core are the confidence of our Bahamian customers, convenience banking, and superior customer service, all of which are supported by Bahamian decision making.

The encouraging results recorded in 2013 were achieved despite the protracted weak economy coupled with higher than desired unemployment. The Bank has been able to continue to strengthen its Balance Sheet in 2013 while reinforcing the need to sustain and build upon the overall safety and soundness of the Bank. This action program has also allowed shareholders to participate in the success of the Bank through its ongoing dividend distribution program while ensuring the accretion of the Bank's capital base in order to have the capital and liquidity available to support any expanded growth opportunities in the future.

SHARING OF THE BANK'S SUCCESS

As the Bank has benefited from the support of our customers, it is our philosophy to invest back into our communities to support the long term health and vibrancy of the places where our customers live and work. Our long history of sharing our success with Bahamian communities continued in 2013.

The Bank remains committed to the development of our youth through the "Back to School" program, and continues to support the further development and sustainability of The College of The Bahamas. Other significant recipients of charitable donations from the Bank included agencies such as the Cancer Society, The Salvation Army, The Bahamas Red Cross Society, Great Commission Ministries International and The Bahamas Association of Athletic Associations. In total, the Bank continued to commit almost $500 thousand of its profits to charitable organizations and causes.

EXTENDED LEADERSHIP

The Bank was able to extend its leadership position in many categories during 2013. A core strategic objective was to better balance and integrate its established business model with its longer term growth strategy.

Emphasis was directed at sustaining a prudent credit risk management and reporting process plus a disciplined cost control to ensure the Bank's costs remained commensurate with its risk profile and forecast revenue growth. Critical to achieving this objective was retaining the Bank's historical resilience and market leading efficiency ratios that are needed when working through a lower growth economic environment.

Progress was made in achieving the objectives established and is reflected in the financial results reported for the 2013 fiscal year.

Total Profit from operating activities was $50.8 Million an increase of 42.1% over 2012. A primary contributor to the improved profitability was the focus the Bank placed on delinquency management supported by enhanced credit risk policies and procedures that were put in place to address the economic market realities that existed throughout the period under review.

Performance as measured by Return on Equity (ROE) and Return on Assets (ROA) were 23.5% and 3.2% respectively and reflected the improved profitability of the Bank in 2013. Liquidity ratios also remained strong. The Bank's Liquid Asset Ratio (LAR) of 182.3% was approximately 82% in excess of The Central Bank of The Bahamas prescribed level of liquidity. These important performance and liquidity ratios continue to significantly exceed regulatory minimums and the Bank's own internal guidelines.

The Bank's Efficiency Ratio which takes into consideration non-interest expenses compared to revenue generation remained strong at 45.7% although marginally missing the 2012 level of performance. This ratio is an important interbank measurement tool as it allows for the measurement of revenue generation against the Bank's own expense management program. The Bank's Efficiency Ratio continues to be better than industry averages and norms.

THE NEED FOR CONTINUED CLOSE OVERSIGHT AND MANAGEMENT

Total assets as at December 31, 2013 remained in excess of $1.43 Billion. The credit risk portfolio accounted for approximately 75% of the Bank's assets, a slight increase over 2012. The loan portfolio remains well diversified and is concentrated amongst our consumer loan base.

The Bank's credit risk model and profile continues to adhere to the simple guideline and objective, we reported to our shareholders last year:,

"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 within an effective and timely reporting process."

The ongoing quality of the credit risk portfolio is the key element of the Bank's ability to sustain strong revenue generation. As a result, emphasis is placed on credit risk policies, procedures and timely portfolio management. The management process is augmented by effective collection and monitoring techniques and practices. Any deteriorating situation is closely monitored and is also supported by an anticipatory and conservative provisioning methodology to ensure that any downside potential is addressed in a timely manner.

To complement the application of the existing internal policies and procedures and individual lender judgment, the Bank has in place an advanced technology based credit risk scoring and risk rating process. This system is used to assist in ensuring that a consistent approach is applied to Board approved credit risk management techniques and practices.

At year-end, the Bank maintained a provisioning ratio of almost 124% of its non-performing portfolio and 5.0% of the total loan portfolio. It must also be noted that for the largest sector of the loan book, the consumer book, the non-performing provisioning ratio is significantly higher to reflect the weak economic conditions and the risk profile of this portfolio. These ratios continue to compare favorably to industry averages and trends.

"Our financial strength continues to provide the Bank with a competitive advantage over its peers and we look forward to taking advantage of a business environment that presents us with appropriate and profitable opportunities."

IAN A. JENNINGS / PRESIDENT

Equally important to ensuring close oversight and effective management of the credit risk portfolio was maintained, the Bank continued to assist and mentor customers who faced distress situations through no fault of their own. The Bank worked with many Bahamians during 2013 to seek ways to mitigate the downside pressure of their financial situation.

CAPITAL - A REGULATORY SAFETY - NET

The level of capital a bank maintains is sometimes referred to as a regulatory and bank specific safety-net. In The Bahamas, the implied capital safety net is augmented by another regulatory guideline, referred to as the Liquid Asset Ratio.

International and domestic regulatory agencies continue to review and recommend expansion of the minimum capital guidelines which address the quality and required levels of capital necessary to operate a bank in its jurisdiction. The Central Bank of The Bahamas has participated in this international regulatory process which is generally referred to as the Basel III rules.

In 2013, the Bank strengthened its capital levels through the redemption and re-issue of approximately $50 Million in preferred shares. The re-issuance process allowed for the shift of former Tier 2 capital preferred shares to Tier 1 capital which is considered the stronger form of Bank capital.

The Bank's total capital as at December 31, 2013 amounted to $273.3 Million an increase of 5.9% over 2012. The current capital ratios remain well in excess of current and anticipated regulatory requirements.

OUR STAFF - OUR SUCCESS

Commonwealth Bank's team of 551 employees are dedicated to improving the financial well-being of our customers, stakeholder communities, the Bank and The Bahamas itself. The commitment of the Bank to staff its operations without resorting to hiring staff on work permits has resulted in the development and upward mobility of our staff with the associated high employee retention rate being key elements of the Bank's success.

The Bank has been fortunate to have staff that believe and apply the objectives that have been developed to sustain its core values. The Board and Executives remain committed to offering a workplace where employees can achieve their full potential. This commitment was amply demonstrated at our Oakes Field Branch when a significant fire and flood occurred in 2013. Through the dedicated support of the branch staff and other stakeholders, the branch regained full operation at a temporary location on J. F. K. Drive within one week.

Investing in people, ensuring their skills evolve with the needs of our business, is a critical component of the Bank's succession planning activities. The Board and Executive Teams have appreciated the ongoing support they have received from all employees and look forward to the continued development of the Bank and its most important asset, our employees.

GOING FORWARD

Money stress can be difficult to deal with … especially in a time of a troublesome economy. Reducing the stress of banking for our customers is one of the objectives the Bank is working towards in order to enhance the financial well-being of our customers. The Bank wants to make banking easy and affordable with our innovative, "Best in Class" financial products and services that provide worthwhile value to our customers.

Achieving any accelerated growth in 2014 will likely be difficult and will present unique challenges. According to The Central Bank of The Bahamas, the headwinds faced over the past several years will continue throughout 2014 due to the probability of continued uncertainty of the global recovery, the challenges to the tourism sector from intensified competition and higher unemployment rates which continue to limit any material rebound in the private sector. Added to these challenges is the unknown full impact of the proposed government initiated V.A.T tax regime, U.S. based FATCA compliance as well as increased business license requirements and ever increasing regulatory costs.

Commonwealth Bank, despite the expected headwinds, will continue to make worthwhile strides in shaping a new approach to the delivery of financial services in The Bahamas. To achieve the approved strategic objectives the Bank has identified the following priorities that continue to be designed to support our customers.

KEY PRIORITIES FOR 2014

- Continue the organic growth of loan and deposits;
- Continue to deliver convenient banking solutions and services that ensure customer satisfaction;
- Sustain strong efficiency and productivity levels to counter possible margin shrinkage;
- Broaden customer relationships through cross-selling initiatives;
- Complete the renovations and expansion of the Oakes Field branch in order to better serve customers, and,
- Consider certain asset purchases provided their potential return achieves or exceeds the Bank's approved hurdle rates and coincides with the Bank's overall business model.

In closing and on behalf of the Executive Team, I want to thank our customers, shareholders and employees for their ongoing and dedicated support of the Bank.

Our financial strength continues to provide the Bank with a competitive advantage over its peers and we look forward to taking advantage of a business environment that presents us with appropriate and profitable opportunities.

IAN A. JENNINGS
President

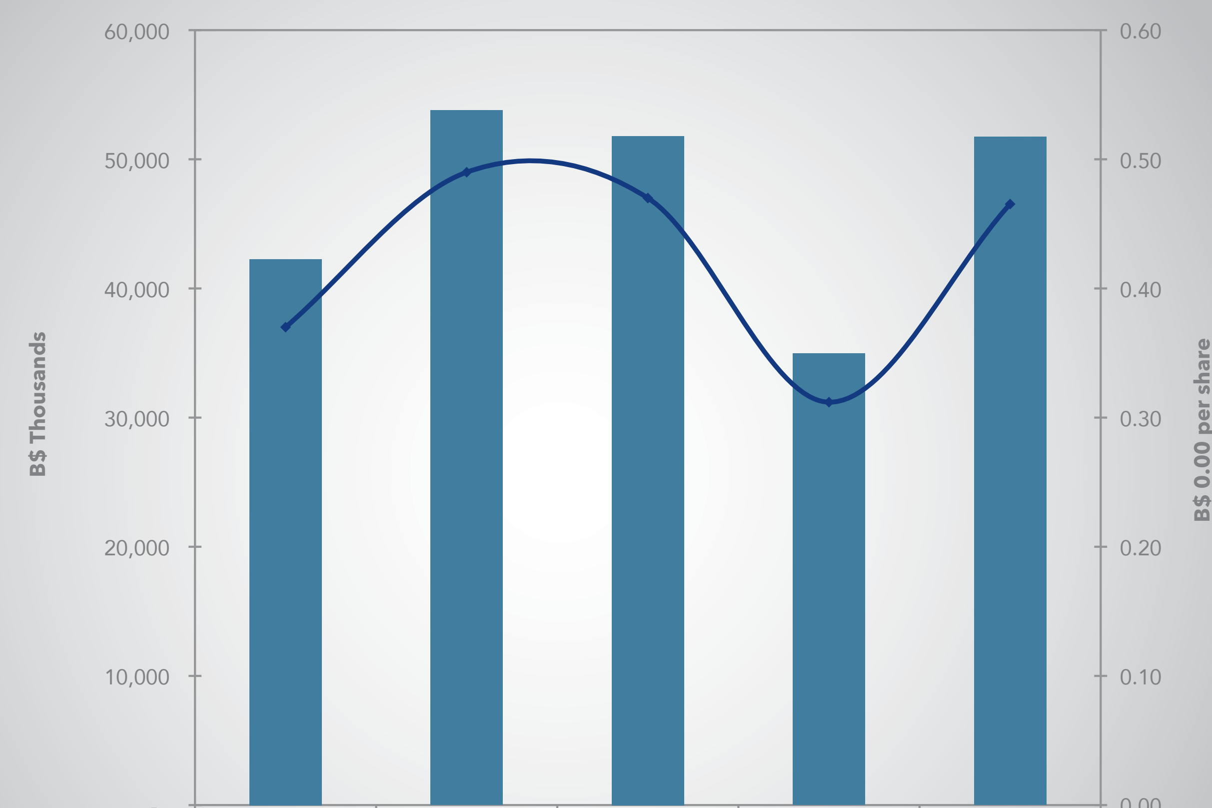
Pictured L to R: **Prince Rahming,** BFSB Chairman; **Katherine Hamilton,** Acting Manager - Training, BFSB Mentor of the Year Awardee; **Aliya Allen,** BFSB CEO and **Ryan Pinder**, Minister of Financial Services

BFSB 2013 INDUSTRY EXCELLENCE AWARD - MENTOR OF THE YEAR

The Bahamas Financial Services Board (BFSB) presented top honours to 31 outstanding individuals for their contribution to the growth and development of the financial sector industry. Commonwealth Bank's Katherine Hamilton, Acting Training Manager was awarded BFSB 2013 Industry Excellence Award - Mentor of the Year.

FINANCIAL HIGHLIGHTS 2013			
	2013	2012	Change
TOTAL PROFIT	$50.8 million	$35.7 million	42.06%
TOTAL COMPREHENSIVE INCOME	$54.5 million	$35.0 million	55.85%
TOTAL ASSETS	$1.433 billion	$1.432 billion	0.03%
EARNINGS PER SHARE	47 cents	31 cents	50.40%
RETURN ON COMMON SHAREHOLDERS EQUITY	23.49%	16.52%	42.23%
COMMON SHARE DIVIDENDS	30 cents	29 cents	3.45%
COMPREHENSIVE INCOME AVAILABLE TO COMMON SHAREHOLDERS	$45.5 million	$30.4 million	49.46%
GROSS REVENUES	$134.6 million	133.8 million	0.64%
EFFICIENCY RATIO	45.66%	42.06%	8.57%
TOTAL CAPITAL	$276 million	$258 million	6.92%
REGULATORY CAPITAL	26.56%	24.79%	7.15%

TOTAL PROFIT AND EARNINGS PER SHARE



	2009	2010	2011	2012	2013
Total Profit $000's	41,952	53,570	51,733	35,737	50,769
EPS	0.37	0.48	0.47	0.31	0.47

This Management's Discussion and Analysis of our financial condition and results of operations is provided to enable a reader to assess our financial condition, material changes in our financial condition and our results of operations, including our liquidity and capital resources, for the fiscal year ended December 31, 2013, 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 18, 2014. 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's core business strategy is to lead all Bahamian banks in providing personal banking services to consumers. In 2013 the Bank maintained focus on it well-entrenched business model, a strategy that continues to pay copious benefits to the Bank and its shareholders. Because of the economic realities, the Bank placed greater emphasis on improving the safety and soundness while positioning it for a productive and profitable future.

The success of the Bank's efforts was evident in its financial performance in 2013. Total Profit exceeded 2012 by 42% and represented the Bank's third most profitable year in its history.

However, despite the improvement within the Bank, the national economy in 2013 remained challenging with unemployment in The Bahamas increasing to 16.2% from last year when unemployment was 14.7%. High unemployment remains one of the greatest adversities for all banks.

In 2013, the Bahamian economy grew modestly. However, the growth was narrowly based in the tourism and construction segments and was insufficient to improve employment in 2013. These factors had two profound effects on the personal banking sector in 2013. Credit to consumers declined while loan arrearages grew.

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, 2013, Commonwealth Bank employed 551 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 2013

Total Profit in 2013 exceeded $50 million for the third time in the Bank's 53 year history, closing at $50.8 million and thereby outpacing 2012 by 42%. The Balance Sheet remained healthy with Total Assets at December 31, 2013 exceeding $1.43 billion. Regulatory Capital, which is the quintessential element indicating a bank's strength and safety, continued to improve above the Bank's already strong position.

The key to the Bank's success in 2013 was founded in its business strategy which was directed at achieving further expansion of its historical strengths – specifically the consumer banking sector, maintaining high credit quality and credit risk management standards, while applying effective expense mitigation and management techniques and practices.

Key financial analytics, most particularly and importantly loan quality statistics, continued to surpass industry peers. The level of such analytics, Return on Assets (ROA) 3.16%, Earnings Per Share (EPS) $0.47 and Return on Equity (ROE) at 23.5% were also appropriate to sustain the historical pattern of dividend distribution to shareholders and sufficient to reward the Bank's Common Shareholders with an extraordinary dividend of $0.06 per share totaling $5.9 million in November.

Notwithstanding the Bank's results, the economy continued to show significant weakness emanating mostly from the high national unemployment rate of 16.2%. Undaunted, the Bank effectively maneuvered its resources to maximize its collective efforts in order to achieve another year of strong financial performance.

REVIEW OF CONSOLIDATED RESULTS FROM CONTINUING OPERATIONS

The Bank's total profit for 2013 was $50.8 million (2012: $35.7 million). The improvement was primarily attributable to effective management of the Bank's delinquency management resources causing a $19 million or 44% decline in loan impairment expenses in 2013 vis-à-vis 2012. The reduction was driven by corresponding declines in impaired loans and overall loan arrearages. Impaired loans declined by 21.2% compared to 2012. Loans 30 or more days in arrears were only 7.8% of the total portfolio compared to 9.2% in the preceding year. Industry arrearages 30 days and over as reported by The Central Bank were 21.9% (2012: 20.0%).

Total Profit Available to Common Shareholders (Total Profit less Preference Share Dividends) increased $15.1 million or 49.5% to $45.4 million.

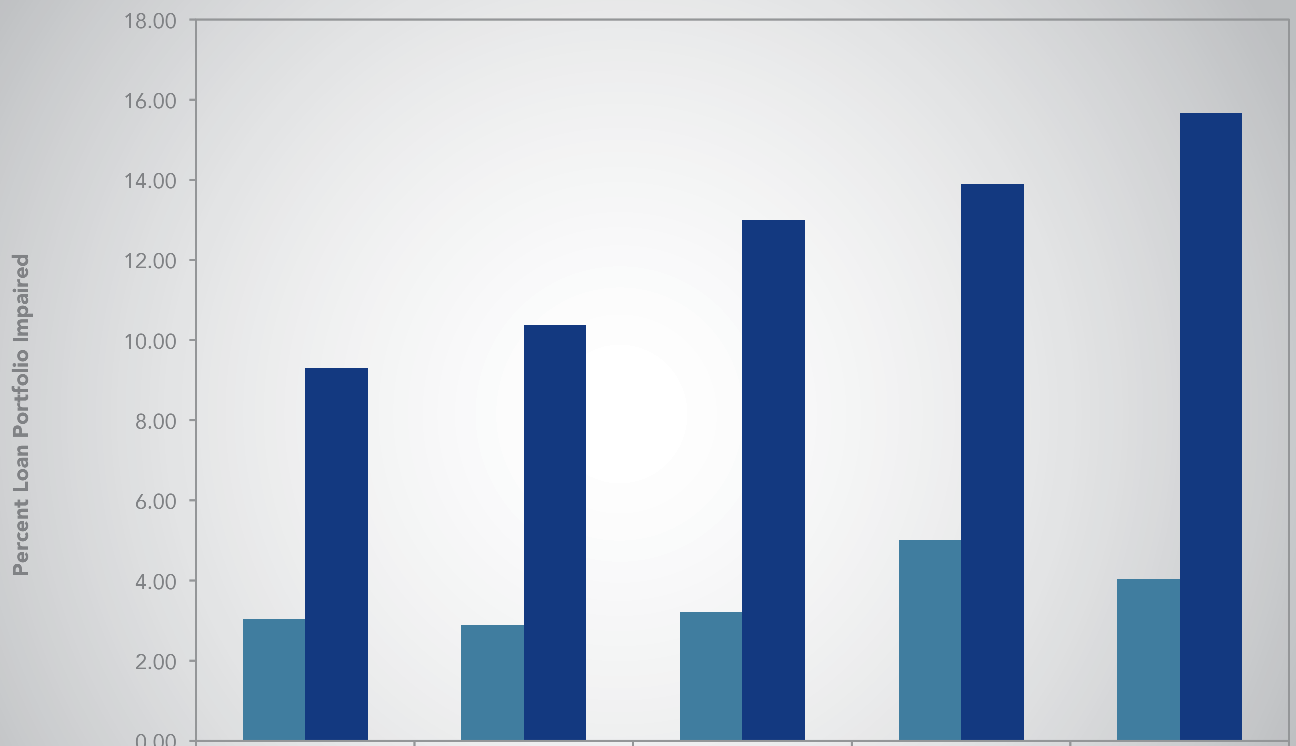
Current year earnings were 47 cents per share compared to 31 cents per share in 2012, an increase of 50%. Return on equity was 23.5%. Dividends paid to shareholders increased marginally to 30 cents per share (2012: 29 cents per share).

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 earning assets and liabilities combine to affect Net Interest Income.

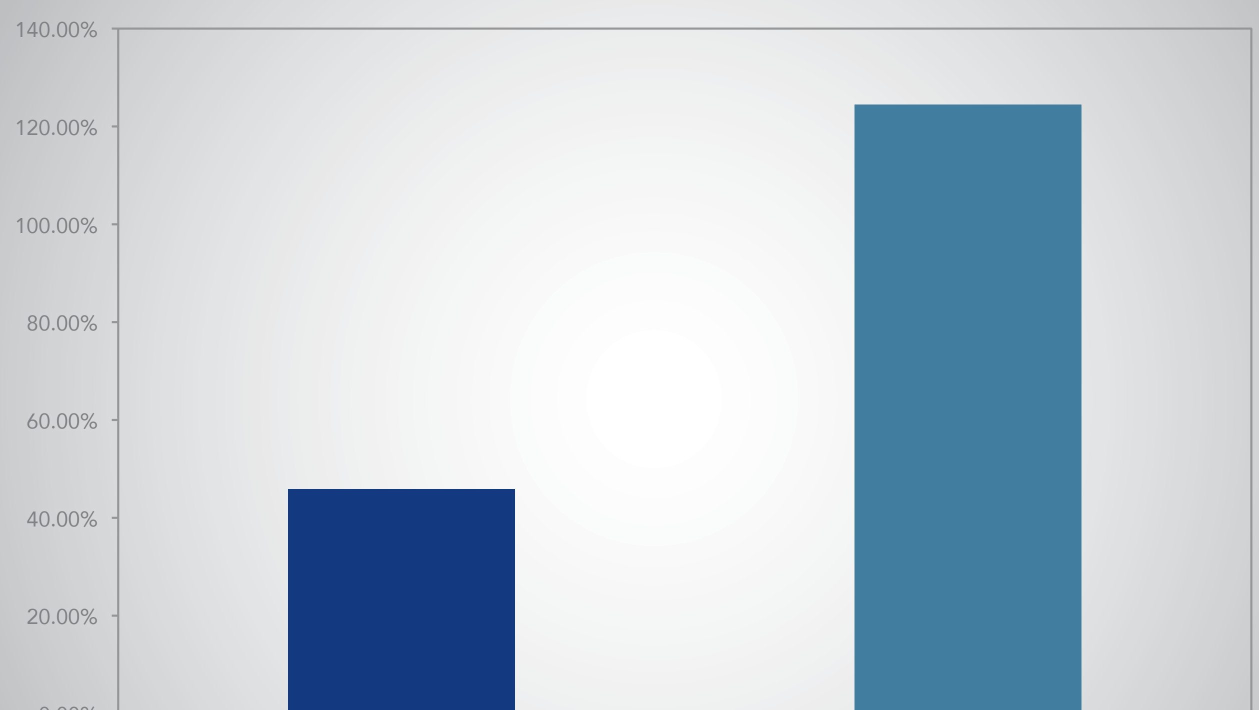
Net interest income for the year ended December 31, 2013, were impacted by two major factors – credit contraction and high liquidity prompting lower deposit rates; both of which were direct results of external factors, particularly the existing economic environment.

PERFORMANCE AGAINST INDUSTRY: IMPAIRED LOANS - 90 DAYS + ARREARS



	2009	2010	2011	2012	2013
Commonwealth Bank	3.03	2.88	3.21	5.01	4.03
Industry Impairment	9.29	10.38	13.00	13.90	15.67

IMPAIRMENT ALLOWANCE COVER OF IMPAIRED LOANS AT DECEMBER 2013



Impaired Loan Coverage - Industry	Impaired Loan Coverage - CB
45.83%	124.46%

Total private sector Bahamian dollar credit contracted by $87.2 million in 2013. The Bank contributed $20.7 million to this decline. This caused a 3% squeeze of the Bank's interest income to $157 million in 2013 compared to 2012. However, this was more than offset by a 15.3% reduction in total interest expense reflecting the better utilization of the Banks surplus liquidity, lower deposit rates together with some consumer's conversion of fixed deposits to savings and demand accounts to meet operational needs.

The combined effect was net interest income totaling $121.4 million in the year (2012: $119.5 million), an increase of $1.9 million or 1.6%. Net interest margin also increased to 8.1% (2012: 8.0%) 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 on these accounts compared to other loans.

Total write-offs for the Bank decreased in 2013 by 21.1% to $34.9 million from 2012's $44.3 million. As a result, the 2013 ratio of net loans written off to average loans fell to 2.5%, from 2012's 3.3%.

Amounts recovered on written-off loans increased in the year by 18.5% or $1.3 million to $8.6 million from $7.2 million in 2012.

Total impaired loans decreased to 4.03% from 5.01% in 2012 (2013: $43.7 million; 2012: $55.4 million). The Bank's level of impairment remains appreciably less than the industry at large which was 15.7% at December 2013 (13.9% December 2012).

All segments of the Bank's portfolio saw a decrease in impaired loans compared to 2012. The Bank's impaired personal loans declined $8.2 million, impaired mortgage loans dropped $2.2 million, impaired business loans fell $0.7 million and impaired credit card loans slipped $0.6 million.

The Bank's total allowances for loan impairment were $54.4 million which represented 5.01% of total loans as at December 31, 2013 (2012: $55.9 million and 5.06%) underscoring the Bank's persistent conservatism in provisioning and prudence in managing credit risk in the current environment. The percentage of impaired allowances to impaired loans was 58.3% in 2013 compared to 59.5% in 2012, while the collective impairment allowance on non-impaired loans jumped to 2.8% in 2013 (2012: 2.2%), an increase of $5.9 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 2013 was $24.8 million for the year compared to $44.0 million in 2012, a decrease of $19.2 million or 43.6%.

NONINTEREST INCOME

The greatest source of noninterest income for the group of companies is generated from the Bank's insurance subsidiary – Laurentide Insurance & Mortgage Company. Net credit life insurance income was $5.3 million in 2013, a decrease of $0.3 million from 2012. Premium income, which is earned over the life of the related loan, declined by $0.6 million or 7.3%. However total premiums collected in 2013, which reflected a more modest decline, was $12.7 million compared to $12.9 million. Death claims experience, manifesting a positive trend, declined by 11.5% to $1.3 million (2012: $1.5 million).

Other noninterest income waned to $8.0 million, a decrease of $0.6 million or 7.3% below 2012 indicated continued weakness in the economy.

Card products reflected a general decline but are still important to the Bank as MasterCard, SunCard and ComCard all continue to make positive contributions to the Bank's overall success in 2013. During the year, the Bank expanded its card products introducing co-branded prepaid cards backed by MasterCard. The Bank will continue to leverage its card products going forward.

CB Online, our internet banking service, continued to increase its customer base and activity in 2013 where we grew 1% and 24% respectively over 2012. 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 2014. The Bank is actively looking at new delivery channels for our customers in 2014.

NONINTEREST EXPENSE

The Bank continued to emphasize cost mitigation in 2013. Total noninterest expenses were $59.1 million compared to $54.0 million in 2012, an increase of $5.0 million or 9.3%. General and Administrative expenses rose by 9.7% ($5.0 million) since 2012 to close at $56.3 million (2012: $51.3 million). Included in this were staff costs, which grew by $3.2 million or 9.6%. This increase was mostly the effect of a variable cost and is directly correlated to the increase in total profit which grew by $15 million or 42%.

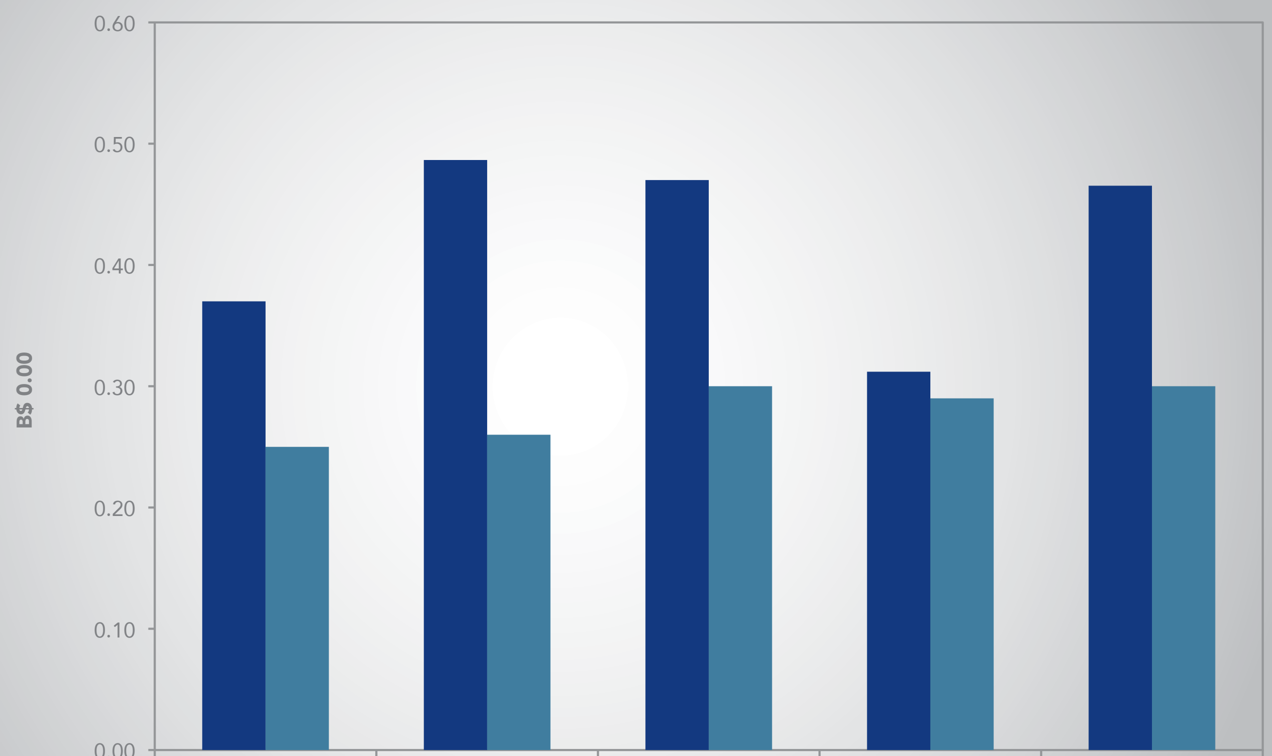
The Bank inherently believes it is important to provide convenience to its customers and consequently expanded its full service Saturday Banking by two additional Branches with service in four locations in New Providence and one in Grand Bahama. This service continues to be widely accepted by our customers.

Shifts in the Bahamian Government's tax environment are expected in 2014 including Value Added Taxes (VAT) and new business license fees. These are expected to significantly impact the Bank's operating expenses in 2014. The combined impact of these uncontrollable expenses is projected at approximately $7 million in 2014. Notwithstanding, close control of all expense categories will continue to be a major focus for the Bank in 2014.

OPERATIONAL EFFICIENCY

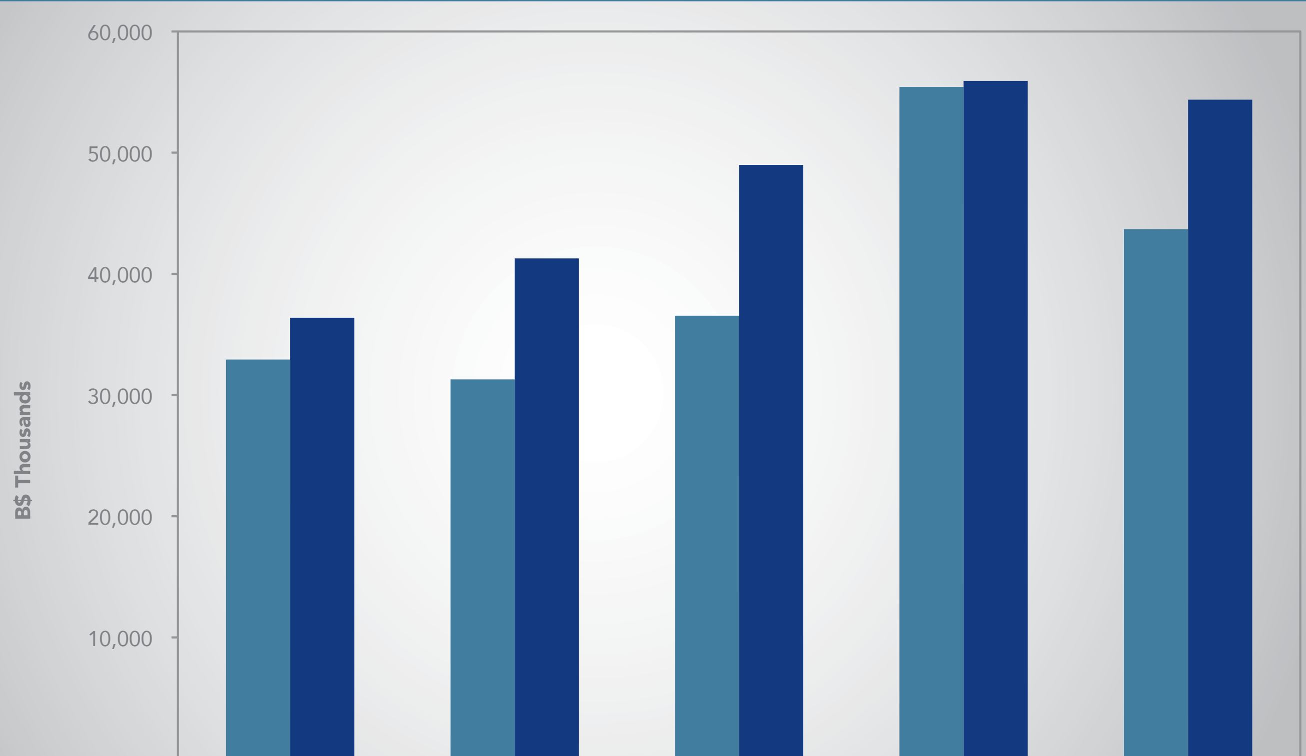
The efficiency ratio for the twelve months ended December 31, 2013 (calculated by dividing total non-interest expense by net interest income plus non-interest income less preference share dividends) was 45.7% and remains well ahead of the industry average. While this represents an increase from 2012 when the Bank's efficiency was at 42.1%, it remains well within the Bank's goal

EARNINGS PER SHARE AND DIVIDENDS PER SHARE



	2009	2010	2011	2012	2013
Earnings Per Share	0.37	0.48	0.47	0.31	0.47
Dividends Per Share	0.25	0.26	0.30	0.29	0.30

IMPAIRMENT LOANS AND IMPAIRMENT ALLOWANCES



	2009	2010	2011	2012	2013
Impaired Loans	32,928	31,290	36,545	55,418	43,687
Impairment Allowances	36,378	41,272	48,989	55,921	54,371

of less than 50%. To achieve the levels attained, emphasis was again placed on introducing enhanced technology and, where possible, continued centralization of operational functions in order to bring additional expertise, concentration and cost containment to repetitive and volume based activities.

Efforts in 2014 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.

MANAGEMENT OF FINANCIAL POSITION

The Bank's total assets were unchanged from 2012 ending the year at $1.43 billion. Total loans which accounted for 76% of the Bank's assets amounted to $1.085 billion at December 31, 2013, a reduction of $21 million or 1.9% (2012: $1.106 billion a decrease of $34 million from 2011). The decrease was experienced across all personal credit products and is generally indicative of the market conditions in 2013. 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 $744.1 million as at December 31, 2013, a decrease of $18.9 million (2.5%) from December 31, 2012. The decrease represented the combined impact of the write offs and the general economic conditions in 2013. Industry consumer loans contracted by $9 million (0.4%) in 2013. The Bank continued to be "The Leader in Personal Lending" with a market share of approximately 37%.

The value of the Bank's mortgage portfolio recorded a marginal decline in 2013. Mortgage balances at December 31, 2013 were $256.6 million with additional commitments of $10.6 million compared to $258.8 million with $11.6 million in commitments outstanding at December 31, 2012. At December 31, 2013 the mortgage portfolio made up approximately 23.6% of the total loan portfolio. Industry mortgage lending contracted marginally by $2.5 million in 2013.

The commercial loan portfolio at December 31, 2013 was $50.6 million or 4.7% of the loan portfolio, a growth of 5.8% from the $47.8 million at December 31, 2012. This growth does not represent a shift in the Bank's strategy. However, although small, the commercial loan portfolio remains an important element of the Bank's overall strategy. Commercial loans in the industry contracted by 6.5% in 2013.

Our Credit Card operations also reflected the prevailing economic environment in 2013. Yearend credit card receivables amounted to $34.0 million, a reduction of $2.3 million or 6.4% below 2012.

Total deposits as at December 31, 2013 closed at $1.122 billion a reduction of $15.0 million or 1.3% compared to the deposit levels as a December 31, 2012. 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 increased by $8 million to $77.2 million in 2013 (2012: $35 million increase). However, the Bank's liquidity continues to be strong with a liquidity ratio of 35% compared to Central Bank's minimum required liquidity ratio of 20%.

MANAGEMENT OF CAPITAL RESOURCES

In 2013, accounting standards affecting defined benefit (DB) pension plans were changed and the changes required retrospective treatment. The Bank which maintains a DB plan was therefore affected. The most significant change relates to the accounting for defined benefits obligations and plan assets. The amendments required 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 standards and accelerated the recognition of past service costs. The amendments required all actuarial gains and losses to be recognised immediately through Other Comprehensive Income in order for the net position of assets and liabilities in the Consolidated Statement of Financial Position to reflect the full value of the plan deficit or surplus. The impact of this change was a reduction in opening retained earnings of $5.4 million in 2013 (2012: $4.4 million).

Netting the impact of the above, the Bank's total capital increased $17.9 million in 2013 to $276.1 million. Capital was $258.2 million in 2012. Total capital ratio exceeded The Central Bank's 17% target ratio by $93 million.

THE COMPONENTS OF CAPITAL

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

- Tier 1 Capital, which consists primarily of Common and Preferred Shareholders Equity, totaled $241.1 million, which was above December 31, 2012 Tier 1 capital of $173.2 million.

  In December 2012, The Central Bank pronounced that beginning January 1, 2013, based on the existing rights and entitlements, the Bank's preference shares would no longer qualify as Tier 2 Capital at a declining rate of 10% per year. During 2013, the Bank converted $48.9 million preference shares to new classes which qualify as Tier 1 Capital. The remaining $34.9 million shares are scheduled to be converted at the option of the Preferred Shareholder once the Common Shareholders approve the change in rights of the unissued classes of Preferred Shares at the Annual General Meeting in 2014.

  During the year, the Bank purchased $0.85 million of its shares (2012: 2.1 million) and reissued $1 thousand (2012: $7 thousand) of shares through its wholly-owned subsidiary C.B. Securities, resulting in $3.6 million in shares held by the Subsidiary at December 31, 2013 (2012: $2.5 million). These shares fund the Bank's Stock Compensation Plans 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, 2013, the Bank had $34.9 million of Preference Shares, which qualified as Tier 2 Capital to the extent of 90%, down from $85.0 million (100% qualifying) in 2012. The Bank also had $13.5 million in capital associated with loan loss allowance (2012: 13.7 million).

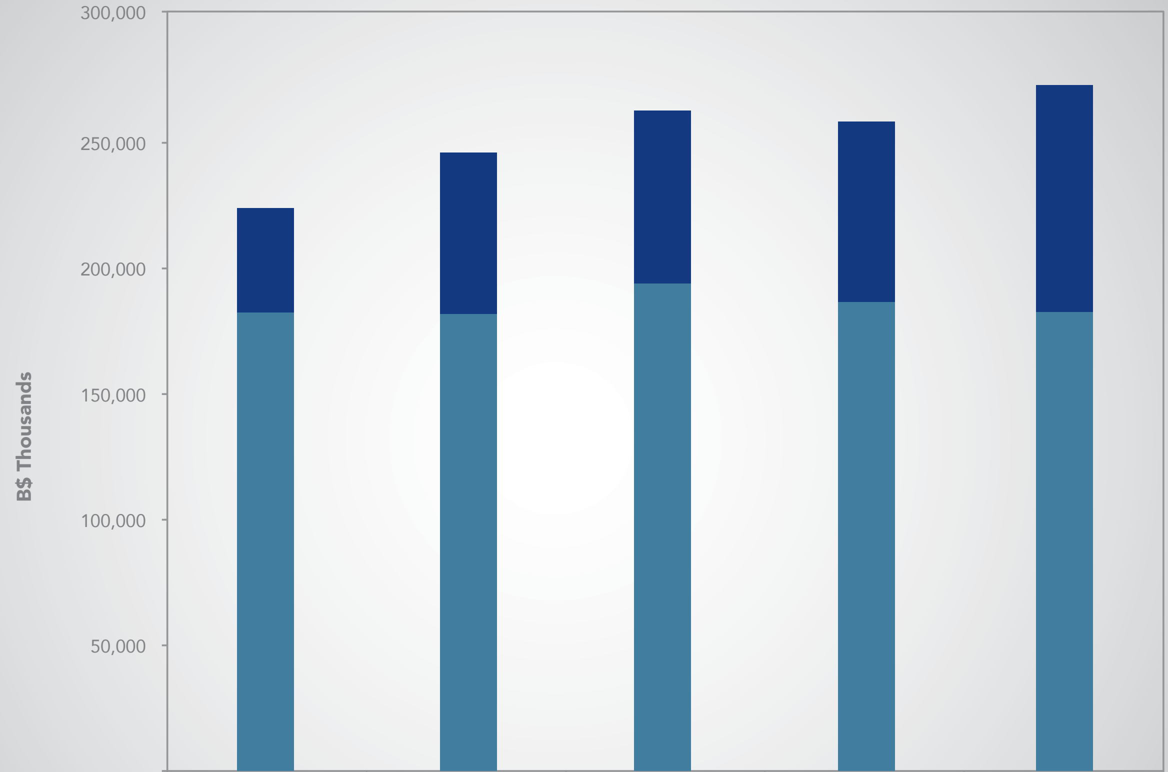
  Tier 1 Capital, is considered more permanent by stakeholders and is the principal focus of markets and regulators. The Bank's Total Capital Ratio at 26.6% at December 31, 2013 (2012: 24.8%) exceeds the minimum capital levels by 56.5%.

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.

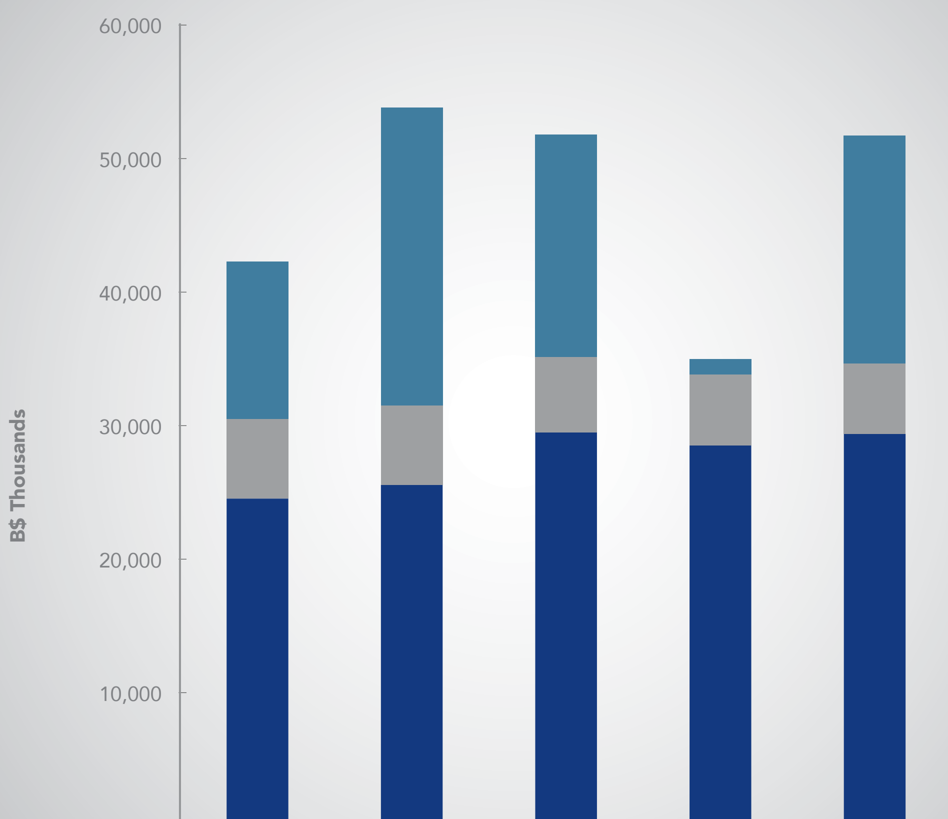
The Bank's risk management process is also a series of fully integrated set of building blocks that are designed to promote sound business decisions and provide the required balance of risk. Risk management policies address all known risks and are measured and monitored through the Bank's corporate governance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

CAPITAL VERSUS REGULATORY CAPITAL



	2009	2010	2011	2012	2013
Excess Capital	44,662	66,679	64,388	71,711	92,980
Regulatory Capital	183,015	183,295	194,732	186,462	183,068

TOTAL PROFIT DISTRIBUTION



	2009	2010	2011	2012	2013
Available for Reinvestment	11,470	22,053	16,590	1,913	16,092
Preference Dividend	5,949	5,949	5,630	5,311	5,294
Common Dividends	24,533	25,568	29,513	28,513	29,383

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 corporate governance process, ongoing and focused attention is placed on ensuring that the 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 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 Bank is in the process of implementing operational changes 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 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 $144.7 million or 13.3% of the portfolio; (2012: $116.9 million or 10.6%).

During 2014, 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 2014.

There were few legislative or regulatory changes in 2013 affecting the credit environment, however some legislation and regulatory pronouncements remain impending. These include The Home Owner's Protection Bill, Credit Bureau and Value-Added Tax. The Bank is closely monitoring the potential impact of an increasing regulatory environment.

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 2013, 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. Average Cash and Securities to Average Total Assets at the Bank was 24.07% as at December 31, 2013 and was above 2012 by 24 basis points. The Bank's liquidity levels continue to exceed the minimum level of 20% prescribed by The Central Bank and also indicate closer control was maintained over surplus liquidity.

COMMUNITY AND SOCIAL CONTRIBUTIONS

Community and social responsibilities remain important to the Bank. 2013 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 yearend the Bank employed 551 employees, ahead of 2012 by 3 persons. 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 2014

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 2013 confirmed that we remain on the right path to offer the Bank the best opportunities to maximize shareholder's 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 2014 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 their way.

In 2014, 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, G. Clifford Culmer, Larry R. Gibson

Pictured L to R (Seated):
Ian A. Jennings, President, Rupert W. Roberts, Jr., OBE

Pictured L to R (Standing):
Earla J. Bethel, Vaughn W. Higgs, Robert D. L. Sands

Pictured L to R (Seated):
William B. Sands, Jr., Executive Chairman, R. Craig Symonette

Pictured L to R:

Anthea Cox, V.P. Human Resources & Training
Charles Knowles, V.P. & CIO
Mavis Burrows, V.P. Operations
Ian A. Jennings, President
Denise Turnquest, Sr. V.P. Credit Risk
Patrick McFall, V.P. & CFO
Carole Rodgers, V.P. Internal Audit

Pictured L to R:
Kenrick Brathwaite, Asst. V.P. Internal Audit
Silbert Cooper, Asst. V.P. Consumer Lending
Neil Strachan, Asst. V.P. Marketing & Business Development
Maxwell Jones, Asst. V.P. Accounts Control & Recovery
Ian Wilkinson, Asst. V.P. Information Technology

Pictured L to R (First Row):
Monique Mason, Manager, Credit Card Centre
Charlene Low, Manager, Lucaya
Kayla Darville, Manager, Mortgage Centre
Marcus Cleare, Manager, Oakes Field

Pictured L to R (Second Row):
Franklyn Thomas, Sr. Manager, Cable Beach
Matthew Sawyer, Manager, Abaco
J. Rupert Roberts, Sr. Manager, Freeport
Demetri Bowe, Manager, Golden Gates

Pictured L to R (Third Row):
Perry Thompson, Manager, Prince Charles Drive
Lavado Butler, Manager, Wulff Road
Daria Bain, Manager, Commonwealth Bank Plaza
Stephen Johnson, Manager, Town Centre Mall
Frienderick Dean, Sr. Manager, East Bay Street

Pictured L to R (First Row):
Tameka Cooke, Manager, Employee Relations
Lynda Burrows, Manager, IT Operations
Katherine Hamilton, Acting Manager, Training
Tanya Astwood, Manager, Compensation & Benefits
Cindy Curtis, Head of Compliance
Jasmin Strachan, Manager, Data Proof

Pictured L to R (Second Row):
Keshala Knowles, Manager, Recruitment
Godwin Blyden, Manager, Administration
Jacqueline Hunt, Sr. Manager, Internal Audit
Juliette Fraser, Sr. Manager, Operations
Hope Sealey, Manager, Mortgage & Commercial Lending
Gladys Fernander, Sr. Manager, Financial & Business Planning

Pictured L to R (Third Row):
Felipe Vega, Manager, IT Projects
Gina Greene, Manager, Marketing
Lernix Williams, Manager, Accounts
Rekell Griffin, Manager, Business Development
Derick Moss, Manager, Systems Operations & Network

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 VP Internal Audit, Credit Inspection 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 18, 2014

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

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, 2013, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and 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, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

February 19, 2014
2nd Terrace West, Centreville
Nassau, Bahamas

A member firm of
Deloitte Touche Tohmatsu

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, 2013, 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, 2014

Oliver, Wyman Limited
Oliver, Wyman Limitée

MARSH & McLENNAN COMPANIES

(Expressed in Bahamian $'000s)

	2013	2012	2011
		(Restated)	(Restated)
ASSETS			
Cash and deposits with banks (Notes 5 and 7)	$ 21,815	$ 21,224	$ 19,926
Balances with The Central Bank of The Bahamas (Notes 5 and 7)	55,412	47,913	84,202
Investments (Notes 5 and 8)	278,785	268,196	261,179
Loans receivable (Notes 5, 9, 18, 21 and 23)	1,030,906	1,050,045	1,091,033
Premises and equipment (Note 10)	40,796	41,285	41,505
Other assets	4,991	3,625	3,102
TOTAL	**$ 1,432,705**	**$ 1,432,288**	**$ 1,500,947**
LIABILITIES AND EQUITY			
LIABILITIES:			
Deposits (Notes 5, 11, 18 and 21)	$ 1,121,583	$ 1,136,609	$ 1,203,067
Life assurance fund (Notes 12 and 21)	14,635	15,070	16,472
Other liabilities (Notes 18 and 21)	20,439	22,436	22,288
Total liabilities	1,156,657	1,174,115	1,241,827
EQUITY:			
Share capital (Note 13)	85,837	86,943	86,950
Share premium	23,703	24,551	26,641
General reserve (Note 14)	10,500	10,500	10,500
Retained earnings	156,008	136,179	135,029
Total equity	276,048	258,173	259,120
TOTAL	**$ 1,432,705**	**$ 1,432,288**	**$ 1,500,947**

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

These Consolidated Financial Statements were approved by the Board of Directors on February 12, 2014, and are signed on its behalf by:

Executive Chairman

President

(Expressed in Bahamian $'000s)

	2013	2012
		(Restated)
INCOME		
Interest income (Notes 5, 8 and 18)	$ 156,910	$ 161,492
Interest expense (Notes 5 and 18)	(35,537)	(41,977)
Net interest income	121,373	119,515
Loan impairment expense (Note 9)	(24,797)	(44,004)
	96,576	75,511
Life assurance, net	5,293	5,668
Fees and other income (Notes 5 and 16)	7,951	8,581
Total income	109,820	89,760
NON-INTEREST EXPENSE		
General and administrative (Notes 5, 17, 18 and 19)	56,285	51,308
Depreciation and amortization (Note 10)	2,576	2,520
Directors' fees	190	195
Total non-interest expense	59,051	54,023
TOTAL PROFIT	50,769	35,737
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of Defined Benefit Obligation (Note 19)	3,737	(763)
TOTAL COMPREHENSIVE INCOME	**$ 54,506**	**$ 34,974**
BASIC AND DILUTED EARNINGS PER COMMON SHARE (expressed in dollars)	**$ 0.47**	**$ 0.31**

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

(Expressed in Bahamian $'000s)

		2013		2012
				(Restated)
SHARE CAPITAL				
Preference shares (Note 13)				
Balance at beginning of year	$	84,983	$	84,983
Redemption of shares		(1,104)		-
Balance at end of year		83,879		84,983
Common shares (Note 13)				
Balance at beginning of year		1,960		1,967
Repurchase of common shares		(2)		(7)
Balance at end of year		1,958		1,960
Total share capital		85,837		86,943
SHARE PREMIUM				
Balance at beginning of year		24,551		26,641
Repurchase of common shares		(848)		(2,090)
Balance at end of year		23,703		24,551
GENERAL RESERVE				
Balance at beginning and end of year (Note 14)		10,500		10,500
RETAINED EARNINGS				
Balance at beginning of year		141,614		139,449
Adjustment for actuarial losses on pension plan		(5,435)		(4,420)
Balance at beginning of year, as restated		136,179		135,029
Total comprehensive income		54,506		34,974
Common share dividends: 30 cents per share (2012: 29 cents)		(29,383)		(28,513)
Preference share dividends		(5,294)		(5,311)
Balance at end of year		156,008		136,179
EQUITY AT END OF YEAR	**$**	**276,048**	**$**	**258,173**

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

(Expressed in Bahamian $'000s)

	2013	2012
		(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	$ 147,742	$ 148,628
Interest payments	(35,537)	(41,977)
Life assurance premiums received, net	6,588	6,175
Life assurance claims and expenses paid	(3,004)	(3,199)
Fees and other income received	9,225	9,870
Recoveries	8,564	7,228
Cash payments to employees and suppliers	(59,838)	(52,641)
	73,740	74,084
Increase in loans receivable	(14,223)	(10,244)
Decrease in deposits	(15,026)	(66,458)
Net cash from (used in) operating activities	44,491	(2,618)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(53,545)	(70,712)
Interest receipts from investments	12,942	12,375
Redemption of investments	42,934	64,185
Purchase of premises and equipment (Note 10)	(2,164)	(2,530)
Net proceeds from sale of premises and equipment	63	230
Net cash from investing activities	230	3,548
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(34,677)	(33,824)
Repurchase of common shares	(850)	(2,097)
Redemption of preference shares	(1,104)	-
Net cash used in financing activities	(36,631)	(35,921)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**8,090**	**(34,991)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**69,137**	**104,128**
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 7)	**$ 77,227**	**$ 69,137**
MINIMUM RESERVE REQUIREMENT (Note 7)	**43,776**	**44,594**
CASH AND CASH EQUIVALENTS IN EXCESS OF THE MINIMUM RESERVE REQUIREMENT	**$ 33,451**	**$ 24,543**

The accompanying notes form an integral part of these 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 all 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, 2013.

New and Amendments to Standards

IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IAS 28	Investments in Associates and Joint Ventures (as revised in 2011)
IFRS 13	Fair Value Measurement
IAS 19	Employee Benefits (as revised in 2011)
Amendments to IFRS 1	Government Loans
Amendments to IFRS 7	Disclosures–Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine
Annual Improvements to IFRS 2009 to 2012 Cycle	
IFRS 1	Repeated application of IFRS 1
IFRS 1	Borrowing costs
IAS 1	Clarification of the requirements for comparative information
IAS 16	Classification of servicing equipment
IAS 32	Tax effect of distribution to holders of equity instruments
IAS 34	Interim financial reporting and segment information for total assets and liabilities

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) (Effective for annual periods beginning on or after 1 January 2015)
Amendments to Standards	
IAS 32	Offsetting Financial Assets and Financial Liabilities (Effective for accounting periods beginning on or after 1 January 2014)
IFRS 10, 12 and 27	Investment Entities (Effective for accounting periods beginning on or after 1 January 2014)

The Directors anticipate that the adoption of these standards will have no material impact on the Bank's Consolidated Financial Statements.

Impact of application of IAS 19:

In the current year, the Bank has applied IAS 19 Employee Benefits (as revised in 2011) and the related consequential amendments for the first time.

The amendments to International Accounting Standards 19 - Employee Benefits, which became effective January 1, 2013, changed the accounting for the Bank's defined benefit plan. 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' previously 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 recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. IAS requires retrospective accounting treatment. The effect of the change is summarized below:

		2013		2012
Decrease in other assets	$	-	$	121
Increase in other liabilities	$	2,190	$	5,314
Decrease in opening retained earnings balance	$	5,435	$	4,420
Increase in other administrative costs	$	614	$	252
Increase (decrease) in other comprehensive income	$	3,737	$	(763)

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance - The 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, 2013. All intra-group transactions, balances, income and expenses have been eliminated in full on consolidation.

Basis of preparation - The 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 (see Note 3c), 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 Profit or Loss and Other 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 Profit or Loss and Other 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 are 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 Profit or Loss and Other 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 Profit or Loss and Other 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 Consolidated Statement of Profit or Loss and Other 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 Profit or Loss and Other 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 Profit or Loss and Other 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 expense 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 Profit or Loss and Other 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 (2013: 97.904 million; 2012: 98.037 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 pension plan covering all employees in the active employment of the Bank. Assets of the plan are held separately from the Bank in funds under the control of independent Trustees. The Trustees include representation from both the employer and employees. The employee representative is determined through an election process held triennially. In 2013, the plan was divided into two parts – a defined benefit provisions closed to new members and a defined contribution provisions added for new members.

Defined Benefit Provisions ("DB Provisions")

The DB Provisions is a defined benefit pension plan. Eligibility in the DB Provisions includes all employees in active employment of the Bank who have at least 3 years of service or have reached the age of 25 and who met the eligibility requirements of the DB Provisions prior to October 1, 2013.

The DB Provisions 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 DB Provisions based on triennial valuations. The Bank pays on demand to the DB Provisions such periodic contributions as may be required to meet the costs and expenses of the DB Provisions.

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

Pension costs charged to general and administrative expenses include the present value of the current year service cost based on estimated final salaries, interest on obligations less interest on assets, and estimated administrative costs. Pension costs charged to other comprehensive income include actuarial gains and losses on obligations and assets arising from experience different than assumed and changes in assumptions.

The DB Provisions obligation recognized in the Consolidated Statement of Financial Position represents the present value of the DB Provisions obligation as reduced by the fair value of plan assets.

The DB Provisions typically expose the Bank to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk.

i. Investment risk: Currently the DB Provisions has a balanced investment in Bahamian Government (and Government-related) securities and private securities. The present value of the DB Provisions liability is calculated using a discount rate of 0.5% above Bahamian Prime Rate of 4.75% (2012: 4.75%). If the return on asset is below this rate, it will create a deficit.
ii. Interest risk: A decrease in The Bahamian Prime Rate will increase the DB Provisions liability.
iii. Longevity risk: The present value of the DB Provisions liability is calculated by reference to the best estimate of the mortality of participants both during and after their employment. An increase in the life expectancy of the DB Provisions participants will increase the DB Provisions' liability.
iv. Salary risk: The present value of the DB Provisions liability is calculated by reference to the future salaries of participants. As such, an increase in the salary of the participants will increase the DB Provisions' liability.

Defined Contribution Provisions ("DC Provisions")

The DC Provisions is a defined contribution pension plan. The Bank pays a predetermined fixed contribution to the DC Provisions in addition to administrative costs of the DC Provisions. The DC Provisions includes a guaranteed investment option at the discretion of the employee whereby the Bank guarantees a specified return as defined by the Bank. Other than to meet the required funding of this segment of the DC Provisions, the Bank has no legal or constructive obligation to pay further contributions to the DC Provisions.

Eligibility in the DC Provisions includes all employees in active employment of the Bank who have at least 1 year of service or have reached the age of 25 and who met the eligibility requirements of the DC Provisions on or after October 1, 2013 or were hired after September 1, 2013.

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 2013, the Bank recognized $0 (2012: $0) associated with employee share-based payment plans in staff costs in the general and administrative expenses line of the Consolidated Statement of Profit or Loss and Other 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 Profit or Loss and Other 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 the 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 Profit or Loss and Other 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 Profit or Loss and Other Comprehensive Income.

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

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

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

   Premises and equipment are not considered to be financial assets.

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

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

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

c. ***Pension benefits -*** The Bank maintains a defined benefit plan as outlined in Note 3 (h). 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:*

	2013				
	Loans and Receivables	Held-To-Maturity	Available-For-Sale	Amortised Cost	Total
FINANCIAL ASSETS					
Cash and cash equivalents	$ -	$ -	$ 77,227	$ -	$ 77,227
Investments	$ -	$ 278,785	$ -	$ -	$ 278,785
Loans receivable	$ 1,085,277	$ -	$ -	$ -	$ 1,085,277
FINANCIAL LIABILITIES					
Deposits	$ -	$ -	$ -	$ 1,121,583	$ 1,121,583

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

At December 31, 2013 there were no assets or liabilities that were classified as FVTPL (2012: $Nil).

The following table shows Consolidated Statement of Profit or Loss and Other Comprehensive Income information on financial instruments:

	2013	2012
Interest income		
Loans and Receivables	$ 143,945	$ 148,579
Held-to-Maturity	12,920	12,865
Available-For-Sale	45	48
	$ 156,910	$ 161,492
Interest expense		
Amortised Cost	$ 35,537	$ 41,977
Fees and other income		
Loans and Receivables	$ 1,759	$ 1,811
General and administrative expense		
Available-For-Sale	$ 137	$ 130

6. BUSINESS SEGMENTS

For management purposes, the Bank, including its wholly-owned 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 wholly-owned 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:

	2013						
	Bank	Insurance Company	Real Estate Holdings	Investment Company	Insurance Agency	Eliminations	Consolidated
Income							
External	$ 102,569	$ 8,962	$ 19	$ 192	$ -	$ (1,922)	$ 109,820
Internal	5,968	203	3,187	143	1,346	(10,847)	-
Total income	$ 108,537	$ 9,165	$ 3,206	$ 335	$ 1,346	$ (12,769)	$ 109,820
Total profit							
Segment total profit	$ 50,769	$ 5,780	$ 970	$ 198	$ 689	$ (7,637)	$ 50,769
Assets	$ 1,421,739	$ 44,127	$ 26,427	$ 3,611	$ 1,599	$ (64,798)	$ 1,432,705
Liabilities	$ 1,142,107	$ 14,774	$ 19,532	$ 3,065	$ 6	$ (22,827)	$ 1,156,657
Other Information							
Capital additions	$ 2,031	$ -	$ 133	$ -	$ -	$ -	$ 2,164
Depreciation and amortization	$ 2,080	$ -	$ 510	$ -	$ -	$ -	$ 2,590

	2012						
	Bank	Insurance Company	Real Estate Holdings	Investment Company	Insurance Agency	Eliminations	Consolidated
Income							
External	$ 82,161	$ 9,483	$ 25	$ 52	$ -	$ (1,961)	$ 89,760
Internal	6,078	198	3,343	30	1,350	(10,999)	-
Total income	$ 88,239	$ 9,681	$ 3,368	$ 82	$ 1,350	$ (12,960)	$ 89,760
Total profit							
Segment total profit	$ 35,738	$ 6,116	$ 731	$ 49	$ 683	$ (7,579)	$ 35,738
Assets	$ 1,419,809	$ 42,706	$ 27,124	$ 2,578	$ 1,355	$ (61,284)	$ 1,432,288
Liabilities	$ 1,159,094	$ 15,194	$ 23,200	$ 2,230	$ 6	$ (25,609)	$ 1,174,115
Other Information							
Capital additions	$ 2,177	$ -	$ 353	$ -	$ -	$ -	$ 2,530
Depreciation and amortization	$ 1,944	$ -	$ 573	$ -	$ -	$ -	$ 2,517

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:

	2013	2012
Cash and deposits with banks	$ 21,815	$ 21,224
Balances with The Central Bank of The Bahamas	55,412	47,913
Total cash and deposits with banks	$ 77,227	$ 69,137

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, 2013, this reserve requirement was $43.8 million (2012: $44.6 million).

8. INVESTMENTS

Investments is as follows:

	Term to Maturity						2013		2012	
	Within 12 months		Over 12 to 60 months		Over 60 months		Total		Total	
	$	Yield %	$	Yield %	$	Yield %	$	Yield %	$	Yield %
Bahamas Government Treasury Bills	14,970	0.703%	-	-	-	-	14,970	0.703%	4,982	0.999%
Bahamas Government Registered Stock	4,950	4.985%	20,211	4.894%	218,704	4.861%	243,865	4.867%	243,223	4.919%
Bridge Authority Bonds	-	-	-	-	237	6.267%	237	6.267%	237	6.267%
Mortgage Corporation Bonds	-	-	-	-	16,191	5.000%	16,191	5.000%	16,191	5.000%
Clifton Heritage Bonds	-	-	-	-	2,021	5.305%	2,021	5.305%	2,021	5.305%
College of The Bahamas Bonds	18	6.762%	72	6.762%	150	6.762%	240	6.762%	259	6.760%
United States Treasury Notes	-	-	-	-	1,009	6.940%	1,009	6.940%	1,008	6.943%
Other investments	-	-	-	-	252	35.678%	252	35.678%	275	35.678%
Total investments	19,938	1.772%	20,283	4.883%	238,564	4.909%	278,785	4.683%	268,196	4.886%

Income from investments is included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income as follows:

	2013	2012
Interest income	$ 12,920	$ 12,865

9. LOANS RECEIVABLE

Loans receivable is as follows:

	2013	2012
Residential mortgage	$ 256,617	$ 258,818
Business	50,552	47,787
Personal	744,069	762,987
Credit card	34,039	36,374
	1,085,277	1,105,966
Less: Impairment Allowances	54,371	55,921
	$ 1,030,906	$ 1,050,045

Impairment Allowances on Loans Receivable:

	2013	2012
Gross Loans Receivable		
Individually Assessed Impaired Loans	$ 8,270	$ 8,230
Collectively Assessed		
Impaired Loans	35,417	47,188
Incurred but not yet identified	1,041,590	1,050,548
	1,077,007	1,097,736
Gross Loans and Advances	$ 1,085,277	$ 1,105,966
Individually Assessed allowances as % of individually assessed impaired loans receivable	35.84%	31.42%
Collectively Assessed allowances as % of Collectively assessed loans receivable	4.77%	4.86%
Total allowances as % of total loans receivable	5.01%	5.06%

Movement in Impairment Allowances:

	2013				
	Balance at Beginning of Year	Loans Written off	Recoveries	Provision for Credit Losses	Balance at End of Year
Individually Assessed					
Residential mortgage	$ 1,479	$ -	$ -	$ 222	$ 1,701
Business	1,107	-	-	156	1,263
Total Individually Assessed	$ 2,586	-	-	378	2,964
Collectively Assessed					
Residential mortgage	$ 11,396	(1,398)	60	1,552	11,610
Business	929	(440)	-	634	1,123
Personal	40,032	(31,659)	7,956	21,550	37,879
Credit card	978	(1,414)	548	683	795
Total Collectively Assessed	$ 53,335	(34,911)	8,564	24,419	51,407
Total Impairment Allowances	$ 55,921	$ (34,911)	$ 8,564	$ 24,797	$ 54,371
Impairment Allowance					
Impaired Loans Individually Assessed Allowances	$ 2,586	$ -	$ -	$ 378	$ 2,964
Impaired Loans Collectively Assessed Allowances	30,396	(34,911)	8,564	18,474	22,523
Impaired Loans Total Allowances	32,982	(34,911)	8,564	18,852	25,487
Collective Allowances - Incurred but not yet identified	22,939	-	-	5,945	28,884
Total Allowances	$ 55,921	$ (34,911)	$ 8,564	$ 24,797	$ 54,371

	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

Impaired loans receivable is as follows:

	2013									
	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	Total Net Impaired
Residential mortgage	$ 5,702	$ 21,500	$ 27,202	$ 1,701	$ 9,285	$ 10,986	$ 4,001	$ 12,215	$ 16,216
Business	2,568	1,220	3,788	1,263	652	1,915	1,305	568	1,873
Personal	-	12,267	12,267	-	12,358	12,358	-	(91)	(91)
Credit card	-	430	430	-	228	228	-	202	202
	$ 8,270	$ 35,417	$ 43,687	$ 2,964	$ 22,523	$ 25,487	$ 5,306	$ 12,894	$ 18,200
Percentage of loan portfolio			4.03%						
Percentage of total assets			3.05%						
Percentage of Impaired Allowance to Impaired Loans						58.34%			

	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	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%			

Impairment allowance on collectively assessed incurred but not yet identified loans is 2.77% (2012: 2.18%) 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, 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
Additions	18	69	20	2,057	2,164
Transfers	(4)	-	4	-	-
Disposals	(2)	(16)	-	(189)	(207)
December 31, 2013	11,777	31,839	853	22,530	66,999

10. PREMISES AND EQUIPMENT *(Continued)*

	Land/Site Improvements	Buildings	Leasehold Improvements	Furniture, Fittings and Equipment	Total
Accumulated Depreciation and Amortization					
December 31, 2011	200	6,754	709	14,065	21,728
Charge for the year	52	732	22	1,711	2,517
Transfers	-	-	-	-	-
Disposals	-	-	-	(488)	(488)
December 31, 2012	252	7,486	731	15,288	23,757
Charge for the year	43	682	24	1,841	2,590
Transfers	-	-	-	-	-
Disposals	(1)	(5)	-	(138)	(144)
December 31, 2013	294	8,163	755	16,991	26,203
Net Book Value					
December 31, 2013	$ 11,483	$ 23,676	$ 98	$ 5,539	$ 40,796
December 31, 2012	$ 11,513	$ 24,300	$ 98	$ 5,374	$ 41,285

Depreciation and amortization expense is as follows:

	2013	2012
Land/Site Improvements	$ 43	$ 52
Buildings	682	732
Leasehold improvements	24	22
Furniture, fittings and equipment	1,841	1,711
Total depreciation and amortization	2,590	2,517
Net (gain) loss on disposal of fixed assets	(14)	3
Net depreciation and amortization	$ 2,576	$ 2,520

11. DEPOSITS

The composition of deposits is as follows:

	2013	2012
Demand deposits	$ 93,951	$ 82,195
Savings accounts	141,100	135,688
Certificates of deposit	886,532	918,726
	$ 1,121,583	$ 1,136,609

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, 2013 by Oliver Wyman of Toronto, Canada. The result of the valuation was an aggregate actuarial reserve of $11,741,647 (2012: $11,252,935). The valuation included a provision of $673,878 (2012: $761,417) 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 $14,635,130 (2012: $15,069,800).

13. SHARE CAPITAL

Share capital is as follows:

Preference Shares:

	AUTHORISED			
	Beginning and end of year 2012, 2013 Rate	Par $	Beginning and end of year 2013	Beginning and end of year 2012
Class A	Prime + 1.5%	500	$ 15,000	$ 15,000
Class B	Prime + 1.5%	500	5,000	5,000
Class C	Prime + 1.5%	100	5,000	5,000
Class D	Prime + 1.5%	100	10,000	10,000
Class E	Prime + 1.5%	100	10,000	10,000
Class F	Prime + 1.5%	100	10,000	10,000
Class G	Prime + 1.5%	100	10,000	10,000
Class H	Prime + 1.5%	100	10,000	10,000
Class I	Prime + 1.5%	100	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

	OUTSTANDING				
	Beginning Of year 2013	Redemptions 2013	Conversion 2013	End of Year 2013	Beginning and end of year, 2012
Class A	$ 15,000	$ -		$ 15,000	$ 15,000
Class B	4,985	-		4,985	4,985
Class C	5,000	-		5,000	5,000
Class D	10,000	-		10,000	10,000
Class E	9,999	(65)	(9,934)	-	9,999
Class F	9,999	-	(9,999)	-	9,999
Class G	10,000	(13)	(9,987)	-	10,000
Class H	10,000	(1,026)	(8,974)	-	10,000
Class I	10,000	-	(10,000)	-	10,000
Class J	-	-	9,934	9,934	-
Class K	-	-	9,999	9,999	-
Class L	-	-	9,987	9,987	-
Class M	-	-	8,974	8,974	-
Class N	-	-	10,000	10,000	-
	$ 84,983	$ (1,104)	$ -	$ 83,879	$ 84,983

Classes A to I are cumulative, non-voting and redeemable at the discretion of the Board. Classes J to N are non-cumulative, non-voting and require that the shares must have been issued for at least five years and that the approval of The Central Bank must be obtained prior to redemption.

For all classes dividend rates are variable with Bahamian Prime Rate. In 2013, Bahamian Prime Rate was 4.75% (2012: 4.75%).

Common Shares:

	$0.02 each	
	Number 000's	**$**
Authorized:		
December 31, 2011, 2012 and 2013	225,000	4,500
Issued and outstanding:		
December 31, 2011	98,357	1,967
Net repurchase of shares	(320)	(7)
December 31, 2012	98,037	1,960
Net repurchase of shares	(133)	(2)
December 31, 2013	97,904	1,958

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 (2012: $0) 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 2013 (2012: Nil shares).

The following tables summarize information about the Stock Option Plans:

	Nominal Value $0.02 Number of Stock Options (000's)	Weighted Average Exercise Price
Outstanding at January 1, 2012	129	7.13
Expired or forfeited	(129)	7.13
Exercised	-	-
Outstanding at December 31, 2012 and December 31, 2013	-	-
Options available to be granted at December 31, 2012 and December 31, 2013	4,678	

16. FEES AND OTHER INCOME

Fees and other income is as follows:

	2013	2012
Fees and commissions	$ 1,193	$ 1,212
Service charges	2,959	3,183
Card service revenue	733	786
Net foreign exchange revenue and other income	3,066	3,400
	$ 7,951	$ 8,581

17. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses is as follows:

	2013	2012 (Restated)
Staff costs	$ 36,621	$ 33,408
Other	19,664	17,900
	$ 56,285	$ 51,308

Staff costs include pension costs of $2.84 million (2012: $2.57 million) (see Note 19).

18. RELATED PARTIES' BALANCES AND TRANSACTIONS

Related parties' balances and transactions are as follows:

	2013			2012		
	Key Management Personnel $	Other Related Party $	Total $	Key Management Personnel $	Other Related Party $	Total $
Loans Receivable	12,106	10	12,116	12,702	808	13,510
Deposits	180,088	947	181,035	160,893	503	161,396
Other Liabilities	766	-	766	472	-	472
Interest Income	696	-	696	884	84	968
Interest Expense	8,154	3	8,157	7,611	5	7,616
General and Administrative Expense	4,146	-	4,146	4,307	-	4,307
Mortgage commitments	-	3,000	3,000	2,246	3,000	5,246
Commitments under revolving credit lines	2,844	40	2,884	2,290	924	3,214

Rental commitments to related parties are as follows:

Year	$
2014	198
2015	17
2016	0
2017	0
2018	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 Profit or Loss and Other Comprehensive Income is as follows:

		2013		2012
Short term benefits	$	6,478	$	5,241
Post employment benefits	$	581	$	543
Share based payments	$	-	$	-

19. BANK PENSION SCHEME

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

		2013		2012 (Restated)
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	$	53,543	$	49,532
Interest income		2,858		2,628
Actual return on plan assets		787		(792)
Administrative costs		(82)		(160)
Company contributions		2,222		2,645
Participant contributions		1,292		1,251
Benefits paid		(356)		(335)
Withdrawals from plan		(795)		(1,226)
Fair value of plan assets at end of year	$	59,469	$	53,543
Change in benefit obligation:				
Benefit obligation at beginning of year	$	58,858	$	53,910
Employer service cost		2,376		2,534
Participant contributions		1,292		1,251
Interest cost		3,049		2,789
Withdrawals from plan		(795)		(1,226)
Benefits paid		(356)		(335)
Experience Adjustment		201		(65)
Changes in financial assumptions		(2,965)		-
Benefit obligation at end of year	$	61,660	$	58,858
Net defined benefit liability:				
Net defined benefit liability at beginning of year	$	5,314	$	4,377
Defined benefit included in profit or loss		2,835		2,819
Remeasurement included in other comprehensive income		(3,737)		763
Employer contributions		(2,222)		(2,645)
Balance at end of year	$	2,190	$	5,314

(Continued)

	2013	2012 (Restated)
Components of pension benefit expense:		
Current employer service costs	$ 2,376	$ 2,534
Interest cost on defined benefit obligation	3,049	2,789
Interest income on plan assets	(2,858)	(2,628)
Administrative costs	268	124
Pension benefit expense included in staff costs	$ 2,835	$ 2,819
Components of remeasurements:		
Changes in financial assumptions	$ (2,965)	$ -
Experience adjustments	201	(65)
Return on plan assets excluding interest income	(973)	828
Remeasurements included in other comprehensive income	$ (3,737)	$ 763
Assumptions at beginning of year:		
Discount rate	5.25%	5.25%
Rate of pension increases	1.00%	1.00%
Rate of increase in future compensation	4.00%	4.00%
Mortality Table	Fully generational	Fully generational
Assumptions at end of year:		
Discount rate	5.25%	5.25%
Rate of pension increases	1.00%	1.00%
Rate of increase in future compensation	3.50%	4.00%
Mortality Table	Fully generational	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
Benefit obligation	$ 2,840	$ 1,350	$ 1,430
Pension benefits expense	$ 310	$ 158	$ 145

The effect of assuming an increase of 1 year in life expectancy would increase the benefit obligation by $1.6 million and pension benefits expense by $175 thousand.

During the year, management amended its projections for future salary growth down by 50 basis points based on recent salary increases and management's assessment of the current and future economic environment. The impact of this change is estimated at $2.7 million.

The weighted average duration of the defined benefit obligation was 18.9 years (2012: 20.0 years).

The Bank administered the DB Provisions until November 1, 2013 when it contracted an independent Trustee and an independent Administrator. The DB Provisions owns 1,631,425 (2012: 1,631,425) common shares and $3.87 million (2012: $3.87 million) preference shares of the Bank. These shares have a market value of $15.14 million (2012: $14.60 million) which represents 25.43% (2012: 27.25%) of the pension fund's assets.

The major categories of DB Provisions assets at December 31, 2013 are as follows:

	Fair Value of Plan Assets 2013	2012
Balance at Banks	$ 5,765	$ 5,074
Equity Instruments	16,276	15,283
Government Bonds	27,500	25,518
Other Debt Instruments	250	250
Preferred Equity	8,967	6,967
Other Assets	773	502
Liabilities	(62)	(51)
Fair Value of Plan Assets	$ 59,469	$ 53,543

The Bank expects that the contributions in 2014 in respect of the DB Provisions will be $2.2 million.

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

	2013	2012
Deposits	$ 4,350	$ 3,076
Interest expense	$ 125	$ 83

Contributions to the DC Provisions of the Pension Plan started on November 1, 2013 for eligible employees. The amounts recognized as an expense under the DC Provisions are as follows:

	2013	2012
Pension expense included in staff costs	$ 6	$ -

20. MATURITY OF ASSETS AND LIABILITIES

The maturity of assets and liabilities are as follows:

	2013	2012
ASSETS		
On demand	$ 75,679	$ 67,087
3 months or less	29,798	23,618
Over 3 months through 6 months	14,413	3,374
Over 6 months through 12 months	16,064	6,911
Over 12 months through 24 months	40,379	31,327
Over 24 months through 5 years	230,215	159,071
Over 5 years	1,026,157	1,140,900
	$ 1,432,705	$ 1,432,288

	2013	2012
LIABILITIES		
On demand	$ 99,422	$ 87,912
3 months or less	1,041,896	1,070,441
Over 3 months through 6 months	115	114
Over 6 months through 12 months	187	227
Over 12 months through 24 months	14,758	15,192
Over 24 months through 5 years	279	225
Over 5 years	-	4
	$ 1,156,657	$ 1,174,115

21. CONCENTRATION OF LOANS RECEIVABLE AND LIABILITIES

The concentration of loans receivable and liabilities are as follows:

	2013		2012	
	$	#	$	#
Loans receivable:				
Under $50,000	$ 646,235	66,311	$ 674,713	70,099
$50,001 - $100,000	189,452	3,057	182,456	2,936
$100,001 - $150,000	65,551	530	66,807	537
$150,001 - $300,000	112,884	548	113,650	552
$300,001 - $500,000	35,388	95	35,387	95
$500,001 - $1,000,000	20,087	31	22,020	33
$1,000,001 and over	15,680	8	10,933	7
Impairment Allowance	(54,371)	-	(55,921)	-
	$ 1,030,906	70,580	$ 1,050,045	74,259
Liabilities:				
Under $50,000	$ 168,387	60,771	$ 172,002	57,371
$50,001 - $100,000	83,261	1,170	91,464	1,272
$100,001 - $150,000	57,342	470	57,258	471
$150,001 - $300,000	96,101	449	96,404	447
$300,001 - $500,000	83,607	206	87,522	216
$500,001 - $1,000,000	180,406	229	184,467	232
$1,000,001 and over	452,479	204	447,492	207
Life assurance fund	14,635	-	15,070	-
Other liabilities	20,439	-	22,436	-
	$ 1,156,657	63,499	$ 1,174,115	60,216

22. COMMITMENTS AND CONTINGENCIES

a. In the ordinary course of business, the Bank had commitments as at December 31, 2013, as follows:

	2013	2012
Mortgage commitments	$ 10,589	$ 11,603
Revolving credit lines	24,557	26,311
Standby letters of credit	385	550
Capital expenditures contracted	1,417	274
Capital expenditure approved but not yet contracted	1,150	1,850
	$ 38,098	$ 40,588

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 2020 on which the minimum annual rentals are approximately as follows:

	Minimum Rental Commitments	
	Leases	Computer Equipment and Software
Year	**$**	**$**
2014	533	949
2015	151	1,002
2016	79	886
2017	-	553
2018	-	352
2019	-	352
2020	-	117

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$1.009 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 2012.

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, 2013 Laurentide has $300,300 (2012: $300,300) in share capital and $2,750,000 (2012: $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, 2013 (2012: $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, 2013, the minimum margin of solvency was $5,548,741 (2012: $5,577,508). Laurentide's solvency margin at December 31, 2013 was $25,275,389 ($24,860,607) resulting in a surplus of $19,726,648 (2012: $19,283,099).

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, 2013, Laurentide had $40,049,646 (2012: $40,055,034) in qualifying assets and $40,049,646 (2012: $40,055,034) 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 Profit or Loss and Other 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, 2013, 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 $30 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 $30 thousand.

	Repricing date of interest sensitive instruments					Non interest	
As of December 31, 2013	**Within 3 Months**	**3 - 5 months**	**6-12 months**	**Over 1 - 5 Years**	**Over 5 years**	**rate sensitive**	**Total**
Assets							
Cash equivalents	$ 4,086	$ -	$ 764	$ -	$ -	$ 72,377	$ 77,227
	0.19%	0.00%	0.26%	-	-	-	0.01%
Investments	267,177	10,106	-	-	1,250	252	278,785
	4.87%	0.86%	-	-	7.00%	-	4.73%
Loans receivable	62,222	319,574	55,120	432,436	161,554	-	1,030,906
	15.28%	8.92%	14.83%	14.81%	14.38%		12.94%
Premises and equipment	-	-	-	-	-	40,796	40,796
Other assets	-	-	-	-	-	4,991	4,991
TOTAL	$ 333,485	$ 329,680	$ 55,884	$ 432,436	$ 162,804	$ 118,416	$ 1,432,705
Liabilities and shareholders' equity							
Deposits	$ 357,207	$ 138,298	$ 181,861	$ 444,200	$ 17	$ -	$ 1,121,583
	1.58%	2.95%	3.01%	3.96%	1.50%	-	2.93%
Other liabilities	-	-	-	-	-	35,074	35,074
Preference shares	83,879	-	-	-	-	-	83,879
	6.25%	-	-	-	-	-	6.25%
Other equity	-	-	-	-	-	192,169	192,169
TOTAL	$ 441,086	$ 138,298	$ 181,861	$ 444,200	$ 17	$ 227,243	$ 1,432,705
INTEREST RATE SENSITIVITY GAP	$ (107,601)	$ 191,382	$ (125,977)	$ (11,764)	$ 162,787	$(108,827)	$ -
CUMULATIVE INTEREST RATE SENSITIVITY GAP	**$ (107,601)**	**$ 83,781**	**$ (42,196)**	**$ (53,960)**	**$ 108,827**	**$ -**	**$ -**
COMPARATIVE 2012	**$ (156,217)**	**$ 51,120**	**$ (97,904)**	**$ (54,360)**	**$ 100,802**	**$ -**	**$ -**
Average Yield - Earning Assets	6.75%	8.67%	14.63%	14.81%	14.32%		11.16%
Average Yield - Paying Liabilities	2.47%	2.95%	3.01%	3.96%	1.50%		3.16%
Average Margin 2013	4.28%	5.72%	11.61%	10.84%	12.82%		8.00%
Average Margin 2012	3.97%	5.71%	11.35%	10.45%	11.12%		7.80%

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:

	2013			2012		
	Original Contract	**Restructured**	**Total**	**Original Contract**	**Restructured**	**Total**
Cash and cash equivalents						
Neither past due or impaired	$ 77,227	$ -	$ 77,227	$ 69,137	$ -	$ 69,137
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	$ 77,227	$ -	$ 77,227	$ 69,137	$ -	$ 69,137
Investments						
Neither past due or impaired	$ 278,785	$ -	$ 278,785	$ 268,196	$ -	$ 268,196
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	$ 278,785	$ -	$ 278,785	$ 268,196	$ -	$ 268,196
Loans receivable						
Neither past due or impaired	$ 801,017	$ 73,602	$ 874,619	$ 820,655	$ 45,487	$ 866,142
Past due but not impaired	114,121	52,850	166,971	135,082	49,324	184,406
Impaired	25,407	18,280	43,687	33,313	22,105	55,418
	$ 940,545	$ 144,732	$1,085,277	$ 989,050	$ 116,916	$ 1,105,966

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:

	2013			2012		
	Original Contract	Restructured	Total	Original Contract	Restructured	Total
Loans receivable						
Residential mortgage						
Neither past due or impaired	$ 151,048	$ 20,574	$ 171,622	$ 150,800	$ 12,378	$ 163,178
Past due but not impaired	40,356	17,437	57,793	47,858	18,371	66,229
Impaired	16,840	10,362	27,202	19,573	9,838	29,411
	$ 208,244	$ 48,373	$ 256,617	$ 218,231	$ 40,587	$ 258,818
Business						
Neither past due or impaired	$ 30,240	$ 1,093	$ 31,333	$ 25,085	$ 726	$ 25,811
Past due but not impaired	14,903	528	15,431	16,055	1,454	17,509
Impaired	3,319	469	3,788	4,000	467	4,467
	$ 48,462	$ 2,090	$ 50,552	$ 45,140	$ 2,647	$ 47,787
Personal						
Neither past due or impaired	$ 592,884	$ 51,935	$ 644,819	$ 616,219	$ 32,383	$ 648,602
Past due but not impaired	52,098	34,885	86,983	64,424	29,499	93,923
Impaired	4,818	7,449	12,267	8,662	11,800	20,462
	$ 649,800	$ 94,269	$ 744,069	$ 689,305	$ 73,682	$ 762,987
Credit card						
Neither past due or impaired	$ 26,845	$ -	$ 26,845	$ 28,551	$ -	$ 28,551
Past due but not impaired	6,764	-	6,764	6,745	-	6,745
Impaired	430	-	430	1,078	-	1,078
	$ 34,039	$ -	$ 34,039	$ 36,374	$ -	$ 36,374
	$ 940,545	$ 144,732	$1,085,277	$ 989,050	$ 116,916	$ 1,105,966

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

	2013	2012
Satisfactory risk	$ 860,826	$ 857,225
Watch list	11,498	7,600
Sub-standard but not impaired	2,295	1,317
	$ 874,619	$ 866,142

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

	2013				
	Residential mortgage	Business	Personal	Credit card	Total
Past due up to 29 days	$ 45,090	$ 13,503	$ 61,607	$ 4,467	$ 124,667
Past due 30 - 59 days	7,071	744	15,632	1,639	25,086
Past due 60 - 89 days	5,632	1,184	9,744	658	17,218
	$ 57,793	$ 15,431	$ 86,983	$ 6,764	$ 166,971

	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

Restructured loans

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

Loans receivable collateral

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

The principal collateral types are as follows:

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

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

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

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

NOTES

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

BOARD MEETING ATTENDANCE

W. B. Sands, Jr.	7
I. A. Jennings	7
E. J. Bethel	4
M. R. C. Bethel	6
G. C. Culmer	7
V. W. Higgs	7
R. W. Roberts, Jr., OBE	7
R. C. Symonette	6
L. R. Gibson	4
R. D. L. Sands	6

(a) The Pension Fund Trustees Committee is not a Board Committee but certain Directors of the Bank serve as members. The Committee was disbanded in 2013 on the appointment of a Corporate Trustee and was replaced by the Board Pension Committee.

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

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 General Meeting.
- **Reviewed and Recommended** the levels of Directors' Remuneration to the Board for Approval at the Annual General Meeting to ensure that it is appropriate to the responsibilities and risks assumed and competitive with other comparable organisations.
- **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.
- **Reviewed** the Bank's process for Director Orientation.

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2013.

R.W. Roberts Jr.

Rupert Roberts, Jr., OBE
Chairman
Nominating Committee

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

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

YEAR IN REVIEW

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

- **Approved** corporate policies that address risk management by means of controls, including controls on the authorities and limits delegated to the President. These policies and controls are aligned with prudent, proactive risk management principles, prevailing market conditions and the business requirements of the approved strategies. They are also designed to be in compliance with the requirements of the laws and regulatory bodies that govern the Bank and its subsidiaries.
- **Reviewed** the allowance for loan impairment 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.
- **Reviewed** the Bank's Capital Management Strategies and requirements and made recommendations for changes to the Board.
- **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, 2013.

William. B. Sands Jr.
Executive Chairman
Executive Committee

Pictured L to R: **G. Clifford Culmer, Marcus R. C. Bethel, Larry R. Gibson, Earla J. 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** Management's risk measurement measures for their appropriateness in relation to risk exposures and specifically the adequacy of the loan impairment allowance.
- **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, 2013.

G. C. Culmer

G. Clifford Culmer
Chairman
Audit Committee

Pictured L to R: **Robert D. L. Sands, Ian A. Jennings, Earla J. Bethel, Larry R. Gibson, Marcus R. C. Bethel**

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, 2013.

Earla J. Bethel
Chairperson
Premises Committee

Pictured L to R: **Robert D. L. Sands, Ian A. Jennings, R. Craig Symonette, Vaughn W. Higgs**

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, 2013.

R. Craig Symonette
Chairman
IT Committee

Pictured L to R: **R. Craig Symonette, Rupert Roberts, Jr., OBE, Vaughn W. Higgs**

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, 2013.

Rupert Roberts, Jr., OBE
Chairman
Nominating Committee

Pictured L to R: **William. B. Sands, Jr., Robert D. L. Sands, Ian A. Jennings, Larry R. Gibson, Neil Strachan**

THE PENSION COMMITTEE is responsible for assisting the Board of Directors in ensuring that Pension Plans offered by the Bank to its employees support the Bank's Human Resources' objectives and sustain shareholder value. As part of this responsibility, members of the committee review the performance of the Pension Plan Trustee, Administrator and Investment Manager, as well as providing support and guidance to them. The Pension Committee is comprised of four members of the Bank's Board of Directors and one employee representative elected by the employees triennially. The employee representative is Mr. Neil Strachan.

YEAR IN REVIEW

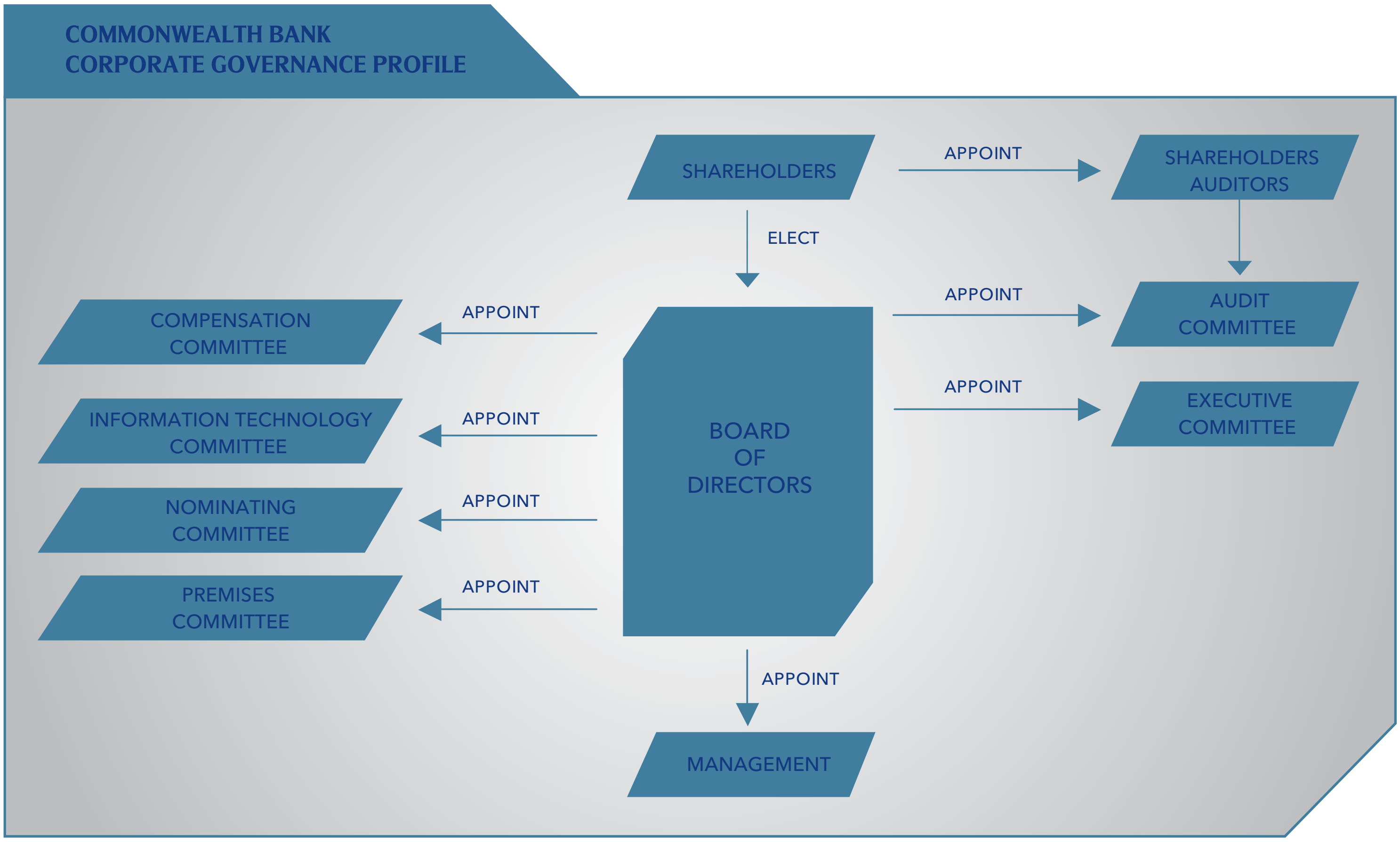
During the year, the Committee in fulfilling its role:

- **Reviewed and recommended** for approval by the Board Executive Committee the Trustee for the Pension Fund and other service providers.
- **Reviewed and recommended** for approval by the Board Executive Committee Plan Design changes after reviewing proposed design changes and cost impact with the Actuary of the Plan.
- **Reviewed and recommended** for approval by the Board Executive Committee funding policy provisions including actuarial assumptions, actuarial cost methods and actuarial valuations of the Plan.
- **Reviewed and recommended** for approval by the Board Executive Committee the statement on investment policy and any changes proposed based on the reports from the Investment Manager and Actuary.

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2013.

Ian A. Jennings
Chairman
Pension 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.

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.

EARLA J. BETHEL
President
DanBrad Ltd.

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

G. CLIFFORD CULMER
Partner
BDO Mann Judd

LARRY R. GIBSON
Vice President
Colonial Pension Services

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

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

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

R. CRAIG SYMONETTE
Chairman
Bahamas Ferries Ltd.

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
2nd Floor, Fort Nassau Centre
British Colonial Hilton
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.

- 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
- Business Chequing Accounts
- Automated Banking Machines
- Foreign Exchange Services
- Saturday Banking
- Online Banking
- Safe Deposit Boxes
- BTC Prepaid Cell Minutes

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

customerservice@combankltd.com
www.combankltd.com

COMMONWEALTH BANK