FROM STRENGTH TO STRENGTH

*Commitment*

*Leadership*

*Strategy*

# ANNUAL REPORT **2010**

*Teamwork*

*Service*

*Excellence*

COMMONWEALTH BANK

*"Strength does not come from physical capacity. It comes from an indomitable will."*

*~ Mahatma Gandhi*

**CHAIRMAN**
1998-2010

**EXECUTIVE CHAIRMAN**
Effective January 1, 2011

### TAKING SUCCESS INTO OUR SECOND HALF CENTURY

A significant milestone for Commonwealth Bank was April 20, 2010, as it marked the 50th Anniversary of the Bank – certainly a cause for celebration! We began offering small loans from a tiny space at the rear of a furniture store, we never anticipated that one day we would have eleven branches serving communities on three islands, with total assets of approximately $1.4 billion. We created a strong business model that has been sustained and expanded upon over the past 50 years.

### GROWTH IS FUELED BY STRENGTH

As "The Bank for all Bahamians" the Strength of Commonwealth Bank has been its rich tradition of integrity, its culture of service excellence and its clear vision of superior performance for our customers, our community and our country. Even as we acknowledge our legacy, we recognize that success is not static as we move forward to achieve enormous potential that we have yet to fulfill.

The guiding principles of integrity, service excellence and superior performance provide a strong and sure foundation for everyone in the Commonwealth Bank family. They give us Strength to continue to pursue excellence and safety and soundness in all that we do; Strength to direct our energies in the most efficient ways; Strength to uncover ways to remain current with technology; and Strength, above all else, to be responsive to the needs of each and every customer. As the leader in personal banking services, we will continue to strengthen our everyday business of creating and nurturing sound financial relationships, one customer at a time, in a safe and sound manner.

As we embark upon our next half century, under our new executive leadership team of William B. Sands, Jr., Executive Chairman and Ian Jennings, President, effective January 1, 2011, we do so through a shared commitment to build on the established Strength and to reinforce that excellence. We will continue to use our Strength to seize every opportunity to lead, grow and solidify our position as "the Bank for Bahamians". Even in these exceptionally challenging times we have remained steadfast and resilient with the Strength to thrive irrespective of the prevailing economic environment and to continue in our mission of being dedicated and prudent financial managers.

We look forward to continuing to be the first choice of Bahamians for all banking services and to providing Bahamians with the safety and soundness to assist them in achieving their financial objectives.

*(Unless otherwise indicated-captioned photos reflect the Executive's position during 2010)*

*Commitment*

# *Our Vision*

First Choice of Bahamians for all Banking Services

*Leadership*

# *Our Mission*

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

*Strategy*

- Delivering superior quality service to our customers
- Retaining and developing employees with outstanding capabilities

*Teamwork*

- Creating value for our shareholders
- Promoting economic growth and stability in our community

*Service*

# *Core Values*

We will:

*Excellence*

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

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# Strategic **Priorities** }

| CORE VALUES | 2010 STRATEGIC PRIORITIES | 2010 INITIATIVES AND ACCOMPLISHMENTS | 2011 STRATEGIC PRIORITIES |
|---|---|---|---|
| Be responsible and effective financial managers. | Challenging objectives have been established with firm financial targets in place.<br><br>Strong Credit Quality and Loss mitigation factors remain key objectives for the year.<br><br>Concentrated efforts will be directed to sustaining the improvement in efficiency ratios through improving revenue streams and continuing to constrain costs of operations. | Good progress was made to achieve majority of business plan objectives despite sluggish economy.<br><br>Record earnings achieved, operating ratios strong and capital levels remain well in excess of Regulatory requirements.<br><br>Credit quality strengthened due primarily to strong collection and risk mitigation techniques.<br><br>Efficiency ratios remain well above industry norms. | Marginal expansion of asset base expected.<br><br>Earnings to remain strong as will measurement criteria against industry results.<br><br>Expense management and asset quality and loan portfolio oversight to remain a priority.<br><br>Efficiency ratio to remain an industry leader. |
| Lead by example to effect positive change. | Sustain an effective governance regime.<br><br>Continue to support the development of Bahamian youth through various programs and community services. | Governance regime continues to be reviewed and updated to reflect market realities - governance regime remains an industry leader.<br><br>Support to Bahamian youth continued through various and extensive social programs.<br><br>Contribution to Haiti relief fund provided. | A sound and effective governance regime to remain a priority.<br><br>The Bank will continue to support youth development and other social programs in a meaningful way. |
| Provide meaningful opportunities for stakeholders to have input. | Expand on the ability of technology to assist the development of bank-wide performance metrics.<br><br>Continue the Bank's program of increasing its transparency of its operations. | Further progress was made in expanding the Bank's ability to measure performance attributes for operational and planning purposes.<br><br>The Bank remains a leader in adopting international standards and communicating results in a complete and timely manner. | Emphasis in 2011 will be extended to include intrabank/branch performance metrics.<br><br>The Bank will continue to be a leader in providing transparency of its operations and compliance with regulatory and international standards. |
| Ensure Commonwealth Bank is a great place to work. | Continue the program of fulfilling our objective of having a comprehensive succession plan for all key individuals.<br><br>Continue to provide international and domestic training programs designed to develop all levels of staff.<br><br>Continue to sustain attractive "Pay for Performance" compensation plans. | Some progress made in the development of a comprehensive succession plan. Additional effort warranted.<br><br>Training of staff remains a priority.<br><br>In 2010 additional efforts was directed at ensuring value for training allocation.<br><br>Industry surveys carried out annually.<br><br>Staff remuneration plan of Bank remains an industry leader. | Concentrated effort will be applied to implement succession plan for all senior officers.<br><br>Cost effective training programs will continue both domestically as well as internationally where warranted.<br><br>Salary surveys will continue to be an integral part of compensation planning. |
| Provide customers with outstanding services. | Expand integrated product offerings to focus on customer centric opportunities to achieve our vision of being "The First Choice of Bahamians for all Banking Services". | Economic downturn demanded a shift of effort from marketing to customer financial planning and assistance.<br><br>Full service Saturday banking extended with upgrades to customer based platforms provided. | As the economy strengthens, marketing efforts will be expanded to provide customers with additional products and services.<br><br>Banking hours and their availability will remain under constant review. |

| For the years ended 31 December (B$ 000's) | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| **INCOME STATEMENT DATA:** | | | | | |
| Interest Income | $ 161,608 | $ 158,811 | $ 149,896 | $ 130,391 | $ 111,996 |
| Interest Expense | (49,823 ) | (53,060) | (50,081) | (40,517) | (32,194 ) |
| Net Interest Income | 111,785 | 105,751 | 99,815 | 89,874 | 79,802 |
| Loan Impairment Expense | (18,230 ) | (30,262) | (16,640) | (10,390) | (11,758 ) |
| Net Interest Income after Loan Impairment Expense | 93,555 | 75,489 | 83,175 | 79,484 | 68,044 |
| Non-interest Income | 13,297 | 14,842 | 15,754 | 13,793 | 11,890 |
| Non-interest Expenses | (53,052 ) | (48,059) | (49,637) | (44,743) | (40,487 ) |
| Net Income | 53,800 | 42,272 | 49,292 | 48,534 | 39,447 |
| **PER SHARE DATA:** | | | | | |
| Book Value | $ 1.65 | $ 1.42 | $ 1.29 | $ 1.18 | $ 0.99 |
| Cash Dividends | 0.26 | 0.25 | 0.31 | 0.26 | 0.23 |
| Year End Share Price | 7.00 | 7.00 | 7.00 | 8.37 | 4.17 |
| Script Dividends | | | | | |
| Weighted Average Number of Common Shares Outstanding (000's) | 98,350 | 98,132 | 98,114 | 98,298 | 97,749 |
| Dividend growth (total) | 4.00% | -19.35% | 19.23% | 14.71% | 51.11% |
| **BALANCE SHEET DATA:** | | | | | |
| Total Assets | $ 1,408,774 | $ 1,376,521 | $ 1,311,700 | $ 1,168,623 | $ 1,009,848 |
| Securities | 246,588 | 196,688 | 120,827 | 98,050 | 86,057 |
| Loans | 1,088,232 | 1,086,227 | 1,063,587 | 964,691 | 819,752 |
| Net Write-offs | 13,336 | 19,621 | 11,202 | 9,032 | 5,969 |
| Total Deposits | 1,131,793 | 1,122,453 | 1,069,136 | 935,730 | 798,394 |
| Total Shareholders Equity | 246,963 | 223,911 | 211,388 | 200,896 | 182,666 |
| **PERFORMANCE RATIOS:** | | | | | |
| Price/Earnings | 14.39 | 18.91 | 15.85 | 19.32 | 11.87 |
| Price/Book Value | 4.25 | 4.95 | 5.43 | 7.11 | 4.19 |
| Dividend Yield (Annual Dividend/Year End Price) | 3.71% | 3.57% | 4.43% | 3.11% | 5.44% |
| Earnings Per Share | 0.49 | 0.37 | 0.44 | 0.43 | 0.35 |
| Return on Average Assets | 3.42% | 2.65% | 3.44% | 3.87% | 3.65% |
| Return on Average Shareholders' Equity | 30.58% | 26.99% | 35.05% | 38.68% | 36.67% |
| Ordinary Dividend Payout Ratio | 53.43% | 67.54% | 70.20% | 60.05% | 64.62% |
| Efficiency Ratio | 44.53% | 41.92% | 45.23% | 45.75% | 46.76% |
| Net Interest Margin | 7.51% | 7.25% | 7.16% | 7.18% | 7.40% |
| **ASSET QUALITY RATIOS:** | | | | | |
| Non-accrual Loans to Total Loans | 2.88% | 3.03% | 1.73% | 1.50% | 1.48% |
| Non-accrual Loans to Total Assets | 2.22% | 2.39% | 1.40% | 1.24% | 1.20% |
| Net Write-offs to Average Loans | 1.23% | 1.80% | 1.08% | 1.00% | 0.77% |
| Loan Impairment Allowances to Total Loans | 3.79% | 3.35% | 2.42% | 2.10% | 2.31% |
| Loan Impairment Allowances to Non-accrual Loans | 131.90% | 110.48% | 139.84% | 140.05% | 156.52% |
| **LIQUIDITY RATIO:** | | | | | |
| Average Cash and Securities to Average Total Assets | 21.89% | 19.22% | 17.02% | 16.81% | 16.70% |
| **CAPITAL RATIOS:** | | | | | |
| Leverage Ratio Average Shareholders' Equity to Average Total Assets | 17.23% | 16.03% | 16.55% | 17.73% | 17.70% |
| **CONSOLIDATED CAPITAL ADEQUACY:** | | | | | |
| Tier 1 Capital | $ 161,980 | $ 138,928 | $ 126,405 | $ 115,913 | $ 97,683 |
| Tier 2 Capital | 84,983 | 84,983 | 84,983 | 84,983 | 84,983 |
| Total Capital | 246,963 | 223,911 | 211,388 | 200,896 | 182,666 |
| Total Risk Adjusted Assets | 1,075,192 | 1,072,796 | 1,051,305 | 961,051 | 820,409 |
| Tier 1 Ratio | 15.07% | 12.95% | 12.02% | 12.06% | 11.91% |
| Tier 1 + Tier 2 Capital Ratio | 22.97% | 20.87% | 20.11% | 20.90% | 22.27% |

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

| | | | | | |
|---|---|---|---|---|---|
| Number of Employees Average for the Year | 547 | 541 | 532 | 495 | 467 |

**WILLIAM B. SANDS, JR.**
Executive Chairman
(Effective January 1, 2011)

### A SUCCESSFUL YEAR
A year ago at this time, the global economy was still struggling through a severe recession with The Bahamas being adversely impacted by the trickle down effect of the economic downturn in the United States and to some extent globally. While the global economy did not get worse in 2010, it also did not get much better.

Despite the somewhat adverse business environment, we always felt confident that our strategy of producing long-term profitable growth and delivering value to our customers, shareholders and communities would enable us to continue our growth in 2010. It did.

### FROM STRENGTH TO STRENGTH
Our focus on lower-risk consumer based banking allowed us to not only weather the economic uncertainties in 2010 but also emerge from the year prepared to take advantage of any new growth or expansion opportunities. This business model is one that we continue to believe in and it will allow us to continue to grow on a foundation of key strengths.

For the first time, total assets of the Bank exceeded $1.4 billion, a marginal increase over the prior year. Net income generated, also a record, returned $53.8 million an increase of 27% over the 2009 results. The Bank's overall performance measured against the generally accepted financial institution measurement criteria of Return on Assets (ROA), Return on Equity (ROE), Earnings Per Share ( EPS), and internal productivity levels continue to place it amongst the most highly respected Banks in the Caribbean. In all cases, the Bank materially exceeds Central Bank guidelines and directives concerning operational performance and safety and soundness criteria. In this way, the Bank is achieving its growth on the solid foundation of key strengths.

A significant contributing factor to the positive results is the sound condition of the Bank's credit risk portfolio. Peer level statistics provided by the Central Bank has shown that while asset quality for the industry continued to decline throughout 2010, the overall condition of the Bank's credit risk portfolio actually improved. Rigorous monitoring and assessment of the credit risk portfolio, complemented by continual reinforcement and refreshment of credit risk policies and procedures designed, confirm that the quality of the portfolio continues to be a primary focus for the Bank. The conservative credit risk approach to lending activities has also ensured that any current or anticipated portfolio impairment is promptly identified and assessed for potential loss on an individual and or collective basis.

### SHAREHOLDER PARTICIPATION
The continuing support and loyalty of shareholders and its customers remains a key element of the Bank's success. Despite the ongoing economic malaise worldwide, in 2010 the Bank was again able to sustain its long-standing and consistent dividend distribution program. In 2010, the Bank distributed more than $25.6 million to common shareholders.

Commonwealth Bank Ltd. also remains the largest public company traded on the Bahamas International Securities Exchange (BISX). In 2010, the value of Bank shares traded on the BISX, excluding two block trades amounting to approximately $88 million, accounted for almost 30% of the total equities traded by value and over 20% by volume.

### A SOUND AND SUSTAINED CORPORATE GOVERNANCE REGIME
Enduring strength requires ongoing attention to the building blocks put in place and continually reinforced as part of the Bank's governance regime. Strong governance starts with the quality and participation of each board member and their contribution and oversight of the established process of control is reinforced throughout all areas of the Bank. The Board remains committed to sustaining an effective governance regime.

I would like to thank each director for their ongoing contribution and support as well as for providing sound counsel to the executive and management of the Bank. The structure of the Bank's governance regime and their confirmation of compliance with the established regime is provided in the Annual Report as part of the Bank's Charter of Expectations. The Bank continues to be able to provide The Central Bank of The Bahamas with the required annual representations in a timely and constructive manner.

### BUILDING COMMUNITIES
One of the Bank's greatest strengths is its ability to connect with the communities in which we operate and live. The needs of our communities were great in 2010.

Amongst the more significant contributions in 2010 were the response by the Bank to helping our neighbours in Haiti after the devastating earthquake, helping to keep The Ranfurly Home for Children open and supporting the National Trust to protect our environment for our future generations.

The Bank continued its commitment to improving education throughout The Bahamas through the donation of additional laptops, projectors and school materials to aid in the education of the children or our nation. The Bank also launched the Commonwealth Bank Emerging Leaders Award at the College of The Bahamas with a $500,000 pledge. The leadership and commitment of our staff in serving our customers, shareholders and communities is a key attribute to our ongoing development and ultimate success.

### THE STRENGTH OF OUR PEOPLE
Commonwealth Bank's unique and inclusive employee culture is an important strength of the Bank. Our focus continues to be to develop and promote Bahamians at every level and to date we have been able to attract and retain the best people available, whether they are at the management or entry level.

The Bank also remains committed to increasing employee engagement at all levels. We believe our extraordinary workplace and commitment to and from our employees is a true sense of strength for the Bank as well as a competitive advantage as we move forward.

### RETIREMENT OF MR. T. BASWELL DONALDSON, CBE
On December 31, 2010, the Bank's former chairman of 13 years retired. Mr. Donaldson has provided the Bank with great skill and diplomacy, displaying his wisdom and guidance throughout his tenure. While Mr. Donaldson's presence will be missed, his influence will continue to exist through the core values and vision the Bank has put in place under his guidance. These values and vision have become a significant component of the overall culture of the Bank. Mr. Donaldson will be missed by everyone who has had the pleasure of working with him during his tenure with the Bank.

Personally, I am deeply indebted to Mr. Donaldson's mentoring and support during his 13 years with the Bank as Chairman.

### OPTIMISM IN THE FUTURE – OUR STRENGTH
Overall, the Bank is cautiously optimistic as we look to the future and the anticipated domestic economic and global recovery. 2010 confirms we are on the right path. We are well positioned and have a business model that will be a source of strength as the economy develops momentum. As we reach important milestones, our aspirations remain ambitious. Underlying our confidence is our vision of being the First Choice of Bahamians for all Banking Services.

**WILLIAM B. SANDS, JR.**
Executive Chairman

# Strength in **Giving** }


Pictured from Left to Right: **Elma Garraway,** Permanent Secretary, Ministry of Education; **Ian Jennings,** Senior Vice President and CFO, Commonwealth Bank; **Honourable T. Desmond Bannister,** Minister of Education; **T. Baswell Donaldson, CBE,** Chairman, Commonwealth Bank and **Janyne M. Hodder,** President, The College of The Bahamas

- **COMMONWEALTH BANK'S EMERGING LEADERS $500,000 AWARD**
  Commonwealth Bank in 2010 has established a $500,000 Emerging Leader Awards Programme at The College of The Bahamas (COB). The award program will span a ten year period and will provide financial assistance to students pursuing a full time undergraduate degree at the college. The Bank's educational projects focus is on helping to identify and enable talented young Bahamians. The Bank is committed to seeing all things Bahamian achieve and succeed. To be eligible for the Commonwealth Bank Emerging Leader Award, students must be in good academic standing and demonstrate financial need.

When you lend your resources to effect positive change, you become inspired by the infinite potential that is waiting to unfold. In 2010, we contributed further strength in sharing our success with communities where we have grown and prospered for more than five decades. Our contributions, leadership and volunteer efforts have assisted with improving the quality of people's lives, strengthening communities and made available opportunities for talented Bahamians.

Despite the troubled economy, the Bank continues its charitable work by granting funds to a number of local charitable foundations, non-profit organizations, civic, religious and community development groups. Additionally, the Bank provided substantial financial assistance in the areas of education and youth and to the Haiti Relief Fund after the devastating earthquake of January 2010.

Commonwealth Bank also proudly recognizes the support of our employees that unselfishly gave of their time and talents through programmes and fundraisers like Junior Achievement Bahamas, Rotary and Kiwanis Club and other neighbourhood, youth and civic programs.

Living up to our corporate responsibility is an essential part of the culture of the Bank. As an institution, it is our tradition. For our employees, it is what shapes our corporate culture. As Commonwealth Bank sustains its growth, we will continue to do well by the people that have placed their hopes, dreams and investments in our hands. We will continue to make a positive difference in the community, today and beyond.


Pictured from Left to Right: **The Honourable T. Desmond Bannister,** Minister of Education; **T. Baswell Donaldson, CBE,** Chairman, Commonwealth Bank; **Ian Jennings,** Senior Vice President and CFO, Commonwealth Bank and **Elma Garraway,** Permanent Secretary, Ministry of Education

- **BACK-TO-SCHOOL**
  For the fourth consecutive year, Commonwealth Bank has demonstrated its commitment to youth development with its annual contributions of back-to-school essentials, laptops and projectors to the Ministry of Education. The supplies were distributed to 38 schools on 17 islands from Grand Bahama and Abaco in the north to Acklins in the south as well as going to children's homes and the Department of Social Services. The Bank sees this annual donation as a sound investment in our nation's future.

*"Life is a gift, and it offers us the privilege, opportunity, and responsibility to give something back by becoming more."*

***~ Anthony Robbins***


Pictured from Left to Right: **Delano Knowles,** Assistant Administrator, Ranfurly Home; **Denise Turnquest,** Sr. Vice President of Credit Risk, Commonwealth Bank; **Dr. Olga Clarke,** Administrator, Ranfurly Home; **Ian Jennings**, Sr. Vice President & CFO, Commonwealth Bank; **Alexandra Maillis-Lynch**, President, Ranfurly Home and **Patricia Ferguson,** Housing Chairman, Ranfurly Home

- **COMMONWEALTH BANK LENDS A HELPING HAND TO THE RANFURLY HOME FOR CHILDREN**

Commonwealth Bank marked its commitment to supporting the local community by donating $10,000 in aid to the Ranfurly Home for Children. The Bank also called on its customers to join the campaign to assist the Home by donating at any of its branches to a special "The Ranfurly Home Love that Child" account. In 2010, Ranfurly Home for Children joined the list of the country's social assistance programmes facing financial challenges as a result of the economic downturn. Following reports that the Home was facing a financial crisis and contemplating a partial closure, the Bank stepped forward to help ensure that the doors to the Home would remain open to the 31 children that called this safe haven home. The Ranfurly Home Love that Child Campaign netted an additional $4,942.

Pictured from Left to Right: **Mavis Burrows,** Vice President of Operations, Commonwealth Bank; **Brendon Watson,** President, The Bahamas Red Cross; **Denise Turnquest,** Vice President of Credit Risk, Commonwealth Bank; **Anthea Cox,** Vice President of Human Resources and Training, Commonwealth Bank and **Caroline Turnquest,** Director General, The Bahamas Red Cross

- **COMMONWEALTH BANK'S "HELP HAITI" CAMPAIGN RAISES $50,000**

Following the devastating January 2010 7.0 magnitude earthquake in Haiti's capital Port-au-Prince that left the country in destruction and the focus of a global humanitarian mission, Commonwealth Bank announced its "Help Haiti" Earthquake Relief Effort campaign. The successful campaign raised relief funds from the community as a whole. Donations were received from the Bank, its employees, customers and non-customers, through cash donations at the Bank's branches and via CB On-line. In addition, Commonwealth Bank pledged to donate $1.00 each time one of its customers used their SunCard to make purchases through March 31, 2010. The campaign raised $50,000.00. Accepting the cheque on behalf of the Haiti Emergency Relief Effort was the Bahamas Red Cross.

**{ 2010 CB DONATIONS }**

BAHAMAS AGAINST CRIME

BAHAMAS AIR-SEA RESCUE ASSOCIATION

BAHAMAS FAITH MINISTRIES INTERNATIONAL

BAHAMAS NATIONAL TRUST

BAHAMAS PRIMARY SCHOOL STUDENT OF THE YEAR AWARD

BAHAMAS RED CROSS

BAHAMAS TECHNICAL AND VOCATIONAL INSTITUTE

BAIC NATIONAL CRAFT WEEK & BAHAARTS FESTIVAL

BILNEY LANE CHILDREN'S HOME

CANCER SOCIETY OF THE BAHAMAS

DOWNTOWN NASSAU PARTNERSHIP

FARM ROAD JOE BILLY-BLIND BLAKE FESTIVAL

GOLDEN AGE RETIREMENT HOME

GOVERNOR GENERAL'S YOUTH AWARD

GREAT COMMISSION MINISTRIES

JUNIOR ACHIEVEMENT BAHAMAS

KEVIN JOHNSON BASKETBALL CAMP

KINGDOR NATIONAL PARKINSON FOUNDATION

MUSIC MAKERS JUNKANOO GROUP

NATIONAL FAMILY ISLAND REGATTA

P.A.C.E. FOUNDATION

PONY BASEBALL BAHAMAS

PRODIGAL SONS JUNKANOO GROUP

PROJECT READ BAHAMAS

R.E.A.C.H.

RANFURLY HOME FOR CHILDREN

SANDILANDS REHABILITATION CENTRE

SIR VICTOR SASSOON (BAHAMAS) HEART FOUNDATION

THE BAHAMAS AIDS FOUNDATION

THE BAHAMAS CHILDREN'S EMERGENCY HOSTEL

THE BAHAMAS DIABETIC ASSOCIATION

THE CHANCE FOUNDATION

THE CRISIS CENTRE

THE SALVATION ARMY

THE SCOUT ASSOCIATION OF THE BAHAMAS

UNITY HOUSE

Z-BANDITS JUNKANOO & COMMUNITY ORGANIZATION

**IAN A. JENNINGS**
President
(Effective January 1, 2011)

### THE STRENGTH OF EMBRACING CHANGE

Last year we reported that "To be able to sustain an effective customer-centric environment in difficult times is a strong indicator that the Bank has adjusted well to the realities of the current market and is now able to position itself to be even stronger in the future." For the most part this prognosis has come to pass.

Despite the troublesome economy in 2010, in which unemployment remained at high levels, the Bank continued to expand its services to Bahamians. Saturday Banking was expanded to a third branch in New Providence with customer response being overwhelmingly supportive.

In the second half of the year and as the economy stabilized, we were also able to allow for further expansion of our credit risk portfolio within well-controlled credit risk policies and procedures. The additional credit made available was consistent with one of the Bank's Core Values, which is to sustain the overall safety and soundness of its operations and its credit risk portfolio.

From a technology perspective in 2010, significant resources were allocated to the introduction of the Bahamas Automated Clearing House, which went live in January with cheque processing and introduced direct payroll credit in September. In addition, the Bank continued its progress towards introducing a local debit card in 2011 and completed a significant upgrade to the Bank's MasterCard processing system; the latter was achieved without adversely impacting our customers or required service levels.

### THE STRENGTH OF THE FINANCIAL PERFORMANCE

Despite the challenging operating environment and marginal growth in total assets, the Bank was able to meet or exceed many of its significant financial objectives. Net income for the year was $53.8 million, a new record for the Bank and a 27% increase over the results recorded in 2009.

The major contributor to the improvement in profitability was a reflection of the conservative approach to credit risk management taken by the Bank in 2008, in response to the global turndown, which continues today. Total loan losses in 2010 were reduced by over $5.25 million with amounts recovered improving by approximately $1 million. The reduction in loan losses does not reflect any change in the Banks conservative provisioning and write-off approach, a standard being a stringent 180-day contractual write-off policy for consumer loans. In addition, the Bank applies a conservative approach, in estimating allowances for loan impairment for our commercial and mortgage portfolios. The positive results are more of a reflection of our rigorous collection activities.

Performance in 2010 as measured by Return on Equity (ROE) and Return on Assets (ROA) ratios, commonly used analytical criteria for banks, remained strong at 30.6% and 3.4% respectively. Both of these performance ratios showed further improvement over the previous year. The Bank's overall profitability ratios for 2010 remain above industry averages and continue to exceed many of the Bank's strategic objectives which are to generate on an annual basis a 25% return for ROE and 2.25% for ROA.

The Bank's Efficiency Ratio which takes into consideration non-interest expenses compared to revenue generation, slipped marginally in 2010 to 44.5% compared to 41.9% in 2009. The efficiency ratio, which is an important interbank measurement tool continues to reflect strong performance and remains well above current industry norms.

To sustain and achieve ongoing positive performance results in a difficult economy, the Bank was required to adjust segments of its business model to address market conditions. In 2010, the Bank focused on sustaining the quality of its credit risk portfolio rather than seeking expansion of its credit risk portfolio without due consideration being given to market conditions.

Our approach paralleled the action taken by many of our customers who were placing additional emphasis on adjusting their ability to manage indebtedness with reduced household income. The Bank strongly supported customers through this required adjustment period with a large part of the Bank's credit risk activities devoted to assisting customers to accommodate this difficult change.

The Bank also continued to support Government initiatives designed to support the economy through extensive investment in Government Securities. As in 2009, this approach had the additional benefit of increasing both the available liquidity and the return on that liquidity for the Bank.

### THE STRENGTH OF OUR BALANCE SHEET

Total Assets at year-end exceeded $1.4 billion a new record for the Bank. Year to year growth however was marginal and approximated 2.5%. The credit risk portfolio, which is well diversified, remains the Bank's largest asset at $1.09 billion almost unchanged from 2009, contributing 77.2% to the total asset base.

The success of the Bank is closely linked to the quality and diversity of its loan portfolio. The credit risk portfolio remains satisfactory despite the market conditions that have been prevalent in The Bahamas for an extended period. By design, the credit risk portfolio is consumer orientated.

The Bank, with support from its Board, has cultivated a conservative credit risk management philosophy - as part of the Bank's culture we will only take on credit risk that we understand and that can be managed profitably within our well-established credit risk and overall risk management and required return guidelines. It has been encouraging to note that the net interest margin on the credit risk portfolio increased in 2010 and remains well ahead of the reported industry wide credit risk interest rate margins.

There was no loan growth in 2010 nor was there any material change in the overall structure of the credit risk portfolio. Restructuring of advances for customers due to individual distress situations were accommodated throughout the year. The total restructured loan portfolio at December 31, 2010 amounted to 10.4% of the credit risk portfolio. Any application for restructuring is subject to a well-entrenched credit risk assessment criteria before approval and rigorous impairment assessment carried out in a timely manner.

The Bank, as part of its impairment allowance methodology, considers the possibility of deterioration in the performing portfolio as well as the non-accrual loan portfolio when establishing a prudential impairment allowance. As at December 31, 2010, the ratio of non-accrual loans to total loans was 2.88%, with the impairment allowance established against impaired loans representing 42.8% of the impaired portfolio. These ratios compare very favorably with the industry ratios being reported by the Central Bank.

### THE STRENGTH OF OUR BANK CAPITAL

An important element of a Bank's safety and soundness is the quality and strength of its capital base. The extent and quality of the capital base becomes even more important during times of distress. As at December 31, 2010, the Tier 1 Capital Ratio, which is considered the primary measure of balance sheet strength, was 15.1% with the total Capital Ratio reaching 23.0%. Both of the capital ratios were strengthened through the Bank's retained revenue generation in 2010. The quality and amount of the Bank's capital base exceeds internal objectives as well as the new Central Bank regulatory requirements of 17%.

The strong revenue generation and capital position of the Bank has allowed the Bank to sustain its conservative but beneficial common dividend distribution policy to shareholders. Dividends paid during calendar 2010 increased to $0.26 from $0.25 per share, in contrast to situations wherein some domestic financial institutions suspended dividend payments in 2010 for particular business reasons.

To compliment a strong capital base is the availability of an appropriate level of liquidity to support internal and anticipated liquidity requirements without adversely affecting growth and profitability. As at December 31, 2010, the Bank's liquidity ratio (total liquid assets as a percentage of total deposits) was close to 29.8%, which exceeded the internal Board guidelines and was approximately 50% higher than the liquidity levels prescribed by the Central Bank. The strong capital base supported by the existence of an available well developed and closely monitored liquidity profile provides the Bank with the tools necessary to achieve additional and cost-effective revenue generation.

### THE STRENGTH OF OUR PEOPLE

"Ensuring that Commonwealth Bank is a great place to work" is a Core Value that must be more than a platitude. Our success has been underpinned by our 562 staff – a strong complement of staff achieving extraordinary results. Making the Bank a great place to work is essential - our employees share our commitment to operating excellence every day.

As part of our vision for Commonwealth Bank to be the first choice for Bahamians for all Banking Services is the desire for potential employees seeking a career in banking to apply to the Bank first. Our recruitment policy is directed at employing hard working, talented and self-motivated Bahamians who will challenge future and existing employees to fulfill our vision while realizing their own potential.

Equally important is the ongoing commitment and investment by the Bank to create a stimulating work environment, which values the individual, acknowledges and rewards performance and balances an individual's self-motivation with external and internal training opportunities.

### THE STRENGTH OF HOPE IN THE FUTURE

Economic indicators point to the beginning of a recovery in late 2011 or early 2012. The Baha Mar development project and BTC privatization process lie ahead of us in 2011. While we cannot forecast their outcome, they represent the mantra of the future – change.

Commonwealth Bank Ltd. has always been a market leader. With local Shareholders, Directors and Management, the Bank is flexible and can quickly adjust to market diversities in order to maximize the opportunities that exist. The Bank's business model has provided it with a strong time tested foundation and we are optimistic that the Bank can look forward to the future in a constructive and productive manner. The Bank will also continue to work with regulators, government and other agencies who undertake social and structural opportunities designed to expand and sustain the Bahamian economy.

Our underlying strategy is to continue to produce long-term, profitable growth by delivering exceptional value to our customers, shareholders and communities through a well controlled and risk mitigated environment.

**IAN A. JENNINGS**
President

Left to Right: (standing) **Marcus Cleare,** Branch Manager; **Mavis Burrows,** VP Operations and **Ian Jennings,** President.

Seated: **Choren Jones** - Saturday Banking customer receiving gift on opening day.

The strength of Commonwealth Bank rests in our people - a talented and passionate team of bankers operating across three islands - New Providence, Grand Bahama and Abaco – that consistently perform above and beyond our customers' expectations every day in a strong and supportive environment.

At our very core, Commonwealth Bank is about building relationships and the outcome of our team efforts is best seen in the loyalty of our customers; whose satisfaction remains our highest priority.

In 2010, we made several significant developments to broaden our product and service offerings which were specifically designed to enhance our customers' overall banking experience. Customers enthusiastically welcomed the added convenience of extended banking hours when the Bank launched Saturday Banking at a third location – Oakes Field Branch. The Branch is located in a vibrant urban hub surrounded by a flurry of activity which makes Saturday Banking an ideal compliment to serve our customers.

In keeping with the Bank's commitment to develop the communities in which we live and conduct business, the Bank announced a major expansion project at the Marsh Harbour, Abaco Branch commencing November 2010. The project, when completed, will transform the existing structure by adding an additional 6,000 sq. feet.

For further banking convenience, the Bank was pleased to introduce its eighth and ninth offsite ABM locations at CostRight Food Store in Freeport and Maxwell's Food Store in Abaco respectively.

At Commonwealth Bank, we share the same priorities as our customers. We will continue to make available the best products and service in retail banking, at the same time making a positive impact on the community as a whole.

**T. BASWELL DONALDSON, CBE**

Chairman 1998-2010

Nothing succeeds like success, and this Bank has been a wonderful success story. All one has to do is to reflect on the continual expansion of its operations and the ever-increasing financial returns the Bank has provided to its customers and shareholders since its inception.

It has been a privilege to have been a part of this success over the past 13 years. What has been equally important to me is the unique and inclusive culture that has been developed within the Bank, which highlights how a dedicated Board of Directors supported by an effective executive team and more than 550 motivated staff, can provide a worthwhile contribution to customers, shareholders and Bahamians at large.

Commonwealth Bank's employee base has never been stronger. The Bank's focus is and will continue to be directed at the financial development of Bahamians at every level. I have been especially pleased that we have been able to attract the best people available, whether they are at the management or entry level and the fact that the Bank has no employees requiring work permits.

Another reason why I have appreciated the opportunity to participate as Chairman of the Bank is because the established Vision and Core Values exhibited by the Bank emphasize quality, integrity, honesty and community and shareholder sharing. The Vision and Core Values exhibited are and continue to be aligned with my own.

I have been asked what I am going to do now. I am going to continue to do a lot of things and very few of them conform to the notion of retirement. The Executive Management and Board have also asked that I continue to be available to work with them on special issues and projects in the future. I have gladly indicated that I would like to continue my close relationship with the Bank.

I believe that Commonwealth Bank is a great Bank and will continue to grow and prosper in the future. The Board and management team are strong and dedicated to the Vision and Core Values. I would be remiss if I did not pay tribute at this time to my colleagues at the Bank for their ongoing support and dedication over the past 13 years.

I can retire with confidence knowing that Commonwealth Bank is in good hands. Bill Sands has clearly demonstrated his ability to lead the Bank into the future.

I leave you with one thought. "There is only ever one of each of us. We are unique. We are neither better nor less than anybody else but rather the best or least of ourselves. I am still working and will continue to do so to find the best of me. It has been and continues to be an exciting journey."

T. B. Donaldson

**T. BASWELL DONALDSON, CBE**
Chairman

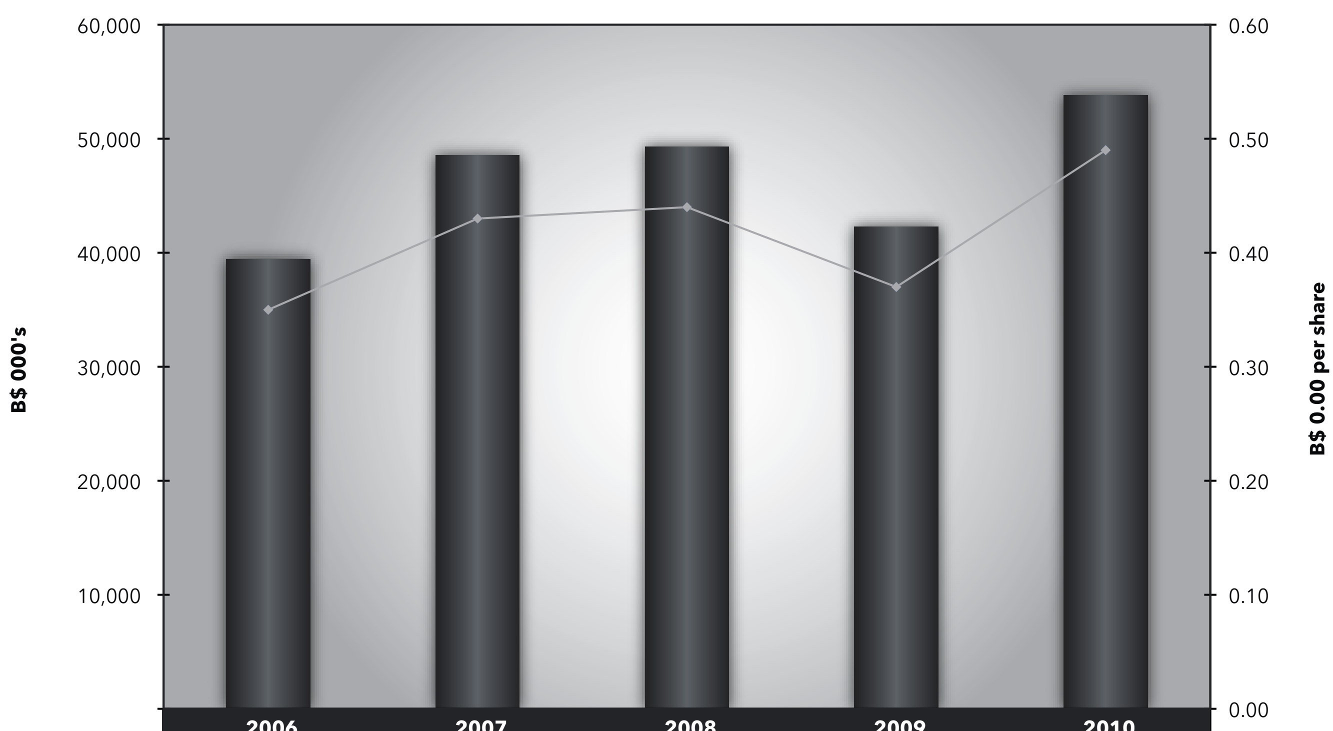
*"There is only ever one of each of us. We are unique. We are neither better nor less than anybody else but rather the best or least of ourselves. I am still working and will continue to do so to find the best of me. It has been and continues to be an exciting journey."*

***~ T. Baswell Donaldson, CBE***

***Mr. Chairman, we wish you a long, happy and healthy retirement.***

| FINANCIAL HIGHLIGHTS 2010 | 2010 | 2009 | CHANGE |
|---|---|---|---|
| Net Income | $53.8 million | $42.3 million | 27.2% |
| Total Assets | $1.409 billion | $1.376 billion | 2.3% |
| Earnings per share | 49 cents | 37 cents | 31.5% |
| Return on Common Shareholders Equity | 30.60% | 27.99% | 9.3% |
| Common Share Dividends | 26 cents | 25 cents | 4.0% |
| Comprehensive Income Available to Common Shareholders | $47.9 million | $36.3 million | 31.6% |
| Gross Revenues | $125.1 million | $120.6 million | 3.7% |
| Efficiency Ratio | 44.50% | 41.90% | 6.2% |
| Total Capital | $247 million | $224 million | 10.3% |
| Regulatory Capital | 23.00% | 20.90% | 10.1% |

**NET INCOME AND EARNINGS PER SHARE**




| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Net Income | 39,447 | 48,534 | 49,292 | 42,272 | 53,800 |
| EPS | 0.35 | 0.43 | 0.44 | 0.37 | 0.49 |

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, 2010, compared to the preceding years. For a complete understanding of trends, events, uncertainties and the effect of critical accounting estimates on our results of operations and financial condition, this Management's Discussion and Analysis should be read carefully together with our Consolidated Financial Statements and related notes. This Management's Discussion and Analysis is dated February 11th, 2010. All amounts reported are based on financial statements prepared in accordance with International Financial Reporting Standards.

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

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

## EXECUTIVE SUMMARY

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

A year ago, the global economy was struggling through a severe recession. The Bahamas was not immune to the international situation as the impact of the recession in the United States, and, to some extent, the global community adversely affected the primary industries of The Bahamas. Unemployment remained elevated with the economic activity neither significantly improving nor deteriorating in 2010.

Throughout 2010, our business strategies and business model continued to emphasize being the leading bank in The Bahamas providing personal banking services by delivering superior quality service in a safe and sound manner to our customers. Being able to sustain this business model has been a significant factor in the ongoing success of the Bank.

Some improvement is expected to occur in 2011 as the United States economy begins to recover and direct foreign investment in The Bahamas crystallizes. However, the Bank believes any improvement will be protracted.

The Bank's vision and mission statements which are designed to support the business model of the Bank, are based on a series of Core Values which are dedicated to an effective governance regime and continued expansion of its market share in a cost effective manner. The Bank is also cognizant of the need to continue to create economic and social value for the communities it serves as well as other stakeholders.

The Bank employs 562 Bahamians and Bahamian permanent residents. A critical factor in the growth and continuing success of the Bank has been the commitment of staff to achieve the Bank's goals, and thus building teamwork from within the Bank.

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

## OVERVIEW OF 2010

The Bank's 2009 Annual Report indicated that its strategic objectives for 2010 would be focused on further expansion of its inherent strengths, specifically the consumer banking sector, sustaining strong credit risk quality while applying effective expense management techniques and practices. These objectives were stringently applied throughout the year and were critical factors in the Bank's success in 2010.

An historic step in the development of the banking infrastructure in The Bahamas in 2010 was the introduction of the Bahamas Automated Clearing House. With cheque clearing introduced in January 2010 and direct payroll credit in September of 2010, the Bank expects to realise the anticipated operational benefits in 2011.

In 2010, the Bank was able to grow its Total Asset base to $1.409 billion. Comprehensive Net Income reported for the year was a new record at $53.8 million, an increase of over 27% over the previous year. Key financial results surpassed well respected industry metrics such as the Return on Assets (ROA), and Earnings Per Share (EPS) which showed 30% recoveries over 2009 and Return on Equity (ROE) at 30.6%, an increase of 13.3% over 2009.

Throughout the year, loan quality, as reported by The Central Bank of The Bahamas, for all the commercial banks continued to deteriorate. At year end, however, not only was Commonwealth Bank's level almost two-thirds less than that reported for the industry as a whole, but the level reflected an improvement over levels reported at year end 2009. Building on the success achieved in 2010, credit quality and loss mitigation will continue to be a key objective in 2011.

The Bank continued its efforts to assist customers by offering debt consolidation and restructuring programs, especially working with mortgage customers to avoid foreclosing on delinquent properties. The Bank also continued its support of Government financing projects to fund their infrastructure programs and placed further emphasis on community assistance programmes to benefit those hardest hit by the downturn.

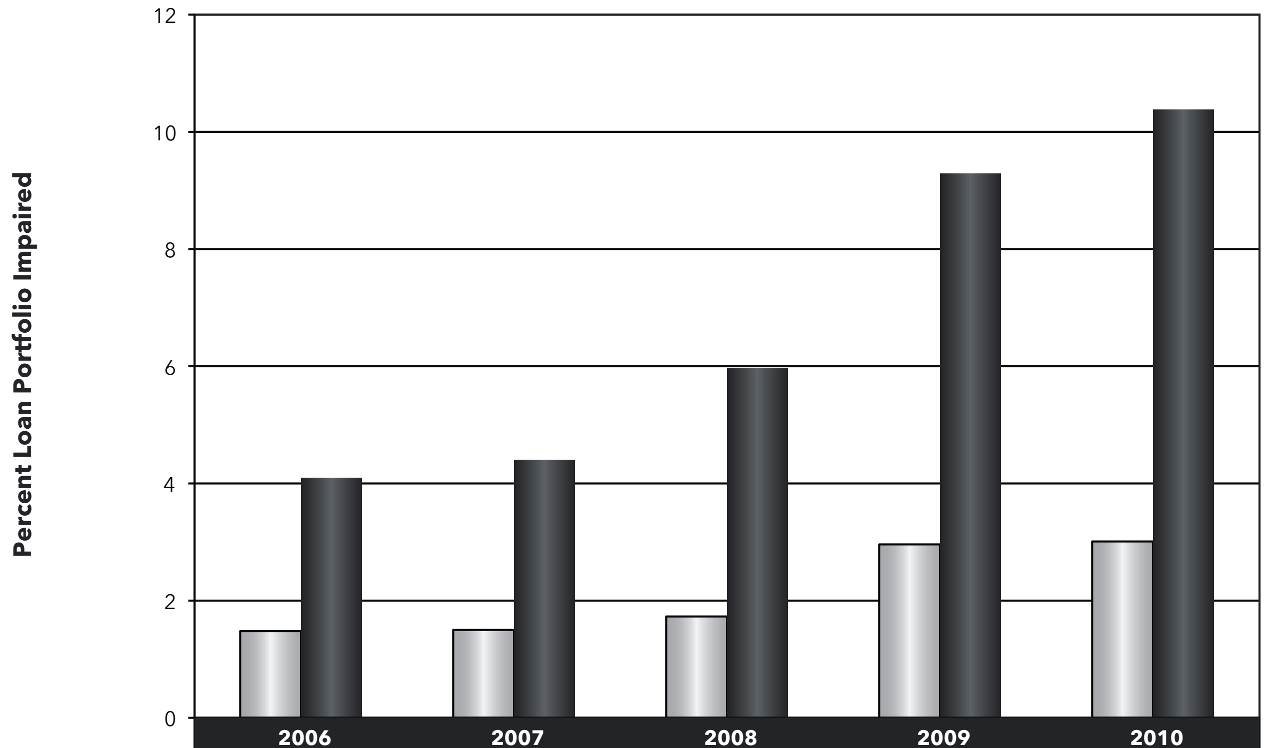
The measures put in place are discussed in more detail under the relevant sections of the Management Discussion and Analysis.

## CREDIT EXPANSION

Non-government domestic credit expansion slowed further in 2010 to 0.19% from the 1.6% reported in 2009 and the 6.8% for 2008. Our loan portfolio and other consumer based products grew by less than two tenths of one per cent in the year compared to 2.1% in 2009 and 10.2% in 2008. Expansion of the Bank's mortgage portfolio in 2010 continued but at a slower pace than 2009. The mortgage portfolio, at $255.2 million, was approximately 1.5% higher than that reported in 2009, (2009: growth over 2008 was 2.5%). In 2010, the commercial loan portfolio, for particular business reasons, shrank nearly 5% to approximately $47.7 million.

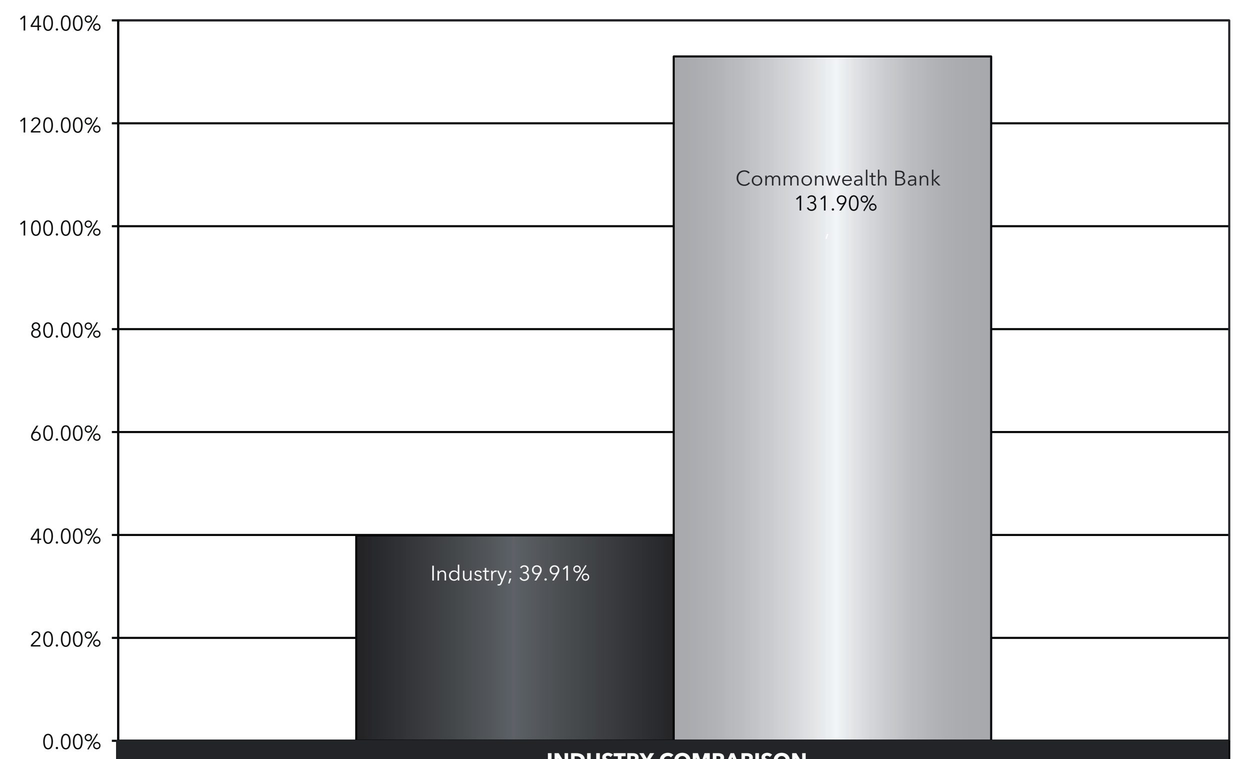
# MD&A Graphs }

## PERFORMANCE AGAINST INDUSTRY: IMPAIRED LOANS - 90 DAYS + ARREARS




| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Commonwealth Bank | 1.48 | 1.50 | 1.73 | 3.03 | 2.88 |
| Industry Impairment | 4.09 | 4.40 | 5.96 | 9.29 | 10.38 |

## IMPAIRMENT ALLOWANCE COVER OF IMPAIRED LOANS AT DECEMBER 2010




| | INDUSTRY COMPARISON |
|---|---|
| Industry | 39.91% |
| Commonwealth Bank | 131.90% |

While consumer credit extended by commercial banks declined in 2010 by some 1.84%, the Bank's consumer portfolio showed marginal growth in 2010. This core portfolio expanded to in excess of $745 million an increase of almost 0.6% over 2009, (2009: growth was 1.0%). Our credit card portfolio shrank for the second year. The decline in excess of 8% reflected the much harder environment for customers to fund discretionary credit in 2010 and was the subject of significant debt consolidation.

### LIQUIDITY

Liquidity in the banking sector remained high throughout the year. For a second consecutive year, the Bank was able to take advantage of significant Government borrowing, increasing the Bank's holdings of Bahamas Government Registered Stock by approximately $60 million. In the last two years the Bank has acquired over $140 million of long term Government Securities. The additional yield from these Government Securities has contributed to the Bank's increased earnings. Average Cash and Securities to Average Total Assets increased to 21.9% from 19.2%.

### OUTLOOK FOR 2011

Our strategic objectives and business model will again focus on sustaining a strong and vibrant Bank. The Bank will continue to focus on its strengths and the needs of our consumer base. The Bank will continue to develop consumer based products and services in 2011 while continuing to ensure the safety and privacy of information.

The outlook for 2011 offers some relief although the overall environment will be challenging. Demand for lending products is expected to show marginal improvements over 2010. The Bank will continue to assist, where appropriate, any action undertaken by the government to stimulate the economic recovery.

Out of more difficult times strong financial institutions become stronger. The Bank continues to believe that there is still opportunity for controlled and profitable growth in 2011.

Staff play an increasingly valuable role in the Bank's success. In line with the Core Value of "Ensuring that Commonwealth Bank is a Great Place to Work", the Bank continues to enhance its training and guidance activities and provide a work environment designed to challenge and develop our staff.

For the year ended December 31, 2010, the Bank reported Net Income of $53.8 million, an increase of $11.5 million or 27.19% over 2009. Net Income Available to Common Shareholders (Net Income less Preference Share Dividends) increased $11.5 million or 31.6% to $47.85 million.

Earnings per share were 49 cents per share compared to 37 cents per share in 2009, an increase of 31.5%. Return on equity was 30.58% compared to 26.99% in 2009.

Dividends paid to shareholders increased 4.0% to 26 cents (2009: 25 cents per share). Total dividends paid in the accounting period represented 53.4% of Net Income available to Common Shareholders (2009: 25 cents 67.5%). The reduction in the percentage of earnings paid as dividends resulted from the Bank paying reduced extra-ordinary dividends in February and November 2010. The Bank has proposed an extra-ordinary dividend of 6 cents per common share to be paid in February 2011 to bring dividends paid for 2010 to 60% of net income attributable to common shareholders. The Board of Directors has also approved increasing the quarterly common share dividend to 6 cents per share, effective March 31st, 2011.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are outlined in Note 3 of the Consolidated Financial Statements. Certain of these policies along with estimates made by management in applying these policies are recognized as critical since they require the Bank to make judgments about matters that are inherently uncertain or because of the possibility that significantly different numbers could be reported if different assumptions were applied or different conditions prevailed. As a result of changes in terminology used in International Financial Reporting Standards, with effect from 2009, references to "Provision for losses" have been replaced by "Allowances for loan impairment" and "Loan loss provisions" have been replaced by "Loan impairment expense". Our critical accounting policies and estimates relate to the allowances for loan impairment, the estimation of fair value, accounting for pension benefits, the actuarial assumptions underlying the life assurance fund and accounting for the deferment of loan fees. These are discussed further in Note 4 of the Consolidated Financial Statements. Our critical accounting policies and estimates are reviewed and approved at least annually by the Audit Committee in consultation with management.

### CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

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

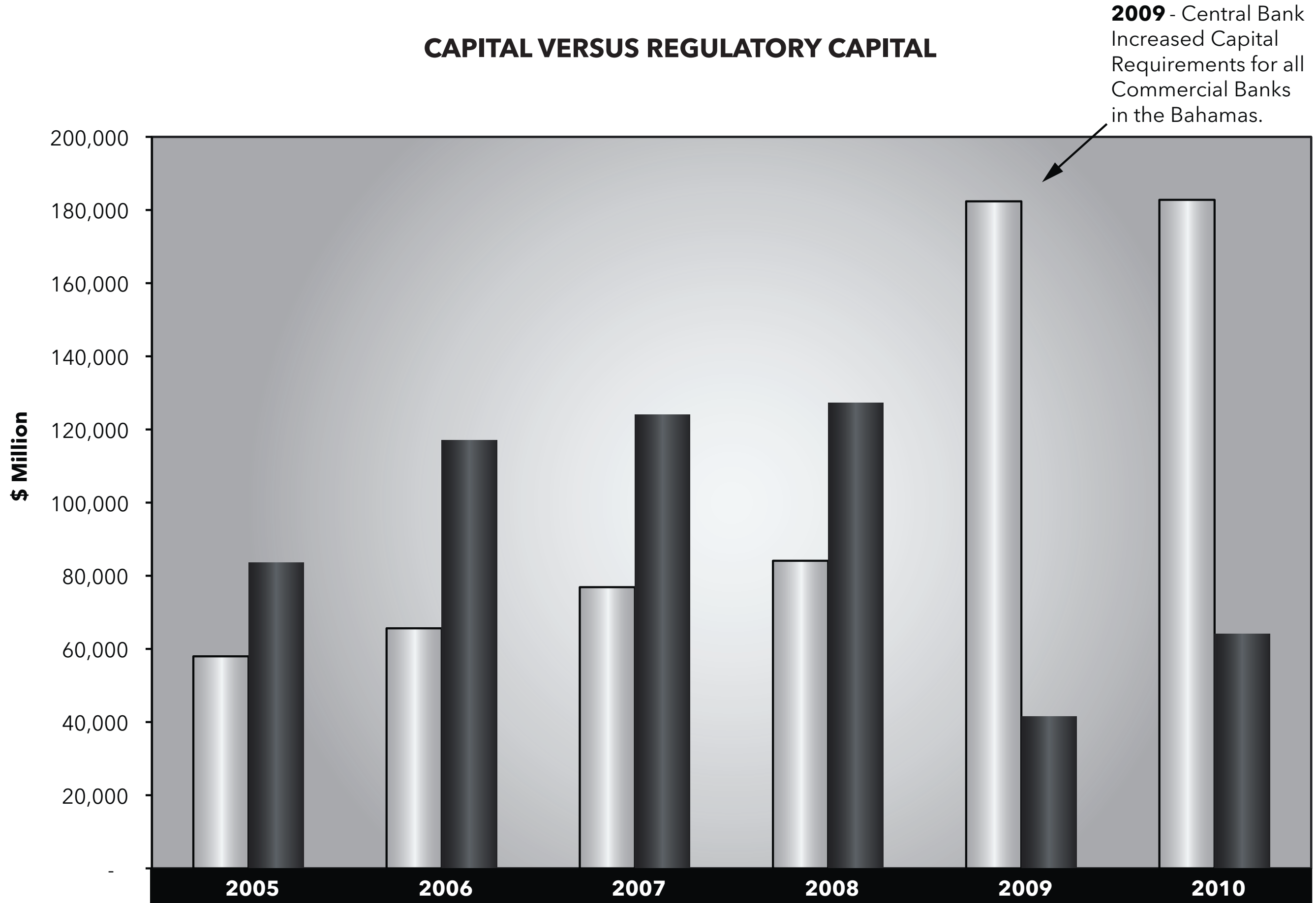
### MANAGEMENT OF FINANCIAL POSITION

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

Total loans amounted to $1.088 billion in 2010, an increase of $2 million or less than 0.2% (2009: $1.086 billion an increase of 2.1% over 2008). Deposits grew by $9.3 million to $1.132 billion or an increase of 0.8% (2009: $53.3 million an increase of 5.0%). Cash and balances at banks decreased $14.6 million to $77.7 million in 2010 (2009: $24.3 million) reflecting both the stagnation in domestic credit in the year and success by the Bank in moving its liquidity cushion from lower yielding cash balances to higher yielding Government Securities.

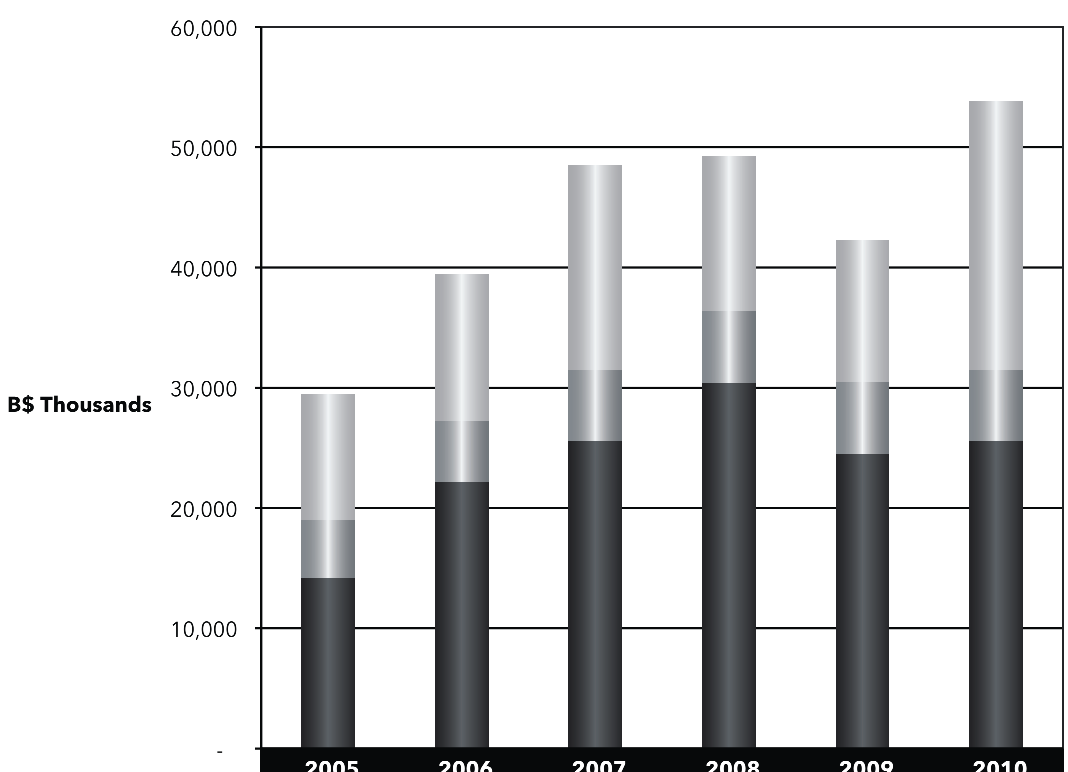
The stagnation in credit expansion was pronounced in 2010. Personal consumer credit fell 1.84% in the economy, while the Bank's portfolio increased by less than 2/10%. Industry

## CAPITAL VERSUS REGULATORY CAPITAL




| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| Regulatory Capital | 57,970 | 65,633 | 76,884 | 84,104 | 182,375 | 182,783 |
| Excess Capital | 83,667 | 117,033 | 124,012 | 127,284 | 41,536 | 64,180 |

## NET INCOME DISTRIBUTION




| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| Available for Reinvestment | 10,438 | 12,151 | 17,012 | 12,916 | 11,790 | 22,281 |
| Preference Dividend | 4,861 | 5,099 | 5,949 | 5,949 | 5,949 | 5,949 |
| Common Dividends | 14,203 | 22,197 | 25,573 | 30,427 | 24,533 | 25,570 |

mortgage lending growth was constrained declining from 4.4% in 2009 to 2.2% in 2010. The Bank followed the industry trend, with the mortgage portfolio increase declining from 2.5% in 2009 to 1.5% in 2010. Mortgage balances at December 31, 2010 were $255.2 million with additional commitments of $7.7 million compared to $251.4 million balances with $10.3 million commitments outstanding at December 31, 2009. The $2.4 million decrease (-4.8%) in the relatively small commercial portfolio reflected a large business customer restructuring their commercial financing rather than any philosophical change in the Bank's commitment to small businesses in The Bahamas (2009 increase 16.5% or $7.0 million to $ 50.0 million).

For the second year our Credit Card operations also reflected the prevailing economic environment as marketing and the level of economic activity was constrained leading to a significant level of debt consolidation as noted earlier. As a result, year-end credit card receivables decreased 8.4% or $3.6 million (2009: decrease $0.9 million or 1.9%).

## MANAGEMENT OF CAPITAL RESOURCES

The Bank's total available capital resources continued to expand in 2010 with Shareholder Equity increasing 10.30% to $247.0 million. The source of the increase was the retention of earnings as the common share dividend payout as a percentage of Net Income Available to Common Shareholders fell to 53.4% even though dividends increased by 4% to 26 cents per share. As a result $22.3 million was re-invested in the Bank.(2009: $12.5 million).

## THE COMPONENTS OF CAPITAL

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

- Tier 1 Capital, which consists primarily of Common Shareholders Equity, totaled $162.0 million at December 31, 2010 up $23.0 million or 16.6 % over 2009. During the year, the Bank reissued $2.0 million (2009: $0.85 million) of shares held by its subsidiary C.B. Securities Ltd., resulting in $0.46 million still held by the subsidiary at December 31, 2010 (2009: $1.75 million). These shares fund the Bank's Stock Compensation Plans and are sold to participants in due course. The Bank determined that purchase of the shares from the market in small quantities, would inject liquidity into the local market and was preferable to issuing new shares from Treasury for these plans.

- Tier 2 Capital, consists mainly of Cumulative Preference Shares and cannot exceed Tier 1 Capital. At December 31, 2010, the Bank had $85.0 million of Preference Shares, which qualified as Tier 2 Capital, unchanged from 2009.

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

In November 2009, The Central Bank of The Bahamas increased the required levels of capital from 8% to 17%. The Bank's Total Capital ratio, at 23.0%, at December 31, 2010 (2009: 20.9%) well exceeds the new minimum capital levels by 35.1%.

## CONSOLIDATED RESULTS FROM CONTINUING OPERATIONS

The Bank's earnings for 2010 were $53.8 million (2009:$42.2 million). Operational results prior to loan impairment expenses reveal the challenge of the low level of economic activity as they show a decrease of $06 million or -0.8%; (2009: an increase of 10.0%). The stabilizing economy along with the successful focus on asset quality resulted in a reduction of loan impairment expenses of $12.1 million in 2010 to $18.2 million. (2009: an increase of $13.6 million over 2008 to $30.3 million).

The stagnant economy coupled with reduced credit demand resulted in surplus liquidity throughout the year. The excess liquidity allowed for reduced deposit interest rates which were first experienced in 2009. In addition, continued Government borrowing enabled the Bank to further strengthen its Balance Sheet by adding a further $60 million to higher yielding assets.

The Bank's efficiency ratio declined marginally, impacted by the reduction in fee based income and the increase in expenses for a full year's operation of the Prince Charles Drive branch. The Bank's strong efficiency ratio continues to be amongst the best in the industry.

## NET INTEREST INCOME

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

Net Interest Income for the year ended December 31, 2010 was $111.8 million compared to $105.8 million in 2009, an increase of $6.0 million or 5.7%. (2009: an increase of $6.6 million or 6.6%) Net Interest Margin improved marginally to 7.5% from 7.3% which reflects positively on the Bank's ability to manage its asset liability profile closely throughout the year while having to operate in an environment of stagnant loan demand.

Year-end deposits were $1.13 billion, an increase of $9.3 million or 0.8% over 2009. However, Interest Expense at $49.8 million decreased by $3.2 million or -6.1 % over 2009. We anticipate current levels of liquidity to continue into 2011.

## LOAN LOSS IMPAIRMENT

Credit quality remains strong with the Bank's overall credit quality ratios improving over 2009. The Bank significantly outperformed the market in reported delinquency and non-accrual ratios in the year. Part of the reason for this performance is the Bank's ongoing commitment to credit quality and following the international best practice of writing off consumer loans at 180 days contractually past due. Total write offs for the Bank declined in 2010 by 20.4% to $21.1 million from 2009's $26.5 million. As a result the 2010 ratio of net loans written-off to average loans fell to 1.2%, down from 2009's 1.8%, although still above 2008's ratio of 1.1%.

Amounts recovered on written-off loans also improved in the year increasing 14.2% or $1.0 million to $7.8 million from $6.8 million in 2009.

The Bank will continue to develop and modify its credit risk rating and scoring models in 2011 and analyze the risk profile of the portfolio quarterly throughout 2011 in order to ensure our credit assessment criteria is directed at maintaining and sustaining the strong quality of the portfolio as the economy slowly recovers.

Rigorous write-off policies supported by a conservative and anticipatory allowance for impairment methodology will continue in 2011. During 2010, the Bank reviewed its consumer loan impairment allowance model. Based on experience and economic expectations, the Bank maintained its more aggressive anticipatory impairment allowance methodology, most notably on accounts restructured since the 2008 economic downturn. The Bank's commercial and mortgage lending activities were also subject to the same type of reviews in 2010.

Total impaired loans decreased to 2.88% or $31.3 million in 2010 compared to 3.03% ($32.9 million) at December 2009. The Bank's level of impairment remains appreciably less than the industry at large which was 10.4% at December 2010 (9.3% December 2009). The Bank's impaired personal loans were almost half the 2009 value (2010: $8.4 million versus 2009: $16.4 million). However, the decline in consumer impaired loans was almost offset by increases in mortgage and business impaired loans. This was not unexpected due to the timelines required for foreclosing on real estate collateral. As noted above, a contributing factor to the lower consumer impairment ratio is the rigorous write-off policy applied by the Bank.

The Bank's total allowances for loan impairment were $41.3 million compared to $36.4 million in 2009. The percentage of impaired allowances to impaired loans increased to 42.8% in 2010 from 39.4% in 2009 ($0.4 million), while the collective impairment allowance on non impaired loans increased from 2.2% in 2009 to 2.6% in 2010, an increase of $4.5 million. Allowances for loan impairment are understandably less for mortgage loans where there is significant cash value underlying the collateral securing the loan in contrast to the personal consumer loan portfolio.

Loan impairment expense in 2010 was $18.2 million for the year compared to $30.3 million in 2009, a decrease of $12.1 million or 40%. Despite the reduction in loan loss impairment expense, allowances for impairment in the Statement of Financial Position increased to $4.8 million or 13.5% as a result of the aggressive impairment methodology mentioned above.

The steps and added discipline to managing credit risk the Bank has taken in the last few years has provided a more effective approach to credit risk by the Bank and moved the Bank to the forefront of international best practices associated with measuring and monitoring overall credit quality. Note 23 in the Consolidated Financial Statements shows the overall quality of the portfolio from different perspectives. The analysis of restructured accounts confirms this approach to credit risk management. The Bank's restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that repayment will probably continue. Restructured accounts disclosed in the Note include the initial Loan Assistance Programs extended to customers immediately impacted by the downturn and assistance outside normal underwriting criteria subsequently rendered. The total restructured accounts at 10.4% of the portfolio (2009: 7.9%) reflects the extent to which the Bank has worked with its customers to offer them assistance through this recession.

## NON-INTEREST INCOME

Credit Life Insurance Income decreased $0.98 million in 2010 to $4.3 million or -18.7%, (2009: $0.25 million increase to $5.2 million or 5.0%). Death claims experience was stable in 2010 at $1.4 million, (2009: 9% increase to $1.4 million) while premiums collected recovered by 12% over 2009 levels (2009: 31% decrease from 2008). Earnings decreased due to the unearned reserve remaining relatively stable in 2010 compared to the 2009 decrease of $1.6 million.

Other Non-Interest Income of $9.0 million fell short of 2009 by $0.6 million or 5.9% as levels of activity continued to decline as noted above. Bank transaction based fee income is strategically an ever-increasing important source of revenue for the Bank as it represents a non-capital intensive income stream to build a stronger Bank. Going forward, marketing efforts will continue to target additional revenue generation from this source.

Card products reflected the same general decline but are still important to the Bank as MasterCard, SunCard and ComCard all made significant contributions to the Bank's profitability in 2010. The Bank plans to continue to leverage its entrenched card products on a conservative basis as a result of the prevailing market conditions.

CB Online, our internet banking service, increased its customer base in 2010. This product forms a natural part of the expanded portfolio of advanced technology-based products which is being demanded by the marketplace.

## NON-INTEREST EXPENSE

Non-interest expense of $53.0 million increased $5.0 million or 10.4% over 2009 ($48.0 million). Staff costs accounted for $3.5 million of the increase, resulting from the full year cost of staffing an additional branch and offering Saturday Banking services and performance based payments based on the Bank's improved profitability. Other contributing factors were the efforts the Bank made to improve its technology, enhancing physical and logical security and developing staff, which must be funded on a continuous basis in order to retain the Bank's competitive edge.

Depreciation expense increased 6.9% to $2.9 million in 2010, $0.2 million more than 2009.

Close control of all expense categories will continue to be a major focus for the Bank in 2011.

## OPERATIONAL EFFICIENCY

The adjusted efficiency ratio for the twelve months ended December 31, 2010 (calculated by dividing total non-interest expense by net interest income plus non-interest income less preference share dividends) was 44.5% and remains well ahead of the industry average. To achieve the levels attained, emphasis was again placed on introducing enhanced technology and, where possible, continued centralization of operational functions in order to bring additional expertise, concentration and cost containment to repetitive and volume based activities.

Efforts in 2011 will continue to be directed at further assessment of existing policies, procedures and work measurement processes in order to provide the level of service required by customers in a cost-effective and increasingly efficient manner. Our objective for 2011, taking into account the factors noted above, is to retain a level of efficiency of less than 50%.

At year-end the Bank employed a full-time equivalent complement of 562. Actual staffing levels for 2010 averaged 547 compared to an average of 541 in 2009.

## RISK MANAGEMENT:

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

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

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

# Board of **Directors** }

Seated From Left to Right:

**WILLIAM B. SANDS, JR.,** President & CEO
(Executive Chairman, effective January 1, 2011)

**EARLA J. BETHEL**

**RUPERT W. ROBERTS, JR.,** OBE

**VAUGHN W. HIGGS**

**R. CRAIG SYMONETTE**

Seated Front:

**T. BASWELL DONALDSON,** CBE, Chairman
(Retired December 31, 2010)

Standing From Left to Right:

**IAN A. JENNINGS,** Sr. VP & CFO
(President, effective January 1, 2011)

**J. BARRIE FARRINGTON,** CBE

**LARRY R. GIBSON**

**DR. MARCUS R. C. BETHEL**

**G. CLIFFORD CULMER**

# Executive Team }

Left to Right:

**CHARLES KNOWLES, Vice President & CIO**

**CAROLE STRACHAN, Vice President,** Internal Audit

**WILLIAM B. SANDS, JR., President & CEO** (Executive Chairman effective January 1, 2011)

**IAN JENNINGS, Sr. Vice President & CFO** (President, effective January 1, 2011)

**ANTHEA COX, Vice President,** Human Resources & Training

**DENISE TURNQUEST, Sr. Vice President,** Credit Risk

**MAVIS BURROWS, Vice President,** Operations

# { Assistant Vice **Presidents**

Left to Right:

**MAXWELL JONES, Assistant Vice President,** Business Development

**NEIL STRACHAN, Assistant Vice President,** Mortgage & Commercial Lending

**IAN WILKINSON, Assistant Vice President,** Information Technology

**PATRICK MCFALL, Assistant Vice President,** Corporate Accounts (Vice President & CFO, effective January 1, 2011)

**SILBERT COOPER, Assistant Vice President,** Consumer Lending

# Branch **Managers** }

Left to Right:

**J. RUPERT ROBERTS**
Sr. Manager, Freeport

**FRANKLYN THOMAS**
Sr. Manager, Cable Beach

**JEFFREY KERR**
Sr. Manager, Wulff Road

**JULIETTE FRASER**
Sr. Manager, Town Centre Mall

**FRIENDERICK DEAN**
Sr. Manager, East Bay Street

**DARIA BAIN**
Manager, The Plaza

**DEMETRI BOWE**
Manager, Golden Gates

**LAVADO BUTLER**
Manager, Prince Charles Drive

**KAYLA DARVILLE**
Manager, Mortgage Centre

**WALLACE TAYLOR**
Manager, Abaco

**CHARLENE LOW**
Manager, Lucaya

**MARCUS CLEARE**
Manager, Oakes Field

# { Department **Managers**

**KENRICK BRATHWAITE**
Sr. Manager, Credit Inspection

**GLADYS FERNANDER**
Sr. Manager, Financial & Business Planning

**ERALD THOMPSON**
Sr. Manager, Internal Audit

**MARGO ADDERLEY**
Manager, Training & Development

**GODWIN BLYDEN**
Manager, Security & Administration

**GINA GREENE**
Manager, Marketing & Customer Service

**ANNE LIGHTBOURN**
Manager, Human Resources

**MONIQUE MASON**
Manager, Credit Card Centre

**DERICK MOSS**
Manager, Systems Operations & Network

**JASMIN STRACHAN**
Manager, Operations

**FELIPE VEGA**
Manager, Information Technology

**LERNIX WILLIAMS**
Manager, Credit Inspection

# Management Responsibility for Financial **Reporting** }

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

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

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

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

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

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

The Bank's Auditors and its VP Internal Audit, Credit Inspection and CISO 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 11, 2011

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

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

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Commonwealth Bank Limited:

We have audited the accompanying Consolidated Financial Statements of Commonwealth Bank Limited (the "Bank") which comprise the Consolidated Statement of Financial Position as at December 31, 2010, and the related Consolidated Statements of Comprehensive Income, Changes In Equity and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

## Auditors' responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the Consolidated Financial Statements present fairly, in all material respects the Financial Position of the Bank as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

February 14, 2011
2nd Terrace West, Centreville
Nassau, Bahamas

A member firm of
Deloitte Touche Tohmatsu

COMMONWEALTH BANK LIMITED

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AS OF DECEMBER 31, 2010**
(Expressed in Bahamian $'000s)

| | | 2010 | | 2009 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and deposits with banks (Note 7) | $ | 21,537 | $ | 20,382 |
| Balances with The Central Bank of The Bahamas (Note 7) | | 56,198 | | 71,932 |
| Investments (Note 8) | | 246,588 | | 196,688 |
| Loans receivable (Notes 9, 18, 21 and 23) | | 1,046,960 | | 1,049,849 |
| Premises and equipment (Note 10) | | 34,452 | | 35,761 |
| Other assets | | 3,039 | | 1,909 |
| **TOTAL** | $ | 1,408,774 | $ | 1,376,521 |
| **LIABILITIES AND EQUITY** | | | | |
| LIABILITIES: | | | | |
| Deposits (Notes 11, 18 and 21) | $ | 1,131,793 | $ | 1,122,453 |
| Life assurance fund (Notes 12 and 21) | | 15,436 | | 15,586 |
| Other liabilities (Note 21) | | 14,582 | | 14,571 |
| Total liabilities | | 1,161,811 | | 1,152,610 |
| EQUITY: | | | | |
| Share capital (Note 13) | | 86,950 | | 86,946 |
| Share premium | | 26,722 | | 25,957 |
| General reserve (Note 14) | | 10,500 | | 10,500 |
| Retained earnings | | 122,791 | | 100,508 |
| Total equity | | 246,963 | | 223,911 |
| **TOTAL** | $ | 1,408,774 | $ | 1,376,521 |

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

These Consolidated Financial Statements were approved by the Board of Directors on January 27, 2011, and are signed on its behalf by:

Executive Chairman

President

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**YEAR ENDED DECEMBER 31, 2010**
(Expressed in Bahamian $'000s)

| | | 2010 | | 2009 |
|---|---|---|---|---|
| **INCOME** | | | | |
| Interest income (Notes 5, 8 and 18) | $ | 161,608 | $ | 158,811 |
| Interest expense (Notes 5 and 18) | | (49,823) | | (53,060) |
| Net interest income | | 111,785 | | 105,751 |
| Loan impairment expense (Note 9) | | (18,230) | | (30,262) |
| | | 93,555 | | 75,489 |
| Life assurance, net | | 4,260 | | 5,239 |
| Fees and other income (Note 16) | | 9,037 | | 9,603 |
| Total income | | 106,852 | | 90,331 |
| **NON-INTEREST EXPENSE** | | | | |
| General and administrative (Notes 17 and 18) | | 49,935 | | 45,136 |
| Depreciation and amortization (Note 10) | | 2,926 | | 2,736 |
| Directors' fees | | 191 | | 187 |
| Total non-interest expense | | 53,052 | | 48,059 |
| TOTAL COMPREHENSIVE INCOME | $ | 53,800 | $ | 42,272 |
| BASIC AND DILUTED EARNINGS PER COMMON SHARE (expressed in dollars) | $ | 0.49 | $ | 0.37 |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## YEAR ENDED DECEMBER 31, 2010
(Expressed in Bahamian $'000s)

| | | 2010 | | 2009 |
|---|---|---|---|---|
| **SHARE CAPITAL** | | | | |
| Preference shares (Note 13) | | | | |
| Balance at beginning and end of year | $ | 84,983 | $ | 84,983 |
| Common shares (Note 13) | | | | |
| Balance at beginning of year | | 1,963 | | 1,961 |
| Issuance of common shares | | 4 | | 2 |
| Balance at end of year | | 1,967 | | 1,963 |
| Total share capital | | 86,950 | | 86,946 |
| **SHARE PREMIUM** | | | | |
| Balance at beginning of year | | 25,957 | | 25,226 |
| Issuance of common shares | | 644 | | 427 |
| Share based payments (Note 15) | | 121 | | 304 |
| Balance at end of year | | 26,722 | | 25,957 |
| **GENERAL RESERVE** | | | | |
| Balance at beginning and end of year (Note 14) | | 10,500 | | 10,500 |
| **RETAINED EARNINGS** | | | | |
| Balance at beginning of year | | 100,508 | | 88,718 |
| Total comprehensive income | | 53,800 | | 42,272 |
| Common share dividends: 26 cents per share (2009: 25 cents) | | (25,568) | | (24,533) |
| Preference share dividends | | (5,949) | | (5,949) |
| Balance at end of year | | 122,791 | | 100,508 |
| **EQUITY AT END OF YEAR** | $ | 246,963 | $ | 223,911 |

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

COMMONWEALTH BANK LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**YEAR ENDED DECEMBER 31, 2010**

(Expressed in Bahamian $'000s)

| | | 2010 | | 2009 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Interest receipts | $ | 141,248 | $ | 142,498 |
| Interest payments | | (49,823) | | (53,060) |
| Life assurance premiums received, net | | 7,362 | | 6,639 |
| Life assurance claims and expenses paid | | (3,237) | | (2,998) |
| Fees and other income received | | 9,022 | | 9,582 |
| Recoveries | | 7,805 | | 6,835 |
| Cash payments to employees and suppliers | | (51,245) | | (55,754) |
| | | 61,132 | | 53,742 |
| Increase in loans receivable | | (15,341) | | (30,946) |
| Increase in deposits | | 9,340 | | 53,317 |
| Net cash from operating activities | | 55,131 | | 76,113 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Purchase of investments | | (135,428) | | (210,282) |
| Interest receipts and redemption of investments | | 98,085 | | 143,899 |
| Purchase of premises and equipment (Note 10) | | (1,729) | | (4,291) |
| Proceeds from sale of premises and equipment | | 110 | | - |
| Net cash used in investing activities | | (38,962) | | (70,674) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | | |
| Dividends paid | | (31,517) | | (30,482) |
| Issuance of common shares | | 648 | | 429 |
| Share based payments (Note 15) | | 121 | | 304 |
| Net cash used in financing activities | | (30,748) | | (29,749) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | (14,579) | | (24,310) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | | 92,314 | | 116,624 |
| CASH AND CASH EQUIVALENTS, END OF YEAR (Note 7) | $ | 77,735 | $ | 92,314 |

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

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

## 1. INCORPORATION AND ACTIVITIES

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

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

## 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2010.

| | |
|---|---|
| Amendments to IFRS 5 | Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2009) |
| Amendments to IAS 1 | Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2009) |
| Amendments to IAS 7 | Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009) |
| Amendments to IFRS 7 | Financial Instruments: Disclosures (as part of Improvements to IFRSs issued in 2010) |
| Amendments to IAS 1 | Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010) |
| IAS 27 (revised in 2008) | Consolidated and Separate Financial Statements |
| IAS 28 (revised in 2008) | Investments in Associates |
| Amendments to IFRS 1 | First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters |
| Amendments to IFRS 2 | Share-based Payment – Group Cash-settled Share-based Payment Transactions |
| Amendments to IAS 39 | Financial Instruments: Recognition and Measurement – Eligible Hedged Items |
| IFRIC 17 | Distributions of Non-cash Assets to Owners |
| IFRIC 18 | Transfers of Assets from Customers |

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

| | |
|---|---|
| Amendments to IFRS 1 | Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters |
| Amendments to IFRS 3 | Business Combinations (as part of Improvements to IFRSs issued in 2010) |
| Amendments to IFRS 7 | Disclosures – Transfers of Financial Assets |
| IFRS 9 (as amended in 2010) | Financial Instruments |
| IAS 24 (revised in 2009) | Related Party Disclosures |
| Amendments to IAS 32 | Classification of Rights Issues |
| Amendments to IFRIC 14 | Prepayments of a Minimum Funding Requirement |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments |

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

***Principles of consolidation -*** The Consolidated Financial Statements include the accounts of the Bank and its wholly-owned subsidiaries made up to December 31, 2010. All intra-group transactions, balances, income and expenses have been eliminated in full on consolidation.

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

a. ***Recognition of income***

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

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

- Income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan origination and commitment fees) and recorded in interest income in the Consolidated Statement of Comprehensive Income.

- Income earned from the provision of services is recognised as revenue as the services are provided.

- Fees in respect of deposit account services are generally charged on a per transaction basis and recognised as the right to consideration accrues through the provision of the service to the customer.

- Fees from credit card processing are accrued to revenue as the service is performed.

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

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

b. ***Loans receivable***

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

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

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

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

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

***Individually significant loans receivable***

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

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

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

***Collectively assessed loans receivable***

Impairment is assessed on a collective basis in two circumstances:

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

***Incurred but not yet identified impairment***

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

The collective impairment allowance is determined after taking into account:

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

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

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

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

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

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

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

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

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

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

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

d. ***Life assurance fund -*** All receipts from the life assurance business of Laurentide Insurance and Mortgage Company Limited ("Laurentide"), are credited to a life assurance fund as required by The Insurance Act, under which Laurentide is registered. The fund is reduced in respect of expenses of the life assurance business and increased by any deficit disclosed by actuarial valuation which exceeds the unearned premium reserve.

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

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

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

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

g. ***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.

h. ***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 (2010: 98.357 million; 2009: 98.132 million). There is no material difference between basic earnings per share and fully diluted earnings per share.

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

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

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

Pension costs are charged to general and administrative expenses.

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

j. ***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 sharebased payments was expensed on a straight-line basis over the vesting period. When the stock options are exercised the proceeds are recorded in share capital and share premium.

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

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

k. ***Deposits -*** Deposits are stated at amortised cost. principal plus accrued interest.

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

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

n. ***Related parties -*** Related parties include officers, directors, large shareholders (with shareholdings in excess of 5% of outstanding common shares) and their spouses, and companies that are controlled by these parties.

o. ***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.

p. ***Financial assets -*** Financial assets are:

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

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

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

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

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

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

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

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

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

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

Financial liabilities are classified as FVTPL where the financial liability is either held for trading or it is designated as FVTPL. Financial liabilities at FVTPL are stated at fair value with any resulting gain or loss recognised in the Consolidated Statement of Comprehensive Income. Other financial liabilities are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method with interest expense recognized on an effective yield basis.

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

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

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

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

   Premises and equipment are not considered to be financial assets.

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

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

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

c. ***Pension benefits -*** The Bank maintains a defined benefit plan covering all employees in the active employment of the Bank who have at least 3 years of service or have reached the age of 25. Due to the long term nature of pension plans, the calculation of benefit expenses and obligations depends on various assumptions such as discount rates, expected rates of return on assets, projected salary increases, retirement age, mortality, and termination rates.

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

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

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

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

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

The weighted average fair value of options at December 31, 2010 was valued at $1.02 (2009: $0.87) per option and was calculated using the assumptions shown in Note 15.

## 5. FINANCIAL INSTRUMENTS

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

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

| 2009 | Loans and Receivables | Held-To-Maturity | Available-For-Sale | Amortised Cost | Total |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | |
| Cash and cash equivalents | $ - | $ - | $ 92,314 | $ - | $ 92,314 |
| Investments | $ - | $ 196,613 | $ 75 | $ - | $ 196,688 |
| Loans receivable | $ 1,086,227 | $ - | $ - | $ - | $ 1,086,227 |
| **FINANCIAL LIABILITIES** | | | | | |
| Deposits | $ - | $ - | $ - | $ 1,122,453 | $ 1,122,453 |

At December 31, 2010 there were no assets or liabilities that were classified as FVTPL (2009: $Nil).

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | |
| Available For Sale | | | | |
| Cash and Cash Equivalents | $ 77,735 | $ - | $ - | $ 77,735 |
| | $ 77,735 | $ - | $ - | $ 77,735 |
| Held To Maturity | | | | |
| Investments | $ - | $ 246,513 | $ 75 | $ 246,588 |
| | $ - | $ 246,513 | $ 75 | $ 246,588 |
| Amortised Cost | | | | |
| Loans Receivable | $ - | $ - | $ 1,088,232 | $ 1,088,232 |
| | $ - | $ - | $ 1,088,232 | $ 1,088,232 |
| **FINANCIAL LIABILITIES** | | | | |
| Amortised Cost | | | | |
| Deposits | $ - | $ - | $ 1,131,793 | $ 1,131,793 |
| | $ - | $ - | $ 1,131,793 | $ 1,131,793 |

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

There were no transfers between levels during the year.

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

| | 2010 | 2009 |
|---|---|---|
| **Interest income** | | |
| Loans and Receivables | $ 148,937 | $ 149,121 |
| Held-to-Maturity Investments | 12,557 | 9,478 |
| Available-For-Sale financial assets | 114 | 212 |
| | $ 161,608 | $ 158,811 |
| **Interest expense** | | |
| Financial Liabilities at Amortised Cost | $ 49,823 | $ 53,060 |
| **Fees and other income** | | |
| Loans and Receivables | $ 1,097 | $ 1,178 |
| **Fee expense** | | |
| Available-For-Sale financial assets | $ 124 | $ 174 |

## 6. BUSINESS SEGMENTS

For management purposes, the Bank including its subsidiaries is organized into three operating units -– Banking, Real Estate Holdings and Investment. 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 Bank also provides credit life insurance in respect of the Bank's borrowers through Laurentide Insurance and Mortgage Company Limited and Laurentide Insurance Agency Limited. For management purposes, Credit Life Insurance activities are reported as part of the Bank and therefore are not treated as a separate business segment. The Bank also has a real estate company, C. B. Holding Co. Ltd. that owns and manages real property which is rented to various Group Companies, including the parent company. C.B. Securities Ltd. was incorporated as an investment company on September 2, 1996. C.B. Securities Ltd. purchased Bank common shares during the year to fund the Bank's stock based compensation plans.

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

The following table shows financial information by business segment:

| | Banking | | Real Estate Holdings | | Investment | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| **Revenue** | | | | | | | | | | |
| External | $ 106,805 | $ 90,278 | $ 47 | $ 53 | $ (181) | $ (7) | $ 181 | $ 7 | $ 106,852 | $ 90,331 |
| Internal | 918 | 976 | 2,597 | 2,529 | - | - | (3,515) | (3,505) | - | - |
| Total revenue | $ 107,723 | $ 91,254 | $ 2,644 | $ 2,582 | $ (181) | $ (7) | $ (3,334) | $ (3,498) | $ 106,852 | $ 90,331 |
| **Net profit** | | | | | | | | | | |
| Segment net profit | $ 53,521 | $ 42,032 | $ 509 | $ 373 | $ (230) | $ (133) | $ - | $ - | $ 53,800 | $ 42,272 |
| **Assets** | $ 1,390,773 | $ 1,358,566 | $ 17,786 | $ 18,306 | $ 921 | $1,852 | $ (706) | $ (2,203) | $ 1,408,774 | $ 1,376,521 |
| **Liabilities** | $ 1,161,776 | $ 1,152,563 | $ 15,078 | $ 16,107 | $ 649 | $1,350 | $ (15,692) | $ (17,410) | $ 1,161,811 | $ 1,152,610 |
| **Other Information** | | | | | | | | | | |
| Capital additions | $ 1,479 | $ 2,141 | $ 250 | $ 2,150 | $ - | $ - | $ - | $ - | $ 1,729 | $ 4,291 |
| Depreciation | $ 2,443 | $ 2,333 | $ 485 | $ 403 | $ - | $ - | $ - | $ - | $ 2,926 | $ 2,736 |

## 7. CASH AND CASH EQUIVALENTS

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

| | 2010 | 2009 |
|---|---|---|
| Cash and deposits with banks | $ 21,537 | $ 20,382 |
| Balances with The Central Bank of The Bahamas | 56,198 | 71,932 |
| Total cash and cash equivalents | $ 77,735 | $ 92,314 |

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, 2010, this reserve requirement was $45.8 million (2009: $44.5 million).

## 8. INVESTMENTS

Investments is as follows:

| | Term to Maturity | | | | | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Within 12 months | | Over 12 to 60 months | | Over 60 months | | Total | | Total | |
| | $ | Yield % | $ | Yield % | $ | Yield% | $ | Yield % | $ | Yield% |
| Bahamas Government Treasury Bills | 4,985 | 1.797% | - | - | - | - | 4,985 | 1.797% | 14,945 | 2.246% |
| Bahamas Government Registered Stock | 2,932 | 6.746% | 15,437 | 7.051% | 210,858 | 5.654% | 229,227 | 5.940% | 169,345 | 5.834% |
| Bridge Authority Bonds | - | - | - | - | 238 | 6.995% | 238 | 6.995% | 238 | 6.995% |
| Mortgage Corporation Bonds | - | - | - | - | 9,032 | 5.688% | 9,032 | 5.688% | 9,055 | 5.673% |
| Clifton Heritage Bonds | - | - | - | - | 2,023 | 6.045% | 2,023 | 6.045% | 2,023 | 6.045% |
| United States Treasury Notes | - | - | - | - | 1,008 | 6.948% | 1,008 | 6.948% | 1,007 | 6.952% |
| Other Equity | - | - | - | - | 75 | - | 75 | - | 75 | - |
| Total investment Securities | 7,917 | 3.630% | 15,437 | 7.051% | 223,234 | 5.664% | 246,588 | 5.685% | 196,688 | 5.561% |

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

| | 2010 | 2009 |
|---|---|---|
| Interest income | $ 12,557 | $ 9,478 |

## 9. LOANS RECEIVABLE

Loans receivable is as follows:

| | 2010 | 2009 |
|---|---|---|
| Residential mortgage | $ 255,245 | $ 251,446 |
| Business | 47,652 | 50,042 |
| Personal | 745,755 | 741,515 |
| Credit card | 39,580 | 43,224 |
| | 1,088,232 | 1,086,227 |
| Less: Impairment Allowances | 41,272 | 36,378 |
| | $ 1,046,960 | $ 1,049,849 |

The comparative figures for the loan receivable balance have been restated to conform to current year's presentation as accrued interest, which was previously disclosed separately, is now shown as a part of the loan receivable total. As a result, this same presentation disclosure is reported in Notes 18, 21 and 23.

Impairment Allowances on Loans Receivable:

| | 2010 | 2009 |
|---|---|---|
| **Gross Loans Receivable** | | |
| Individually Assessed Impaired Loans | $ 5,623 | $ 1,275 |
| | | |
| Collectively Assessed | | |
| Impaired Loans | 25,667 | 31,653 |
| Non-Impaired Loans | 1,056,942 | 1,053,299 |
| | 1,082,609 | 1,084,952 |
| Gross Loans and Advances | $ 1,088,232 | $ 1,086,227 |

| | | |
|---|---|---|
| Individually Assessed allowances as % of individually assessed loans receivable | 22.07% | 8.39% |
| Collectively Assessed allowances as % of Collectively assessed loans receivable | 3.70% | 3.69% |
| Total allowances as % of total loans receivable | 3.79% | 3.35% |

Movement in Impairment Allowances:

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

## 9. LOANS RECEIVABLE *(Continued)*

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Balance at Beginning of Year | Loans Written off | Recoveries | Provision for Credit Losses | Balance at End of Year |
| **Individually Assessed** | | | | | |
| Residential mortgage | $ 67 | $ - | $ - | $ (10) | $ 57 |
| Business | 84 | - | - | (34) | 50 |
| Total Individually Assessed | $ 151 | $ - | $ - | $ (44) | $ 107 |
| **Collectively Assessed** | | | | | |
| Residential mortgage | $ 3,682 | $ (373) | $ 18 | $ 1,305 | $ 4,632 |
| Business | 716 | (3) | - | (68) | 645 |
| Personal | 20,320 | (24,184) | 6,224 | 27,641 | 30,001 |
| Credit card | 868 | (1,896) | 593 | 1,428 | 993 |
| Total Collectively Assessed | $ 25,586 | $ (26,456) | $ 6,835 | $ 30,306 | $ 36,271 |
| Total Impairment Allowances | $ 25,737 | $ (26,456) | $ 6,835 | $ 30,262 | $ 36,378 |
| **Impaired Loan Allowance** | | | | | |
| Impaired Loans Individually Assessed Allowances | $ 151 | $ - | $ - | $ (44) | $ 107 |
| Impaired Loans Collective Assessed Allowances | 7,033 | (26,456) | 6,835 | 25,458 | 12,870 |
| Impaired Loans Total Allowances | $ 7,184 | $ (26,456) | $ 6,835 | $ 25,414 | $ 12,977 |
| Collective Allowances Non Impaired Loans | 18,553 | - | - | 4,848 | 23,401 |
| Total Allowances | $ 25,737 | $ (26,456) | $ 6,835 | $ 30,262 | $ 36,378 |

Impaired loans receivable is as follows:

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

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

| | 2009 | | | 2009 | | | 2009 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Individually Assessed Impaired | Collectively Assessed Impaired | Total Impaired | Individually Assessed Allowance | Collectively Assessed Impaired Allowance | Total Impaired Allowance | Net Impaired Individually Assessed | Net Impaired Collectively Assessed Impaired | Total Net Impaired |
| Residential mortgage | $ 941 | $ 13,523 | $ 14,464 | $ 57 | $ 1,757 | $ 1,814 | $ 884 | $ 11,766 | $ 12,650 |
| Business | 334 | 682 | 1,016 | 50 | 161 | 211 | 284 | 521 | 805 |
| Personal | - | 16,380 | 16,380 | - | 10,522 | 10,522 | - | 5,858 | 5,858 |
| Credit card | - | 1,068 | 1,068 | - | 430 | 430 | - | 638 | 638 |
| | $ 1,275 | $ 31,653 | $ 32,928 | $ 107 | $ 12,870 | $ 12,977 | $ 1,168 | $ 18,783 | $ 19,951 |

Percentage of loan portfolio 3.03%
Percentage of total assets 2.39%
Percentage of Impaired Allowance to Impaired Loans 39.41%

The collective impairment allowance on non impaired loans is 2.64% (2009: 2.22%) of the non-impaired loans receivable.

## 10. PREMISES AND EQUIPMENT

The movement of premises and equipment is as follows:

| | Land/Site Improvements | Buildings | Leasehold Improvements | Furniture, Fittings and Equipment | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| December 31, 2008 | $ 8,353 | $ 25,413 | $ 794 | $ 14,344 | $ 48,904 |
| Additions | 146 | 2,052 | - | 2,093 | 4,291 |
| Transfers | - | - | - | - | - |
| Disposals | - | - | - | (5) | (5) |
| December 31, 2009 | 8,499 | 27,465 | 794 | 16,432 | 53,190 |
| Additions | 56 | 235 | - | 1,438 | 1,729 |
| Disposals | - | - | - | (281) | (281) |
| December 31, 2010 | 8,555 | 27,700 | 794 | 17,589 | 54,638 |
| **Accumulated Depreciation and Amortization** | | | | | |
| December 31, 2008 | 23 | 5,518 | 646 | 8,509 | 14,696 |
| Charge for the year | 47 | 691 | 22 | 1,976 | 2,736 |
| Transfers | | - | - | - | - |
| Disposals | - | - | - | (3) | (3) |
| December 31, 2009 | 70 | 6,209 | 668 | 10,482 | 17,429 |
| Charge for the year | 61 | 746 | 21 | 2,100 | 2,928 |
| Disposals | - | - | - | (171) | (171) |
| December 31, 2010 | 131 | 6,955 | 689 | 12,411 | 20,186 |
| **Net Book Value** | | | | | |
| December 31, 2010 | $ 8,424 | $ 20,745 | $ 105 | $ 5,178 | $ 34,452 |
| December 31, 2009 | $ 8,429 | $ 21,256 | $ 126 | $ 5,950 | $ 35,761 |

Depreciation and amortization expense is as follows:

| | 2010 | 2009 |
|---|---|---|
| Land/Site Improvements | $ 61 | $ 47 |
| Buildings | 746 | 691 |
| Leasehold improvements | 21 | 22 |
| Furniture, fittings and equipment | 2,100 | 1,976 |
| Total depreciation and amortization | $ 2,928 | $ 2,736 |
| Net gain on disposal of fixed assets | (2) | - |
| Net depreciation and amortization | $ 2,926 | $ 2,736 |

## 11. DEPOSITS

The composition of deposits is as follows:

| | 2010 | 2009 |
|---|---|---|
| Demand deposits | $ 77,230 | $ 65,810 |
| Savings accounts | 112,685 | 105,165 |
| Certificates of deposit | 941,878 | 951,478 |
| | $ 1,131,793 | $ 1,122,453 |

## 12. LIFE ASSURANCE FUND

The Bank provides credit life insurance in respect of its borrowers through Laurentide Insurance and Mortgage Company Limited ("the Company"), a wholly-owned subsidiary of the Bank. The Life Assurance Fund is held by the Company and disclosed separately in the Consolidated Statement of Financial Position.

An actuarial valuation of the Life Assurance Fund was conducted as of December 31, 2010 by Oliver Wyman of Toronto, Canada. The valuation was based on the total of the funds to be set aside to guarantee the payment of all future obligations to policyholders and satisfy regulatory capital requirements. The total is the sum of a) the Aggregate Actuarial Reserve including sufficient provision for adverse deviations and b) minimum capital and solvency margin requirements prescribed by the Insurance (General) Regulations. Of this total, the Company is required to hold assets at least equal to the Aggregate Actuarial Reserve within the Life Assurance Fund. It is the Company's policy to hold assets in the Life Assurance Fund equal to the greater of a) the Aggregate Actuarial Reserve, and b) the total Unearned Premium Reserve. At December 31, 2010 the Company needed to set aside B$19,675,820, of which $15,436,369 is to be held in the Life Assurance Fund.

Assets of the Company representing the Life Assurance Fund are maintained as Government Securities. At December 31, 2010, the Company is in compliance with the minimum capital and solvency margin requirements prescribed by the Insurance (General) Regulations.

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.

## 13. SHARE CAPITAL

Share capital is as follows:

**PREFERENCE SHARES:**

| B$ 000'S | | Beginning and end of year 2009, 2010 | AUTHORIZED Beginning and end of year 2010 | AUTHORIZED Beginning and end of year 2009 | OUTSTANDING Beginning and end of year 2010 | OUTSTANDING Beginning and end of year 2009 |
|---|---|---|---|---|---|---|
| **Authorized** | **Rate** | **Par $** | | | | |
| Class A | 7.00% | 500 | $ 15,000 | $ 15,000 | $ 15,000 | $ 15,000 |
| Class B | 7.00% | 500 | 5,000 | 5,000 | 4,985 | 4,985 |
| Class C | 7.00% | 100 | 5,000 | 5,000 | 5,000 | 5,000 |
| Class D | 7.00% | 100 | 10,000 | 10,000 | 10,000 | 10,000 |
| Class E | 7.00% | 100 | 10,000 | 10,000 | 9,999 | 9,999 |
| Class F | 7.00% | 100 | 10,000 | 10,000 | 9,999 | 9,999 |
| Class G | 7.00% | 100 | 10,000 | 10,000 | 10,000 | 10,000 |
| Class H | 7.00% | 100 | 10,000 | 10,000 | 10,000 | 10,000 |
| Class I | 7.00% | 100 | 10,000 | 10,000 | 10,000 | 10,000 |
| Class J | 7.00% | 100 | 10,000 | 10,000 | - | - |
| Class K | 7.00% | 100 | 10,000 | 10,000 | - | - |
| Class L | 7.00% | 100 | 10,000 | 10,000 | - | - |
| Class M | 7.00% | 100 | 10,000 | 10,000 | - | - |
| Class N | 7.00% | 100 | 10,000 | 10,000 | - | - |
| | | | $ 135,000 | $ 135,000 | $ 84,983 | $ 84,983 |

All classes of Preference Shares are cumulative, non-voting and redeemable at the discretion of the Board. Dividend rates are variable with Bahamian Prime Rate. At December 31, 2010, Prime Rate was 5.5% (2009: 5.5%).

**COMMON SHARES:**

| | B$0.02 each | | |
|---|---|---|---|
| | Number 000's | | B$ 000's |
| **Authorized:** | | | |
| December 31, 2008, 2009 and 2010 | 225,000 | $ | 4,500 |
| | | | |
| Issued and outstanding: | | | |
| December 31, 2008 | 98,055 | | 1,961 |
| Net issue of shares | 118 | | 2 |
| December 31, 2009 | 98,173 | | 1,963 |
| Net issue of shares | 184 | | 4 |
| December 31, 2010 | 98,357 | $ | 1,967 |

On January 27th, 2011, the Bank declared an extra-ordinary dividend of $0.06 per common share payable on February 28, 2011.

## 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 $121 thousand (2009: $304 thousand) related to this equity settled share based payment plan during the year.

***Other share based payment plan:***

Under the Bank's employee share purchase plan, non-management staff may purchase the Bank's shares at 90% of the closing market price on the date of grant for a restricted period each year. Employees' ability to purchase shares is restricted to a percentage of their salary according to their position. Shares so purchased vest immediately but are released to the employee on payment for the shares. However, no shares were made available under this plan in 2010 (2009: $Nil).

The expense recognized in 2010 for this equity settled share based payment plan was $Nil, (2009: $Nil).

The following tables summarize information about the Stock Option Plans:

| | 2010 | |
|---|---|---|
| | Nominal Value $0.02 Number of Stock Options (000's) | Weighted Average Exercise Price |
| Outstanding at beginning of year | 983 | 5.70 |
| Granted (after share split) | - | - |
| Expired or forfeited | (212) | 6.21 |
| Exercised | (304) | 4.77 |
| Outstanding at end of year | 467 | 6.07 |
| Of which vested at the end of the year | 338 | 5.67 |
| Options available to be granted at end of year | 4,678 | |
| Outstanding Stock Options as a percentage of outstanding shares | 0.47% | |
| Expected Dividend Yield | 1.57% | |
| Expected Share Price Volatility | 22.0% | |
| Risk Free Rate of Return | 5.75% | |
| Weighted Average Expected Period Until Exercise (in years) | 3 | |

| | 2009 | |
|---|---|---|
| | Nominal Value $0.02 Number of Stock Options (000's) | Weighted Average Exercise Price |
| Outstanding at beginning of year | 1,154 | 5.56 |
| Granted | - | - |
| Expired or forfeited | (46) | 4.77 |
| Exercised | (125) | 4.77 |
| Outstanding at end of year | 983 | 5.70 |
| Of which vested at the end of the year | 413 | 5.51 |
| Options available to be granted at end of year | 4,678 | |
| Outstanding Stock Options as a percentage of outstanding shares | 1.00% | |

## 16. FEES AND OTHER INCOME

Fees and other income is as follows:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Fees and commissions | $ | 1,801 | $ | 1,671 |
| Service charges | | 3,163 | | 3,565 |
| Card service revenue | | 957 | | 1,084 |
| Net foreign exchange revenue and other income | | 3,116 | | 3,283 |
| | $ | 9,037 | $ | 9,603 |

## 17. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses is as follows:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Staff costs | $ | 34,945 | $ | 31,409 |
| Other | | 14,990 | | 13,727 |
| | $ | 49,935 | $ | 45,136 |

Staff costs include pension costs of $1.56 million (2009: $1.76 million) (see Note 19).

## 18. RELATED PARTIES' BALANCES AND TRANSACTIONS

Related parties' balances and transactions are as follows:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Loans receivable | $ | 12,403 | $ | 11,888 |
| Deposits | $ | 131,127 | $ | 128,097 |
| Other liabilities | $ | 203 | $ | - |
| | | | | |
| Interest income | $ | 805 | $ | 680 |
| Interest expense | $ | 6,512 | $ | 5,409 |
| Rental expense | $ | 195 | $ | 166 |
| General and administrative expenses | $ | 2,989 | $ | 2,523 |
| Commitments under revolving credit lines | $ | 5,193 | $ | 3,893 |

Rental commitments to related parties are as follows:

| Year | B$ |
|---|---|
| 2011 | 198 |
| 2012 | 198 |
| 2013 | 198 |
| 2014 | 198 |
| 2015 | 17 |

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

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Short term benefits | $ | 6,446 | $ | 5,393 |
| Post employment benefits | $ | 374 | $ | 356 |
| Share based payments | $ | 76 | $ | 188 |

## 19. BANK PENSION SCHEME

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

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Change in fair value of plan assets: | | | | |
| Fair value of plan assets at beginning of year | $ | 42,635 | $ | 39,468 |
| Actual return on plan assets | | 1,827 | | 1,328 |
| Company contributions | | 1,643 | | 1,704 |
| Participant contributions | | 1,107 | | 1,110 |
| Benefits paid | | (373) | | (225) |
| Withdrawals from plan | | (783) | | (750) |
| Fair value of plan assets at end of year | $ | 46,056 | $ | 42,635 |
| | | | | |
| Change in benefit obligation: | | | | |
| Benefit obligation at beginning of year | $ | 38,982 | $ | 38,038 |
| Employer service cost | | 1,827 | | 1,981 |
| Participant contributions | | 1,106 | | 1,110 |
| Interest cost | | 2,448 | | 2,400 |
| Benefits paid | | (1,156) | | (975) |
| Plan amendment | | - | | - |
| Actuarial gain on obligation | | (136) | | (3,572) |
| Benefit obligation at end of year | $ | 43,071 | $ | 38,982 |
| | | | | |
| Reconciliation of funded status: | | | | |
| Present value of plan assets in excess of obligations | $ | 2,985 | $ | 3,653 |
| Unrecognized actuarial gain | | (3,011) | | (3,765) |
| Balance at end of year | $ | (26) | $ | (112) |

## 19. BANK PENSION SCHEME *(Continued)*

| | | | | |
|---|---|---|---|---|
| Components of pension benefit expense: | | | | |
| Current employer service costs | $ | 1,826 | $ | 1,981 |
| Interest cost | | 2,448 | | 2,400 |
| Expected return on plan assets | | (2,717) | | (2,620) |
| Past Service Cost - Vested Benefits | | - | | - |
| Amortisation of losses (gains) | | - | | - |
| Pension benefit expense included in staff costs | $ | 1,557 | $ | 1,761 |
| Movement in accrued pension liability recognized in the Consolidated Statement of Financial Position: | | | | |
| Balance at beginning of year | $ | (112) | $ | (56) |
| Expense as above | | (1,557) | | (1,761) |
| Contributions paid | | 1,643 | | 1,705 |
| Balance at end of year | $ | (26) | $ | (112) |
| Actual return on plan assets: | | | | |
| Expected return on plan assets | $ | 2,717 | $ | 2,620 |
| Actuarial loss on plan assets | | (890) | | (1,292) |
| Actual return on plan assets | $ | 1,827 | $ | 1,328 |
| Assumptions at beginning of year: | | | | |
| Discount rate | | 6.00% | | 6.00% |
| Long term rate of return on plan assets | | 6.25% | | 6.50% |
| Rate of increase in future compensation | | 4.50% | | 4.50% |
| Mortality Table | | UP 1994 Fully generational | | UP 1994 Fully generational |
| Assumptions at end of year: | | | | |
| Discount rate | | 6.00% | | 6.00% |
| Long term rate of return on plan assets | | 6.25% | | 6.50% |
| Rate of increase in future compensation | | 4.50% | | 4.50% |
| Mortality Table | | UP 1994 Fully generational | | UP 1994 Fully generational |

Actuarial assumption sensitivities

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

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

| | | Discount Rate | | Rate of increase in Compensation | | Pension | | Rate of Return on Plan Assets |
|---|---|---|---|---|---|---|---|---|
| Benefit obligation | $ | 1,960 | $ | 1,050 | $ | 910 | $ | - |
| Pension benefits expense | $ | 160 | $ | 140 | $ | 110 | $ | 120 |

The Bank administers its own pension fund. The pension fund owns 1,631,425 (2009: 1,600,625) common shares and $3.87 million (2009: $3.58 million) preference shares of the Bank. These shares have a market value of $15.29 million (2009: $14.8 million) which represents 33.2% (2009: 37.5%) of the pension fund's assets.

The major categories of plan assets and the expected rate of return at December 31, 2010 for each category are as follows:

| | Expected Return 2010 | 2009 | Fair Value of Plan Assets 2010 | 2009 |
|---|---|---|---|---|
| Balance at Banks | 4.50% | 4.75% | $ 1,409 | $ 2,615 |
| Equity Instruments | 7.45% | 8.33% | 16,026 | 15,828 |
| Government Bonds | 5.86% | 5.63% | 21,268 | 16,862 |
| Preferred Equity | 7.10% | 7.10% | 6,967 | 6,767 |
| Other Assets | 0.00% | 0.00% | 412 | 496 |
| Weighted Average Expected Return | 6.50% | 6.75% | $ 46,082 | $ 42,568 |

The overall expected rate of return for 2010 is the weighted average of the expected future returns of the various categories of plan assets as shown above, less a provision for expenses paid from the pension fund. The expected future returns for each category are reviewed periodically and may be changed in future years to reflect developments in financial markets.

The Bank expects that in 2011 the amount recognized in the Statement of Comprehensive Income in respect of the pension plan will be $1.5 million.

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

| | 2010 | 2009 |
|---|---|---|
| Deposits | $ 1,092 | $ 1,492 |
| Interest expense | $ 57 | $ 101 |

## 20. MATURITY OF ASSETS AND LIABILITIES

The maturity of assets and liabilities are as follows:

| | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| On demand | $ 73,622 | $ 92,314 |
| 3 months or less | 34,202 | 41,081 |
| Over 3 months through 6 months | 7,652 | 5,439 |
| Over 6 months through 12 months | 13,396 | 15,370 |
| Over 12 months through 24 months | 46,700 | 47,286 |
| Over 24 months through 5 years | 303,044 | 333,465 |
| Over 5 years | 930,158 | 841,566 |
| | $ 1,408,774 | $ 1,376,521 |

| | 2010 | 2009 |
|---|---|---|
| **LIABILITIES** | | |
| On demand | $ 81,316 | $ 70,634 |
| 3 months or less | 369,982 | 381,489 |
| Over 3 months through 6 months | 131,548 | 154,403 |
| Over 6 months through 12 months | 200,217 | 213,920 |
| Over 12 months through 24 months | 150,098 | 108,875 |
| Over 24 months through 5 years | 217,833 | 209,075 |
| Over 5 years | 10,817 | 14,214 |
| | $ 1,161,811 | $ 1,152,610 |

## 21. CONCENTRATION OF LOANS RECEIVABLE AND LIABILITIES

The concentration of loans receivable and liabilities are as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | $ 000's | Number of Accounts | $ 000's | Number of Accounts |
| Loans receivable: | | | | |
| Under $50,000 | $ 721,895 | 68,739 | $ 743,324 | 75,454 |
| $50,001 - $100,000 | 128,312 | 2,045 | 108,698 | 1,695 |
| $100,001 - $150,000 | 67,216 | 545 | 66,180 | 538 |
| $150,001 - $300,000 | 108,997 | 538 | 102,722 | 516 |
| $300,001 - $500,000 | 34,139 | 93 | 32,605 | 89 |
| $500,001 - $1,000,000 | 18,543 | 27 | 18,128 | 26 |
| $1,000,001 and over | 9,130 | 7 | 14,570 | 10 |
| Impairment Allowance | (41,272) | - | (36,378) | - |
| | $ 1,046,960 | 71,994 | $ 1,049,849 | 78,328 |
| Liabilities: | | | | |
| Under $50,000 | $ 172,758 | 54,886 | $ 171,781 | 55,694 |
| $50,001 - $100,000 | 85,060 | 1,174 | 81,349 | 1,123 |
| $100,001 - $150,000 | 57,866 | 473 | 58,032 | 469 |
| $150,001 - $300,000 | 95,069 | 435 | 103,424 | 476 |
| $300,001 - $500,000 | 91,738 | 228 | 89,768 | 224 |
| $500,001 - $1,000,000 | 175,660 | 216 | 166,606 | 206 |
| $1,000,001 and over | 453,642 | 199 | 451,493 | 203 |
| Life assurance fund | 15,436 | - | 15,586 | - |
| Other liabilities | 14,582 | - | 14,571 | - |
| | $ 1,161,811 | 57,611 | $ 1,152,610 | 58,395 |

## 22. COMMITMENTS AND CONTINGENCIES

a. In the ordinary course of business, the Bank had commitments as of December 31, 2010, as follows:

| | 2010 | 2009 |
|---|---|---|
| Mortgage commitments | $ 7,650 | $ 10,323 |
| Revolving credit lines | 28,564 | 26,814 |
| Standby letters of credit | 2,071 | 1,886 |
| Capital expenditures contracted | 3,304 | 880 |
| Capital expenditure approved but not yet contracted | 1,235 | 124 |
| | $ 42,824 | $ 40,027 |

***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 2015, and on maintenance contracts for computer equipment and software expiring no later than 2012 on which the minimum annual rentals are approximately as follows:

**Minimum Rental Commitments**

| | Leases | Computer Equipment and Software |
|---|---|---|
| **Year** | **B$** | **B$** |
| 2011 | 498 | 302 |
| 2012 | 305 | 60 |
| 2013 | 300 | |
| 2014 | 300 | |
| 2015 | 60 | |

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

d. The Bank has a standby letter of credit with Citibank N.A. for US$1 million, which was established to secure settlement transactions with MasterCard. This standby credit line is secured by a time deposit of B$1 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 2009.

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

Interest rate risk or interest rate sensitivity results primarily from differences in the repricing dates of assets and liabilities. Interest rate risk exposures, or "gaps" may produce favourable or unfavourable effects on interest margins depending on the nature of the gap and the direction of interest rate movement and/or the expected volatility of those interest rates. When assets have a shorter average maturity than liabilities, an increase in interest rates would have a positive impact on net interest margins, and conversely, if more liabilities than assets mature or are repriced in a particular time interval then a negative impact on net interest margin would result. The consolidated gap position shows more assets than liabilities repriced in periods greater than one year. This is a typical position for a financial institution with a large personal customer base. The following table sets out the Bank's interest rate risk exposure as of December 31, 2010, 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 $293 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 $293 thousand.

| | **Repricing date of interest sensitive instruments** | | | | | **Non interest** | |
|---|---|---|---|---|---|---|---|
| As of December 31, 2010 | **Within 3 Months** | **3 - 6 months** | **6-12 months** | **1 - 5 Years** | **Over 5 years** | **rate sensitive** | **Total** |
| **Assets** | | | | | | | |
| Cash equivalents | $ 3,762 | $ 506 | $ 351 | $ - | $ - | $ 73,116 | $ 77,735 |
| | 3.60% | 0.49% | 1.00% | - | - | - | 0.18% |
| Investments | 231,279 | 7,097 | - | 7,120 | 1,017 | 75 | 246,588 |
| | 5.76% | 3.29% | - | 8.86% | 7.00% | - | 5.78% |
| Loans receivable | 72,829 | 327,369 | 62,309 | 471,732 | 112,721 | - | 1,046,960 |
| | 15.47% | 9.53% | 14.77% | 14.81% | 14.26% | | 13.14% |
| Premises and equipment | - | - | - | - | - | 34,452 | 34,452 |
| Other assets | - | - | - | - | - | 3,039 | 3,039 |
| TOTAL | $ 307,870 | $ 334,972 | $ 62,660 | $ 478,852 | $ 113,738 | $ 110,682 | $ 1,408,774 |
| **Liabilities and shareholders' equity** | | | | | | | |
| Deposits | 380,879 | 155,053 | 193,593 | 391,382 | 10,886 | - | 1,131,793 |
| | 3.03% | 3.89% | 4.15% | 5.38% | 6.82% | - | 4.19% |
| Other liabilities | - | - | - | - | - | 30,018 | 30,018 |
| Preference shares | 84,983 | - | - | - | - | - | 84,983 |
| | 7.00% | - | - | - | - | - | 7.00% |
| Other equity | - | - | - | - | - | 161,980 | 161,980 |
| TOTAL | $ 465,862 | $ 155,053 | $ 193,593 | $ 391,382 | $ 10,886 | $ 191,998 | $ 1,408,774 |

## 23. RISK MANAGEMENT *(Continued)*

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **INTEREST RATE SENSITIVITY GAP** | (157,992) | 179,919 | (130,933) | 87,470 | 102,852 | (81,316) | - |
| **CUMULATIVE INTEREST RATE** | | | | | | | |
| **SENSITIVITY GAP** | **$ (157,992)** | **$ 21,927** | **$ (109,006)** | **$ (21,536)** | **$ 81,316** | **$ (0)** | **$ (0)** |
| **COMPARATIVE 2009** | **$ (209,610)** | **$ (45,407)** | **$ (187,735)** | **$ (31,530)** | **$ 44,593** | **$ (0)** | **$ (0)** |
| **Average Yield - Earning Assets** | 8.03% | 9.38% | 14.69% | 14.72% | 14.20% | | **11.71%** |
| **Average Yield - Paying Liabilities** | 3.75% | 3.89% | 4.15% | 5.38% | 6.82% | | **4.38%** |
| **Average Margin 2010** | 4.28% | 5.49% | 10.54% | 9.34% | 7.38% | | **7.32%** |
| **Average Margin 2009** | 4.75% | 4.99% | 10.51% | 9.14% | 7.52% | | **7.40%** |

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:

| | **2010** | | | **2009** | | |
|---|---|---|---|---|---|---|
| | **Original Contract** | **Restructured** | **Total** | **Original Contract** | **Restructured** | **Total** |
| **Cash and cash equivalents** | | | | | | |
| Neither past due or impaired | $ 77,735 | $ - | $ 77,735 | $ 92,314 | $ - | $ 92,314 |
| Past due but not impaired | - | - | - | - | - | - |
| Impaired | - | - | - | - | - | - |
| | $ 77,735 | $ - | $ 77,735 | $ 92,314 | $ - | $ 92,314 |
| **Investments** | | | | | | |
| Neither past due or impaired | $ 246,588 | $ - | $ 246,588 | $ 196,688 | $ - | $ 196,688 |
| Past due but not impaired | - | - | - | - | - | - |
| Impaired | - | - | - | - | - | - |
| | $ 246,588 | $ - | $ 246,588 | $ 196,688 | $ - | $ 196,688 |
| **Loans receivable** | | | | | | |
| Neither past due or impaired | $ 833,800 | $ 58,362 | $ 892,162 | $ 856,980 | $ 43,339 | $ 900,319 |
| Past due but not impaired | 120,141 | 44,639 | 164,780 | 122,077 | 30,903 | 152,980 |
| Impaired | 21,016 | 10,274 | 31,290 | 21,693 | 11,235 | 32,928 |
| | $ 974,957 | $ 113,275 | $ 1,088,232 | $ 1,000,750 | $ 85,477 | $ 1,086,227 |

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.

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Original Contract | Restructured | Total | Original Contract | Restructured | Total |
| **Loans receivable** | | | | | | |
| **Residential mortgage** | | | | | | |
| Neither past due or impaired | $ 167,402 | $ 11,871 | $ 179,273 | $ 176,891 | $ 9,357 | $ 186,248 |
| Past due but not impaired | 44,781 | 12,683 | 57,464 | 43,185 | 7,549 | 50,734 |
| Impaired | 13,053 | 5,455 | 18,508 | 10,546 | 3,918 | 14,464 |
| | $ 225,236 | $ 30,009 | $ 255,245 | $ 230,622 | $ 20,824 | $ 251,446 |
| **Business** | | | | | | |
| Neither past due or impaired | $ 26,161 | $ 2,129 | $ 28,290 | $ 30,423 | $ 1,009 | $ 31,432 |
| Past due but not impaired | 15,037 | 581 | 15,618 | 16,793 | 801 | 17,594 |
| Impaired | 3,091 | 653 | 3,744 | 1,016 | - | 1,016 |
| | $ 44,289 | $ 3,363 | $ 47,652 | $ 48,232 | $ 1,810 | $ 50,042 |
| **Personal** | | | | | | |
| Neither past due or impaired | $ 607,990 | $ 44,362 | $ 652,352 | $ 615,979 | $ 32,973 | $ 648,952 |
| Past due but not impaired | 53,653 | 31,375 | 85,028 | 53,630 | 22,553 | 76,183 |
| Impaired | 4,209 | 4,166 | 8,375 | 9,063 | 7,317 | 16,380 |
| | $ 665,852 | $ 79,903 | $ 745,755 | $ 678,672 | $ 62,843 | $ 741,515 |
| **Credit card** | | | | | | |
| Neither past due or impaired | $ 32,247 | $ - | $ 32,247 | $ 33,687 | $ - | $ 33,687 |
| Past due but not impaired | 6,670 | - | 6,670 | 8,469 | - | 8,469 |
| Impaired | 663 | - | 663 | 1,068 | - | 1,068 |
| | $ 39,580 | $ - | $ 39,580 | $ 43,224 | $ - | $ 43,224 |
| | $ 974,957 | $ 113,275 | $ 1,088,232 | $ 1,000,750 | $ 85,477 | $ 1,086,227 |

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

| | 2010 | 2009 |
|---|---|---|
| Satisfactory risk | $ 879,253 | $ 893,839 |
| Watch list | 12,756 | 6,147 |
| Sub-standard but not impaired | 153 | 333 |
| | $ 892,162 | $ 900,319 |

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

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Residential mortgage | Business | Personal | Credit card | Total |
| Past due up to 29 days | $ 42,176 | $ 12,336 | $ 65,950 | $ 4,505 | $ 124,967 |
| Past due 30 - 59 days | 10,064 | 2,670 | 12,703 | 1,512 | 26,949 |
| Past due 60 - 89 days | 5,224 | 612 | 6,375 | 653 | 12,864 |
| | $ 57,464 | $ 15,618 | $ 85,028 | $ 6,670 | $ 164,780 |

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Residential mortgage | Business | Personal | Credit card | Total |
| Past due up to 29 days | $ 38,434 | $ 15,633 | $ 51,930 | $ 5,967 | $ 111,964 |
| Past due 30 - 59 days | 7,568 | 1,096 | 15,167 | 1,669 | 25,500 |
| Past due 60 - 89 days | 4,732 | 865 | 9,086 | 833 | 15,516 |
| | $ 50,734 | $ 17,594 | $ 76,183 | $ 8,469 | $ 152,980 |

***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.

# { Nominating Committee **Report**

Left to Right: **EARLA J. BETHEL, T.B. DONALDSON,** CBE**, VAUGHN W. HIGGS, RUPERT W. ROBERTS, JR.,** OBE**, R. CRAIG SYMONETTE, WILLIAM B. SANDS, JR.**

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

## YEAR IN REVIEW

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

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

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

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

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

**Recommended** that effective January 1, 2011, the Bank create two senior executive positions – those of the Executive Chairman and President. This structure has the support of the Central Bank of The Bahamas. These roles continue to be separated.

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2010.

RUPERT ROBERTS, JR., OBE
**Chairman**
Nominating Committee

**2010 SUMMARY OF BOARD AND COMMITTEE MEETINGS**
For the year ended December 31, 2010

| | |
|---|---|
| Board | 6 |
| Audit Committee | 4 |
| Nominating Committee | 3 |
| Executive Committee | 5 |
| Compensation Committee | 2 |
| Premises Committee | 4 |
| Information Technology Committee | 4 |
| Pension Fund Trustees Committee (a) | 2 |

**BOARD MEETING ATTENDANCE**

| | |
|---|---|
| T. B. Donaldson, CBE | 6 |
| W. B. Sands, Jr. | 6 |
| I. A. Jennings | 5 |
| E. J. Bethel | 6 |
| M. R. C. Bethel | 5 |
| G. C. Culmer | 5 |
| J. B. Farrington, CBE | 5 |
| V. W. Higgs | 4 |
| R. W. Roberts | 6 |
| R. C. Symonette | 5 |
| L. R. Gibson | 6 |

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

# Executive Committee **Report** }

Left to Right: **IAN A. JENNINGS, VAUGHN W. HIGGS, WILLIAM B. SANDS, JR., T.B. DONALDSON,** CBE, **R. CRAIG SYMONETTE, RUPERT W. ROBERTS, JR.,** OBE,

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

## YEAR IN REVIEW

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

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

**Reviewed** the allowance for loan impairment prior to its approval by the Audit Committee.

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

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

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

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

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2010.

WILLIAM B. SANDS, JR.
**Executive Chairman**
Executive Committee

Left to Right: **DR. MARCUS R. C. BETHEL, LARRY R. GIBSON, G. CLIFFORD CULMER, EARLA J. BETHEL, J. BARRIE FARRINGTON,** CBE

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

## YEAR IN REVIEW

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

## FINANCIAL REPORTING

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

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

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

## INTERNAL CONTROL AND DISCLOSURE CONTROL

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

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

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

**Reviewed** and approved the Bank's disclosure policy.

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

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

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

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

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

## BANK'S AUDITORS

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

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

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

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

**Met** as necessary with the Bank's Auditors.

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2010.

G. C. Culmer

G. CLIFFORD CULMER
**Chairman**
Audit Committee

# Premises Committee **Report** }

Left to Right: **LARRY R. GIBSON, EARLA J. BETHEL, DR. MARCUS R. C. BETHEL, WILLIAM B. SANDS, JR.**

**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/structures.

**Reviewed** cost allocations proposed by Senior Management for all significant leases and 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, 2010.

EARLA J. BETHEL
**Chairman**
Premises Committee

# { Information Technology Committee **Report**


Left to Right: **R. CRAIG SYMONETTE, J. BARRIE FARRINGTON,** CBE, **WILLIAM B. SANDS, JR., IAN A. JENNINGS, 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. 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 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, provided 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, 2010.

R. CRAIG SYMONETTE
**Chairman**
IT Committee

# Compensation Committee **Report** }

Left to Right: **VAUGHN W. HIGGS, RUPERT W. ROBERTS, JR.,** OBE, **R. CRAIG SYMONETTE**

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

## YEAR IN REVIEW

During the year, the Committee in fulfilling its role:

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

**Recommended** to the Board of Directors the appointment of Officers of the Bank.

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

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

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

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

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

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2010.

RUPERT ROBERTS, JR., OBE
**Chairman**
Compensation Committee

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

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

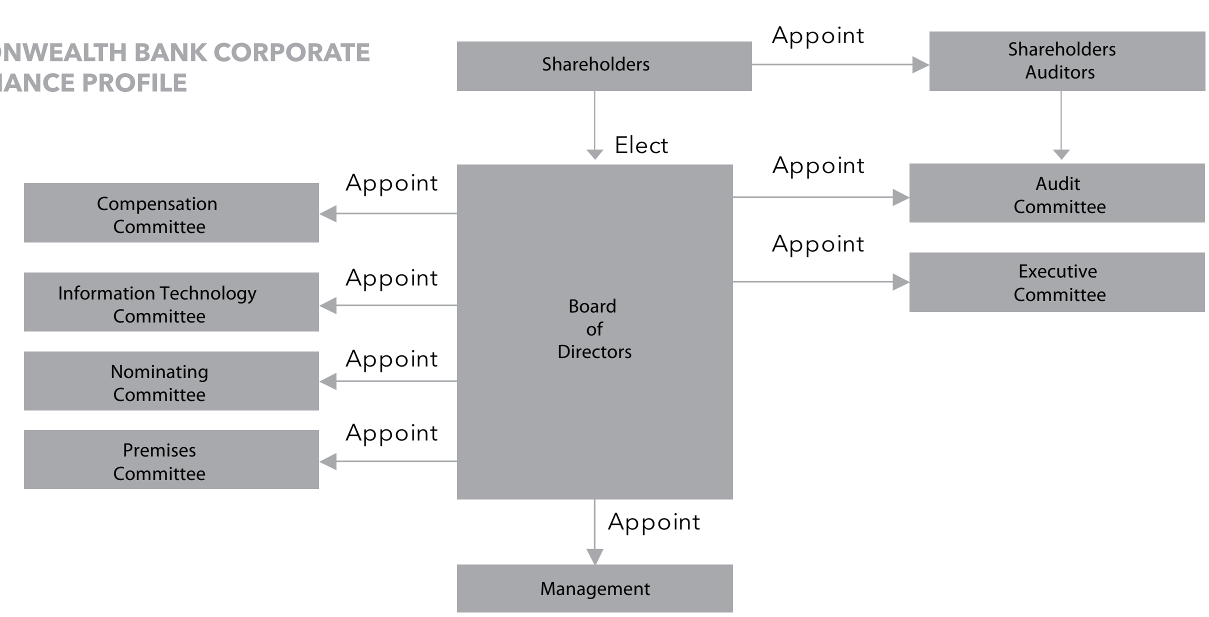
Corporate governance also includes the relationships among the stakeholders and the goals for which the Bank is governed. The principal stakeholders are the shareholders, management and the Board of Directors. Other stakeholders include employees, suppliers, customers, regulators, and the community at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

An important theme of corporate governance deals with issues of accountability and fiduciary duty, essentially advocating the implementation of policies and mechanisms to ensure good behaviour and protect shareholders. Another key focus is the economic efficiency view, through which the corporate governance system should aim to optimize economic results, with a strong emphasis on shareholders welfare.

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

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

**COMMONWEALTH BANK CORPORATE GOVERNANCE PROFILE**



# Charter of **Expectations** }

## ROLE OF THE BOARD

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

## MONITORING BY THE BOARD OF DIRECTORS

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

**Issues involving corporate governance principles include:**

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

## BOARD RESPONSIBILITIES

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

## INTERNAL CORPORATE GOVERNANCE CONTROLS

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

## STRATEGIC PLANNING PROCESS

- Provide input to management on emerging trends and issues.

- Review and approve management's strategic plans.

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

## MONITORING TACTICAL PROCESS

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

## RISK ASSESSMENT

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

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

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

## SENIOR LEVEL STAFFING

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

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

## INTEGRITY

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

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

## OVERSIGHT OF COMMUNICATIONS AND PUBLIC DISCLOSURE

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

## MATERIAL TRANSACTIONS

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

## MONITORING BOARD EFFECTIVENESS

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

## OTHER

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

## DIRECTOR ATTRIBUTES

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

## 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 is available to shareholders on request.

## BOARD OF DIRECTORS

**T. BASWELL DONALDSON, CBE**
**Chairman**
(Retired December 31, 2010)
Commonwealth Bank Ltd.

**WILLIAM B. SANDS, JR.**
**President & CEO**
(Executive Chairman, effective January 1, 2011)
Commonwealth Bank Ltd.

**IAN A. JENNINGS**
**Senior VP & CFO**
(President, effective January 1, 2011)
Commonwealth Bank Ltd.

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

**R. CRAIG SYMONETTE**
**Chairman**
Bahamasferries Ltd.

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

**LARRY R. GIBSON**
**Vice President**
Colonial Pension Services

**G. CLIFFORD CULMER**
**Partner**
BDO Mann Judd

**J. BARRIE FARRINGTON, CBE**
**Vice President**
Kerzner International

**EARLA J. BETHEL**
**President**
DanBrad Ltd.

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

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

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

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

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

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

**INTERNET ADDRESS**
www.combankltd.com

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

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

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

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

**INSTITUTIONAL INVESTOR, BROKER & SECURITY ANALYST CONTACT**
Institutional investors, brokers and security analysts requiring financial information should contact the Corporate Secretary, Investor Relations, by writing us at our Principal Address or by calling:

Tel: 242-502-6200
Fax:242-394-5807

**CHARLENE A. BOSFIELD**
**Corporate Secretary**
Commonwealth Bank Ltd.

# Services & **Locations** }

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

**NEW PROVIDENCE**

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

**NEW PROVIDENCE BRANCHES**

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

**GRAND BAHAMA BRANCHES**

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

*DRIVE THRU ABMS AVAILABLE
** SATURDAY BANKING

**ABACO BRANCH**

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

**CREDIT CARD CENTRE**

| | |
|---|---|
| Nassau | 502-6150 |
| Freeport | 352-4428 |
| Merchant Help Line | 502-6150 |

**OFF-SITE ABM LOCATIONS**

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

**CB ONLINE**

www.combankltd.com

Pictured from Left to Right (Seated): **William B. Sands Jr.,** Commonwealth Bank's President & CEO; **Earla Bethel,** CB Director **& Brian Marshall,** Coastline Construction (Abaco) Ltd.

Pictured from Left to Right (Standing): **Larry Gibson,** CB Director; **John C. Stewart,** Construction Cost Engineering (Bahamas) Ltd; **Kenneth Lam,** Architect **& Godwin Blyden,** CB Security and Administration Manager

• Our strength is unmistakable in our unwavering commitment to make available to our loyal customers the best in retail banking services, at the same time making a positive impact on the community in which we live and conduct business.

In November 2010, Commonwealth Bank announced a major expansion project of its Marsh Harbour, Abaco Branch. This project, in-line with the Bank's strategy to expand within the Abaco community, will transform the existing structure into a modernized facility that is equipped to offer the Bank's distinctive brand of banking solutions and convenience, creatively and efficiently. The expansion will also serve to accommodate the rising economic development on the island.

Coastline Construction Abaco Limited was awarded the $3 million contract which, when the branch is completed in the fourth quarter 2011, will transform the existing structure by adding an additional 6,000 sq. feet. The extension of the branch, which borders Queen Elizabeth Drive, Davidson Street and Bay Street in Marsh Harbour, is a direct response to meeting the growing needs of our customers in Abaco.

The newly completed branch will be 10,000 square feet in size and will feature the Bank's signature design and amenities - gray exterior with white trim, energy efficient components, convenient customer parking and handicap access. The branch will also offer innovative customer care, a full service loan centre, new drive-thru ABM and night deposit and customized interior furnishings. The branch will allow for full service business and personal banking and includes a large welcoming lobby, internet, television and coffee bar features.

This Abaco expansion project is expected to create dozens of on-site jobs and related financially viable opportunities for the local community during the twelve months of construction. It is important to the Board of Directors that the Bank invest in our local communities and continue to support the growth and revitalization of the areas in which we do business.

# Notes

www.combankltd.com

COMMONWEALTH BANK