COMMONWEALTH BANK

ANNUAL REPORT 2017

The theme of this year's annual report, ***"Leading the Way"***, symbolizes the larger role we play as we move forward, remembering our roots and pledging to embrace our expanding role with conviction and commitment. While Commonwealth Bank can never be all things to all people, it is important that you as our shareholders and customers understand the moral and philosophical engine that drives this Bank in the socio-economic environment. The Bank started in 1960 as a leading institution to empower the ordinary Bahamian to tap into a finance market in order to pursue their financial aspirations: furniture, education, automobiles – credit they could not obtain elsewhere. From those small beginnings, Commonwealth has grown into the $1.6 billion bank that it is today.

That journey has seen our shareholders expand to over 6,000 – a demonstration of the Bank's belief in sharing its success with the Bahamian public. The Bank was one of the first companies to list on BISX when it was established in 2000. The Bank has also shared its success with its staff enabling many of them to become shareholders – a noticeable difference from the other Banks operating locally.

We have also shared our success by re-investing back into our community with major investments into the University of The Bahamas, The Cancer Society of The Bahamas and the students and educational system of the public education infrastructure not to mention the times we have stepped up to assist the Bahamas Red Cross and NEMA after major national disasters such as Hurricanes Matthew and Irma in the last two years, and many others in previous years. In this sense we are seeking to lead the way to encourage others to follow – to encourage others to give what they can, to support education, to unite community, to respond to needs arising from national disasters and from causes that threaten the health, peace and security of life as we know it.

In a year that was notable for public debate on both the quality of service experienced in all the Banks and the level of bank service charges, we want to lead the way by setting an example of service excellence for our customers, while recognizing we always have room for improvement. We were pleased to note that there was positive feedback on our service levels, and as will be noted in our financial statements, our non interest income was at the lowest level since 2013. In 2017, we expanded our branch network – opening a branch in Spanish Wells, taking advantage of other Banks retracting their family island network. ***"Leading the Way"*** does not mean we lose sight of the need to balance service and profitability for our shareholders. For this reason we are limited in our ability to absorb more family island locations into our network until we can see a favourable result in balancing this equation.

While our 2017 financial results are discussed in more detail within the Annual Report, our $50 million net income posted for 2017 reflects the impact of Hurricane Matthew on customers and the economy in 2017 along with restructuring in parts of the hotel industry. In addition, the restructuring of our credit life insurance product in 2017 resulted in a decrease in non interest income in the year.

With a sense of cautious optimism and a belief that "***Leading the Way"***, as we have outlined is the right thing to do, we look forward to 2018. We have a lot of system work planned for 2018 to enhance the products offered to our customers. We believe many indicators point to a slowly recovering economy in 2018 as Baha Mar comes on stream and starts to positively impact Bahamian GDP and help lift the economic malaise that has existed since 2008.

For Commonwealth Bank, "***Leading the Way"***, continues to a Bahamian Bank taking advantage of opportunities offered in the Bahamian market, while being managed, staffed and owned by Bahamians serving the Bahamian community without consideration of constraints imposed by parent companies outside the country.

MISSION STATEMENT

Our Vision is to be the First Choice of Bahamians for ALL Personal Banking Services.

Our Mission is to be the leading Bank in The Bahamas providing personal banking services by delivering superior quality service to our customers; retaining and developing employees with outstanding capabilities; creating value for our shareholders and promoting economic growth and stability in our community.

Our Values are to ensure that Commonwealth Bank is a great place to work; provide meaningful opportunities for Directors and other Stakeholders to have input in setting the direction of the Bank as part of an effective governance regime; provide customers with outstanding services and help them achieve their financial goals; be responsible and effective financial managers so Commonwealth Bank remains strong and prosperous; lead by example and use our resources and expertise to effect positive change in The Bahamas.

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STRATEGIC PRIORITIES

Core Values	2017 Strategic Priorities	2017 Initiatives and Accomplishments	2018 Strategic Priorities
Be responsible and effective financial managers.	• The Bank will pursue opportunities for sound organic growth and growth from other sources that comply with the Bank's approved strategic plan and well entrenched business model. • Cross-selling of new and existing products and services will continue to be emphasized in 2017. Specific revenue and expense based objectives have been established throughout the Bank. • Senior Executive level oversight of the Bank's credit risk process to be reduced further without impacting the quality of the assessment. • Efforts will continue to seek further cost-effective operational improvements in 2017. Our objective is unchanged - to link closely revenue growth with expense mitigation objectives. • The safety and soundness of the Bank coupled with transparency of its financial performance and other related activities remains a fundamental standard within the Bank.	• The Bank constrained its credit policy to reduce lending in higher risk segments as the economy still struggled during the year amid increasing competition for higher quality loans. As a result, the Bank's loan portfolio contracted during the year. • The Bank took advantage of an opportunity to expand its Branch Network into Spanish Wells, Eleuthera. • While consumer credit continues to dominate the Bank's successful business model, revenue expansion occurred from the debit card introduced at the end of 2016. The Bank reviewed its fee structure and eliminated several fees that were low revenue generators. The new credit life insurance product resulted in a reduction in credit life revenues during the year. Revenue is expected to improve as the new product is expanded to more of the portfolio. • At the end of the year, the Bank restructured its Credit Risk Oversight introducing the new positions of Sr. VP & COO and VP Credit Risk. • Efficiency and productivity levels remained robust. Efficiency ratios deteriorated in 2017, partially caused by the decrease in Bahamian Prime rate during the year and the reduction in loan receivables. Despite this, the Bank's performance continues to exceed peer performance. • We would encourage stakeholders and customers to review the Management's Discussion and Analysis comments which follow to better appreciate the breadth of transparency of financial information provided in this Annual Report.	• The Bank will continue to pursue opportunities for sound organic growth that comply with the Bank's approved strategic plan and well entrenched business model. • The Bank will review its model of operation in a smaller market to optimize its revenue to cost ratio. • Cross-selling of new and existing products and services will continue to be emphasized in 2018. Specific revenue and expense based objectives have been established throughout the Bank. Focus will be placed on the new credit life insurance product covering more of the consumer loan portfolio. • The performance of the new structure will be monitored in 2018 and resources adjusted where required to ensure the ongoing quality oversight of the Bank's credit risk process. • Efforts will continue to seek further cost-effective operational improvements in 2018. Our objective is unchanged - to optimize quality revenue growth opportunities with expense mitigation objectives. • The safety and soundness of the Bank coupled with transparency of its financial performance and other related activities remains a fundamental standard within the Bank.
Lead by example to effect positive change.	• In 2017, the Board will ensure that governance processes parallel market realities as well as the increased regulatory oversight requirements. • Commitment to youth development and selected charities will continue in 2017.	• Board governance review was completed and the prescribed representation was prepared for the Board confirmation. No non-compliance issues were noted. • In 2017, the Bank continued its normal support for youth development and other charities after 2016's elevated level of relief and assistance for Hurricane Matthew victims.	• In 2018, the Board will ensure that governance processes reflect increased regulatory oversight requirements. • Commitment to youth development and selected charities will continue in 2018.
Provide meaningful opportunities for stakeholders to have input.	• Customer surveys will continue to be assessed to ensure that the Bank's products and services address market requirements in a cost-benefit manner.	• Customer surveys identified a need to introduce mobile banking and upgraded Online banking products. The Bank contracted for these new products before the end of the year.	• Continue customer surveys to ensure that the Bank's products and services address market requirements in a cost-effective manner.
Ensure the Bank is a great place to work.	• A fully integrated succession plan will continue to be a significant objective in 2017. Efforts will continue to assign or recruit an internal project leader. • Ongoing specialized training programs will be made available to staff. • The effectiveness of specialized training programs will be reviewed and beneficial programs will be expanded. • Ongoing peer reviews of salary and benefits will continue to ensure the Bank remains competitive.	• In 2017, the succession plan was implemented for the retirement of the VP Human Resources and Training. Progress continued in developing a fully integrated succession plan. The program is still under the oversight of Senior Executive management. Efforts to recruit an internal project leader in 2017 were not successful. • Specialized training and development programs continued in 2017. • Benefits of training courses are being assessed against the associated costs. • Salary and benefits plans continue to compare favorably with peers.	• A fully integrated succession plan will continue to be a significant objective in 2018. • The Bank will continue efforts to recruit an internal project leader. • Ongoing specialized training programs will be made available to staff. • The effectiveness of all training programs will be reviewed and beneficial programs will be expanded. • Ongoing peer reviews of salary and benefits will continue to ensure the Bank remains competitive.
Provide customers with outstanding services.	• Increased emphasis on customer service training will continue into 2017. Emphasis on quality customer service and products will continue. • Introduce "chip" enabled credit cards.	• Processes to capture customer dialogue to address customer complaints were reviewed. Oversight of customer service is a key element in maintaining high service levels that are important in sustaining the reputation and success of the Bank. • The project to introduce "chip" enabled credit cards experienced extensive delays during the year as vendors worked through multiple technical problems. The "chip" card went into pilot testing in January 2018.	• Emphasis on customer service training and oversight will continue into 2018 to ensure quality customer service continues to be delivered. • Launch "chip" enabled credit cards to the general customer base. • Introduce new Online and mobile banking products.

(B$ 000's)	2017	2016	2015	2014	restated 2013
Income Statement Data:					
Interest Income	$ 171,160	$ 171,957	$ 165,696	$ 156,480	$ 156,910
Interest Expense	(24,837)	(27,243)	(29,355)	(31,694)	(35,537)
Net Interest Income	146,323	144,714	136,341	124,786	121,373
Loan Impairment Expense	(36,613)	(32,442)	(24,923)	(21,103)	(24,797)
Net Interest Income after Loan Impairment Expense	109,710	112,272	111,418	103,683	96,576
Non-interest Income	12,778	15,712	15,776	14,509	12,320
Non-interest Expenses	(109,025)	(103,076)	(94,348)	(86,028)	(83,848)
Total Profit	50,076	57,350	57,769	53,267	49,845
Other Comprehensive Income	9,548	2,508	(2,073)	716	3,737
Total Comprehensive Income	59,624	59,858	55,696	53,983	53,582
Per Share Data:					
Book Value *(prior periods restated)*	$ 0.91	$ 0.86	$ 0.80	$ 0.73	$ 0.66
Cash Dividends *(prior periods restated)*	$ 0.12	$ 0.12	$ 0.10	$ 0.10	$ 0.10
Year End Share Price *(prior periods restated)*	$ 4.90	$ 3.50	$ 2.61	$ 2.50	$ 2.30
Average Common Shares Outstanding (000's) *(prior periods restated)*	292,014	292,218	292,575	293,445	293,712
Dividend growth (total)	0.00%	20.00%	0.00%	0.00%	3.45%
Balance Sheet Data:					
Total Assets	$ 1,647,285	$ 1,608,748	$1,535,174	$1,474,053	$ 1,432,705
Securities	401,588	307,507	322,743	276,653	278,785
Gross Loans	1,131,169	1,195,753	1,139,503	1,115,280	1,085,277
Net Write-offs	32,577	21,051	18,707	19,916	26,347
Total Deposits	1,274,262	1,240,505	1,181,646	1,148,790	1,121,583
Total Shareholders Equity	352,433	332,857	313,995	294,397	278,941
Performance Ratios:					
Price/Earnings *(prior periods restated)*	31.53	19.44	14.52	15.26	15.16
Price/Book Value	5.40	4.07	3.28	3.44	3.47
Dividend Yield *(Annual Dividend/Year End Price)*	2.45%	3.43%	3.83%	4.00%	4.34%
Earnings Per Share *(prior periods restated)*	0.16	0.18	0.18	0.16	0.15
Return on Average Assets	2.76%	3.36%	3.51%	3.29%	3.09%
Return on Average Shareholders' Equity	17.14%	21.13%	24.89%	23.12%	23.01%
Ordinary Dividend Payout Ratio	77.20%	67.09%	55.53%	61.03%	65.95%
Efficiency Ratio	45.51%	45.48%	47.22%	48.42%	45.99%
Net Interest Margin	8.62%	8.97%	8.76%	8.11%	8.10%
Asset Quality Ratios:					
Impaired Loans to Total Loans	7.12%	5.92%	5.56%	5.83%	4.03%
Impaired Loans to Total Assets	4.89%	4.40%	4.13%	4.41%	3.05%
90 Day Past Due Loans to Total Loans	4.80%	4.16%	3.93%	4.46%	4.03%
90 Day Past Due Loans to Total Assets	3.25%	3.03%	2.87%	3.37%	3.05%
Net Write-offs to Average Loans	2.80%	1.84%	1.68%	1.81%	2.41%
Loan Impairment Allowances to Total Loans	6.82%	6.12%	5.49%	4.98%	5.01%
Loan Impairment Allowances to Non-accrual Loans	144.03%	150.05%	140.74%	111.69%	124.46%
Loan Impairment Allowances to Impaired Loans	95.87%	103.39%	97.45%	85.38%	124.46%
Liquidity Ratio:					
Average Cash and Securities to Average Total Assets	29.40%	25.96%	26.33%	24.72%	24.07%
Capital Ratios:					
Average Shareholders' Equity to Average Total Assets	21.09%	21.12%	19.56%	19.92%	19.32%
Tier 1 Capital	$ 352,431	$ 332,857	$ 313,995	$ 294,397	$ 243,956
Tier 2 Capital	14,334	14,763	14,148	$ 13,824	$ 44,950
Total Capital	366,765	347,620	328,143	308,221	288,906
Total Risk Adjusted Assets	1,146,689	1,181,079	1,131,840	1,105,912	1,077,045
Tier 1 Ratio	30.73%	28.18%	27.74%	26.62%	22.65%
Tier 1 + Tier 2 Capital Ratio	31.98%	29.43%	28.99%	27.87%	26.82%
Number of Employees Average for the Year	577	560	540	552	555


William B. Sands, Jr.
Executive Chairman

Commonwealth Bank

The Bank was able to sustain its market leadership position in The Bahamas for indigenous Banks in 2017 despite being faced with a less than vibrant economy and business environment that has now impacted Bahamians for nearly a decade. Despite these long standing headwinds, overall profitability was sound and encouraging and can be attributed to the continued reinforcement of the Bank's disciplined risk based business model.

As a result of the ongoing and stable profitability, the Board of Directors was pleased to be able not only to recommend continuance of the Bank's long-standing and favorable shareholder dividend distribution program, but to increase the dividend payout ratio to 75% of net income after preference share dividends from the previous 65%. The increase was based on the Bank's ongoing high levels of capital above the regulatory requirements and projected medium term requirements.

2017 also proved to be another historic year for existing and potential new shareholders. The Board of Directors recently declared a three-for-one stock split. This stock split is a direct reflection of years of increasing shareholder value and the ongoing liquidity of our shares. The approval of the share split occurred at the Bank's Annual General Meeting held on May 31, 2017 and took place in October 2017. A positive market reaction to the split saw the Bank's share price close at $4.90 at year end.

The Customers and Communities we serve

Commonwealth Bank endeavors to enrich the lives of its customers and communities every day. This commitment to service has enabled the Bank to compete and progress in ways that have created additional value for our shareholders and economic growth and stability in our communities and The Bahamas at large. As you peruse this report you may want to note how the Bank *"leads the way by example and uses its own resources and expertise to effect positive change in The Bahamas"*.

Independent, Safe and Sound Oversight and effective Corporate Governance

As Executive Chairman of the Board, my principal objective continues to be an unwavering focus on the internal leadership of the Bank and overseeing and ensuring the sustainability and soundness of the Bank through the Board of Directors. The Board's independent oversight processes supported by the diverse backgrounds and market awareness of the individual board members continues to add value to the ongoing stability and safety and soundness of the Bank. I have greatly appreciated their ongoing support and guidance through another challenging year.

The required independent oversight processes are commonly referred to as Corporate Governance Standards and Procedures and have generally been defined as the system of rules, practices and processes by which a company is directed and controlled.

Corporate governance essentially involves the balancing of the interests of a variety of stakeholders including but not limited to board members, shareholders, depositors, ever increasing regulatory oversight and the community at large.

Sound corporate governance does matter. The Bank is committed to applying industry recognized best practices in corporate governance, including having a strong, independent Board of Directors and other generally accepted risk management and control activities.

Sustainability and Growth – The Strength and Support Provided by our Staff

Commonwealth Bank has for many years sought to seek new and high potential staff, when required, from within The Bahamas. This long standing pattern of successful recruitment of Bahamians supported by in-house training programs provided by our Corporate Learning Center has been beneficial to the Bank as it has provided tangible substance to a worthwhile bank objective - Knowledgeable Bahamians helping Bahamians.

Over the last few years I have continually highlighted the need and importance of having an effective recruitment and succession planning process. While progress has been made to address these important issues there remains an ongoing need to continue to reinforce this process to ensure the effective and profitable sustainability of the Bank.

The ongoing support and commitment of the almost 575 staff members has been an important element in the continuing growth and profitability of the Bank. Their efforts and commitment have been greatly appreciated.

Going forward – a time of continuing transition

To address market related opportunities and other circumstances during this ongoing transitional period, as to address the ever increasing costs of regulatory oversight in an effective manner, the Bank will have to balance these issues carefully. A considerable amount of refocusing of products and services will also have to be balanced by ensuring operational activities and any related acquired growth potential is directed at achieving only *"Responsible and Sustainable Growth"*.

This type of expanded emphasis within Commonwealth Bank will bring closer consistency between the approved risk management process and the entrenched process of control that is provided throughout the Bank. The emphasized linkages are also consistent with the Bank's Vision, Mission, and are values that are capable of being applied during the types of economic peaks and valleys faced by all Bahamians as well as the Bank itself.

Our primary objective remains: To be the leading Bank in The Bahamas providing personal banking services capable of delivering superior quality of products and services to our customers while also providing opportunities for our shareholders and other stakeholders to achieve their financial goals in a safe and sound manner.

Final Comments

In a recent monthly report, the Central Bank of The Bahamas has indicated that there remains a number of significant downside risks to the Bahamian economy going forward. Overall growth is expected to be mild in the near term with any improvement in employment levels dependent on the performance of the tourism and construction sectors.

As outlined in the aforementioned comments, to move forward, the Bank has recognized that both innovation and change are required to sustain the success achieved in the past.

With caution, we look forward to the challenges and possible rewards that our planned transition process will provide to the Bank itself, customers and other stakeholders going forward.

William B. Sands, Jr.
Executive Chairman

"We are proud of our long-standing record of involvement in nation building in partnership with the people and communities of The Bahamas."

We believe that the success of our Bank is connected to the well-being of the communities that comprise our Bahamas. Over our 57 years, we have committed to making a difference and have done so by investing our time and resources. Our Corporate Giving program supports local agencies, non-profit organizations, civic programs and projects which help meet the challenges and needs in our neighbourhoods. In addition, our employees make a positive impact in the community through workplace giving and volunteerism which further supports the Bank's commitment to affect meaningful change in the communities where we live, work and conduct business. The following pages lists a few of our remarkable Corporate Giving recipients in the areas of art and culture, education, environmental initiatives, disaster relief, health and human services. We celebrate their tireless efforts to help where it matters most whilst improving the vitality of individuals, communities and our nation.

Ministry of Education

Pictured L to R: Gladys Fernander, *VP Finance;* Ian A. Jennings, *President;* Jeffrey Lloyd, *Minister of Education;* Denise Turnquest, *Sr. VP & Chief Operating Officer.*

The University of The Bahamas

Pictured L to R: Peter Mitchell, *Acting Director, Development & Alumni Relations, UB;* Anthea Cox, *VP HR & Training;* Dr. Rodney Smith, *President, UB;* Denise Turnquest, *Sr. VP & Chief Operating Officer;* Joe Stubbs, *Director of Student Leadership, UB.*

The Bahamas Red Cross Society

Pictured L to R: Caroline Turnquest, *Director General of The Bahamas Red Cross;* Charles Knowles, *VP & CIO;* Jacqueline Farrington, *VP Internal Audit & Credit Inspection.*

LEADING BY EXAMPLE

Bahamas National Trust

Pictured L to R: Eric Carey, *BNT Executive Director;* Lynn Gape, *BNT Deputy Executive Director;* Denise Turnquest, *Sr. VP & Chief Operating Officer;* Janet Johnson, *BNT Deputy President;* Simon Townend, *BNT Honorary Treasurer.*

"I have found that among its other benefits, giving liberates the soul of the giver. When you learn, teach. When you get, give."

- Maya Angelou

2017 DONATIONS

- Ambassadors Athletic Club
- Bahamas AIDS Foundation
- Bahamas Basketball Federation
- Bahamas Feeding Network
- Bahamas Financial Services Board
- Bahamas Humane Society
- Bahamas Primary School Student of The Year
- Bahamas Society for Human Resource Management
- Bahamas Swimming Federation
- Blairwood Academy
- Boys Club of The Bahamas
- British Legion Bahamas Branch
- Champion Amateur Boxing Club
- Christian Counselling Centre
- DTSP Wolf Pack Track Club
- Dynasty Junkanoo Shack
- Elbow Reef Lighthouse Society
- Empty Bowls Bahamas
- Eva Hilton Primary School
- Fancy Dancers Junkanoo Group
- Fowler Street Annual Basketball Tournament
- Giga Tech
- Grand Bahamas American Women's Club
- Great Commission Ministries International
- Healthy Bahamas Coalition
- Hopedale Centre
- Jeffery Henfield
- Kevin Johnson
- Kingdor National Parkinson Foundation
- Kiwanis Club
- Lets Swim Bahamas
- Lupus 242
- MDR
- Ministry of Agriculture
- Music Makers Junkanoo Group
- New Providence Women's Basketball Association
- PACE Foundation
- Pastor Donald Sweeting
- Persis Rodgers Home for the Aged
- Prodigal Son Junkanoo Group
- REACH
- Redland Soldiers Junkanoo Group
- Ride for Hope
- Rotary Clubs of The Bahamas
- Royal Bahamas Police Force
- Sir Durward Knowles Regatta
- Sir Victor Sassoon Heart Foundation
- Sister Sister Breast Cancer Support Group
- STEMBoard
- Straw
- Temperament Development Program
- The Bahamas Children's Emergency Hostel
- The Bahamas National Council for Disability
- The Bahamas National Trust
- The Bahamas Red Cross
- The Cancer Society of The Bahamas
- The Crisis Centre
- The Falcon Boys Club
- The Nassau Brass Brand
- The National Art Gallery of The Bahamas
- The National Family Island Regatta Committee
- The National L.E.A.D Institute
- The People's Church
- The Police Staff Association
- The Ranfurly Home
- The Red Ribbon Ball
- The School For The Blind
- The Scouts Association of The Bahamas
- Training Centre for Disabled
- Unity House
- University of The Bahamas
- Young Life International
- Z-Bandits Junkanoo & Community Organization


Ian A. Jennings
President

Introduction

Commonwealth Bank is an important financial partner of The Bahamas as well as for individual Bahamians. Through this partnership, the Bank encourages and supports the financial development and sustainability of the Bahamas as well as that of Bahamians in general.

Our focus is to deliver a unique combination of personal and commercial banking products and services supported by wealth management counselling when requested by our Bahamian clients. We seek to deliver responsive and relevant financial solutions and remain committed to a balanced and conservative growth strategy. This important strategy and commitment was again emphasized in 2017 when the Bank assumed the existing banking facilities in Spanish Wells as well as the individual challenges that are associated with providing up to date banking services to the family islands.

Since the Bank's inception, it has always been an objective to seek assurance that the deposits and investments placed with it be invested in many ways, not only, to ensure the safety and soundness of their funds but also, to assist customers and stakeholders with securing their own financial future.

An important element of our governance process for all of our staff is that our executive management team oversees a long standing and well developed internal "risk management strategy" that focuses on the process of control and the embedded policies and procedures associated with its primary asset that being the consumer lending asset base. Coupled with this focus is a performance-based culture that is tied closely to a well-defined performance management framework. Simply said:

"The Bank will only assume credit and operational risk it understands and that the risks undertaken can be managed profitably within the established risk parameters, established policies and procedures and guidelines which must be supported by an effective and timely reporting and independent monitoring system".

Commonwealth Bank continues to develop and introduce a list of products and services that focus on the personal banking needs and requirements of Bahamians.

Summary of Financial Performance

The continuing operational and economic headwinds that have existed since 2008 were again prevalent in 2017. Once again, many Bahamians were adversely impacted by the less than desired economic environment including the Bank itself which encountered lower than planned profitability in 2017.

However as noted, Commonwealth Bank was able to return to shareholders worthwhile profitability for its 57th consecutive year, despite the aforementioned economic operating environment, ever increasing competition coupled with the effect of natural disasters and increased regulatory and taxation costs. The amount and quality of the earnings was encouraging as it has allowed the Bank to expand its capital base in a safe and sound manner through further retention of earnings, sustain and expand its dividend policy and maintain its historical pattern of contributions to local social organizations.

Key Elements of the Financial Results

Asset growth was nominal in 2017 surpassing $1.6 Billion an increase of almost 2.4% over 2016. In 2017 emphasis was placed on controlled and quality oriented growth rather than simply volume growth.

Total profit for 2017 was $50.1 million a slippage of approximately $7.3 million or 12.7% compared to 2016. Other generally accepted performance ratios were also nominally adversely impacted and the results are reflected in the overall recorded profit.

An important objective that was established going into 2017 was to control the operating costs through various cost mitigation activities and operating procedures. The results of the action taken are encouraging with bank wide efficiency levels stronger than peer comparisons.

As reported last year, profitability ratios are not the only indicators of the strength and safety and soundness of a bank. While generally accepted industry wide financial and performance ratios can offer an insight into the stability of a bank, there are other factors that offer similar types of information concerning the stability and safety and soundness available to depositors, shareholders and other stakeholders e.g. earnings per share (E.P.S.), return on assets (R.O.A.), return on shareholder equity (R.O.E.), net interest margin (N.I.M.) and capital adequacy (Regulatory Defined) requirements. A review of the financial and statistical data contained in this report will add to the vision of the Bank's safety and soundness.

Control and Management of the Banks Core Assets (The loan Portfolio)

The quality, control and the ongoing timely oversight of the credit risk portfolio is a critical component of the sustainable safety and soundness of the Bank.

The Executive and Board of Directors of the Bank are accountable for defining the risk parameters and approving the quality, exposure levels, expected returns as well as the required diversity of the approved credit risk parameters. The Executive and Board also have an important role in the approval process and program associated with the ongoing monitoring of the credit risk function as well as the Bank's provisioning methodology and practices.

Internally, the Bank maintains a credit risk rating system and a consumer loan scoring system to provide a level of consistent credit assessment criteria and invigilation throughout the Bank. In addition, each lender is provided with a credit risk discretionary product-based approval limit. All assigned limits are subject to review at least annually and where market issues occur the established limits are reassessed as required.

As at December 31, 2017 the total credit risk portfolio was well provisioned with 78% of the Bank's total non-accrual loans being fully provisioned. Non-accrual loans represent only 4.80% of total credit risk portfolio.

The Central Bank has recently reported that the December 2017 industry ratio of Non-performing loans (non–accrual loans) to total loans was 9.88%. The Bank's position compared to the industry average augers well in coming to an opinion on the overall quality and soundness of the Bank's credit risk portfolio.

PRESIDENT'S REPORT

Our Employees – A Key Element of Success

The Board of Directors and the Executive have a close relationship with the Bank's almost 575 full time and dedicated Bahamian staff. The Executive and Board members have appreciated the ongoing support, without whom the Bank's long standing success would not have been possible.

Past success however is not normally a license for continued success. The Bank will continue to seek to add "high potential" Bahamians who appreciate and understand the Bank's mission and core values and are committed to the well-being of the Bank's customers and stakeholders, while continuing to invest in the development of existing employees.

Succession planning at all levels of the Bank will continue to be a priority for the Bank in 2018. The Executive and Board of Directors are committed to this undertaking as with the changing market requirements and expansion of technology driven products and services, the need for continual reinvestment in our staff is necessary.

Sustainable Leadership Going Forward

Looking forward, it is somewhat difficult to provide definitive expectations for the Bank's short term business model.

The Central Bank has indicated that "significant downside risks to the economy remain". As one example of the Central Bank's cautionary position, the Central Bank has outlined a possible worsening in Government's fiscal position due to: A slower than expected recovery in the economy; delayed implementation of expenditure restraint measures and further hurricane-related destruction.

Despite the aforementioned legitimate concerns, the Central Bank has also indicated "that the domestic economy should maintain its mildly positive growth trajectory over the near term".

The Board of Directors and the Bank's Executive support this limited optimism. To address this optimism through advanced technology-based personal banking products and services, the following activities are underway:

- The introduction of a chip enabled MasterCard credit card;
- Upgrade of our ABMs to accept all VISA and MasterCard brand cards;
- Upgrade of the Bank's online banking product and the introduction of a mobile banking solution;
- Streamlining of the account opening process to make it easier for Bahamians to open an account; and
- Additional focus on enhancing physical access to banking services to customers with disabilities.

Further opportunities may also be available to expand the Bank's consumer based risk asset portfolios that meet the Bank's credit risk assessment criteria.

Commonwealth Bank will continue to address the challenges of the Bahamian economy with cautious optimism.

Ian A. Jennings
President

Pictured L to R: Matthew Sawyer, *Manager, Abaco Branch;* Denise Turnquest, *Sr. VP & COO;* Oswald Dean, *AVP IT;* Clayton King, *Asst. Manager, Prince Charles Drive Branch;* Charmaine Edgecombe, *Asst. Manager;* Kenrick Brathwaite, *VP, Credit Risk;* Carrington Johnson, *Asst. Manager, Golden Gates Branch;* Renee Virgill, *Asst. Manager, Oakes Field Branch;* Gladys Fernander, *VP, Finance;* Genesta Jackson, *Asst. Manager, Freeport Branch;* Tanya Astwood, *Manager, Compensation & Benefits;* Marcus Cleare, *Manager, Wulff Road Branch;* Deborah Albury, *Asst. Manager, Abaco Branch;* Neil Strachan, *VP, Marketing & Business Development.*

Consumer Bankers Association (CBA) Executive Bank School
Ken Brathwaite
Neil Strachan

Harvard Business School Leadership Development
Denise Turnquest

Masters Degree, Bangor University
Marcus Cleare

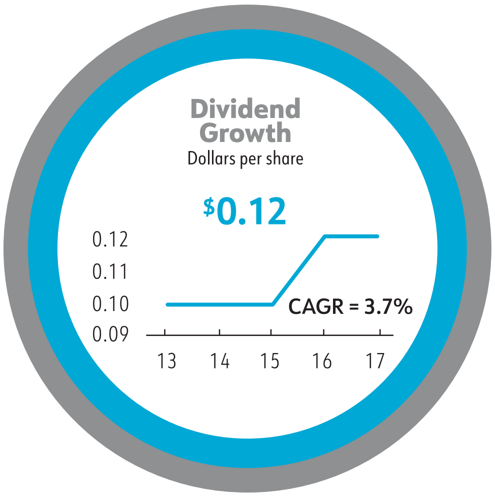
Ivey Frontline Leadership Program *(introduced in 2017)*
Assistant Branch Manager Attending in 2017
Carrington Johnson
Clayton King
Genesta Jackson
Deborah Albury
Renee Virgill
Assistant Manager, Operations Attending in 2017
Charmaine Edgecombe

Ivey Leadership Program
Matthew Sawyer
Tanya Astwood

Ivey Executive Program
Gladys Fernander
Oswald Dean

Commonwealth Bank is a Great Place to Work!

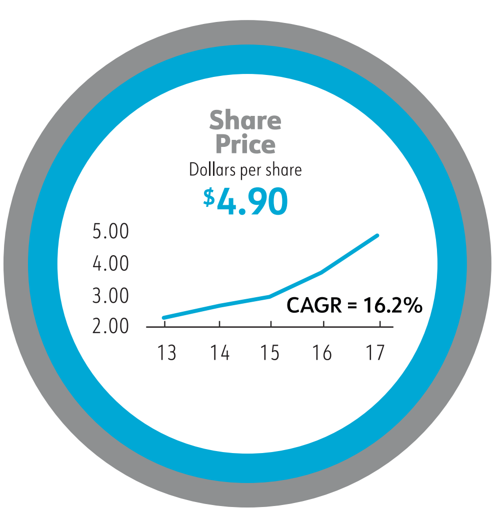
One of the many distinguishing factors that set us apart from our competitors is the Bank's philosophy on employee development. Commonwealth Bank promotes a results-oriented culture that engages employees by aligning organizational needs with personal skills and aspirations. Our employees are the drivers of our mission and our most important asset. Commonwealth Bank fosters an environment that encourages innovative thinking and new ways to exceed our customers' expectations. It is our belief that an engaged workforce is our competitive advantage and we strive to provide a work environment where all staff members can pursue a rewarding career and reach their fullest potential. In fact, we've designed an extensive breadth of programs to help our employees grow; not only in their careers, but in their lives outside Commonwealth Bank and in the communities we serve. In 2017 we were pleased to send ten members of our management team to the Ivey Executive and Leadership programmes at the Richard Ivey School of Business at the University of Western Ontario. We believe in growing our own talent and developing our people into a future-ready workforce with a strong talent pool, equipped with the relevant skills and mindsets, that will help shape the future of Commonwealth Bank.



• CAGR=Compound Annual Growth Rate

Total Assets
$1.6
Billion

Net Income
$50.1
Million



Management's Discussion and Analysis

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, 2017, compared to the preceding year. For a complete understanding of trends, events, uncertainties and the effect of critical accounting estimates on our results of operations and financial condition, this Management's Discussion and Analysis should be read carefully together with our Consolidated Financial Statements and related Notes. This Management's Discussion and Analysis is dated March 23, 2018. All amounts reported are based on financial statements prepared in accordance with International Financial Reporting Standards.

The Bank's President and VP Finance have signed a statement outlining management's responsibility for financial information in this Annual Report.

Caution Regarding Forward-Looking Statements

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

Executive Summary

With total assets of $1.6 billion, Commonwealth Bank had a market capitalization of $1.4 billion at December 31, 2017. The Bank remains focused on being the complete personal banker for Bahamians and continues to be the industry leader capturing just under 40% of the consumer loans market at the end of 2017.

The Bank's vision and mission statement is based on core values which are dedicated to an effective governance process, safe and sound policies and procedures, a strong risk management discipline and building teamwork and expertise internally. The Bank has also remained steadfast in its objectives to remain relevant in the changing and expanding financials services marketplace while continuing to create economic and social value for all stakeholders.

The Bank's risk management structure promotes the making of sound business decisions by balancing risk and reward. As a result, our revenue generating activities are consistent with the level of risk the Bank wishes to accept and drive the maximization of shareholder return. The management of these risks is summarized in the notes to the consolidated financial statements.

In 2017, the Bank posted profits of $50.1 million which represented a decline of $7.3 million or 12.6% from the prior year. There were two main factors that contributed to the decline in profit. Firstly, the economy continues to struggle so high unemployment continues to be a challenge driving higher levels of delinquency and the associated increase in provision for credit losses. Secondly, the Bank modified its credit life insurance product which resulted in a change in the timing of when premiums are paid by customers. The reduction in life assurance income represents as much a change in timing as to when the income is realized than a reduction of income.

Due to the Bank's reduced profits, increasing assets and equity base in 2017, key financial ratios were impacted accordingly. Return on assets (ROA) was 2.76% compared to 3.36% in 2016. Return on equity (ROE) was 17.14% compared to 21.13% in 2016. Earnings per share (EPS) after the adjustment for the 3-for-1 stock split in October 2017 was $0.16 compared to $0.18.

The Bank continued its historical pattern of dividend distribution to shareholders as it paid out total dividends of more than $35 million in 2017 to the Bank's common shareholders and $4.7 million to preference shareholders. With limited opportunities for prudent investment of capital that greatly exceeds regulatory requirements, the Board amended its policy of common share dividend payout ratio from 65% to 75% of net income after preference share dividends. Dividends paid totaled approximately 77% of net income after preference share dividends in 2017.

Net Interest Income

The Bank's net interest income was $146 million compared to $145 million in 2016. This represents a marginal increase of 1%. Interest income for 2017 was virtually unchanged from the prior year while interest expense decreased by 9% due to reduction in interest rates. The Bahamas prime rate was reduced by 50 basis points to 4.25% effective January 3, 2017. As a matter of course, variable rate loans were adjusted to reflect the reduction in prime. Additionally, savings and demand deposit rates were amended downward with existing certificates of deposits (CDs) only being impacted at rollover.

Loan Loss Impairment

A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. In line with industry standards, the Bank classifies loans that are 90 days or more past due as impaired in addition to loans that are less than 90 days past due but on a principal only repayment schedule.

	2017	2016	%Change
Impaired loans	80,528	70,761	14%
% of loan portfolio	7.12%	5.92%	20%
Impaired allowances	77,200	73,164	6%
Impaired allowances/ Impaired loans	95.87%	103.40%	-7%

Total impaired loans increased by $9.8 million (14%) to $80.5 million. The increase in impaired loans is as a result of the ongoing challenges with customer delinquency due to a generally weak economy giving rise to high levels of unemployment. More specifically, the Grand Bahama economy is still being impacted in the aftermath of Hurricanes Matthew and Irma which resulted in hotel and related business closures. Additionally, customers who were granted hurricane relief assistance in the aftermath of Hurricane Matthew are now challenged with meeting their obligations.

The Bank's total allowances for loan impairment were $77.2 million which represented 6.8% of total loans (2016: $73.2 million and 6.1%). Similarly, impaired allowances increased by 6% which is indicative of the Bank's conservative and prudent approach to managing credit risk.

Of the $80.5 million in impaired loans, $40.7 million or 51% were secured mortgages and business loans. Allowances for loan impairment are lower for secured loans (mortgage and business loans) where there is significant collateral value underlying the loan in contrast to the personal consumer loan portfolio which is mostly unsecured.

Commonwealth Bank continues to report stronger credit quality ratings overall than the industry. The Bank's delinquency ratio at the end of the year was 8.95% compared to 15.40% for the industry. Similarly, the Bank's nonperforming loan ratio was 4.80% compared to 9.88% for the industry. Statistics for the industry have been positively influenced by sales of nonperforming mortgages by some commercial banks to non-bank entities that are not included in industry statistics. On the other hand, the Bank's statistics have been negatively impacted by aggressive promotions by competitors targeting low risk mortgage loans which have reduced the size of the bank's portfolio and hence increased the delinquency percentage.

	Consumer	Mortgage	Business	Total
Arrears (31 days & Over)				
CB	5.43%	21.12%	22.33%	8.95%
Industry*	11.02%	19.97%	12.73%	15.40%
Nonperforming Loans (90 days & Over)				
CB	2.10%	15.11%	8.63%	4.80%
Industry*	6.58%	13.03%	8.94%	9.88%

* Source: The Central Bank of The Bahamas

Noninterest Income

Net credit life insurance income was $3 million, which was a decrease of $3.3 million from the prior year. Gross premiums have declined considerably as the Bank discontinued charging premiums on a single, upfront basis to a monthly basis. The new credit life insurance product offers customers more protection in the event of the death of an insured borrower. The change in premium base, the reduction in loan volumes written in 2017 and the timing of premium being recognized as income account for the reduction in 2017 income. As existing customers rewrite loans and as new customers are on-boarded, gross premiums will increase accordingly.

Fees and other income grew to $9.8 million, an increase of 3.7% over 2016, reflecting a positive contribution from earnings from the Bank's debit card.

Noninterest Expense

Total noninterest expense, inclusive of provision for credit losses was $109 million compared to $103 million in 2016, an increase of 5.8%. Provision for credit losses increased by 13% reaching $36.6 million. In keeping with the Bank's conservative stance, consumer loans are written off once they become 180 days or more contractually past due. Total write-offs for the Bank increased by 33% to $44.9 million, up from $33.7 million in 2016. The increase reflected losses from hotel layoffs, customers impacted by Hurricane Matthew and the general languid economy.

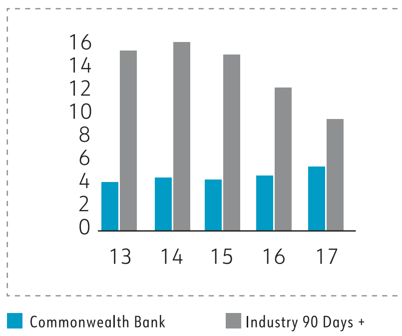
Sustained focus by the Bank on the recovery on written-off loans resulted $12.4 million in recoveries which was virtually unchanged from 2016.

Staff costs, the largest single expense of the Bank decreased by 0.5% to $37.8 million from $38 million in 2016. However, the Bank continued its commitment to staff development through the funding of various training and development programs and initiatives, which are expected to continue in 2018.

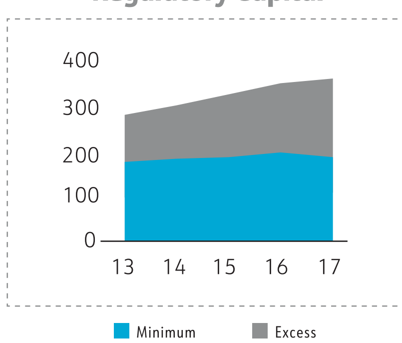
Management of Financial Position

Total assets at the end of the year was $1.6 billion virtually unchanged from the previous year. Gross credit risk assets accounted for 68% of the Bank's assets and amounted to $1.1 billion, a contraction of $64.6 million. The contraction in the loan portfolio is a result of high levels of

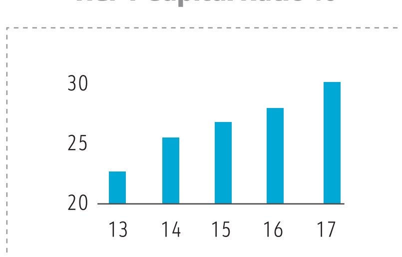
Performance Against Industry
Past Due Loans - 90 Days + Arrears



Regulatory Capital



Tier 1 Capital Ratio %



charged offs accounts, the tightening of the Bank's credit policies to ensure improved credit quality, and the lack of qualified borrowers, amid increasing competition.

The Bank's personal loans were $840.4 million as at year-end, a decrease of $41 million (4.7%) over the previous year.

The Bank's mortgage portfolio recorded a decline of $17.2 million (-7.5%). Mortgage balances at the end of the year were $211.2 million with additional commitments of $7.4 million compared to $228.4 million with $9.2 million in commitments outstanding at December 31, 2016. At December 31, 2017 the mortgage portfolio made up approximately 18.7% of the total loan portfolio (2016: 19.1%). Aggressive marketing by our competitors resulted in most of the reduction in the portfolio during the year. The Bank took a more cautious approach to mortgage lending in the year following the passage of the Homeowners Protection Act early in the year.

The Bank is focused on ensuring that the growth in the credit portfolio comes as a result of good quality loans which continues to be a challenge given the current economic environment. To this end, the Bank continues to review and strengthen its lending criteria and practices.

The business loan portfolio was $31.3 million or 2.8% of the loan portfolio (2016: 2.9%), a decline of $3.2 million, (-9.2%) from the $34.4 million the previous year.

Credit card loans were $38.3 million, an increase of $1.8 million or 4.9% above 2016. The increase in the levels of credit card receivables was as a result of multiple strategic initiatives including quarterly campaigns and the implementation of various focused and niche marketing initiatives.

Total deposits closed at $1.3 billion an increase of $33.8 million or 2.7% compared to the deposit levels as at December 31, 2016. The opening of the Spanish Wells branch during the year was a significant contributing factor to this increase. The Bank's CDs declined by $40.1 million (-4.6%) while demand deposits and savings accounts grew by $24.5 million and $49.4 million (18.6% and 21%), respectively. This conversion of higher yield CDs to lower yield deposits as well as generally declining CD interest rates enabled the Bank to record reduced interest expense despite the increase in overall deposit balances.

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. The Bank's total capital increased $19.1 million in 2017 to $366.8 million (2016: $347.6 million) and encompasses two parts:

- Tier 1 Capital, which consists primarily of common and preference shareholders' equity, totaled $352.4 million, which was above December 31, 2016 Tier 1 capital of $332.9 million by 5.9%.

  During the year, the Bank purchased 93,654 (adjusted) of its shares for $0.3 million (2016: 254,685 (adjusted) shares for $0.8 million) through its wholly-owned subsidiary C.B. Securities. At December 31, 2017, 3,306,609 (2016: 3,212,955) shares were held by the subsidiary with a value of $16.2 million. (2016: $11.2 million). These shares fund the Bank's stock compensation plans and inject liquidity into the local market by the purchase of shares from the market in small quantities. The purchase of shares from the market was pre-approved by The Central Bank of The Bahamas.

- Tier 2 Capital consists of loan loss allowance up to a maximum of 1.25% of risk adjusted assets and cannot exceed Tier 1 Capital. The Bank had $14.3 million in capital associated with loan loss allowance (2016: $14.8 million) which is the maximum allowed per Central Bank guidelines.

The Bank's total capital ratio was 32% (2016: 29.4%). The minimum capital ratio as prescribed by The Central Bank of the Bahamas is 17%. Therefore, the Bank's ratio exceeds the minimum capital levels by 88.2% (2016: 73.1%).

Bank-wide Risk Management

The Bank's risk management structure promotes the making of sound business decisions by balancing risks and rewards. The Bank's risk profile and risk appetite are confirmed by the Board of Directors at least annually and updated as required in the corporate policies approved by the Board of Directors. Clearly defined policies, procedures and processes address the approved risk appetite and any anticipated risk potential. Risk management policies address all known risks and are measured and monitored through the Bank's corporate governance regime and overall process of control. When appropriate, the risk management policies and procedures are refreshed and enhanced in order to address safety and soundness as well as market, regulatory and operational issues.

The management and processes of controls designed to mitigate risks are summarized in the notes to the consolidated financial statements and in other sections of this representation.

Credit Risk Management

The Board of Directors and the Executive Management work together to ensure the Bank's credit risk management process and supporting policies, procedures and reporting guidelines remain appropriate in order to effectively manage the Bank's approved credit risk profile through various market conditions. Clearly defined credit risk limits are established, reassessed annually and are supported by the mandatory use of the instituted credit risk rating and scoring systems to ensure a consistent approach is applied throughout the Bank. An aggressive monitoring and reporting process is supported by a strong and proactive credit risk provisioning methodology. Note 24 in the consolidated financial statements shows the overall quality of the portfolio from different perspectives.

The Bank's restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate repayment is likely. Restructured accounts disclosed in the notes to the financial statements include assistance outside normal underwriting criteria. The total restructured accounts at December 31, 2017 amounted to $139 million or 12.3% of the portfolio (2016: $130 million or 11%), an increase of $9.2 million. Personal loans accounted for the majority of the increase in restructured accounts with an increase of $8.3 million. The increase in restructured accounts is another indicator of the challenging economy and also includes accounts where the terms were modified to assist customers impacted by Hurricane Matthew. The level of restructured accounts reflects the Bank's willingness to work with customers where it is probable that customers will continue to make payments on their accounts.

Liquidity and Funding Risk Management

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

Throughout 2017, liquidity in the banking sector remained strong. This condition resulted in lower market deposit rates, which in turn benefited the Bank by reducing interest expense. Average cash and securities to average total assets was 29.4% as December 31, 2017, above 2016 by 344 basis points. With a liquidity ratio of 39.7%, the Bank's liquidity levels continue to exceed the minimum level of 20% prescribed by The Central Bank of The Bahamas.

Community and Social Contributions

Community and social responsibilities remain important to the Bank. 2017 was another year wherein the Bank maintained its substantial commitment to the betterment of The Bahamas and Bahamians. Community and social responsibilities remain important to the Bank. Significant contributions were made in support of the nation's children and youth through the annual Back to School program, the Junior Achievement program, as well as the College of the Bahamas Endowment Fund. The Bank has also donated to The Bahamas Red Cross to assist persons negatively impacted by Hurricane Irma. The Bank remains committed to its $500,000 pledge to the Cancer Society of The Bahamas to be disbursed over a 10 year period to assist in the construction of the extended Caring Centre. In excess of 40 other charitable organizations received financial assistance that was made available by the Bank according to their perceived needs.

Outlook for 2018

In its most recent visit to The Bahamas in the latter part of 2017, the International Monetary Fund (IMF) projected that The Bahamas' real gross domestic product (GDP) growth will pick up to 2.5% in 2018, driven in part by a stronger U.S. economy, the phased opening of Baha Mar and related construction activity. However, medium-term growth would remain low, reflecting significant structural bottlenecks and rising public debt. The IMF further indicated that continued strong fiscal consolidation and monetary and financial sector policies, as well as deeper structural reforms are necessary to generate stronger growth, improve competitiveness, tackle unemployment and enhance resilience to natural disasters. Additionally, the IMF called for a faster resolution of nonperforming loans to strengthen financial stability and support economic recovery.

Based on the foregoing, 2018 will be yet another challenging year. In order to successfully meet the challenge, the Bank will continually review its business strategies against both external and internal factors for the short and medium terms to ensure that our objectives remain financially viable both for the Bank and its stakeholders.

Our credit assessment criteria will continue to be directed at maintaining and sustaining the strong quality of the credit risk portfolios.

The Bank remains committed to keeping controllable expenses constrained with a view to improving efficiency.

Included in these objectives, are projects and initiatives directed towards the expansion of existing products and services and the introduction of new ones that will allow customers to rely on the Bank for all of their banking needs.

We believe that these objectives will be challenging but attainable.


SHARP

BOARD OF DIRECTORS

Seated L to R:

Earla J. Bethel

Tracy E. Knowles

Dr. Marcus R. C. Bethel

William B. Sands, Jr.,
Executive Chairman

Rupert W. Roberts, Jr., OBE

R. Craig Symonette

Robert D. L. Sands

Standing L to R:

Ian A. Jennings
President

Vaughn W. Higgs

Larry R. Gibson

EXECUTIVE TEAM

Pictured L to R:

Charles Knowles, *VP & CIO*
Carole Rodgers, *VP Operations*
Claudia Rolle, *VP Human Resources & Training*
Gladys Fernander, *VP Finance*
Ian A. Jennings, *President*
Denise Turnquest, *Sr. VP & COO*
Kenrick Brathwaite, *VP Credit Risk*
Jacqueline Farrington, *VP Internal Audit & Credit Inspection*
Neil Strachan, *VP Marketing & Business Development*

Mrs. Denise D. Turnquest

Sr. Vice President & Chief Operating Officer

Mrs. Denise Turnquest has been appointed Sr. Vice President & Chief Operating Officer. She has over 32 years of experience in Banking and has been a member of the Executive Management Team of Commonwealth Bank for the past eleven (11) years, serving most recently as the Senior Vice President Credit Risk. In her new role, Mrs. Turnquest will ensure the smooth functioning of the Bank's operations focused on sustaining and improving efficiency, quality service, product and service innovation, business development and delinquency management.

Pictured L to R:
Tameka Cooke, *AVP Human Resources*
Oswald Dean, *AVP Information Technology*
Kershala Albury, *AVP Finance*
Silbert Cooper, *AVP Consumer Lending*
Juliette Fraser, *AVP Operations*
Maxwell Jones, *AVP Accounts Control & Recovery*

Mr. Kenrick Brathwaite

Vice President, Credit Risk

After holding various positions at the Bank, including Assistant Vice President Internal Audit and Assistant Vice President Mortgage and Commercial Lending, Mr. Brathwaite has been promoted to Vice President, Credit Risk. Mr. Brathwaite's 40 years experience in the Financial Services Industry and his wealth of Commercial Banking experience has enabled him to contribute significantly to the Bank's continued growth and development.

Mr. Neil Strachan

Vice President, Marketing & Business Development

Mr. Strachan has been appointed Vice President, Marketing & Business Development. He joined Commonwealth Bank in July 2000 as Sr. Manager, Credit Risk Management and has held various positions including Assistant Vice President, Mortgage & Commercial Lending and most recently, Assistant Vice President, Business Development & Marketing. Mr. Strachan has in excess of 30 years of Consumer and Commercial Banking experience.

BRANCH MANAGERS

Front Row Pictured L to R:
Daria Bain, *Manager, Golden Gates*
Monique Mason, *Manager, Card Services Centre*
Charlene Low, *Manager, Freeport*
Branson Gibson, *Manager, Oakes Field*
Kayla Darville, *Manager, Mortgage Centre*
Darlene Gibson, *Manager, Lucaya*
Marcus Cleare, *Manager, Wulff Road*

Back Row Pictured L to R:
Matthew Sawyer, *Manager, Abaco*
Edward Virgil, *Manager, East Bay Street*
Perry Thompson, *Manager, Prince Charles Drive*
Demetri Bowe, *Sr. Manager, Cable Beach*
Stephen Johnson, *Manager, Town Centre Mall*

Front Row Pictured L to R:
Franklyn Thomas, *Sr. Manager, Credit Risk*
Kendra Culmer, *Sr. Manager, Audit*
Keshala Knowles, *Recruitment*
Tariq O'Brien, *Administration*
Rochelle Wilkinson, *Commercial Lending & Private Wealth*
Katherine Hamilton, *Training*
Cindy Curtis, *Head of Compliance*
Tanya Astwood, *Compensation & Benefits*
Omar Henfield, *Physical Security*
Jasmin Strachan, *Sr. Manager, Shared Services*
Lynda Burrows, *Sr. Manager, IT*
Felipe Vega, *IT Projects*
Jevone Ferguson, *Information Security*

Back Row Pictured L to R:
Rawson Minnis, *IT Productions, Information Technology*
Rekell Griffin, *Business Development*
Frienderick Dean, *Sr. Manager, Accounts Control*
Lernix Williams, *Accounts Control*
Gina Greene, *Sr. Manager, Marketing & Customer Care*
Lavado Butler, *Sr. Manager, Credit Inspection*

MANAGEMENT'S 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 Financial Reporting Standards and the requirements of the relevant provisions of the Bank and Trust Companies Regulation 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 and internal controls over financial reporting. Our process of controls 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 preparation and presentation of financial information, maintenance of appropriate internal controls, management and control of major risk areas and assessment of significant and related party transactions.

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

Ian A. Jennings
President

Gladys Fernander
VP Finance

To the Shareholders of Commonwealth Bank Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Commonwealth Bank Limited (the Bank) and its subsidiaries (together 'the Group') as at December 31, 2017, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

Commonwealth Bank Limited's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2017;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report.

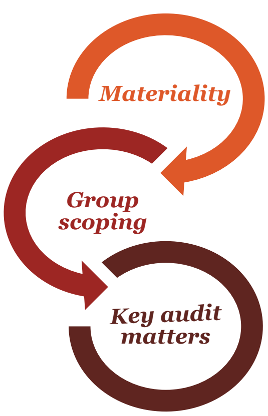
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview



- Overall group materiality: $2,500,000, which represents approximately 5% of total profit.

- The Group consists of the Bank and four subsidiaries, all registered in The Bahamas.
- The group engagement team was the auditor for the Bank and its subsidiaries.

- Assumptions used in the impairment of loans receivable.
- Assumptions made in the measurement of the pension obligation.

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We conducted a full scope audit of the Bank and performed select audit procedures over each of its subsidiaries. All entities were audited by PwC Bahamas.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

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T: + 1 242 302 5300, F: + 1 242 302 5350, www.pwc.com/bs, E-mail: pwcbs@bs.pwc.com

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall group materiality	$2,500,000
How we determined it	Approximately 5% of total profit.
Rationale for the materiality benchmark applied	We chose total profit because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users and is a generally accepted benchmark. We chose 5% which is within a range of acceptable thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $125,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Assumptions used in the impairment of loans receivable *See notes 2(m), 3(a), and 9 of the consolidated financial statements for disclosures of related accounting policies, judgments and estimates.*	
Impairment allowances recorded against loans receivable at December 31, 2017 totalled $77.2 million. The allowances are calculated on individual loans and on groups of loans assessed collectively. Our audit focused on the following areas because the amounts estimated by management are material and make use of assumptions which require significant judgments, including: • the completeness of loans included in both the collective and specific impairment assessments, particularly the proper identification of loans within the portfolio which may have indicators of impairment; *Collectively assessed loans* • the estimated losses for loans within the collectively assessed and incurred but not yet identified provisions; *Specifically assessed loans* • the value of real estate properties held as collateral, the determination of which is impacted by subjective judgments about market trends as well as the circumstances of a specific property for which management engages the assistance of a number of independent real estate appraisers; and • the estimated costs and time to sell collateral held.	We tested the aging of loans receivable by selecting a sample of loans and recalculating the period of delinquency based on the borrower's repayment history and tested the report used by management to extract the aging information. We tested a sample of loans that had not been classified by management as potentially impaired and formed our own judgement as to whether that was appropriate based on the underlying audit evidence. *Collectively assessed loans* • We tested the estimated loss rates used in the collective impairment calculation by back-testing the Group's historical loss trends and evaluating the results against current macroeconomic data from publicly available sources. *Specifically assessed loans* • We evaluated the competence and objectivity of the management appointed real estate appraisers, confirming that they are suitably qualified, competent and independent of the Group. • We tested the reasonableness of the collateral values used in the impairment calculation by comparing, on a sample basis, the results of recent collateral valuation reports, recent sales of collateral by the Group as well as available external data on comparable properties. • We tested estimated costs and time to sell of the underlying real estate collateral by comparing estimates to historical data collected from actual sales of foreclosed properties, including history of real estate agency fees, legal fees and other costs incurred and the average number of months to foreclose the property. We reperformed, on a sample basis, management's calculations of the collective and specific impairment allowances to test the mathematical accuracy. No material adjustments to the carrying value of loans receivable at December 31, 2017 were noted as a result of the procedures we performed.

Key audit matter	How our audit addressed the Key audit matter
Assumptions made in the measurement of the pension obligation *See notes 2(i), 3(b), and 22 of the consolidated financial statements for disclosures of related accounting policies, judgments and estimates.*	
Within 'Other assets' as presented on the face of the consolidated statement of financial position and in the notes to the consolidated financial statements, a net defined benefit asset amounting to $3.5 million pertaining to the Defined Benefit Provisions has been reported, consisting of the excess of the fair value of plan assets over the present value of the obligation. The obligation from defined benefit pension plans are measured in accordance with the projected unit credit method as required by IAS 19. The related key assumptions are: • long-term salary growth rates; • rate of pension pay increases; • average life expectancy; and • discount rates. We focused on this area as the recognition and measurement of the defined benefit obligation is, to a large extent, based on management's subjective assumptions. Reasonably small changes in these assumptions may result in material differences in the reported defined benefit obligation and, consequently, the net defined benefit asset or liability.	As part of our audit, we assessed the independence and competence of the actuary used by management to calculate the benefit obligation. We evaluated the actuary's report and evaluated, with input from our own actuarial experts, the appropriateness of the methodology and reasonableness of each of the key assumptions based on the accounting policy of the Group and our own industry knowledge and experience. We evaluated and tested management's assumptions made in relation to salary and pension increases and mortality rates by reference to historical experience, taking into account current economic trends. We evaluated the discount rate used in the valuation of the pension obligation by reference to externally available sources. We tested the completeness and accuracy of the numerical data inputs. No material adjustments to the obligation at December 31, 2017 were noted as a result of the procedures we performed.

Other matter

The consolidated financial statements of Commonwealth Bank Limited and its subsidiaries for the year ended December 31, 2016 were audited by another firm of auditors whose report, dated March 6, 2017, expressed an unmodified opinion on those statements.

Other information

Management is responsible for the other information. The other information comprises the information presented in the Commonwealth Bank Annual Report 2017 (but does not include the consolidated financial statements and our auditors' report thereon), which we obtained prior to the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Myra Lundy-Mortimer.

PricewaterhouseCoopers

Chartered Accountants
Nassau, Bahamas

April 30, 2018

OLIVER WYMAN

Certification of Actuary

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

I have examined the financial position, and valued the policy liabilities for its balance sheet as at December 31, 2017, and the corresponding change in the policy liabilities in the income statement for the year then ended.

In my opinion:

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

Leslie P. Rehbeli
Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries
Member of American Academy of Actuaries
January 30, 2018

COMMONWEALTH BANK LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As At December 31, 2017 *(Expressed in Bahamian $'000s)*

	2017	2016
ASSETS		
Cash and deposits with banks (Notes 5 and 7)	$ 30,611	$ 31,764
Balances with The Central Bank of The Bahamas (Notes 5 and 7)	98,288	93,558
Investments (Notes 5 and 8)	401,588	307,507
Loans receivable (Notes 5, 9 and 21)	1,053,969	1,122,589
Other assets (Note 10)	18,011	7,316
Premises and equipment (Note 11)	44,818	46,014
TOTAL	$ 1,647,285	$ 1,608,748
LIABILITIES AND EQUITY		
LIABILITIES:		
Deposits (Notes 5 and 12)	$ 1,274,262	$ 1,240,505
Life assurance fund liability (Note 13)	5,599	13,268
Other liabilities (Note 14 and 21)	14,991	22,118
Total liabilities	1,294,852	1,275,891
EQUITY:		
Share capital (Note 15)	83,444	83,445
Share premium	19,195	19,516
General reserve (Note 17)	10,500	10,500
Retained earnings	239,294	219,396
Total equity	352,433	332,857
TOTAL	$ 1,647,285	$ 1,608,748

The accompanying notes are an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Directors on March 1, 2018, and are signed on its behalf by:

Executive Chairman

President

COMMONWEALTH BANK LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For The Year Ended December 31, 2017 *(Expressed in Bahamian $'000s)*

	2017	2016
INCOME		
Interest income (Notes 5 and 21)	$ 171,160	$ 171,957
Interest expense (Notes 5 and 21)	(24,837)	(27,243)
Net interest income	146,323	144,714
Life assurance premiums, net	2,978	6,269
Fees and other income (Notes 5 and 19)	9,800	9,443
Total income	159,101	160,426
NON-INTEREST EXPENSE		
General and administrative (Notes 20, 21 and 22)	68,812	67,291
Provision for credit losses (Note 9)	36,613	32,442
Depreciation and amortization (Note 11)	3,339	3,061
Directors' fees	261	282
Total non-interest expense	109,025	103,076
TOTAL PROFIT	50,076	57,350
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement gain of defined benefit obligation (Note 22)	9,548	2,508
TOTAL COMPREHENSIVE INCOME	$ 59,624	$ 59,858
BASIC AND DILUTED EARNINGS PER COMMON SHARE (expressed in dollars) (Note 16)	$ 0.16	$ 0.18

The accompanying notes are an integral part of the consolidated financial statements.

COMMONWEALTH BANK LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For The Year Ended December 31, 2017 *(Expressed in Bahamian $'000s)*

2017

	Share Capital (Common)	Share Capital (Preference)	Share Premium	General Reserve	Retained Earnings	Total
As at January 1, 2017	$ 1,947	$ 81,498	$ 19,516	$ 10,500	$ 219,396	$ 332,857
Comprehensive Income						
Total profit	-	-	-	-	50,076	50,076
Remeasurement gain of defined benefit obligation	-	-	-	-	9,548	9,548
	-	-	-	-	59,624	59,624
Transaction with owners						
Repurchase of common shares	(1)	-	(321)	-	-	(322)
Dividends - common shares	-	-	-	-	(35,034)	(35,034)
Dividends - preference shares	-	-	-	-	(4,692)	(4,692)
	(1)	-	(321)	-	(39,726)	(40,048)
As at December 31, 2017	$ 1,946	$ 81,498	$ 19,195	$ 10,500	$ 239,294	$ 352,433
Dividends per share (expressed in dollars)	**$ 0.12**					

2016

	Share Capital (Common)	Share Capital (Preference)	Share Premium	General Reserve	Retained Earnings	Total
As at January 1, 2016	$ 1,949	$ 81,498	$ 20,352	$ 10,500	$ 199,696	$ 313,995
Comprehensive Income						
Total profit	-	-	-	-	57,350	57,350
Remeasurement gain of defined benefit obligation	-	-	-	-	2,508	2,508
	-	-	-	-	59,858	59,858
Transaction with owners						
Repurchase of common shares	(2)	-	(836)	-	-	(838)
Dividends - common shares	-	-	-	-	(35,057)	(35,057)
Dividends - preference shares	-	-	-	-	(5,101)	(5,101)
	(2)	-	(836)	-	(40,158)	(40,996)
As at December 31, 2016	$ 1,947	$ 81,498	$ 19,516	$ 10,500	$ 219,396	$ 332,857
Dividends per share (expressed in dollars)	**$ 0.12**					

The accompanying notes are an integral part of the consolidated financial statements.

For The Year Ended December 31, 2017 (Expressed in Bahamian $'000s)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	$ 156,542	$ 159,777
Interest payments	(26,518)	(27,243)
Life assurance premiums (refunded) received, net	(3,007)	8,830
Life assurance claims and expenses paid	(1,911)	(5,292)
Fees and other income received	10,028	12,628
Recoveries	12,362	12,643
Cash payments to employees and suppliers	(75,671)	(75,436)
	71,825	85,907
Increase in minimum reserve requirement	(2,351)	(1,424)
Increase in restricted time deposit	(206)	-
Decrease (increase) in loans receivable	19,644	(84,944)
Increase in deposits	33,757	58,859
Net cash from operating activities	122,669	58,398
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(167,551)	(64,485)
Interest receipts from investments	13,733	14,731
Redemption of investments	74,356	74,680
Purchase of premises and equipment	(2,190)	(4,097)
Net proceeds from sale of premises and equipment	51	124
Net cash (used in) from investing activities	(81,601)	20,953
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(39,726)	(40,158)
Repurchase of common shares	(322)	(838)
Net cash used in financing activities	(40,048)	(40,996)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,020	38,355
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	76,189	37,834
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 7)	$ 77,209	$ 76,189

The accompanying notes are an integral part of the consolidated financial statements.

COMMONWEALTH BANK LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2017

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

1. GENERAL INFORMATION

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 in The Bahamas under the provisions of the Banks and Trust Companies Regulations Act 2000.

The principal activities of the Bank and its subsidiaries ("the Group") are described in Note 6.

The registered office of the Bank is situated at Sassoon House, Shirley Street, Nassau, Bahamas.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

New standards, amendments and interpretations adopted by the Group

Standards and amendments and interpretations to published standards that became effective for the Group's financial year beginning on 1 January 2017 were either not relevant or not significant to the Group's operations and accordingly did not have a material impact on the Group's accounting policies or consolidated financial statements.

New standards, amendments and interpretations not yet adopted by the Group

With the exception of IFRS 9 *Financial Instruments* (IFRS 9), IFRS 15 *Revenue from Contracts with Customers* (IFRS 15), IFRS *16 Leases* (IFRS 16), and IFRS 17 *Insurance Contracts* (IFRS 17) the application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Group's accounting policies or consolidated financial statements in the financial period of initial application.

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, and replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three (3) primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The determination is made at initial recognition, and the basis of classification depends on the Group's business model for managing its financial assets and the contractual cash flow characteristics of the financial asset. In addition, IFRS 9 will require the impairment of financial assets to be calculated using an expected credit loss model that replaces the incurred loss impairment model required by IAS 39. At initial recognition of relevant financial assets, a provision for impairment of financial assets is required to be recognised based on expected losses due to credit default events that are possible within one (1) year. Financial assets are categorised into three (3) stages based on credit default factors and experiences, and provisions for impairment are recognised based on total expected losses in the event of an actual credit default. For financial liabilities, there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for financial liabilities designated at fair value through profit or loss. While the Group has begun its assessment of the impact of adopting IFRS 9, the full impact of the change has not been determined. IFRS 9 is effective for financial periods beginning on or after 1 January 2018.

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with its customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard is effective for annual periods beginning on or after 1 January 2018, and replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and related interpretations. The Group is currently assessing the full impact of adopting IFRS 15.

IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 *Leases* (IAS 17). Lessees will recognise a 'right of use' asset and a corresponding financial liability on the statement of financial position. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Group has not yet assessed the full impact of adopting IFRS 16, which is effective for financial periods beginning on or after 1 January 2019.

IFRS 17 *Insurance contracts* (IFRS 17) was issued in May 2017. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.

The new standard is applicable for annual periods beginning on or after January 1, 2021. The Group has not yet assessed the full impact of adopting IFRS 17.

(b) Principles of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Recognition of income and expense

Interest income and expense are recognized in the consolidated statement of profit or loss and other comprehensive income for all financial instruments measured at amortized cost using the effective interest method. When a loan is classified as impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and 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. Loan origination fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loans. The adjustment to the effective interest rate has been determined by using the estimated terms of loans to maturity, or repayment if earlier.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fee income is recorded in the consolidated statement of profit or loss and other comprehensive income as "Fees and other income" and is generally recognized on the accrual basis when the service has been provided.

Rental income is recognized on a straight line basis over the term of the relevant lease and is recorded in "Fees and other income" in the consolidated statement of profit or loss and other comprehensive income.

Life assurance premium income is recognised at the time a policy comes in force. Premiums are shown net of deductions for refunds, commissions, and taxes or duties levied on gross premiums. Policies written prior to 2017 were paid in full at the origination of the contract for the term of contract. The maximum term of any contract is 72 months. For these policies, the contract amount is recognized as premium income with an associated expense being recognised relative to life assurance fund liability. Refunds on unexpired insurance contracts are allowed on early withdrawal using the "Rule of 78" method. Premiums for policies written in 2017 are assessed on a monthly basis and are calculated on the current balance of the associated loan. Such premiums are recognised when assessed.

Other income and expenses are recognized on the accrual basis.

(d) Cash and Cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and unrestricted deposits with banks that have original maturities of three months or less.

(e) Foreign currency translation

Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates (the functional currency). The consolidated financial statements are presented in Bahamian dollars, which is the Group's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the rates of exchange prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss and other comprehensive income as a part of total profit. Translation differences on monetary financial assets measured at fair value through profit or loss are included as a part of the fair value gains and losses.

(f) Premises and equipment

Premises and equipment are carried at historical cost less accumulated depreciation and amortization. Historical cost includes expenditure that is directly attributable to the acquisition of an item. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to the statement of profit or loss and other comprehensive income as a part of net income during the financial period in which they are incurred.

Land is not depreciated. Depreciation and amortization on other assets are computed on a straight-line basis, net of residual values, and are charged to non-interest expense over their estimated useful lives 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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the consolidated statement of financial position.

The gain or loss arising on the disposal or retirement of an item of premises and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statement of profit or loss and other comprehensive income.

(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 profit, 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. There is no material difference between basic earnings per share and fully diluted earnings per share.

(i) Retirement benefit costs

The Bank maintains defined benefit ("DB Provisions") and defined contribution pension plans ("DC Provisions") covering all of its employees. Assets of the plan are administered by and under the control of independent trustees.

The Pension Committee is responsible for advising the Directors in fulfilling its fiduciary and oversight duties for the Bank's pension arrangements. As a part of this responsibility, members of the committee review the performance of the trustees, administrator and investment manager in accordance with the trust deed, plan rules and investment policy statement, as well as providing support and making recommendations, as appropriate. The Pension Committee comprises members of the Bank's Directors, one management employee and one non-management employee elected by the employees triennially.

The Bank's contributions under the defined contribution pension plan are recognized as staff costs in the general and administrative expenses.

The Guaranteed Investment Contract ("GIC") available through the DC Provisions exposes the Bank to investment risk and thus is accounted for as a defined benefit plan. If the return on assets is above or below the guaranteed return on contributions provided to employees, it will create a surplus or deficit which is recognized in the consolidated statement of financial position as a net defined benefit liability or asset.

The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method, with actuarial valuations being carried out at each statement of financial position date. The defined benefit obligation is calculated annually by independent actuaries. The asset or liability amount recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation and the current service cost at the end of the reporting period less the fair value of plan assets. Pension costs under the DB Provisions charged to general and administrative expenses include the present value of the current year service cost based on estimated final salaries, interest on obligations less interest on assets, and estimated administrative costs. Current service cost and net interest on the net defined benefit asset or liability of the GIC are charged to general and administrative expenses.

Changes in the net defined benefit liability or asset recorded to other comprehensive income include actuarial gains and losses on obligations and assets arising from experience different than assumed and changes in assumptions.

(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 share-based payments is expensed on a straight-line basis over the vesting period. When the stock options are exercised the proceeds are recorded in share capital and share premium.

Other Stock Based Compensation Plan

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

(k) 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. Ordinary shares, and preference shares whose terms do not create contractual obligations, are classified as equity (Note 15).

(l) Financial assets

For the purposes of the consolidated statement of financial position, financial assets comprise:

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.

i. Financial assets at fair value through profit or loss

Financial assets are classified as FVTPL where the financial asset is either held for trading or is designated as FVTPL. A financial asset is classified into the FVTPL category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. Financial assets designated as FVTPL at inception are those that are managed and whose performance is evaluated on a fair value basis, and are intended to be held for an indefinite period of time but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Information about these financial assets is provided internally on a fair value basis to the Group's Executive Committee. FVTPL assets are stated at fair value, with any resultant gain or loss recognized in the consolidated statement of profit or loss and other comprehensive income.

ii. Available-for-sale investments

AFS financial assets are those non-derivative financial assets that are either 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.

iii. **Held-to-maturity investments**

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 non-derivative financial assets which are carried at amortised cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis. Investment income is recorded in interest income in the consolidated statement of profit or loss and other comprehensive income.

iv. **Loans and receivables**

Loans and other receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, and which the Group has no intention of trading or designating at fair value, are classified as loans and receivables.

Loans and receivables are recognised when the Group provides goods or services to debtors or cash is advanced to borrowers. Loans and receivables are subsequently carried at amortised cost using the effective interest method, less any impairment.

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.

Regular-way purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to originate, purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs, except financial assets carried at fair value through profit or loss where such costs are expensed as incurred.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. For loans receivable, this generally occurs when either borrowers repay their obligations, or the loans are sold or written off. If the Group has neither transferred nor retained substantially all the risks and rewards of ownership, an assessment is made whether the Group has retained control of the financial assets.

(m) Impairment of financial assets

The Group evaluates at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment allowances are calculated on individual financial assets and on groups of financial assets assessed collectively. Impairment losses are recorded as charges to the consolidated statement of profit or loss and other comprehensive income. The carrying amount of impaired financial assets on the consolidated statement of financial position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

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 or whenever a loan has been renegotiated, such that payments are applied solely to principal, it is assessed as impaired.

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 fees and then to the remaining principal.

Individually significant financial assets

For all financial assets that are considered individually significant, the Group assesses on a case-by-case basis at each date of consolidated statement of financial position whether there is any objective evidence of impairment.

For 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 (excluding future credit losses that have not been incurred) at its original effective interest rate, and comparing the resultant present value with the asset's current carrying amount. The calculation of the present value of the estimated future cash flows of a loan collateralised by real property reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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, adjustments to the period of time between loss identification and write off, changes in laws and regulations and other items which can affect customer payment patterns on outstanding loans, such as natural disasters. These risk factors, where relevant, are taken into account when calculating the appropriate level of impairment allowances by adjusting the impairment allowances derived solely from historical loss experience.

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

Write-off of loans and advances

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

Recovery of previously written-off loans

Recovery of principal and/or interest on previously written off loans are recognized in the consolidated statement of profit or loss and other comprehensive income on a cash basis or when the loan is rewritten on normal terms prevailing at the time of the rewrite.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the consolidated statement of profit or loss and other comprehensive income.

Renegotiated loans

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up to date 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.

(n) 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 Group;
ii. Contracts that will or may be settled in the Group's own equity instruments and are either a non-derivative for which the Group 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 Group's own equity instruments.

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

Financial liabilities are classified as FVTPL where the financial liability is either held for trading or it is designated as FVTPL. Financial liabilities at FVTPL are stated at fair value with any resulting gain or loss recognised in the consolidated statement of profit or loss and other comprehensive income.

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

The Group considers that the carrying amounts of financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

The Group's financial liabilities comprise deposits accepted from customers, life assurance fund liability, and other liabilities. Financial liabilities (or parts thereof) are derecognized when the liability has been extinguished and the obligation specified in the contract is discharged, cancelled, or expires.

(o) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

(p) 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.

(q) Taxation

Life assurance premium tax is incurred at the rate of 3% of premiums written by the Group's insurance company.

The Group is required to pay value added tax (VAT) at a rate of 7.5% on goods and services as prescribed by the Value Added Tax Act.

Under the laws of The Bahamas, the Group's country of domicile, there are no income, capital gains or other corporate taxes imposed. The Group's operations do not subject it to taxation in any other jurisdiction.

(r) Rounding of amounts

All amounts disclosed in the consolidated financial statements and notes have been rounded off to the nearest thousand, unless otherwise stated.

(s) Corresponding figures

Corresponding figures have been adjusted to conform with changes in presentation adopted in the current year as follows:

Consolidated Statement of Financial Position

Loans made to the Government of The Bahamas (Note 9) which were previously presented within investments have been reclassified as loans receivable in the consolidated statement of financial position and the related note disclosures.

Consolidated Statement of Profit or Loss and Other Comprehensive Income and Business Segment Disclosures

Provision for credit losses has been reclassified from income to non-interest expense and as a result, the related income amounts for certain subsidiaries by segment represent either a reclassification or change in presentation from what was previously disclosed, resulting in no change to the total consolidated amounts.

Consolidated Statement of Cash Flows

Cash and cash equivalents has been reclassified to exclude reserves with The Central Bank of The Bahamas and time deposit held as collateral for letters of credit. The related note disclosures have been updated accordingly.

Notes to the Consolidated Financial Statements

Related party balances and transactions have been adjusted to include the Bank's pension plan and certain commitments with key management personnel.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the judgments and estimates that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Critical estimates

(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 incurred but not yet identified at 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. The methods used to calculate collective impairment allowances on homogeneous groups of loans that are not considered individually significant are disclosed in Note 2(m). They are subject to estimation uncertainty, in part because it is not practicable to identify losses on an individual loan basis because of the large number of individually insignificant loans in the portfolio.

Management's estimate is that whenever principal and/or interest on a loan is 90 days contractually past due or whenever a loan has been renegotiated, such that payments are applied solely to principal, the loan is assessed as impaired.

(b) Pension benefits

The Bank maintains a defined benefit plan as outlined in Note 2 (i). 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.

(c) Life assurance fund liability

Laurentide Insurance and Mortgage Company Limited ("Laurentide") calculates its actuarial liabilities for individual life insurance policies using the Canadian Policy Premium Method ("PPM"). The calculation of these policy reserves is based on assumptions as to future rates for mortality and morbidity, investment yields, policy lapse and expenses, which contain margins for adverse deviations. Changes in the liability are estimated with the assistance of an independent actuary and charged to profit or loss.

Key judgments

(d) 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 Bank's financial instruments are not typically exchangeable or exchanged and therefore it is difficult to determine their fair value. As such, 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.

Management applies judgement in assessing whether financial assets can be categorized as held-to-maturity, in particular (a) its intention and ability to hold the assets to maturity and (b) whether the assets are quoted in an active market. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. Interest rates on the Group's investments are principally variable in nature.

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.

4. SUBSIDIARIES

The Group has interests in the following entities:

Name	Country of Incorporation	Shareholding
Laurentide Insurance and Mortgage Company Limited ("Laurentide")	Bahamas	100%
C. B. Holding Co. Ltd.	Bahamas	100%
C. B. Securities Ltd.	Bahamas	100%
Laurentide Insurance Agency Limited	Bahamas	100%

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:*

	2017			
	Loans and Receivables	Held-To-Maturity	Other Financial Liabilities	Total
FINANCIAL ASSETS				
Cash and deposits with banks	$ 30,611	$ -	$ -	$ 30,611
Balances with The Central Bank of The Bahamas	$ 98,288	$ -	$ -	$ 98,288
Investments	$ -	$ 401,588	$ -	$ 401,588
Loans receivable	$ 1,053,969	$ -	$ -	$ 1,053,969
FINANCIAL LIABILITIES				
Deposits	$ -	$ -	$ 1,274,262	$ 1,274,262

	2016			
	Loans and Receivables	Held-To-Maturity	Other Financial Liabilities	Total
FINANCIAL ASSETS				
Cash and deposits with banks	$ 31,764	$ -	$ -	$ 31,764
Balances with The Central Bank of The Bahamas	$ 93,558	$ -	$ -	$ 93,558
Investments	$ -	$ 307,507	$ -	$ 307,507
Loans receivable	$ 1,122,589	$ -	$ -	$ 1,122,589
FINANCIAL LIABILITIES				
Deposits	$ -	$ -	$ 1,240,505	$ 1,240,505

At December 31, 2017 there were no assets or liabilities that were classified as FVTPL (2016: $Nil).

The following table shows consolidated statement of profit or loss and other comprehensive income information on financial instruments:

	2017	2016
Interest income		
Loans and receivables	$ 156,966	$ 157,268
Held-to-maturity	14,194	14,689
	$ 171,160	$ 171,957
Interest expense		
Deposits	$ 24,837	$ 27,243
Fees and other income		
Loans and receivables	$ 1,764	$ 2,187
Deposits	$ 3,936	$ 4,086

6. BUSINESS SEGMENTS

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee which is responsible for allocating resources to the reportable segments and assessing their performance. The Group has five operating segments which are organised based on nature of the products and services provided by each segment.

i. Retail banking – the provision of 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.
ii. Credit life insurance – the provision of credit life insurance in respect of the Bank's borrowers through Laurentide.
iii. Real estate holdings - ownership and management of real property which is rented to branches and departments of the Bank through C.B. Holding Co. Ltd.
iv. Investment holdings – holdings of investments in the Bank's common shares through C.B. Securities Ltd.
v. Insurance agency operations – provision of insurance agency services to the Group's insurance company, its sole client through Laurentide Insurance Agency Limited.

The entities within the Group operate 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.

There are no other operations that constitute separate reportable segments. The segment operations are all financial and principal revenues are derived from interest and fee income. No single customer contributed 10% or more of the Group's total income for the periods covered in the consolidated financial statements.

The following table shows financial information by business segment:

	2017						
	Retail Bank	Credit Life Insurance	Real Estate Holdings	Investment Holdings	Insurance Agency Operations	Eliminations	Consolidated
Income							
External	$ 154,365	$ 4,731	$ 5	$ -	$ -	$ -	$ 159,101
Internal	4,092	124	3,979	5,033	359	(13,587)	-
Total income	$ 158,457	$ 4,855	$ 3,984	$ 5,033	$ 359	$ (13,587)	$ 159,101
Total profit							
Internal & external	$ 47,415	$ 4,435	$ 1,351	$ 4,667	$ 181	$ (7,973)	$ 50,076
Assets	$ 1,607,283	$ 46,076	$ 29,746	$ 17,361	$ 2,720	$ (55,901)	$ 1,647,285
Liabilities	$ 1,298,156	$ 5,678	$ 18,317	$ 8,656	$ 9	$ (35,964)	$ 1,294,852
Other Information							
Interest expense	$ 25,321	$ -	$ 788	$ 344	$ -	$ (1,616)	$ 24,837
Capital additions	$ 2,173	$ -	$ 17	$ -	$ -	$ -	$ 2,190
Depreciation and amortization	$ 2,707	$ -	$ 632	$ -	$ -	$ -	$ 3,339

	2016						
	Retail Bank	Credit Life Insurance	Real Estate Holdings	Investment Holdings	Insurance Agency Operations	Eliminations	Consolidated
Income							
External	$ 152,188	$ 8,215	$ 23	$ -	$ -	$ -	$ 160,426
Internal	6,873	(1,056)	3,796	3,053	1,759	(14,425)	-
Total income	$ 159,061	$ 7,159	$ 3,819	$ 3,053	$ 1,759	$ (14,425)	$ 160,426
Total profit							
Internal & external	$ 54,219	$ 6,781	$ 1,262	$ 2,701	$ 855	$ (8,468)	$ 57,350
Assets	$ 1,572,046	$ 52,316	$ 29,789	$ 11,996	$ 2,536	$ (59,935)	$ 1,608,748
Liabilities	$ 1,276,741	$ 13,413	$ 19,711	$ 7,959	$ 6	$ (41,939)	$ 1,275,891
Other Information							
Interest expense	$ 27,946	$ -	$ 939	$ 337	$ -	$ (1,979)	$ 27,243
Capital additions	$ 2,861	$ -	$ 1,236	$ -	$ -	$ -	$ 4,097
Depreciation and amortization	$ 2,478	$ -	$ 583	$ -	$ -	$ -	$ 3,061

7. CASH AND CASH EQUIVALENTS

	2017	2016
Cash on hand	$ 18,511	$ 16,238
Deposits with banks	12,100	15,526
Balances with The Central Bank of The Bahamas	98,288	93,558
	128,899	125,322
Minimum reserve requirement	(49,748)	(47,397)
Time deposits securing letters of credit	(1,942)	(1,736)
Cash and cash equivalents	$ 77,209	$ 76,189

The minimum reserve requirement comprises deposits placed with the Central Bank of The Bahamas ('the Central Bank') to meet statutory requirements of the Bank's licences and are not available for use in the Bank's day to day operations. As such, these amounts are excluded from balances held with the Central Bank to arrive at cash and cash equivalents. All balances with the Central Bank are non-interest bearing. Cash and deposit balances disclosed above are recoverable within one year and are classified as current assets.

8. INVESTMENTS

Investments held to maturity are as follows:

	2017		
	Amount	Maturity years	Interest rates
Bahamas Government	$ 377,218	2018-2037	1.80% - 4.88%
Government related	18,303	2023-2035	4.25% - 7.00%
United States Government	1,000	2023-2024	6.25% - 7.50%
Equity	273	N/A	N/A
Accrued interest receivable	4,794		
Total investment securities	$ 401,588		

	2016		
	Amount	Maturity years	Interest rates
Bahamas Government	$ 283,314	2017-2037	1.95% - 5.38%
Government related	18,321	2023-2035	4.75% - 7.00%
United States Government	1,000	2023-2024	6.25% - 7.50%
Equity	257	N/A	N/A
Accrued interest receivable	4,615		
Total investment securities	$ 307,507		

	2017	2016
Investments categorized by maturity are as follows:		
Current (due within one year)	$ 77,492	$ 37,242
Non-current (due after one year)	324,096	270,265
	$ 401,588	$ 307,507

9. LOANS RECEIVABLE

Loans receivable is as follows:

	2017	2016
Residential mortgage	$ 211,222	$ 228,415
Business	31,283	34,444
Personal	840,370	881,405
Credit card	38,294	36,489
Government	10,000	15,000
	1,131,169	1,195,753
Less: Impairment Allowances	(77,200)	(73,164)
	$ 1,053,969	$ 1,122,589

Loans categorized by maturity are as follows:

	2017	2016
Current (due within one year)	$ 54,724	$ 52,354
Non-current (due after one year)	999,245	1,070,235
	$ 1,053,969	$ 1,122,589

Impairment Allowances on Loans Receivable:

	2017	2016
Individually Assessed Impaired Loans	$ 13,738	$ 14,031
Collectively Assessed Impaired Loans	66,790	56,730
Collectively Assessed Incurred But Not Yet Identified Loans	1,050,641	1,124,992
	1,117,431	1,181,722
Gross loans and advances	$ 1,131,169	$ 1,195,753
Individually assessed allowances as % of individually assessed impaired loans receivable	50.94%	62.85%
Collectively assessed allowances as % of collectively assessed loans receivable	6.28%	5.45%
Total allowances as % of total loans receivable	6.82%	6.12%

Included within the carrying amount of gross loans and advances is accrued interest of $16.9 million (2016: $17.0 million) and effective interest rate adjustments of $9.7 million (2016: $8.0 million), the latter principally comprising deferred fees and other direct costs incurred to originate loans.

Movement in Impairment Allowances:

2017	Balance at Beginning of Year	Loans Written off	Recoveries	Provision for Credit Losses	Balance at End of Year
Individually Assessed					
Residential mortgage	$ 8,358	$ (538)	$ -	$ (1,520)	$ 6,300
Business	460	-	-	238	698
Total Individually Assessed	$ 8,818	$ (538)	$ -	$ (1,282)	$ 6,998
Collectively Assessed					
Residential mortgage	$ 15,492	(2,611)	20	2,834	15,735
Business	762	(33)	-	301	1,030
Personal	46,184	(40,565)	11,993	32,233	49,845
Credit card	1,908	(1,192)	349	2,527	3,592
Total Collectively Assessed	$ 64,346	(44,401)	12,362	37,895	70,202
Total Impairment Allowances	$ 73,164	$ (44,939)	$ 12,362	$ 36,613	$ 77,200
Impairment Allowance					
Individually Assessed	$ 8,818	$ (538)	$ -	$ (1,282)	$ 6,998
Collectively Assessed	36,595	(44,401)	12,362	40,794	45,350
	45,413	(44,939)	12,362	39,512	52,348
Incurred but not yet identified	27,751	-	-	(2,899)	24,852
Total Allowances	$ 73,164	$ (44,939)	$ 12,362	$ 36,613	$ 77,200

2016	Balance at Beginning of Year	Loans Written off	Recoveries	Provision for Credit Losses	Balance at End of Year
Individually Assessed					
Residential mortgage	$ 5,708	$ -	$ -	$ 2,650	$ 8,358
Business	715	-	-	(255)	460
Total Individually Assessed	6,423	-	-	2,395	8,818
Collectively Assessed					
Residential mortgage	14,745	(462)	18	1,191	15,492
Business	743	(320)	-	339	762
Personal	38,470	(32,021)	12,111	27,624	46,184
Credit card	1,392	(891)	514	893	1,908
Total Collectively Assessed	55,350	(33,694)	12,643	30,047	64,346
Total Impairment Allowances	$ 61,773	$ (33,694)	$ 12,643	$ 32,442	$ 73,164
Impairment Allowance					
Individually Assessed	$ 6,423	$ -	$ -	$ 2,395	$ 8,818
Collectively Assessed	33,386	(33,694)	12,643	24,260	36,595
	39,809	(33,694)	12,643	26,655	45,413
Incurred but not yet identified	21,964	-	-	5,787	27,751
Total Allowances	$ 61,773	$ (33,694)	$ 12,643	$ 32,442	$ 73,164

If the loss experience ratios used in the calculation of provisions were to increase or decrease by 5%, the loan impairment losses would increase or decrease by $2.8 million (2016: $2.2 million).

Impaired loans receivable is as follows:

	2017			2017			2017		
	Individually Assessed	Collectively Assessed	Total	Individually Assessed Allowance	Collectively Assessed Allowance	Total Allowance	Net Individually Assessed	Net Collectively Assessed	Total Net
Residential mortgage	$ 12,718	$ 25,376	$ 38,094	$ 6,300	$ 15,133	$ 21,433	$ 6,418	$ 10,243	$ 16,661
Business	1,020	1,612	2,632	698	765	1,463	322	847	1,169
Personal	-	37,510	37,510	-	27,160	27,160	-	10,350	10,350
Credit card	-	2,292	2,292	-	2,292	2,292	-	-	-
	$ 13,738	$ 66,790	$ 80,528	$ 6,998	$ 45,350	$ 52,348	$ 6,740	$ 21,440	$ 28,180
Percentage of loan portfolio			7.12%						
Percentage of total assets			4.89%						
Percentage of Impaired Allowance to Impaired Loans						65.01%			

	2016			2016			2016		
	Individually Assessed	Collectively Assessed	Total	Individually Assessed Allowance	Collectively Assessed Allowance	Total Allowance	Net Individually Assessed	Net Collectively Assessed	Total Net
Residential mortgage	$ 13,012	$ 26,610	$ 39,622	$ 8,358	$ 14,891	$ 23,249	$ 4,654	$ 11,719	$ 16,373
Business	1,019	1,194	2,213	460	550	1,010	559	644	1,203
Personal	-	27,748	27,748	-	19,977	19,977	-	7,771	7,771
Credit card	-	1,178	1,178	-	1,177	1,177	-	1	1
	$ 14,031	$ 56,730	$ 70,761	$ 8,818	$ 36,595	$ 45,413	$ 5,213	$ 20,135	$ 25,348
Percentage of loan portfolio			5.92%						
Percentage of total assets			4.40%						
Percentage of Impaired Allowance to Impaired Loans						64.18%			

Impairment allowance on collectively assessed incurred but not yet identified loans is 2.37% (2016: 2.47%) of the incurred but not yet identified loans receivable.

10. OTHER ASSETS

The composition of other assets is as follows:

	2017	2016
Pension asset	$ 11,874	$ 3,513
Prepaid expenses	5,571	3,648
Other	566	155
	$ 18,011	$ 7,316

The pension asset for 2017 comprises the surplus amount in the Guaranteed Investment Contract and the pension asset relative to the defined benefit plan. The pension asset for 2016 comprises the surplus amount in the Guaranteed Investment Contract only, since the defined benefit plan recorded a net defined benefit liability in 2016.

The net pension asset is classified as non-current. All other assets are expected to be recovered within one year and are classified as current.

11. PREMISES AND EQUIPMENT

The movement of premises and equipment which is a non-current asset is as follows:

	Land/Site Improvements	Buildings	Leasehold Improvements	Furniture, Fittings and Equipment	Total
Cost					
December 31, 2015	$ 14,439	$ 34,797	$ 913	$ 26,419	$ 76,568
Additions	27	1,102	41	2,927	4,097
Disposals	-	-	(10)	(376)	(386)
December 31, 2016	14,466	35,899	944	28,970	80,279
Additions	-	9	21	2,160	2,190
Disposals	-	-	-	(358)	(358)
December 31, 2017	14,466	35,908	965	30,772	82,111
Accumulated Depreciation and Amortization					
December 31, 2015	412	9,709	814	20,601	31,536
Charge for the year	73	821	28	2,139	3,061
Disposals	-	-	(6)	(326)	(332)
December 31, 2016	485	10,530	836	22,414	34,265
Charge for the year	76	867	20	2,376	3,339
Disposals	-	-	-	(311)	(311)
December 31, 2017	561	11,397	856	24,479	37,293
Net Book Value					
December 31, 2017	$ 13,905	$ 24,511	$ 109	$ 6,293	$ 44,818
December 31, 2016	$ 13,981	$ 25,369	$ 108	$ 6,556	$ 46,014

12. DEPOSITS

The composition of deposits is as follows:

	2017	2016
Demand deposits	$ 156,421	$ 131,944
Savings accounts	284,623	235,222
Certificates of deposit	833,218	873,339
	$ 1,274,262	$ 1,240,505

Deposits categorized by maturity are as follows:

	2017	2016
Current (due within one year)	877,061	833,528
Non-current (due after one year)	397,201	406,977
	$ 1,274,262	$ 1,240,505

Included in deposits is accrued interest payable to customers totaling $22.2 million (2016: $23.9 million).

13. LIFE ASSURANCE FUND LIABILITY

The Group provides credit life insurance in respect of its borrowers through Laurentide.

The life assurance fund liability in respect of credit life insurance contracts is calculated as:

i. The sum of the present value of expected future death claims, withdrawal claims and administrative expenses for single premium contracts, and
ii. The sum of the present value of expected future death claims, withdrawal claims, commissions and administrative expenses, less expected future monthly premiums, for monthly premium contracts.

An actuarial valuation of the life assurance fund liability was conducted as at December 31, 2017 by Oliver Wyman of Toronto, Canada. The valuation included a provision of $224 thousand (2016: $104 thousand) for claims incurred but not yet reported.

The movement in the life assurance fund liability is as follows:

	2017	2016
Balance at beginning of the year	$ 13,268	$ 12,814
Change of valuation interest rate assumption	15	4
Model refinements	(3)	58
Termination policies	(5,507)	(5,910)
Impact of aging	(2,433)	(2,136)
Change in IBNR	120	101
New business	17	8,337
Change in unearned premium reserve	122	-
Balance at end of the year	$ 5,599	$ 13,268

Balances at the end of the year are expected to be settled as follows:

Current (within one year)	3,187	8,280
Non-current (after one year)	2,412	4,988
	$ 5,599	$ 13,268

Actuarial Assumption Sensitivities

The table below provides the impact of a 10% change in assumptions on mortality rates, policy lapse rates, loan interest rates, expenses and inflation:

2017

Scenario	Mortality per $1,000	Lapse Rate	Loan Interest Rate	Expense per Policy	Inflation Rate	Initial Interest Rate	Ultimate Interest Rate	Total Reserve (B$)	B$ Increase over Base	% Increase over Base
Base 2017	4.5	54%	15.50%	$13.86	3.30%	3.40%	3.25%	5,253		
Lower Interest Rate	4.5	54%	15.50%	$13.86	3.30%	3.06%	2.93%	5,268	15	0.3%
Mortality = 4.95	5.0	54%	15.50%	$13.86	3.30%	3.40%	3.25%	5,381	128	2.4%
Lapse = 59.40%	4.5	59%	15.50%	$13.86	3.30%	3.40%	3.25%	5,342	89	1.7%
Loan Interest = 17.05%	4.5	54%	17.05%	$13.86	3.30%	3.40%	3.25%	5,259	6	0.1%
Expenses = 15.25	4.5	54%	15.50%	$15.25	3.30%	3.40%	3.25%	5,287	34	0.7%
Inflation = 3.63%	4.5	54%	15.50%	$13.86	3.63%	3.40%	3.25%	5,255	2	0.0%

2016

Scenario	Mortality per $1,000	Lapse Rate	Loan Interest Rate	Expense per Policy	Inflation Rate	Initial Interest Rate	Ultimate Interest Rate	Total Reserve (B$)	B$ Increase over Base	% Increase over Base
Base 2016	4.5	54%	16.20%	$13.86	3.30%	3.90%	3.25%	13,164		
Lower Interest Rate	4.5	54%	16.20%	$13.86	3.30%	3.51%	2.93%	13,205	41	0.3%
Mortality = 4.95	5.0	54%	16.20%	$13.86	3.30%	3.90%	3.75%	13,380	216	1.6%
Lapse = 59.40%	4.5	59%	16.20%	$13.86	3.30%	3.90%	3.75%	13,537	373	2.8%
Loan Interest = 17.82%	4.5	54%	17.82%	$13.86	3.30%	3.90%	3.75%	13,175	10	0.1%
Expenses = 15.25	4.5	54%	16.20%	$15.25	3.30%	3.90%	3.75%	13,217	53	0.4%
Inflation = 3.63%	4.5	54%	16.20%	$13.86	3.63%	3.90%	3.75%	13,167	3	0.0%

14. OTHER LIABILITIES

The composition of other liabilities, classified as current liabilities, is as follows:

	2017	2016
Accruals and accounts payable	$ 4,990	$ 4,370
Cashier's cheques outstanding	4,172	5,785
Employee related	3,211	7,091
Other	2,618	4,872
	$ 14,991	$ 22,118

15. SHARE CAPITAL

Preference Shares:

AUTHORISED

	Rate	Par $	
Class E	Prime + 1.5%	100	45,000
Class F	Prime + 1.5%	100	10,000
Class G	Prime + 1.5%	100	10,000
Class H	Prime + 1.5%	100	10,000
Class I	Prime + 1.5%	100	10,000
Class J	Prime + 1.5%	100	10,000
Class K	Prime + 1.5%	100	10,000
Class L	Prime + 1.5%	100	10,000
Class M	Prime + 1.5%	100	10,000
Class N	Prime + 1.5%	100	10,000
			$ 135,000

There were no changes to the authorised preference share capital during 2017 and 2016.

OUTSTANDING

2017

	Beginning of year	Redemptions	Conversion	End of Year
Class E	$ 32,614	$ -	$ -	$ 32,614
Class J	9,924	-	-	9,924
Class K	9,999	-	-	9,999
Class L	9,987	-	-	9,987
Class M	8,974	-	-	8,974
Class N	10,000	-	-	10,000
	$ 81,498	$ -	$ -	$ 81,498

OUTSTANDING

2016

	Beginning of year	Redemptions	Conversion	End of Year
Class E	$ 32,614	$ -	$ -	$ 32,614
Class J	9,924	-	-	9,924
Class K	9,999	-	-	9,999
Class L	9,987	-	-	9,987
Class M	8,974	-	-	8,974
Class N	10,000	-	-	10,000
	$ 81,498	$ -	$ -	$ 81,498

All classes are non-cumulative, non-voting with no maturity and require that the shares must have been issued for at least five years and that the approval of The Central Bank must be obtained prior to redemption. Of the amounts outstanding, $48.9 million of the shares qualify for redemption in 2018 with the balance qualifying for redemption in 2019. Redemption is solely at the option of the Group.

For all classes dividend rates are variable with Bahamian Prime Rate. In 2017, Bahamian Prime Rate was 4.25% (2016: 4.75%).

Common Shares:

	2017	2016
Authorised:		
675,000,000 (2016: 675,000,000) shares of $0.00667	$ 4,500	$ 4,500
Issued and fully paid:		
295,268,556 (2016: 295,268,556) shares of $0.00667	1,968	1,968
Share premium	27,011	27,011
Less: 3,306,609 (2016: 3,212,955) shares held in treasury	(7,838)	(7,516)
Total	$ 21,141	$ 21,463
Share capital	$ 1,946	$ 1,947
Share premium	19,195	19,516
	$ 21,141	$ 21,463

The holdings of treasury shares are to fund the Group's stock based compensation plans and inject liquidity into the local market.

On October 12, 2017 the Bank's common shares split three-for-one as approved by a majority vote of shareholders on May 31, 2017. As a result of the split, shareholders of record as of September 29, 2017 received two additional shares for each share held on the record date. Accordingly, relevant figures and calculations have been restated for the prior period.

16. EARNINGS PER SHARE

	2017	2016
Total profit	$ 50,076	$ 57,350
Preference share dividends	(4,692)	(5,101)
Total profit available to common shareholders	$ 45,384	$ 52,249
Weighted average number of common shares (in thousands)	292,014	292,218
Earnings per share (expressed in dollars)	$ 0.16	$ 0.18

17. 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.

18. 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. The number of shares included in the plan is amended each time there is a stock split (Note 15). Currently, there are 18 million shares approved under the plan.

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 C.B. Securities Ltd. purchasing shares from the market in advance of the options being exercised. The Bank recognized expenses of $Nil (2016: $Nil) related to this equity settled share based payment plan during the year.

Other share based payment plan

Under the Bank's employee share purchase plan, non-management staff may purchase the Bank's shares at 90% of the closing market price on the date of grant for a restricted period each year. Employees' ability to purchase shares is restricted to a percentage of their salary according to their position. Shares so purchased vest immediately but are released to the employee on payment for the shares. No shares were made available under this plan in 2017 (2016: Nil shares).

There were no shares outstanding under the stock option plans as at December 31, 2017 (2016: Nil). Options available to be granted under the plans totaled 4,678,000 (2016: 4,678,000).

19. FEES AND OTHER INCOME

Fees and other income is as follows:

		2017		2016
Fees and commissions	$	1,043	$	1,485
Service charges		3,936		4,086
Card service revenue		730		709
Net foreign exchange revenue and other income		4,091		3,163
	$	9,800	$	9,443

20. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses is as follows:

		2017		2016
Staff costs	$	37,822	$	38,013
Licences and taxes		9,306		8,382
Professional and service fees		7,729		7,220
Occupancy		4,828		4,215
Advertising		2,448		2,598
Other		6,679		6,863
	$	68,812	$	67,291

Staff costs include pension costs of $2.2 million (2016: $2.0 million) of which $0.6 million (2016: $0.5million) relates to the DB Provisions (see Note 22).

21. RELATED PARTIES' BALANCES AND TRANSACTIONS

Related parties include:

i. key management personnel, including directors;
ii. entities that have the ability to control or exercise significant influence over the Bank in making financial or operational decisions; and
iii. entities that are controlled, jointly controlled or significantly influenced by parties described in i) and ii).

The following table shows balances and transactions with related parties not disclosed elsewhere in these consolidated financial statements:

	2017			2016		
	Key Management Personnel $	Other Related Parties $	Total $	Key Management Personnel $	Other Related Parties $	Total $
Loans receivable	5,970	29	5,999	7,371	16	7,387
Deposits	271,454	5,621	277,075	254,721	6,904	261,625
Other liabilities	108	-	108	255	-	255
Interest income	338	15	353	442	84	526
Interest expense	8,236	155	8,391	8,307	373	8,680
General and administrative expenses	1,005	-	1,005	810	-	810
Commitments under revolving credit lines	2,280	3,057	5,337	1,176	3,057	4,233

Amounts included in loans receivable that relate to residential mortgages and business loans are secured. Amounts related to personal loans and credit cards are unsecured. There are no provisions for loan losses in respect of these balances.

As at December 31, 2017 a total of 84,360,141 (2016: 84,763,734) common shares and 120,254 (2016:120,254) preference shares were held by key management personnel.

Compensation of Key Management Personnel

The remuneration of Directors and other members of key management personnel, those persons having the authority and responsibility for planning, directing and controlling the activities of the Bank, in addition to Directors' fees disclosed on the consolidated statement of profit or loss and other comprehensive income is as follows:

		2017		2016
Short term benefits	$	6,758	$	7,309
Post employment benefits		471		442
	$	7,229	$	7,751

Purchase of Shares by Subsidiary

During the year, the Bank purchased 93,654 (adjusted) of its common shares for $0.3 million (2016: 254,685 (adjusted) shares for $0.8 million) through its wholly-owned subsidiary C.B. Securities. At December 31, 2017, 3,306,609 (2016: 3,212,955) shares were held by the subsidiary with a value of $16.3 million (2016: $11.4 million).

As at December 31, 2017, C.B. Securities held $110,000 (2016: $110,000) of the Bank's preference shares. There were no purchases of preference shares during the year (2016: Nil).

22. BANK PENSION SCHEME

The pension plan is divided into two parts – the Defined Benefit Provisions ("DB Provisions") and the Defined Contribution Provisions ("DC Provisions").

DB Provisions

The DB Provisions which is closed to new members provides pensions based on years of service, contributions and weighted average earnings at retirement. The Bank's funding policy is to make monthly contributions to the DB Provisions based on triennial valuations. The Bank pays on demand to the DB Provisions such periodic contributions as may be required to meet the obligations of the DB Provisions.

Eligibility in the DB Provisions includes all employees in active employment of the Bank who have at least 3 years of service or have reached the age of 25 and who met the eligibility requirements of the DB Provisions prior to October 1, 2013, the date on which entry to the DB Provisions was closed to all employees.

The DB Provisions typically expose the Bank to actuarial risks as follows:

i. Investment risk: Currently the DB Provisions has a balanced investment in Bahamian Government (and Government-related) securities and private securities. The present value of the DB Provisions liability is calculated using a discount rate of 0.75% (2016: 0.25%) above Bahamian Prime Rate of 4.25% (2016: 4.75%) (Note 20). If the return on assets is below this rate, it will create a deficit.
ii. Interest risk: A decrease in the Bahamian Prime Rate will increase the DB Provisions liability.
iii. Longevity risk: The present value of the DB Provisions liability is calculated by reference to the best estimate of the mortality of participants both during and after their employment. An increase in the life expectancy of the DB Provisions participants will increase the DB Provisions' liability.
iv. Salary risk: The present value of the DB Provisions liability is calculated by reference to the future salaries of participants. As such, an increase in the salary of the participants will increase the DB Provisions' liability.

Actuarial work on the DB Provisions was undertaken by Mercer (Canada) Limited, Toronto, Canada as at December 31, 2017.

The following tables present information related to the Bank's DB Provisions of the pension plan, including amounts recorded on the consolidated statement of financial position and the components of net periodic benefit cost:

	2017	2016
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	$ 25,901	$ 20,685
Interest income	1,160	1,165
Actual return on plan assets	2,472	1,265
Administrative costs	(80)	(152)
Employer contributions	511	3,829
Participant contributions	92	94
Benefits paid	(626)	(216)
Withdrawals from plan	(393)	(597)
Settlement payments	-	(172)
Fair value of plan assets at end of year	$ 29,037	$ 25,901
Change in defined benefit obligation:		
Benefit obligation at beginning of year	$ 26,953	$ 24,012
Current employer service costs	459	397
Participant contributions	92	94
Interest cost	1,197	1,183
Withdrawals from plan	(393)	(597)
Benefits paid	(626)	(216)
Experience adjustment	-	172
Settlement payments	-	(172)
Changes in financial assumptions	(2,100)	2,080
Benefit obligation at end of year	$ 25,582	$ 26,953
Benefit obligation at end of year	$ 25,582	$ 26,953
Fair value of plan assets at end of year	(29,037)	(25,901)
Net defined benefit (asset) liability	$ (3,455)	$ 1,052
Net defined benefit (asset) liability:		
Balance at beginning of year	$ 1,052	$ 3,327
Defined benefit included in profit or loss	646	530
Remeasurement included in other comprehensive income	(4,642)	1,024
Employer contributions	(511)	(3,829)
Balance at end of year	$ (3,455)	$ 1,052
Components of defined benefit cost:		
Current employer service costs	$ 459	$ 397
Interest cost on defined benefit obligation	1,197	1,183
Interest income on plan assets	(1,160)	(1,165)
Administrative costs	150	115
Pension benefit expense included in staff costs	$ 646	$ 530
Components of remeasurements:		
Changes in financial assumptions	$ (2,100)	$ 2,080
Experience adjustments	-	172
Return on plan assets excluding interest income	(2,542)	(1,228)
Remeasurements included in other comprehensive income	$ (4,642)	$ 1,024
Weighted-average assumptions to determine defined benefit obligations:		
Discount rate	5.00%	4.50%
Rate of pension increases	1.00%	1.00%
Rate of increase in future compensation	3.50%	3.50%
Mortality Table	UP 1994 Fully generational	UP 1994 Fully generational

Weighted-average assumptions to determine defined benefit cost:

Discount rate	4.50%	5.00%
Rate of pension increases	1.00%	1.00%
Rate of increase in future compensation	3.50%	3.50%
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 results of a 25 basis points increase or decrease over the financial assumptions used in the measurement of the defined benefit obligation and defined benefit expense are summarized in the table below:

2017	Discount Rate	Rate of increase in Compensation	Rate of increase in Pension
Pension obligation	$ 1,016	$ 353	$ 678
Pension expense	$ 79	$ 27	$ 48

2016	Discount Rate	Rate of increase in Compensation	Rate of increase in Pension
Pension obligation	$ 1,146	$ 369	$ 709
Pension expense	$ 70	$ 25	$ 47

The effect of assuming an increase of 1 year in life expectancy would increase the benefit obligation by $0.6 million (2016: $0.6 million) and pension benefits expense by $41,000 (2016: $41,000).

The weighted average duration of the defined benefit obligation was 16.3 years (2016: 16.7 years).

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the year) has been applied as when calculating the defined benefit liability recognised in the consolidated statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

The DB Provisions owns 1,410,825 (2016: 1,410,825) common shares and $0.6 million (2016: $0.6 million) preference shares of the Bank. These shares have a market value of $7.5 million (2016: $5.5 million) which represents 25.65% (2016: 21.13%) of the DB Provisions' assets.

The major categories of DB Provisions assets at December 31, 2017 are as follows:

	2017	2016
Balance at Banks	$ 1,560	$ 3,017
Equity Instruments	11,570	9,078
Government Bonds	11,009	10,622
Other Debt Instruments	1,882	69
Preferred Equity	3,085	3,204
Liabilities	(69)	(89)
Fair Value of Plan Assets	$ 29,037	$ 25,901

Based on the members who remain in the plan and the Bank's obligation to those members, the Bank expects that the contributions in 2018 in respect of the DB Provisions will be $0.5 million.

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

	2017	2016
Deposits	$ 1,177	$ 2,867
Interest expense	$ 51	$ 91

DC Provisions

The DC Provisions requires a defined contribution be made by the Bank for plan members. Eligibility in the DC Provisions includes all employees in active employment of the Bank who have at least 1 year of service or have reached the age of 25 and who met the eligibility requirements of the DC Provisions on or after October 1, 2013 or were hired after September 1, 2013.

The DC Provisions includes a guaranteed investment option at the discretion of the employee whereby the Bank guarantees a specified return as defined by the Bank. This option is primarily invested in Bahamian Government (and Government-related) debt, other fixed income securities, and equity shares in the Bank. Currently, this guarantee is 4.25% expiring March 2019. Other than to meet the required funding of this segment of the DC Provisions, the Bank has no legal or constructive obligation to pay further contributions to the DC Provisions.

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

	2017	2016
Pension expense included in staff costs	$ 1,576	$ 1,492

The DC Provisions owns 3,382,980 (2016: 3,382,980) common shares and $1.8 million (2016: $1.8 million) preference shares of the Bank. These shares have a market value of $18.4 million (2016: $13.6 million) which represents 29.0% (2016: 24.4%) of the DC Provisions assets.

The funded status of the Guaranteed Investment Contract available through the DC Provisions is as follows:

	2017	2016
Fair value of plan assets	$ 53,866	$ 46,928
Present value of the funded benefit obligation	(45,447)	(43,415)
Surplus in Guaranteed Investment Contract	$ 8,419	$ 3,513

The remeasurement gain of defined benefit obligation included in other comprehensive income is as follows:

	2017	2016
DB Provisions	$ 4,642	$ (1,005)
DC Provisions - Guaranteed Investment Contract	4,906	3,513
	$ 9,548	$ 2,508

23. COMMITMENTS AND CONTINGENCIES

Loan commitments

In the ordinary course of business, the Group had commitments as at December 31, 2017, as follows:

	2017	2016
Mortgage commitments	$ 7,357	$ 9,200
Revolving credit lines	30,008	31,946
	$ 37,365	$ 41,146

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.

These financial instruments are subject to the Group's standard credit policies and procedures.

Capital commitments

There were no capital commitments as at December 31, 2017 (2016: $1.1 million).

Lease commitments

The future minimum rental payments required under non-cancellable operating leases as at December 31, 2017 are as follows:

Year	2017 $	2016 $
2017	-	562
2018	534	413
2019	534	393
2020	165	36
2021	-	-
	$ 1,253	$ 1,404

Lines of Credit

The Bank has an undrawn line of credit with Bank of America, Miami for US$1 million which was established to service customer transactions. This credit line is secured by United States Government Treasury Notes in the amount of US$1.009 million as disclosed in Note 8.

Letters of Credit

The Bank has a standby letter of credit with Citibank N.A. for US$1.9 million, which was established to secure settlement transactions with MasterCard. This standby credit line is secured by a time deposit of B$1.9 million, which is included in 'Cash and deposits with banks' in the consolidated statement of financial position.

Other contingent liabilities

The Group is involved in various legal proceedings covering a range of matters that arise in the ordinary course of business activities. Management is of the view that no significant losses will arise as a result of these proceedings.

24. RISK MANAGEMENT

a. Capital management - The Group 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 Group maximizes the return to shareholders through optimization of its debt and equity balance. The Group's risk management structure promotes making sound business decisions by balancing risk and reward. It promotes revenue generating activities that are consistent with the Group'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 15 and 17. 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.

The Central Bank requires that the Bank maintains a ratio of total regulatory capital to risk-weighted assets at a minimum of 17% (2016: 17%).

Capital regulatory requirements for subsidiary companies are managed through the Bank. The Group's strategy is unchanged from 2016.

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

Under paragraph 60(1) a of The Insurance (General) Regulations, 2010 (the "Regulations") an insurance company is required to have a minimum paid-up and unencumbered share capital of not less than three million dollars. As at December 31, 2017 Laurentide has $300,300 (2016: $300,300) in share capital and $2,750,000 (2016: $2,750,000) in contributed surplus. Laurentide's board passed a resolution on December 6, 2011 making the contributed surplus non-distributable.

Laurentide is required to establish and maintain a minimum statutory deposit of $2 million, such deposit to be held in trust pursuant to section 43(2) of the Act and paragraph 62 of the Regulations. The LIM Statutory Reserve Trust was established on December 20, 2011 with assets valued at $2,289,300 as at December 31, 2017 (2016: $2,289,300).

Laurentide is required to maintain a solvency margin pursuant to paragraph 90 of the Regulations. For the purposes of the Regulations, margin of solvency means the excess of the value of its admissible assets over the amount of its liabilities. The required margin of solvency is the greater of (a) twenty per cent of the premium income, including annuity premiums, in its last financial year; or (b) five hundred thousand dollars, plus the minimum amount of capital required. As at December 31, 2017, the minimum margin of solvency was $3,500,000 (2016: $6,344,321). Laurentide's solvency margin at December 31, 2017 was $34,315,489 (2016: $26,642,022) resulting in a surplus of $30,815,489 (2016: $20,297,701).

Paragraph 68 of the Regulations stipulates that of the value of the admissible assets which Laurentide must at any time have in order to maintain the minimum margin of solvency required by the Act, at least sixty per cent shall be in the form of qualifying assets. As at December 31, 2017, Laurentide had $39,993,331 (2016: $40,055,034) in qualifying assets and $39,993,331 (2016: $40,055,312) in admissible assets as defined under paragraphs 70 and 72 of the Regulations, respectively.

During the year, the Group was in compliance with all externally imposed capital requirements.

b. *Interest rate risk* - Interest rate risk is the potential for a negative impact on the consolidated statement of financial position and/or consolidated statement of profit or loss and other comprehensive income arising from adverse changes in the value of financial instruments as a result of changes in interest rates.

Interest rate risk or interest rate sensitivity results primarily from differences in the repricing dates of assets and liabilities. Interest rate risk exposures, or "gaps" may produce favourable or unfavourable effects on interest margins depending on the nature of the gap and the direction of interest rate movement and/or the expected volatility of those interest rates. When assets have a shorter average maturity than liabilities, an increase in interest rates would have a positive impact on net interest margins, and conversely, if more liabilities than assets mature or are repriced in a particular time interval then a negative impact on net interest margin would result. The consolidated gap position shows more assets than liabilities repriced in periods greater than one year. This is a typical position for a financial institution with a large personal customer base. The following table sets out the Group's interest rate risk exposure as at December 31, 2017, and represents the Group's risk exposure at this point in time only.

Interest Rate Sensitivity

If interest rates increase/decrease by 50 basis points and all other variables remain constant, the Group's profit over the next 12 months is estimated to increase/decrease by $0.9 million (2016: $1.1 million).

	Repricing date of interest sensitive instruments				Non interest	
As of December 31, 2017	Within 3 Months	3-12 months	Over 1-5 Years	Over 5 years	rate sensitive	Total
Assets						
Cash and deposits with banks	$ 784	$ 1,157	$ -	$ -	$ 28,670	$ 30,611
Balances with The Central Bank of The Bahamas	-	-	-	-	98,288	98,288
Investments	336,253	4,099	32,316	28,575	345	401,588
Loans receivable	54,215	231,552	166,822	601,380	-	1,053,969
Other assets	-	-	-	-	15	15
Total financial assets	$ 391,252	$ 236,808	$ 199,138	$ 629,955	$ 127,318	$ 1,584,471
Liabilities						
Deposits	$ 619,611	$ 257,450	$ 386,984	$ 10,217	$ -	$ 1,274,262
Other liabilities	-	-	-	-	14,991	14,991
Total financial liabilities	$ 619,611	$ 257,450	$ 386,984	$ 10,217	$ 14,991	$ 1,289,253
Interest rate sensitivity gap	**$ (228,359)**	**$ (20,642)**	**$ (187,846)**	**$ 619,738**		

	Repricing date of interest sensitive instruments				Non interest	
As of December 31, 2016	Within 3 Months	3-12 months	Over 1-5 Years	Over 5 years	rate sensitive	Total
Assets						
Cash and deposits with banks	$ 5,786	$ 952	$ -	$ -	$ 25,026	$ 31,764
Balances with The Central Bank of The Bahamas	-	-	-	-	93,558	93,558
Investments	261,495	-	17,075	28,680	257	307,507
Loans receivable	52,833	252,906	177,401	639,449	-	1,122,589
Other assets	-	-	-	-	14	14
Total financial assets	$ 320,114	$ 253,858	$ 194,476	$ 668,129	$ 118,855	$ 1,555,432
Liabilities						
Deposits	$ 547,214	$ 286,406	$ 396,667	$ 10,218	$ -	$ 1,240,505
Other liabilities	-	-	-	-	22,118	22,118
Total financial liabilities	$ 547,214	$ 286,406	$ 396,667	$ 10,218	$ 22,118	$ 1,262,623
Interest rate sensitivity gap	**$ (227,100)**	**$ (32,548)**	**$ (202,191)**	**$ 657,911**		

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.

During the year the Bank constrained its credit policy to reduce lending in higher risk segments as the economy still struggled during the year amid increasing competition for higher quality loans. As a result, the Bank's loan portfolio contracted during the year.

The Group places its deposits with banks in good standing with the Central Bank and other regulators in jurisdictions in which deposits are placed.

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 average mortgage balance was $111,298 (2016: $113,579) while the average business account balance was $240,677 (2016: $239,757). The average consumer balance was $22,292 (2016: $22,537). The largest exposure to a single customer, other than the Government of The Bahamas (Note 9), was approximately $2 million (2016: $2.1 million). Mortgage loans and business loans can extend up to 35 years and 10 years, respectively while consumer loans can extend up to 10 years.

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

	2017			2016		
	Original Contract	Restructured	Total	Original Contract	Restructured	Total
Cash and deposit with banks &						
Balances with the Central Bank of The Bahamas						
Neither past due or impaired	$ 128,899	$ -	$ 128,899	$ 125,322	$ -	$ 125,322
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	$ 128,899	$ -	$ 128,899	$ 125,322	$ -	$ 125,322
Investments						
Neither past due or impaired	$ 401,588	$ -	$ 401,588	$ 307,507	$ -	$ 307,507
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	$ 401,588	$ -	$ 401,588	$ 307,507	$ -	$ 307,507
Loans receivable						
Neither past due or impaired	$ 834,557	$ 68,859	$ 903,416	$ 928,588	$ 76,370	$1,004,958
Past due but not impaired	99,714	47,511	147,225	86,014	34,020	120,034
Impaired	57,772	22,756	80,528	51,237	19,524	70,761
	$ 992,043	$ 139,126	$ 1,131,169	$ 1,065,839	$ 129,914	$1,195,753

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:

	2017			2016		
	Original Contract	Restructured	Total	Original Contract	Restructured	Total
Loans receivable						
Residential mortgage						
Neither past due or impaired	$ 107,053	$ 20,002	$ 127,055	$ 120,021	$ 24,537	$ 144,558
Past due but not impaired	25,200	20,873	46,073	27,492	16,743	44,235
Impaired	21,619	16,475	38,094	24,491	15,131	39,622
	$ 153,872	$ 57,350	$ 211,222	$ 172,004	$ 56,411	$ 228,415
Business						
Neither past due or impaired	$ 17,397	$ 866	$ 18,263	$ 23,541	$ 2,792	$ 26,333
Past due but not impaired	7,326	3,062	10,388	4,862	1,036	5,898
Impaired	2,311	321	2,632	1,782	431	2,213
	$ 27,034	$ 4,249	$ 31,283	$ 30,185	$ 4,259	$ 34,444
Personal						
Neither past due or impaired	$ 672,299	$ 47,991	$ 720,290	$ 740,608	$ 49,041	$ 789,649
Past due but not impaired	58,994	23,576	82,570	47,767	16,241	64,008
Impaired	31,550	5,960	37,510	23,786	3,962	27,748
	$ 762,843	$ 77,527	$ 840,370	$ 812,161	$ 69,244	$ 881,405
Credit card						
Neither past due or impaired	$ 27,808	$ -	$ 27,808	$ 29,418	$ -	$ 29,418
Past due but not impaired	8,194	-	8,194	5,893	-	5,893
Impaired	2,292	-	2,292	1,178	-	1,178
	$ 38,294	$ -	$ 38,294	$ 36,489	$ -	$ 36,489
Government						
Neither past due or impaired	$ 10,000	$ -	$ 10,000	$ 15,000	$ -	$ 15,000
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	$ 10,000	$ -	$ 10,000	$ 15,000	$ -	$ 15,000
	$ 992,043	$ 139,126	$ 1,131,169	$ 1,065,839	$ 129,914	$ 1,195,753

All financial assets outside of loans receivable are neither past due nor impaired.

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

	2017	2016
Satisfactory risk	$ 895,285	$ 998,878
Watch list	8,131	6,080
	$ 903,416	$ 1,004,958

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

2017

	Residential mortgage	Business	Personal	Credit card	Total
Past due up to 29 days	$ 34,386	$ 6,838	$ 56,223	$ 5,497	$ 102,944
Past due 30 - 59 days	9,153	518	16,094	1,657	27,422
Past due 60 - 89 days	2,534	3,032	10,253	1,040	16,859
	$ 46,073	$ 10,388	$ 82,570	$ 8,194	$ 147,225

2016

	Residential mortgage	Business	Personal	Credit card	Total
Past due up to 29 days	$ 34,697	$ 4,785	$ 47,150	$ 4,526	$ 91,158
Past due 30 - 59 days	4,727	399	10,524	881	16,531
Past due 60 - 89 days	4,811	714	6,334	486	12,345
	$ 44,235	$ 5,898	$ 64,008	$ 5,893	$ 120,034

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 performing accounts and the impairment allowance on non-performing accounts 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 Group 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 Group 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 Directors' Executive Committee oversees the Group'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 which are a part of the contingency plan and are disclosed in Note 23.

There have been no changes in the policies and procedures for managing liquidity risk compared to the prior year.

The following table summarizes the carrying amount of consolidated financial assets and liabilities of the Group into relevant maturity groupings based on the remaining period to the contractual maturity dates at of the date of the consolidated statement of financial position and represent undiscounted cash flows.

As of December 31, 2017	Within 3 Months	3 - 12 months	Over 1 - 5 Years	Over 5 years	Total
Assets					
Cash and deposits with banks	$ 29,454	$ 1,157	-	-	$ 30,611
Balances with The Central Bank of The Bahamas	98,288	-	-	-	98,288
Investments	67,045	11,067	90,550	374,286	542,948
Loans receivable	13,019	14,711	308,540	1,742,042	2,078,312
Other assets	15	-	-	-	15
Total financial assets	$ 207,821	$ 26,935	$ 399,090	$ 2,116,328	$ 2,750,174
Liabilities					
Deposits	$ 619,924	$ 260,951	$ 417,315	$ 15,743	$ 1,313,933
Life assurance fund liability	1,109	2,078	2,412	-	$ 5,599
Other liabilities	14,991	-	-	-	14,991
Total financial liabilities	$ 636,024	$ 263,029	$ 419,727	$ 15,743	$ 1,334,523
Net liquidity gap	**$ (428,203)**	**$ (236,094)**	**$ (20,637)**	**$ 2,100,585**	**$ 1,415,651**

As of December 31, 2016	Within 3 Months	3 - 12 months	Over 1 - 5 Years	Over 5 years	Total
Assets					
Cash and deposits with banks	$ 30,812	$ 952	$ -	$ -	$ 31,764
Balances with The Central Bank of The Bahamas	93,558	-	-	-	93,558
Investments	22,842	15,171	43,876	378,404	460,293
Loans receivable	12,392	19,491	316,199	1,920,062	2,268,144
Other assets	14	-	-	-	14
Total financial assets	$ 159,618	$ 35,614	$ 360,075	$ 2,298,466	$ 2,853,773
Liabilities					
Deposits	$ 547,635	$ 291,000	$ 431,457	$ 16,372	$ 1,286,464
Life assurance fund liability	2,835	5,445	4,988	-	$ 13,268
Other liabilities	22,118	-	-	-	22,118
Total financial liabilities	$ 572,588	$ 296,445	$ 436,445	$ 16,372	$ 1,321,850
Net liquidity gap	**$ (412,970)**	**$ (260,831)**	**$ (76,370)**	**$ 2,282,094**	**$ 1,531,923**

e. *Insurance risk* - Insurance risk is the risk of loss resulting from the occurrence of an insured event. Laurentide issues contracts for credit life insurance only on loans written by the Bank. All lives insured are debtors under closed-end consumer credit transactions that arise from direct loans with the Bank. The amount of life insurance at risk on any one individual is never more than the amount of the indebtedness outstanding from time to time. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of amount of risk to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. At present, this risk does not vary significantly in relation to the location of the risk insured by the Group. To mitigate risk, no insurance contract is issued to persons age 65 and over. Prior to 2017 no insurance contract was issued to persons age 60 and over. The amount of life insurance at risk on any one policy is as follows:

Policies written up to 2016:
Auto loans - Maximum of $10,000 or net indebtedness to Bank
All other loans - Maximum of $20,000 or net indebtedness to Bank
Policies written after 2016:
All loans - Maximum of $70,000 or net indebtedness to Bank

f. *Currency risk* - Currency risk is the risk that the fair values and/or amounts realized on settlement of financial instruments, and settlements of foreign currency transactions, will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized monetary assets and liabilities are denominated in currencies other than the Bank's functional currency. The Bank is not subject to significant currency risk as its foreign currency transactions and monetary assets and liabilities are predominately denominated in currencies with foreign exchange rates currently fixed against the Bank's functional currency.

g. *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 Group 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 Group'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 Group with reasonable assurance that assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and the Group is in compliance with all regulatory requirements.

25. SUBSEQUENT EVENT

On January 25, 2018, the Board of Directors approved an extraordinary dividend on common shares in the amount of $0.02 per share which was paid on February 28, 2018 to common shareholders.

NOTES

2017 SUMMARY OF BOARD AND COMMITTEE MEETINGS

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Earla J. Bethel	6
Marcus C. Bethel	7
Vaughn W. T. Higgs	7
Tracy E. Knowles	7
Rupert W. Roberts	7
Robert D. L. Sands	7
R. Craig Symonette	7
Larry R. Gibson	7
Ian A. Jennings	7
William B. Sands, Jr.	7

NOMINATING COMMITTEE REPORT

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

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

Year in Review

- **Assessed** the composition and size of the Board, examining its breadth and diversity of experience and the appropriateness of the number of Directors and the required allocation of Executive and Non-Executive Directors.
- **Continued** to maintain a list of prospective Director Candidates with input from the Board.
- **Recommended** to the Board a list of nominees to stand for election as Directors at the Annual General Meeting.
- **Reviewed and Recommended** the levels of Directors' Remuneration to the Board for Approval at the Annual General Meeting to ensure that it is appropriate to the responsibilities and risks assumed and competitive with other comparable organisations.
- **Conducted** the annual formal evaluation of the effectiveness of the Board and its committees, with participation by all Directors. The conclusions were reviewed with the Board, and form the foundation for changes and compliance with the required certification to The Central Bank.
- **Reviewed** the self assessments and self evaluations completed by individual Board members, which measure the effectiveness of the individual Board members as well as the overall Board and reviewed the overall results with the Board and the Executive Chairman.
- **Reviewed** the roles of the Executive Chairman and President and recommends these remain separated.
- **Reviewed** the Bank's process for Director Orientation.

The Committee is satisfied that it has appropriately fulfilled its mandate for the year ended December 31, 2017.

Vaughn W. Higgs
Chairman
Nominating Committee

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.
- **Reviewed** core methods and procedures established by management to control key risks, and deemed by the Committee to be appropriate for prudent business practice.
- **Reviewed** significant credit and market risk exposures, industry sector analyses, topical risk issues, and the strategies of the Bank's major business units, including related risk methodologies.
- **Reviewed** the Bank's Capital Management Strategies and requirements and made recommendations for changes to the Board.
- **Continued** to assess the Bank's system of corporate governance and recommend new initiatives with a view to maintaining high standards of corporate governance.
- **Reviewed** the mandates of the Board Subcommittees, and secured its approval by the Board.

The Committee is satisfied that it has appropriately fulfilled its mandate for the year ended December 31, 2017.

William B. Sands, Jr.
Executive Chairman
Executive Committee

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

PREMISES COMMITTEE REPORT

Pictured L to R Seated:
Ian A. Jennings
Earla J. Bethel
Larry R. Gibson

Pictured L to R Standing:
Robert D. L. Sands
Marcus R. C. Bethel

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

Year in Review

During the year, the Committee in fulfilling its role:

- **Reviewed** proposals of Senior Management for expansion of the Bank into non-serviced geographical areas.
- **Reviewed** proposals of Senior Management to purchase land and/or buildings for new locations or redevelopment of existing premises.
- **Reviewed** cost allocations proposed by Senior Management for all significant leases, leasehold allocations with a view of ensuring the most cost effective policies and procedures are in place to sustain the ongoing operations of the Bank.
- **Assessed** the monitoring of Management's control of significant premises undertakings to ensure an effective oversight and reporting process is in place and that to the extent possible an appropriate level of attention is placed on the effective and efficient use of allocated funds.
- **Assessed** the monitoring of the Bank's compliance, 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 for the year ended December 31, 2017.

Earla J. Bethel
Chairperson
Premises Committee

The Pension Committee is responsible for advising the Board of Directors in fulfilling its fiduciary and oversight duties for the Bank's various pension arrangements. As part of this responsibility, members of the committee review the performance of the Pension Plan Trustee, Administrator and Investment Manager in accordance with the Trust Deed, Plan Rules and Investment Policy Statement, as well as providing support and making recommendations, as appropriate.

The Pension Committee is comprised of four members of the Bank's Board of Directors and two employee representatives elected by the employees triennially. The employee representatives are Mrs. Denise Turnquest and Mr. Osvon Pratt.

Year in Review

During the year, the Committee in fulfilling its role:

- **Reviewed the performance** of the Trustee for the Pension Fund and other service providers and recommended changes (where required) to the Board Executive Committee for approval.
- **Reviewed** the Plan Design and determined no changes were necessary.
- **Reviewed** the Trust Deed and determined no changes were necessary.
- **Reviewed** and recommended for approval by the Board Executive Committee funding policy provisions including actuarial assumptions, actuarial cost methods and actuarial valuations of the Plan.
- **Reviewed and recommended** for approval by the Board Executive Committee the statement on investment policy and any changes proposed based on the reports from the Investment Manager and Actuary.

The Committee is satisfied that it has appropriately fulfilled its mandate for the year ended December 31, 2017.

Ian A. Jennings
Chairman
Pension Committee

Pictured L to R Seated:
Larry R. Gibson
Ian A. Jennings
Denise Turnquest

Pictured L to R Standing:
Osvon Pratt
William B. Sands, Jr.
Robert D. L. Sands

IT COMMITTEE REPORT

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

The Information Technology Committee provides independent oversight of significant management and Board of Director approved technology based platforms and the associated business applications to ensure they are developed in accordance with established system development guidelines, corporate governance standards and regulatory guidelines and are maintained and sustained in a cost effective, controlled and secure manner. The Committee is responsible for the oversight of the assessment of new technologies and their potential impact on the Bank and its operations.

Year in Review

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

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

- Ensured cost-benefit analyses are an integral part of the project development process.
- Reviewed on a quarterly basis, project development plans and progress to ensure progress being achieved parallels established performance objectives and project development plans.
- Ensured that post-implementation reviews are part of the project implementation process.

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

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

The Committee is satisfied that it has fulfilled its mandate for the year ended December 31, 2017.

R. Craig Symonette
Chairman
IT Committee

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 principles and objectives, changes to incentive programs, and the policies that govern the ongoing administration of all components of compensation.
- **Assessed** the performance of the Bank's Executive Chairman and President and reviewed the assessment with the Board of Directors; determined the Executive Chairman and President compensation in relation to the Bank's performance for the fiscal year.
- **Recommended** to the Board of Directors the appointment of Officers of The Bank.
- **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 for the year ended December 31, 2017.

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

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

AUDIT COMMITTEE REPORT

Pictured L to R:
Larry R. Gibson
Tracy E. Knowles
Earla J. Bethel
Marcus R. C. Bethel

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

Year In Review

The mandate 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, Insurance Commission of The Bahamas, Securities Commission of The Bahamas 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, adherence to new auditing standards and emerging best practices in response to changes in regulatory guidelines.
- **Reviewed** with management and the Bank's External Auditor: the appropriateness of the Bank's accounting and financial reporting, the impact of adopting new accounting standards, the accounting treatment of significant risks and uncertainties, the key estimates and judgments of management that were material to the Bank's financial reporting, and the disclosure of critical accounting policies.
- **Reviewed** Management's risk measurement measures for their appropriateness in relation to risk exposures and specifically the adequacy of the loan impairment allowance.
- **Reviewed and recommended** for approval by the Board: the Audited Consolidated Financial Statements, Management's Discussion and Analysis and unaudited financial releases on a quarterly basis. Also reviewed and recommended for approval by their respective Boards the annual financial statements of all subsidiaries.

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; compliance and litigation; 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.
- **Met** regularly with the Vice President Internal Audit as necessary without management present.
- **Reviewed** existing and proposed Guidelines issued by regulators and made recommendations to the Board to ensure compliance.
- **Reviewed** recommendations of the Bank's External Auditor and Regulators, as well as management's responses.

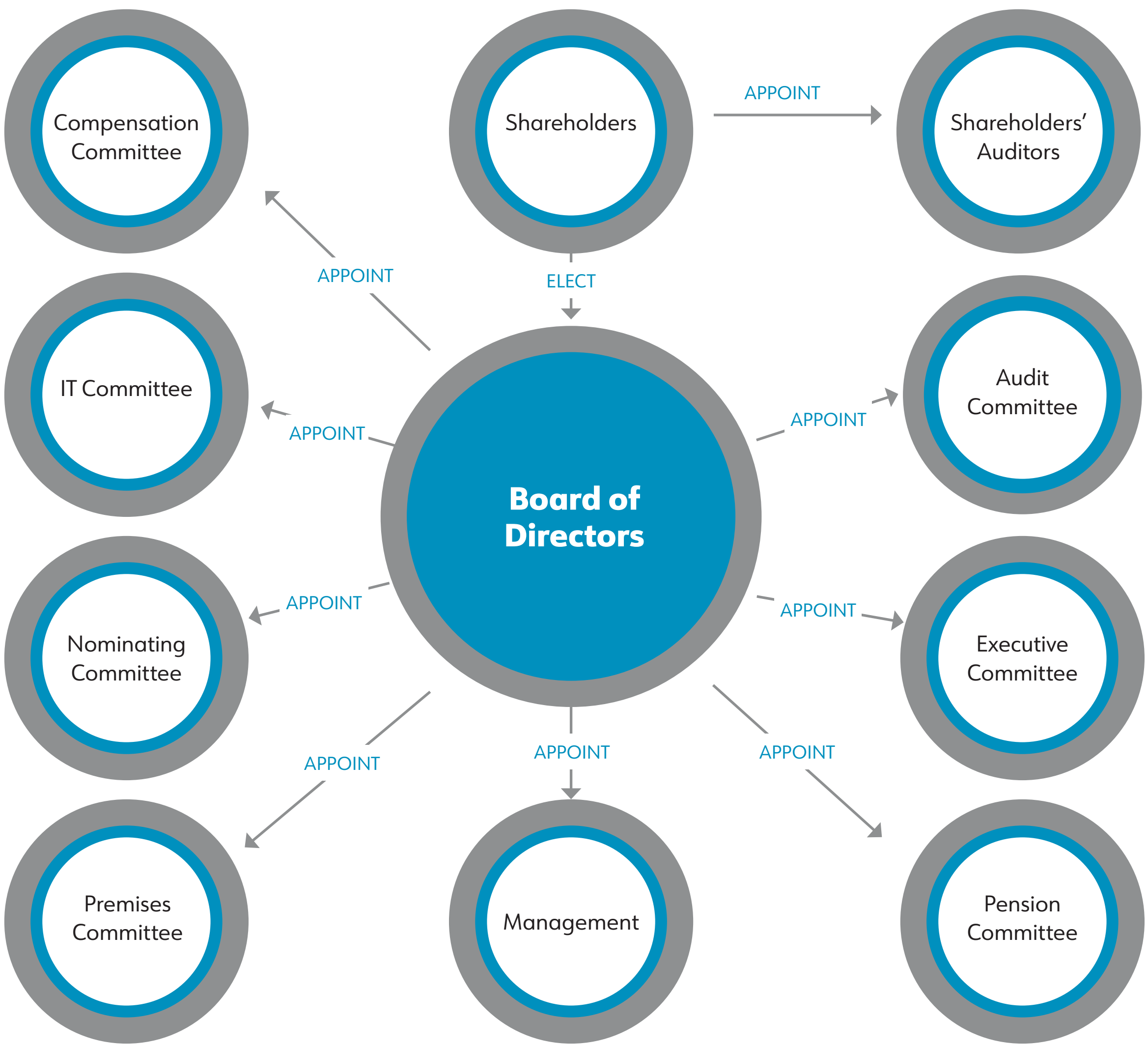
Bank's External Auditor

- **Recommended** that the incumbent auditor, PricewaterhouseCoopers be reappointed to perform the 2018 external audit.
- **Confirmed** that appropriate practices are being followed to safeguard the independence of the External Auditor.
- **Reviewed** the performance of the External Auditor, including the scope and results of the external audit, and communications to the Committee that are required under International Standards on Auditing.
- **Met** as necessary with the External Auditor.

The Committee is satisfied that it has appropriately fulfilled its mandate for the year ended December 31, 2017.

Tracy E. Knowles
Chairman
Audit 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.



Commonwealth Bank Corporate Governance Profile

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

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

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

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

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

CHARTER OF EXPECTATIONS

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

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

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

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

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

Strategic Planning Process
- Provide input to management on emerging trends and issues.
- Review and approve management's strategic plans.
- Review and approve the Bank's financial objectives, plans and actions, including significant capital allocations and expenditures.

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

Risk Assessment
- Identify and review, at least annually, the principal risks of the Bank's businesses and receive reasonable assurance on an ongoing basis that appropriate policies, procedures and systems are in place to manage these risks.
- Review the processes that ensure respect for any compliance with applicable regulatory, corporate and any other legal requirements.
- Review the processes and practices to ensure that prudent and effective policies are in place to identify, measure and monitor the Bank's cumulative positions in respect of its capital and liquidity management.

Senior Level Staffing
- Select, monitor, evaluate (including the Executive Chairman, President and other Senior Executives) and ensure that an effective management succession plan is in place and that the Bank's compensation plans are consistent with the sustainable achievement of the Bank's business objectives, the prudent management of its operations and the risks to which it is exposed, and adherence to its processes, policies procedures and controls;
- Remuneration: Performance-based remuneration is designed to relate some proportion of salary to individual performance. It may be in the form of cash or non-cash payments such as shares and share options.

Integrity
- Ensure the integrity of the Bank's process of control and management information systems.
- Ensure ethical behavior and compliance with laws and regulations, audit and accounting principles, and the Bank's own governing documents.

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

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

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

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

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

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

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

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

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

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

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

Registered Office
GTC Corporate Services Ltd.
P.O. Box SS-5383
Nassau, Bahamas

Principal Address
Commonwealth Bank Ltd.
Head Office
Commonwealth Bank Plaza,
Mackey St.
P.O. Box SS-5541
Nassau, Bahamas
Tel: (242) 502-6200
Fax: (242) 394-5807

Auditors
PricewaterhouseCoopers Bahamas
2 Bayside Executive Park,
West Bay Street & Blake Road,
P.O. Box N-3910,
Nassau, Bahamas
Tel: (242) 302-5300
Fax: (242) 302-5350
www.pwc.com/bs

Transfer Agent And Registrar
Bahamas Central Securities Depository
2nd Floor,
Fort Nassau Centre,
British Colonial Hilton,
Bay Street
P.O. Box EE-15672
Nassau, Bahamas
Tel: (242) 322-5573

Stock Exchange Listing
(Symbol: CBL)

Common Share Listing
Bahamas International Securities Exchange (BISX)

Internet Address
www.combankltd.com

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

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

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

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

Board of Directors

William B. Sands, Jr.
Executive Chairman
Commonwealth Bank Ltd.

Ian A. Jennings
President
Commonwealth Bank Ltd.

Earla J. Bethel
President
DanBrad Ltd.

Dr. Marcus R. C. Bethel
Consultant Internist & Administrator
Lucayan Medical Centre

Tracy E. Knowles
Retired Accountant

Larry R. Gibson
Vice President
Colonial Pension Services

Vaughn W. Higgs
VP & General Manager
Nassau Paper Co. Ltd.

Rupert W. Roberts, Jr., OBE
President
Super Value Food Stores Ltd.

Robert D. L. Sands
Sr. VP., Administration & External Affairs
Baha Mar Ltd.

R. Craig Symonette
Chairman
Bahamas Ferries Ltd.

Charlene A. Bosfield
Corporate Secretary
Commonwealth Bank Ltd.

LOCATIONS & SERVICES

LOCATIONS

New Providence

Head Office	502-6200
Commonwealth Bank Plaza	
Mackey St.	
P.O. Box SS-5541	
Branches	
Commonwealth Bank Plaza	
Mackey St.**	502-6100
Bay & Christie Sts.	322-1154
Oakes Field**	322-3474
Town Centre Mall	322-4107
Cable Beach*/**	327-8441
Wulff Road*/**	394-6469
Golden Gates*/**	461-1300
Prince Charles Drive*/**	364-9900
Grand Bahama	
The Mall Drive*/**	352-8307
Lucaya	373-9670
Abaco	
Marsh Harbour	367-2370
Eleuthera	
Spanish Wells	333-4800

* Drive through ABM Locations
** Saturday banking locations

Card Services Centre

Nassau	502-6150
Freeport	352-4428
Abaco	367-2370

Call Centre 502-6206

Saturday Banking
- Commonwealth Bank Plaza Branch
- Oakes Field Branch
- Cable Beach Branch
- Golden Gates Branch
- Wulff Road Branch
- Prince Charles Drive Branch
- Freeport, Mall Drive Branch

Off-Site ABM Locations

Nassau
- Super Value: Cable Beach, Winton, Golden Gates, Prince Charles Shopping Centre
- Quality Market South Beach
- University of The Bahamas, Harry C. Moore Library
- Kelly's Mall at Marathon

Freeport
- Freeport Airport
- Cost Right

Abaco
- Leonard M. Thompson International Airport
- Maxwell's Supermarket

Loans By Phone

Nassau	502-8412
Toll Free	225-8112

customerservice@combankltd.com
www.combankltd.com

SERVICES

Saturday Banking
Auto Loans
Personal Lending
Mortgage Financing
Real Estate Financing
Small Business Lending
Commercial Lending
Overdraft Facilities
Online Banking
Suncard Mastercard Credit Card
Mastercard Credit Card
Mastercard Prepaid Card
Mastercard Gift Card
Visa Debit Card
Savings Accounts
Christmas Club Savings
Student Savings Accounts
Kidz Club Savings Accounts
Automated Banking Machines
Foreign Exchange Services
Personal Chequing Accounts
Business Chequing Accounts
BTC Prepaid Cell Minutes
Certificates Of Deposit
Safe Deposit Boxes
Wire Transfers

COMMONWEALTH BANK