2018 ANNUAL REPORT

BUILDING ON OUR STRENGTHS

COMMONWEALTH BANK

BUILDING ON OUR STRENGTHS

As you turn the pages of this Annual Report, we hope you will feel a strong sense of pride in YOUR Bank, the bank owned by Bahamians, operated by Bahamians and committed to helping create a better Bahamas.

Over the years, Commonwealth Bank has built a solid foundation of financial stability and excellent customer service while being committed to build a stronger Bahamas. As part of this commitment, we have always looked to repay our loyal shareholders by sharing our success with them. We have done this through consistent payment of quarterly and extra-ordinary dividends and our frank and open Annual General Meetings of Shareholders.

The successful organization builds on its strengths and that is what Commonwealth Bank did in 2018. Our strengths are our products, our expertise and our people.

In 2018, we invested heavily in our IT infrastructure. Expanding on our strength in our Mastercard credit card, we added chip technology to give our customers a more secure purchase experience. By changing the processing platform, we set the stage for future integration into our online banking product, while we continue to offer 1% cash back on gold card purchases.

Our technology investment involved the significant upgrade to a new online banking platform to increase functionality and ease of access. This includes the launch of the Commonwealth Bank app for smart phones and tablets to enable banking anywhere and everywhere on a secure basis. The new platform allows customers to make transfers to and from accounts at Commonwealth Bank and, for the first time, to and from other banks. It also affords an extra layer of security by requiring a verification code when transferring funds to any account other than the customer's.

The massive transition was not without its hiccups and the Bank responded by extending its call centre hours during both weekdays and weekends, with extended daily and weekend hours. As our initial issues were resolved, customers could appreciate the improved product and functionality and understand that the Bank had moved forward in the services being delivered.

At the same time, we built on our strong customer service, continuing to invest in customer service training, appreciating that regardless of technological efficiency, the personal touch is still prized. We remind ourselves daily that a smile and a nod of appreciation are the visible signs of a satisfied client and it is that client who makes us the success story of Bahamian banking, returning profits for shareholders while maintaining powerful support for our community.

Our Saturday banking service continues to grow in popularity and demonstrates our commitment to serve our customers according to their priorities. Today six branches in New Providence and one in Grand Bahama offer full banking services every Saturday between 10 am and 1 pm.

Despite building on our strengths to serve customers, shareholders and team members, the strength that makes us proudest is how we serve the community. From helping with hurricane relief, providing comfort for the elderly and care for cancer patients, to providing technology for students in classrooms throughout The Bahamas, Commonwealth Bank has been and will always be there for the Bahamian good. We believe nothing is so important to the strength of the future of a nation than education and it is to that end that we turn our greatest community focus.

Over the past decade the Bank has donated more than $1.1 million to education. The Minister of Education, The Hon. Jeffrey Lloyd, called the relationship with Commonwealth Bank "the kind of partnership we celebrate and honour."

Commonwealth Bank has been able to expand its services, commit additional funds to training, emphasize good customer service and still achieve enviable financial results. Commonwealth Bank has existed for 58 years; we have made our mark on the Bahamian economy but we still look to build on the strong foundation to go from strength to strength.

OUR VISION, MISSION & CORE VALUES

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.

TABLE OF CONTENTS

STRATEGIC PRIORITIES

Core Values	2018 Strategic Priorities	2018 Initiatives and Accomplishments	2019 Strategic Priorities
Be responsible and effective financial managers	• 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 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 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.	• The Bank continues to review revenue to cost ratios of small markets.	• The Bank will be more focused on favourable operating revenue to cost ratios.
	• 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.	• Reduced loan origination impacted the optimization of the new credit life premium over the consumer loan portfolio. • The Bank has achieved good penetration of its debit card through the deposit base, enhancing revenue.	• Cross-selling of new and existing products and services will continue to be emphasized in 2019. The Bank will review its fee structure in 2019 based on current cost factors. • Efforts to expand the new credit life insurance product over more of the consumer loan portfolio will continue. • New features of the systems upgraded in 2018 will be promoted to customers.
	• The performance of the new COO and Credit Risk structure will be monitored in 2018 and resources adjusted where required to ensure the ongoing quality oversight of the Bank's credit risk process.	• Quality oversight of the credit risk process was maintained through 2018. The new COO structure performed to the Bank's satisfaction.	• Risk oversight will be enhanced in 2019 with the addition of an Enterprise Risk Department. • Resources in credit risk will be monitored to ensure they are adequate in providing 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.	• Efficiency and productivity levels remained robust. Efficiency ratios deteriorated in 2018, partially caused by the reduction in loan receivables, and the impact of regulatory changes on the Bank's oversight functions. Despite this, the Bank's performance exceeded last year's results.	• Efforts will continue to seek further cost-effective operational improvements in 2019. 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.	• We would encourage stakeholders and customers to review the Management and Discussion and Analysis comments which follow to better appreciate the breadth of transparency of financial information provided in this Annual Report.	• 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 2018, the Board will ensure that governance processes reflect increased regulatory oversight requirements.	• Board governance review was completed and the prescribed representation was prepared for the Board confirmation. No non-compliance issues were noted.	• In 2019, the Board will ensure that governance processes reflect increased regulatory oversight requirements.
	• Commitment to youth development and selected charities will continue in 2018.	• In 2018, the Bank continued its normal support for youth development and other charities.	• Commitment to youth development and selected charities will continue in 2019.
Provide meaningful opportunities for stakeholders to have input.	• Continue customer surveys to ensure that the Bank's products and services address market requirements in a cost-effective manner.	• Mobile banking and upgraded online banking products identified as product gaps by customers were introduced in 2018.	• 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 2018.	• In 2018, the succession plan was implemented for the retirement of the President. Progress continued in developing a fully integrated succession plan. The program is still under the oversight of Senior Executive management.	• A fully integrated succession plan will continue to be a significant objective in 2019.
	• The Bank will continue efforts to recruit an internal project leader.	• Efforts to recruit an internal project leader in 2018 were not successful. • The succession planning is dynamic in that as soon as one phase is implemented the planning recommences.	• 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.	• Specialized training and development programs continued in 2018. • Benefits of training courses are being assessed against the associated costs, and adjusted where they are deficient. • Salary and benefits plans continue to compare favorably with peers based on an independent market survey.	• 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.	• Emphasis on customer service training and oversight will continue into 2018 to ensure quality customer service continues to be delivered.	• Improvements in quality customer service were hindered by issues arising out of system upgrades in the second half of the year.	• Emphasis will be placed on addressing and correcting issues arising from system upgrades. 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.
	• Launch 'chip' enabled credit cards to the general customer base.	• International Mastercard chip cards were introduced in the third quarter of 2018.	• SunCard, Gift and Prepaid cards to be reviewed for chip and contactless enabling.
	• Introduce new online and mobile banking products.	• Online and mobile banking were introduced in the 4th quarter of 2018.	• In 2019, increased integration is planned for the Bank and Credit Card systems through the online/mobile platform.

FINANCIAL HIGHLIGHTS

(B$ 000's)	2018	2017 (Restated)	2016 (Restated)	2015 (Restated)	2014 (Restated)
Income Statement Data:					
Interest income	**$ 153,978**	$ 166,760	$ 168,128	$ 161,871	$ 153,213
Interest expense	**(19,505)**	(24,837)	(27,243)	(29,355)	(31,694)
Net interest income	**134,473**	141,923	140,885	132,516	121,519
Non-interest income	**19,108**	12,251	21,779	21,988	20,402
Impairment losses	**(27,693)**	(36,613)	(32,442)	(24,923)	(21,103)
Non-interest expenses (including impairment losses)	**(101,642)**	(103,040)	(105,184)	(96,489)	(88,597)
Total profit	**51,939**	51,134	57,480	58,015	53,324
Other comprehensive income	**(299)**	9,548	2,508	(2,073)	716
Total comprehensive income	**51,640**	60,682	59,988	55,942	54,040
Per Share Data:					
Book value	**$ 0.95**	$ 0.92	$ 0.85	$ 0.73	$ 0.71
Cash dividends	**$ 0.12**	$ 0.12	$ 0.12	$ 0.10	$ 0.10
Year end share price	**$ 4.50**	$ 4.90	$ 3.50	$ 2.61	$ 2.50
Average common shares outstanding (000's)	**291,546**	292,014	292,218	292,575	293,445
Dividend growth (total)	**0.00%**	0.00%	20.00%	0.00%	0.00%
Balance Sheet Data:					
Total assets	**$1,695,227**	$1,650,538	$1,610,943	$1,537,239	$1,475,872
Investments	**457,572**	404,841	309,702	324,808	278,472
Gross loans and advances to customers	**1,067,233**	1,131,169	1,195,753	1,139,503	1,115,280
Net write-offs	**30,193**	32,577	21,051	18,707	19,916
Total deposits from customers	**1,311,244**	1,274,262	1,240,505	1,181,646	1,148,790
Total shareholders' equity	**365,519**	355,686	335,052	316,060	296,216
Performance Ratios:					
Price/earnings	**$ 27.77**	$ 30.81	$ 19.53	$ 14.45	$ 15.25
Price/book value	**$ 4.74**	$ 5.34	$ 4.10	$ 3.58	$ 3.50
Dividend yield (annual dividend/year end price)	**2.67%**	2.45%	3.43%	3.83%	4.00%
Earnings per share	**$ 0.16**	$ 0.16	$ 0.18	$ 0.18	$ 0.16
Return on average assets	**2.80%**	2.82%	3.36%	3.53%	3.29%
Return on average shareholders' equity	**17.08%**	17.32%	20.99%	24.76%	22.95%
Dividend payout ratio	**74.08%**	75.44%	66.93%	55.27%	60.96%
Efficiency ratio	**48.15%**	43.09%	44.72%	46.32%	47.56%
Net interest margin	**7.69%**	8.34%	8.71%	8.49%	7.95%
Asset Quality Ratios:					
Impaired loans to total loans	**6.08%**	7.12%	5.92%	5.56%	5.83%
Impaired loans to total assets	**3.83%**	4.89%	4.40%	4.13%	4.41%
90 day past due loans to total loans	**5.13%**	4.80%	4.16%	3.93%	4.46%
90 day past due loans to total assets	**3.19%**	3.25%	3.03%	2.87%	3.37%
Net write-offs to average loans	**2.77%**	2.80%	1.84%	1.68%	1.81%
Loan impairment allowances to total loans	**7.01%**	6.82%	6.12%	5.49%	4.98%
Loan impairment allowances to non-accrual loans	**138.27%**	144.03%	150.05%	140.74%	111.69%
Loan impairment allowances to impaired loans	**115.31%**	95.87%	103.39%	97.45%	85.38%
Liquidity Ratios:					
Liquidity ratio	**47.01%**	39.13%	34.78%	34.70%	33.75%
Average cash and securities to average total assets	**35.79%**	29.54%	26.07%	26.43%	25.66%
Capital Ratios:					
Average shareholders' equity to average total assets	**21.23%**	21.24%	21.23%	19.67%	20.02%
Tier 1 capital	**$ 365,519**	$ 355,686	$ 335,052	$ 316,060	$ 296,216
Tier 2 capital	**$ 13,757**	$ 14,334	$ 14,763	$ 14,148	$ 13,824
Total capital	**$ 379,276**	$ 370,020	$ 349,815	$ 330,208	$ 310,040
Total risk adjusted assets	**$1,101,364**	$1,147,339	$1,181,518	$1,132,253	$1,106,276
Tier 1 ratio	**33.19%**	31.00%	28.36%	27.91%	26.78%
Tier 1 + Tier 2 Capital Ratio	**34.44%**	32.25%	29.61%	29.16%	28.03%
Average number of employees for the year	**586**	577	560	540	552

William B. Sands Jr, DM

Executive Chairman

EXECUTIVE CHAIRMAN'S REPORT

Commonwealth Bank is not just a financial institution where customers put money in and take money out. Simply said, our shareholders, stakeholders and customers do not feel they are just a number amongst others, but that they are Bahamians looking to build a financial future for themselves as well as contributing to the ongoing development and future of the Bahamas itself.

The Bank's history, since going public in 2000, reflects the Bank's philosophy of sharing its success with its shareholders and the community. It shares with shareholders by returning profits to them by way of dividends. Indeed in these economically challenging times, in 2018 the Bank increased the dividend payout ratio from a long term average of 65% of net income less preference share dividends to 75% of the same number. Total payout in 2018 exceeded $35 million to shareholders, an amount that stayed in The Bahamas. The Bank supports the communities it serves through its support of community activities, be they sporting, civic, charitable, educational or environmental.

Throughout 2018, Commonwealth Bank has been able to sustain its position as "the largest indigenous Bahamian Bank" while generating measurable and sound profitability in a safe and sound manner.

Commonwealth Bank remains a healthy, stable and growing Bahamian Bank. The achievements made since its inception more than 50 years ago are testament to the trust our customers put in us and to the employees who serve them. It is also a result of the structure and dedicated governance process through which the Bank is guided and governed.

The theme of our 2018 Annual Report, Building on Our Strengths, is a fundamental objective of all business and operational opportunities undertaken by the Bank.

What is Good Governance

As Executive Chairman of the Board, my principal objective continues to focus on the internal leadership of the Bank and overseeing 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 continue to add value to the ongoing stability and safety and soundness of the Bank. I have again greatly appreciated their ongoing support and guidance in 2018.

The required independent oversight processes are commonly referred to as Corporate Governance Standards and Procedures and have generally been defined as the minimum system of rules, practices and processes our financial institutions require to function in a safe and sound manner.

Corporate Governance essentially involves the balancing of oversight activities of a variety of stakeholders including but not limited to board members, shareholders, depositors, ever increasing regulatory oversight and their associated costs plus the needs of Bahamians at large.

Sound Corporate Governance tools and techniques are a major requirement of a safe and sound bank. The Bank is committed to following international "best practices" and other generally accepted risk management and control techniques that address the Bank's business model, values and established policies and procedures.

A Culture to Support the Future We Envision

The strength and ongoing commitment of our more than 590 staff have been an essential part of Commonwealth Bank's success. It has been their commitment and their dedication that contributed to the ability of the Bank to achieve and deliver on our strategic goals.

As our ongoing transformation efforts create an immense amount of change, we are committed to ensure that our culture evolves to support the strengths that will be required in order to address the business model planned by the Bank in the future.

We are taking purposeful steps to ensure our culture is fully aligned with our business model and growth strategy by helping us attract and retain the right talent to support their own expectations as well as add value to shareholders and other stakeholders. Critical to the success of any changes in the overall culture of the Bank will be the ability to link management job accountabilities with operational performance.

A Culture to Support the Changes of the Present

Our corporate culture must also adapt to changes of the present. For several years I have written about the importance of succession planning for the Bank. This planning was demonstrated in 2018 with the retirement of our President, Mr. Ian Jennings, and the appointment of our new president, Mr. Raymond Winder.

Going Forward – The Need for Further and Careful Transitioning Continues

The Central Bank, in its September report, has indicated there have been marginal but encouraging economic improvements in The Bahamas. For financial institutions specifically, credit quality has also marginally improved and liquidity throughout the system is strong.

Since 2008 financial institutions throughout the Caribbean and elsewhere have had to focus on retrenchment and credit risk issues as the economies of the associated market centers have not performed in a more positive or beneficial manner. This was a similar pattern that has existed in The Bahamas.

Final Comments

Commonwealth Bank is particularly well positioned to carefully support any constructive growth opportunities. Any plans for expansion will have to include an assessment of the ever-increasing costs of regulatory oversight and a considerable amount of time also dedicated to the refocusing of current products and services as well as knowledgeable resources. The growth potential must also be dependent on achieving "Responsible and Sustainable Growth".

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.

In closing, with caution, we look forward to the possible operational and monetary challenges going forward.

William B. Sands Jr, DM
Executive Chairman

> *A kind gesture can reach a wound that only compassion can heal.*
>
> *- Steve Maraboli*

At Commonwealth Bank, we feel strongly that a community presence is much more than just a branch or street address and much more than just a place of business. In addition to ensuring that we provide the best possible service, we seek opportunities to serve with our time and talents, to help build healthy, vibrant and sustainable communities and neighbourhoods where we live, work, and raise our families. Our commitment to community engagement is a core value and a strategic priority and we fulfill our philanthropic mission through sponsorship programs, volunteerism and donations to local organizations.

We believe service involves giving back and we realize that how we give matters as much as what we give. In fact, our employees donate hundreds of hours to community service every year! These volunteer efforts ensure that we are standing by our neighbours whenever, and however, they most need us...by serving as a mentor…making strides against breast cancer…collecting toys and clothes for needy children…serving food at a soup kitchen…the list goes on and on.

We embrace the diversity of our country's social needs, ideas and interests with our primary focus being enriching education opportunities for our youth and invigorating our diverse cultural life. We believe all Bahamians deserve the opportunity to dream, believe and achieve. For this reason we provide financial support through charitable donations to a broad range of initiatives including health and welfare, education and youth programs, arts and culture, sports and athletics, the environment and social contributions. We believe in the power of individuals coming together to make a positive difference through service and we are committed to helping the less fortunate and inspiring the next generation.

It truly is a privilege to serve our communities.

Commonwealth Bank Gives $30,000 to Flow CARIFTA 2018

CARIFTA, which was started in 1972 as an adjunct to the formation of CARICOM, brings all the countries of the region together helping to create bonds of commonality and friendship in the face of exciting competition. Sports is an important vehicle that contributes to national development. Participants learn discipline, team work, determination and how to compete fairly - all important lessons our people require to grow and succeed. In keeping with our commitment to education and the development of Bahamian youth, Commonwealth Bank was pleased to support this prestigious event as these games shine a spotlight on our athletes, our country and our commitment to excel.

Pictured L to R: **Eldece Clarke-Lewis,** former Olympian; **Gladys Fernander,** VP & CFO, Commonwealth Bank; **Rosamunde Carey,** Chief Executive Officer (CEO) of the CARIFTA Games Bahamas 2018 LOC; **Michael Pintard,** Minister of Youth, Sports & Culture; **Denise Turnquest,** Sr. VP & COO, Commonwealth Bank and **Pauline Davis-Thompson,** former Olympian

Commonwealth Bank Gives $150,000 to the Ministry of Education at Parenting Forum 2018

Commonwealth Bank's approach to Corporate Giving in 2018 focused on enriching educational opportunities for our youth, improving the lives of the underprivileged, building healthier communities and creating partnership for positive change. For the eleventh consecutive year, Commonwealth Bank has partnered with the Ministry of Education in preparation for the new school year. This year, as in past years, we are proud to be able to do our part to present back-to-school book bags packed with supplies to thousands of students across The Bahamas. We believe that every child, no matter how modest a background, deserves an equal chance in the classroom. Facing a class without the pencils you need or the required books is a challenge no child in The Bahamas should have to endure. Our nation's future depends on our young people and the education they receive. That is why we at Commonwealth Bank have invested over the years more than $2 million in education initiatives and education remains our number one outreach commitment.

Pictured L to R: **Nicola McKay,** Principal, C.R. Walker Senior High School; **Cherilyn Munnings,** Sr. Mistress, C.V. Bethel Senior High School; **Dr. Marcellus Taylor,** Director of Education; **Belinda Wilson,** President, Bahamas Union of Teachers; **The Hon. Jeffrey L. Lloyd,** Minister of Education; **Princess Fawkes,** Principal, C.V. Bethel Senior High School and **Davine Dawkins-Rolle,** VP, Internal Audit & Credit Inspection, Commonwealth Bank

- A.F. Adderley School
- Albury Sayle Primary School
- Americas' Central Securities Depository Association
- Bahamas Air Sea Rescue Association
- Bahamas Feeding Network
- Bahamas National Trust
- Bahamas National Youth Choir
- Bahamas Red Cross
- Bahamas Student of the Year Award
- Blairwood Academy
- Boys Club of The Bahamas
- British Legion Bahamas Branch
- Cancer Society of The Bahamas
- CARIFTA Bahamas 2018
- Ebenezer College
- Falcon Boys Club
- Fancy Dancers Junkanoo Group
- Fox Hill Festival Committee
- Global Research & Marketing Consultant
- Junkanoo Summer Festival
- Kevin Johnson Basketball Camp
- Kingdor National Parkinson Foundation
- Mount Olive Baptist Church
- Music Makers Junkanoo Group
- National Pan - Hellenic Council
- Outstanding Student Bahamas
- Police Sports & Welfare Fund
- REACH
- Redland Soldiers Junkanoo Group
- Ride for Hope
- Roots Junkanoo Group
- Rotaract Club of South East Nassau Central
- Rotary Club of South East Nassau
- Royal Bahamas Police Force Carmichael Division
- Royal Bahamas Police Force Eastern Division
- Royal Bahamas Police Force South Eastern Division
- Salvation Army
- Sandilands Rehabilitation Center
- Seahorse Institute
- Sir Victor Sassoon Heart Foundation
- Sister Sister Breast Cancer Support Group
- STRAW
- The Bahamas AIDS Foundation
- The Bahamas Children Emergency Hostel
- The Bahamas Down Syndrome Association
- The Bahamas Institute of Chartered Accountants
- The Bahamas National Drug Council
- The Bahamas Union of Teachers
- The Grand Bahama American Women's Club
- The National Family Island Regatta
- The National L.E.A.D. Institute
- The Poop Deck Eagles
- The Randimac Tigers Sporting Club
- The SAC Alumni Association
- The Swingers Junkanoo Group
- Training Centre for Disabled
- Unity House
- Western N.P. Primary District Office
- Wulff Road Police Station
- Youth Alive Ministries
- Youth Life International
- Z-Bandits Junkanoo & Community Organization

Congratulations

William B. Sands Jr, DM
Executive Chairman

The President, Board of Directors, Executive Management, Management & Staff of Commonwealth Bank Ltd. congratulate Mr. William B. Sands Jr, DM, Executive Chairman, Commonwealth Bank Ltd. as recipient of The National Honour, **Order of Distinction**, conferred on Monday, October 8, 2018 for exemplary service provided to The Bahamas.

"We are all better team members and better people because of the example Mr. Sands sets every day, never resting on what he achieved yesterday but searching for a way to improve tomorrow for everyone."

The Commonwealth Bank Family

Raymond L. Winder

President

Despite the peaks and valleys of the Bahamian economy which have existed since 2008, Commonwealth Bank has been a healthy and important financial partner of The Bahamas and for Bahamians at large.

For more than 50 years the Bank has emphasized and sustained a business model which has focused on developing and maintaining consumer and commercial products and services to meet the current and anticipated financial needs of Bahamians. Simply said:

- A key element of the Bank's mission is to create increasing value for our shareholders, stakeholders and our depositors and borrowers in order to assist them in achieving their financial goals and accountabilities;

- To ensure that the Bank's risk management system and the associated embedded control practices promote the making of sound business and financial decisions through a profitable balance of risk and reward attributes; and

- It has always been an objective to seek assurance that the deposits and investments placed with the Bank be invested, not only to ensure the safety and soundness of their funds but also, to assist customers and stakeholders with securing their own financial future.

The history of the Bank's sustained success is a testament to the trust our customers have placed with the Bank and to the employees who serve them. This strategy also focuses on embedded policies and procedures and a sound governance process.

The risk management culture has been described as:

" 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."

The aforementioned risk management approach applies to all new and enhanced credit and operational undertakings.

Summary of Financial Performance

As reported in 2017, many Bahamians continued to experience adversity despite the marginal economic growth of the economy, in general.

However, as noted, Commonwealth Bank was able to return to shareholders worthwhile profitability for its 58th consecutive year despite the less than dynamic economic environment, increased competition and ever-increasing regulatory and taxation costs.

The amount and quality of the generated earnings, supported by substantial liquidity, was also encouraging, as it reflects and enhances the Bank's overall safety and soundness position. It also provides for cost effective growth opportunities.

A by-product of increased profitability is the ability of the Bank to expand its capital base, sustain and expand its dividend policy and maintain its historical pattern of sharing its ongoing profitability with contributions to local social organizations - all of which were again accomplished in 2018.

In a recent publication, The Central Bank indicated that the Bahamian economy has been able to maintain its modest pace of growth and the results achieved in 2018 were better than the previous year. Credit quality, in general, has shown some systemic improvement with the exception being associated with short term delinquencies. On a positive note non-performing loans have been reduced.

The Central Bank has also indicated that the continued emphasis on the monitoring of industry wide credit risk will continue.

Key Elements of the Financial Results

Total profits for 2018 were $ 51.9 Million, marginally ahead of the profits recorded in 2017 of $ 51.1Million in 2017. Similarly, asset growth was limited with total assets reaching almost $1.7 billion in 2018. It was encouraging to note that there was no slippage in total assets, particularly in view of the enhanced oversight of asset quality and industry wide competitive pressures.

Profitability ratios are considered to be industry norms for comparisons of the performance of financial institutions. There are other factors that can offer similar measurement criteria and can aid in assessing the safety and soundness as well as the stability of a financial institution. These attributes include but are not limited to earnings per share (EPS), return on assets (ROA), return on shareholder's equity (ROE), net interest margin (NIM), operating efficiency (Efficiency), capital adequacy requirements (Regulatory Defined) and available liquidity. A further review of the financial and statistical data contained in this report will provide additional insight into the supporting strength of the Bank compared to other industry participants.

Control and Management of the Bank's Core Assets (The Loan Portfolio)

The quality, control and the ongoing timely oversight of the credit risk portfolio remains a critical component of the sustainable safety and soundness of the Bank. As at December 31, 2018 the loan portfolio amounted to almost 60% of the Bank's assets.

The Executive Team and Board of Directors of the Bank are accountable for defining the risk parameters and breadth of the loan portfolio. The Executive Team and Board also have an important role in the approval process and procedures 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 for non-consumer loans and a consumer loan scoring system to provide a level of consistent credit assessment criteria throughout the Bank. In addition, each lender is provided with a discretionary credit risk approval limit, which is product based. All assigned limits are subject to review at least annually and where required for particular operational requirements, established discretionary limits are adjusted to meet specific requirements.

Sharing Our Success

Since its inception 58 years ago, the Bank has always been cognizant of the need to share its success with less fortunate Bahamians and the charities that serve them, as well as agencies and educational facilities that encourage the development of young Bahamians.

PRESIDENT'S REPORT

During 2018 the Bank committed $500,000 to various charities and educational facilities.

Our Employees – A Critical Component of Our Success

The Executive Team and Board members have appreciated the efforts and ongoing support of the Bank's close to 600 employees. Without this ongoing support the Bank would not have been able to achieve the level of respect and success it has attained.

Commonwealth Bank has historically encouraged employee growth and expansion from within the Bank through dedicated internal development programs. This pattern of preference has over the years proven beneficial in sensitizing employees to meet the needs of the Bank's customers.

However, we continue to emphasize that past performance does not necessarily guarantee ongoing success. The Bank will continue to seek out its high potential employees that are capable of adapting to the ongoing technological, digitization and operational changes in order to keep pace with our customers' demands.

Effective succession planning at the executive, board and management level will have to continue to be coordinated and monitored in order that the Bank can maintain its leadership role within the financial services industry in The Bahamas. We believe that the Bank has the quality of staff that is capable of meeting the expected and required transitional issues.

Going Forward – Challenges and Potential Rewards

In a fast paced, uncertain and ever-changing regulatory and operational environment, we think it's more important than ever to stick to our well established and respected Vision, Mission and Values. This approach will continue to provide an anchor of stability and a guide for how we serve and measure our performance against the needs of our customers in a safe and sound manner. Nevertheless we also believe that the Bahamian financial services industry could be facing material changes should major foreign banks operating in The Bahamas decide to exit. Should such a situation occur we want the Bank to be prepared for possible growth opportunities.

The structure and the requirements of the current long-standing and respected regulatory environment will likely require further significant attention in 2019. Regulatory costs are expected to further increase and we will continue to reinforce to the Central Bank the value of our industry to businesses and customers alike.

Further emphasis will be placed on advanced technologically based activities and services to ensure our customers and operational requirements remain at levels that provide appropriate security and operational effectiveness.

Throughout any transition process our emphasis will continue to be directed at ensuring the ongoing safety and soundness of the Bank.

Raymond L. Winder

Raymond L. Winder
President

Thank You & Farewell

Ian Jennings
Immediate Past President

Mr. Jennings joined the Bank in 1984 as Financial Controller, shortly after the Bank became fully 100% Bahamian owned. As the Bank grew, Mr. Jennings rose up the organization becoming Group Financial Controller, Vice President and then Senior Vice President and CFO. Mr. Jennings has served as President of the Bank since January 1, 2011, and a Director since 1997.

Mr. Jennings has been Chairman of the Clearing Banks Association for the last two years, demitting office on June 30th 2018. He was also Chairman of the Bahamas Automated Clearing House (BACH) in 2015 – 2016 and has been a Director since 2011.

He was recognized as Boss of the Year in 2000, Bahamas Financial Services Board (BFSB) Executive of the Year in 2016 and received a lifetime award from The Bahamas Institute of Chartered Accountants (BICA) recognizing his contribution to accounting in 2011.

Mr. Jennings leaves Commonwealth Bank as a leading financial institution with $1.6 billion in assets, posting annual earnings in the order of $50 million per annum and the largest listed company on Bahamas International Securities Exchange (BISX) by market capitalization.

Mr. Jennings has served as Treasurer of Great Commission Ministries for over 15 years and is a member of Bahamas Faith Ministries. He recently celebrated 31 years of marriage with his wife Janet. They have two sons, Samuel and Daniel, who are pursuing their education in the UK.

Mr. President, We Wish You a Long, Happy and Healthy Retirement.

OUR CHAMPIONS

> *Champions are made from something they have deep inside of them - a desire, a dream, a vision.*
>
> *- Mahatma Gandhi*

Champions

Pictured L to R: **Marilyn Clarke,** Assistant Manager, Operations - Marsh Harbour Branch; **Latonia Baker,** Assistant Manager, Operations - Golden Gates Branch; **Silbert Cooper,** Vice President, Credit Risk; **Frederick Callender,** Assistant Manager, Credit - CB Plaza Branch and **Jacqueline Minnis,** Assistant Manager, Credit - Freeport, Lucaya Branch

Fellow of BIFS

Pictured L to R: **Katherine Hamilton,** Corporate Learning Centre Manager, Fellow of The Bahamas Institute of Financial Services and **The Hon. Brent Symonette,** Minister of Financial Services, Trade and Industry and Immigration

Commonwealth Bank is a Great Place to Work!

One of the many distinguishing factors that sets 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. 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. 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.

Management Discussion and Analysis

This Management 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, 2018, 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 Discussion and Analysis should be read carefully together with our Consolidated Financial Statements and related Notes. This Management Discussion and Analysis is dated March 21, 2019. All amounts reported are based on financial statements prepared in accordance with International Financial Reporting Standards.

The Bank's President and VP & CFO 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

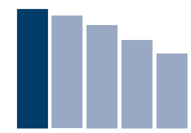
With total assets of $1.7 billion, Commonwealth Bank had a market capitalization of $1.3 billion at December 31, 2018. The Bank remains focused on being the complete personal banker for Bahamians and continues to be the industry leader capturing approximately 36% of the consumer loans market at the end of 2018.

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 financial 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 2018, the Bank posted profits of $51.9 million which represented an increase of $0.8 million or 1.6% from the prior year. There are two main factors that contributed to the increase in profit. Firstly, the Bank's impairment losses declined by 24% compared to the prior year. Secondly, there was a decline in interest expense which was brought about as deposit interest rates were lowered during the year to be more in line with market rates.

Return on assets (ROA) was 2.8% and was virtually unchanged from 2017. Return on equity (ROE) was 17.1% compared to 17.3% in 2017. Earnings per share (EPS) was unchanged from 2017 at $0.16.



TOTAL ASSETS

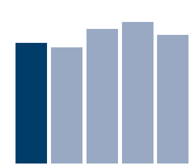
$1.7

BILLION

TOTAL DIVIDENDS PAID

$39.7

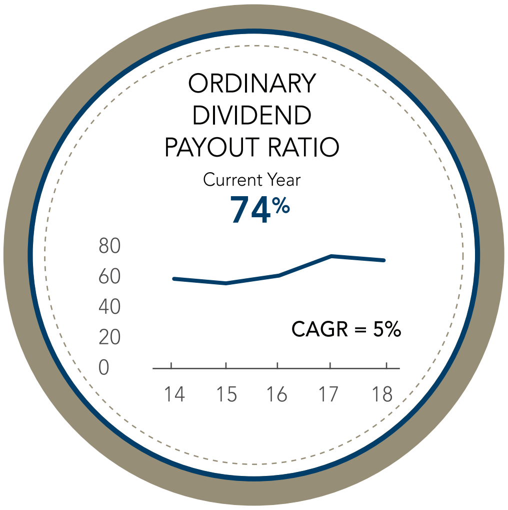
MILLION



TOTAL PROFITS

$51.9

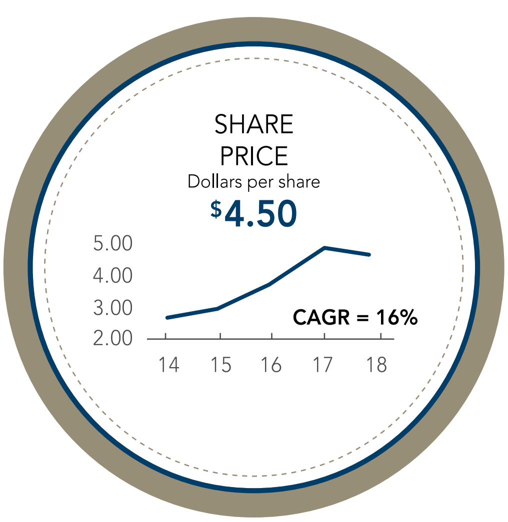
MILLION



NET INTEREST INCOME

$134

MILLION



Capital and liquidity ratios continued to be extremely strong and well above regulatory requirements.

The Bank continued its historical pattern of dividend distribution to shareholders as it paid out total dividends of $35 million in 2018 to the Bank's common shareholders and $4.7 million to preference shareholders. Dividends paid on common shares totaled approximately 74% of net income after preference share dividends in 2018.

Adoption of New Accounting Standard - IFRS 9 (Financial Instruments)

The Bank adopted IFRS 9 Financial Instruments effective January 1, 2018. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As part of the response to the last financial crisis of 2008, the International Accounting Standards Board issued IFRS 9 in an effort to resolve the weaknesses of the previous standard IAS 39. Under IAS 39, the incurred loss model resulted in credit loss recognition that was "too little, too late." Under IFRS 9, impairment allowances are recognised based on what the 'expected' loss on a financial asset will be rather than based on actual evidence of impairment. Under the new model, losses will be recognised earlier than under the previous standard.

The adoption of IFRS 9 resulted in changes in the Bank's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and impairment allowances for the current period.

The impact of the transition to IFRS 9 on retained earnings and impairment allowances is disclosed in the consolidated statement of changes in equity and Notes 2 and 9.

Restatement of Prior Years' Consolidated Financial Statements

While preparing the consolidated financial statements of the Group for the year ended December 31, 2018 management noted that it had failed to account for its holdings of Class B Common Shares in Mastercard Incorporated International ("Mastercard") as a financial asset at fair value through profit and loss since being issued the shares in 2006.

These shares were received when Mastercard went public in 2006. Prior to its initial public offering, Mastercard was a cooperative owned by financial institutions that issued its branded cards. Upon going public, Mastercard issued the Class B common shares to members of the cooperative.

More information regarding the impact of the restatement on the Group's consolidated financial statements is included in Note 25.

Net Interest Income

The Bank's net interest income was $134 million compared to $142 million in 2017. This represents a decrease of 5.2%. Interest income for 2018 decreased by 7.7% while interest expense decreased by 21.5% due to reduction in interest rates. The decline in interest income was due to shrinkage of the loan portfolio which resulted from the Bank strengthening its lending policies, a less than robust economy and increasing competition in the market. Despite the challenges relative to the loan portfolio, the Bank was still able to surpass the prior year's profit as discussed earlier.

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. Once one or more default events have occurred resulting in an adverse effect on the estimated future cash flows, the Bank identifies these accounts as credit-impaired. Accordingly, full lifetime expected credit losses are recognised.

The Bank's total allowance for loan impairment was $74.8 million which represented 7% of total loans (2017: $77.2 million and 6.8%). Total impaired loans was $64.8 million, of which $45 million or 69% were secured mortgages and business loans.

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 9.34% compared to 14.26% for the industry. Similarly, the Bank's nonperforming loan ratio was 5.13% compared to 9.10% for the industry.

Non-interest Income

The presentation for non-interest income has been modified from the prior year to disaggregate the amount relating to the credit life insurance business. Additionally, late fees on loans receivable were previously included in interest income but are now included in other income. The prior year's financial statements were adjusted accordingly. These changes were made for disclosure purposes only and had no impact on the Bank's profit.

Total non-interest income was $19.1 million compared to $12.3 million in the prior year. This represents an increase of 56%. The largest single contributor to this increase was the increase in credit life insurance premiums, net. Credit life insurance premiums, net represent premiums received relative to policies held by customers reduced by refunds on policies that have been cancelled. The premiums on the credit life insurance product have begun to steadily increase after the Bank discontinued charging premiums on a single, upfront basis and began charging premiums on a monthly basis. The modified credit life insurance product which was introduced in 2017 offers customers greater protection in the event of death prior to their loans being satisfied. As existing customers rewrite loans and as new customers are on-boarded, gross premiums will continue to increase accordingly.

Non-interest Expense

Total non-interest expense, inclusive of impairment losses was $102 million compared to $103 million in 2017, a decrease of 1.4%. The driving factor for the decrease was a reduction in impairment losses by 24% falling to $27.7 million from $36.6 million which was discussed earlier in this report. The reduction in impairment losses was offset by a reduction in the credit recognised relative to the change in insurance reserves. In the prior year, the Group recognised a credit to non-interest expense of $7.7 million compared to a credit of $2.6 million in the current year.

It is the Bank's policy to write off personal loans and credit cards once they become 180 days or more contractually past due. Total write-offs for the Bank declined by 4.6% to $42.9 million.

Sustained focus by the Bank on the recovery on written-off loans resulted in $12.6 million in recoveries compared to $12.4 million in 2017.

Staff costs, the largest single expense of the Bank increased by 4.8% to $39.6 million from $37.8 million in 2017. This is an indication of the Bank's commitment to its employees and its aim to attract and retain the best talent to ensure that service to our customers and other stakeholders is maintained at an exceptional level. Towards this end, management and staff at all levels participated in various training and development programs which will continue in 2019.

Management of Financial Position

Total assets at the end of the year were $1.7 billion increasing by 2.7% from 2017. Loans and advances to customers accounted for 59% of the Bank's assets and amounted to approximately $1 billion, a contraction of $61.5 million. As previously discussed, the contraction in the loan portfolio is a result of the strengthening 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 accounted for 73% of the Bank's credit portfolio and totaled $777 million as at year-end. This represents a decrease of $62.9 million (-7.5%) compared to the previous year.

The Bank's mortgage portfolio recorded a decline of $10.5 million (-5%). Mortgage balances at the end of the year were $200.8 million compared to $211.2 million at December 31, 2017. At December 31, 2018 the mortgage portfolio made up approximately 18.8% of the total loan portfolio (2017: 18.7%).

Although there was a decline in the Bank's credit portfolio during the year, the Bank remains focused on ensuring that the growth in new credit comes as a result of good quality loans. This continues to be a challenge given the current economic environment and fierce market competition. To this end the Bank continues to review and strengthen its lending criteria and practices.

The business loan portfolio was $29.6 million or 2.8% of the loan portfolio (2017: 2.8%), a decline of $1.7 million, (-5.4%) from the $31.3 million in the previous year.

Credit card loans were $36.8 million, a decrease of $1.4 million or 3.8% below 2017.

Total deposits from customers closed at $1.3 billion an increase of 2.9% since December 31, 2017. The Bank's certificates of deposits (CDs) declined by $40.6 million (-4.9%) while demand deposits and savings accounts grew by $20.7 million and $57 million (13.2% and 20%), respectively. This conversion of higher yield CDs to lower yield deposits as well as generally declining CD interest rates resulted in the Bank recognising reduced interest expense despite the increase in overall deposit balances.

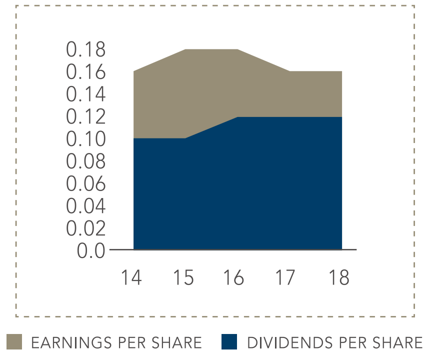
The Components of Capital

A strong capital base is a foundation for building and expanding the Bank's operations and services in a safe and sound manner.

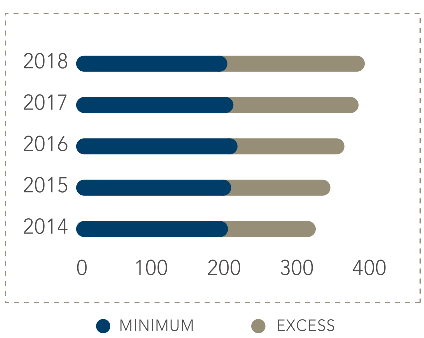
The Bank's total capital increased $9.3 million in 2018 to $379 million (2017: $370 million) and encompasses two parts:

- Tier 1 Capital, which consists primarily of common and preference shareholders' equity, totaled $365.5 million, which was above December 31, 2017 Tier 1 capital of $355.7 million by 2.8%.

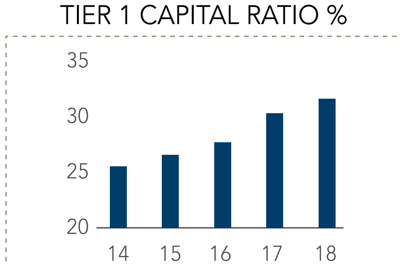
EARNINGS PER SHARE
and
DIVIDENDS PER SHARE



REGULATORY CAPITAL



TIER 1 CAPITAL RATIO %



- Tier 2 Capital consists of impairment allowances up to a maximum of 1.25% of risk adjusted assets and cannot exceed Tier 1 Capital. The Bank had $13.8 million in capital associated with impairment allowances (2017: $14.3 million) which is the maximum allowed per Central Bank guidelines.

During the year, the Bank purchased 499,575 of its shares for $2 million (2017: 93,654 shares for $0.3 million) through its wholly-owned subsidiary C.B. Securities. At December 31, 2018, 3,806,184 (2017: 3,306,609) shares were held by the subsidiary with a value of $17.1 million. (2017: $16.3 million). The purchase of shares from the market was pre-approved by The Central Bank of The Bahamas.

The Bank's total capital ratio was 34% (2017: 32%). 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 100% (2017: 88.2%).

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 report.

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 2018 amounted to $135 million or 12.7% of the portfolio (2017: $139 million or 12.3%), a decrease of $3.8 million. In 2019 the Bank will continue its efforts to reduce restructured loans by rewriting or partially rewriting loans based on the customer's ability to service the loan or by ultimately charging off loans where the prospects of recovery are low.

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 2018, 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 35.8% at December 31, 2018, above 2017 by 630 basis points. With a liquidity ratio of 47%, the Bank's liquidity levels continue to far exceed the minimum level of 20% prescribed by The Central Bank of The Bahamas.

Outlook for 2019

In its most recent visit to the Bahamas which concluded in December 2018, the International Monetary Fund (IMF) noted that the Bahamian economy continues to recover, with real GDP growth projected to reach 2.3% for 2018 and 2.1% in 2019. The IMF further explained that growth in GDP is being driven by an increase in tourist arrivals, paired with an expansion of hotel room and airlift capacity, and against the backdrop of the continued expansion of the U.S. economy. Additionally, the IMF noted that sustained growth required the maintenance of strong fiscal and financial policies to bolster the Bahamian economy's resilience and build buffers should external conditions become less favorable, and advancing reforms to achieve more inclusive growth over the medium term.

Based on the foregoing, the Bank remains cautiously optimistic regarding the country's economic prospects for 2019.

In order for the Bank to generate the best possible returns for its shareholders in 2019, it will continually review its business strategies against both external and internal factors for the short and medium terms to ensure that its objectives remain financially viable.

In 2019 the Group expects to redeem its outstanding preference shares in an effort to maximise returns to common shareholders. The total amount of preference shares outstanding is $81.5 million.

For 2019 our strategic objectives will be focused on sustaining a strong and vibrant bank. The Bank will continue to focus on its strengths and the needs of its customers. Our credit assessment criteria will continue to be directed at maintaining and sustaining a strong and robust credit portfolio.

The Bank will continue to closely monitor internal and external dependencies in an effort to direct its marketing and operational thrust to areas that will provide the most value for the efforts expended. The Bank believes that despite the challenging environment in which it operates there remains good opportunities for controlled and profitable growth.

Seated L to R:

Raymond L. Winder | *President*

Rupert W. Roberts Jr, OBE

Standing L to R:

Dr. Marcus R. C. Bethel

Tracy E. Knowles

Robert. D. L. Sands

BOARD OF DIRECTORS

Seated L to R:

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

R. Craig Symonette

Standing L to R:

Larry R. Gibson

Earla J. Bethel

Vaughn W. Higgs

EXECUTIVE TEAM

Pictured L to R:

Maxwell Jones | *VP Accounts Control & Recovery*

Davine Dawkins-Rolle | *VP Internal Audit & Credit Inspection*

Charles Knowles | *VP & CIO*

Gladys Fernander | *VP & CFO*

Silbert Cooper | *VP Credit Risk*

Denise Turnquest | *Sr. VP & COO*

Claudia Rolle | *VP Human Resources & Training*

Raymond Winder | *President*

Carole Rodgers | *VP Operations*

ASSISTANT VICE **PRESIDENTS**

Pictured L to R:

Juliette Fraser | *AVP Operations*

Oswald Dean | *AVP Information Technology*

Kershala Albury | *AVP Finance*

Tameka Cooke | *AVP Human Resources*

Franklyn Thomas | *AVP Credit Risk*

BRANCH **MANAGERS**

Pictured L to R:

Matthew Sawyer | *Manager, Marsh Harbour*

Daria Bain | *Manager, Golden Gates*

Perry Thompson | *Manager, Prince Charles Drive*

Monique Mason | *Manager, Card Services Centre*

Charlene Low | *Manager, Freeport*

Edward Virgil | *Manager, East Bay Street*

Branson Gibson | *Manager, Oakes Field*

Demetri Bowe | *Sr. Manager, CB Plaza*

Kayla Darville | *Manager, Mortgage Centre*

Darlene Gibson | *Manager, Lucaya*

Stephen Johnson | *Manager, Town Centre Mall*

Marcus Cleare | *Manager, Wulff Road*

Chantal Palacious | *Manager, Cable Beach*

DEPARTMENT **MANAGERS**

Pictured L to R:

Kendra Culmer | *Sr. Manager, Internal Audit*

Keshala Knowles | *Recruitment*

Jevone Ferguson | *Information Security*

Tariq O'Brien | *Administration*

Rekell Griffin | *Business Development*

Rochelle Wilkinson | *Commercial Lending & Private Wealth*

Katherine Hamilton | *Training*

Frienderick Dean | *Sr. Manager, Accounts Control*

Cindy Curtis | *Head of Compliance*

Lernix Williams | *Accounts Control*

Omar Henfield | *Physical Security*

Gina Greene | *Sr. Manager, Marketing & Customer Care*

Jasmin Strachan | *Sr. Manager, Shared Services*

Lavado Butler | *Sr. Manager, Credit Inspection*

Lynda Burrows | *Sr. Manager, IT*

Rawson Minnis | *IT Production*

Felipe Vega | *IT Projects*

Wellington Hepburn | *Sr. Manager, Training & Development*

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.

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 include written communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and sound and conservative accounting policies which we regularly update. This structure ensures appropriate internal control over transactions, assets and records.

We also regularly audit internal controls. These controls and audits are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements.

In order to provide their opinion on our Consolidated Financial Statements, the Shareholders' Auditors review our system of internal 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.

Raymond L. Winder

Raymond L. Winder
President

Gladys F. Fernander
VP & CFO

KPMG
P.O. Box N-123
Montague Sterling Centre
East Bay Street
Nassau, Bahamas

Telephone +1 242 393 2007
Fax: +1 242 393 1772
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To the Shareholders of Commonwealth Bank Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Commonwealth Bank Limited and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes, including significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - comparative information

We draw attention to Note 25 to the consolidated financial statements which indicates that the comparative information presented as at and for ·the year ended December 31, 2017 has been restated. Our opinion is not modified in respect of this matter.

Other Matter relating to comparative information

The consolidated financial statements of the Group as at and for the years ended December 31, 2017 and December 31, 2016 (from which the statement of financial position as at January 1, 2017 has been derived), excluding the adjustments described in Note 25 to the consolidated financial statements were audited by other auditors who expressed unmodified opinions on those financial statements on April 30, 2018 and March 6, 2017, respectively.

As part of our audit of the consolidated financial statements as at and for the year ended December 31, 2018, we audited the adjustments described in Note 25 that were applied to restate the comparative information presented as at and for the year ended December 31, 2017 and the statement of financial position as at January 1, 2017. We were not engaged to audit, review, or apply any procedures to the consolidated financial statements for the years ended December 31, 2017 or December 31, 2016 (not presented herein) or to the consolidated statement of financial position as at January 1, 2017, other than with respect to the adjustments described in Note 25 to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Note 25 are appropriate and have been properly applied.

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.

Application of IFRS 9 in the calculation of impairment of Loans and advances to customers ("Loans") (See Notes 2c, 2n, 9 and 24)

The Risk	Our Response
On January 1, 2018 a new accounting standard for financial instruments ("IFRS 9") became effective, which requires impairment to be calculated based on expected credit losses ("ECLs"), rather than the incurred loss model previously applied under IAS 39. As at December 31, 2018, Loans comprise a major portion of the Group's assets, with total gross Loans amounting to $1.067 billion and the related impairment allowance amounting to $74.8 million. Impairment of Loans was considered to be a key audit area primarily for the following reasons: • IFRS 9 is a new and complex accounting standard which requires significant judgment to determine both the timing and measurement of impairment losses. • The determination of expected credit loss allowances is highly subjective and judgemental. Small changes in key assumptions may result in material differences in the Group's consolidated financial statements. Key judgments and estimates in respect of the timing and measurement of ECLs include: - The interpretation of the requirements to determine impairment under IFRS 9, which are reflected in the Group's ECL model; - The identification of exposures with a significant deterioration in credit quality; - The allocation of Loans to stages 1, 2 and 3 using criteria in accordance with IFRS 9; - Modelling assumptions used to build the ECL model; - Completeness and accuracy of data used to calculate the ECL; and - Accuracy and adequacy of related financial statement disclosures.	In assessing the impairment losses on Loans, we performed the following procedures: • Obtained an overall understanding of the Group's methodology to determine the impairment allowance under the newly implemented IFRS 9. • Obtained an understanding of the Group's key credit processes and related controls, including granting, recording, monitoring and ECL provisioning. • Assessed and tested key modelling assumptions used in the ECL model used by management to calculate the impairment allowance; • Involved our internal specialists in testing the assumptions, inputs and formulas used in the ECL model. This included assessing the model's arithmetic accuracy and consistency with the requirements of IFRS 9. • Tested the completeness and accuracy of key data inputs sourced from underlying systems that are applied in the calculation of the impairment allowance. We tested the reconciliation of Loans between the underlying source systems and the ECL models. • Recalculated the risk ratings for a sample of Loans to assess if they were appropriately allocated to the relevant stage, (i.e. stages 1, 2 and 3). • As IFRS 9 was adopted at the start of the 2018 fiscal year, we evaluated related opening balances to gain assurance on the transition to IFRS 9. This included testing related adjustments and disclosures made on the transition in compliance with IFRSs.

Assumptions used in the valuation of the pension obligation (See notes 2(j), 3(b) and 22)

The Risk	Our Response
Other assets in the consolidated statement of financial position as at December 31, 2018, includes a net defined benefit asset of $4.627 million, pertaining to the Defined Benefit Provision relating to the pension plan operated by the Group, consisting of the excess of the fair value of the plan assets over the present value of the related obligation. The obligation from the defined benefit pension plan is measured in accordance with the projected credit unit method as required by IAS 19 with related key assumptions including long term salary growths, discount rates, increase in pensionable earnings, increase in employee contributions, post retirement pension increases, mortality rate and withdrawal rate. This is considered to be a key audit area because the pension obligation is based on management's subjective assumptions. Small changes in the key assumptions may result in material differences in the pension obligation and consequently, the net defined benefit assel or liability.	In assessing this key audit area, we performed the following procedures: • Obtained an understanding of the defined benefit plan by reviewing related contractual documents. • On a sample basis, tested existence of members and the accuracy of attributes of those members in the pension plan. • Assessed and evaluated the independence and competency of the actuary used by management to calculate the defined benefit obligation. • Involved our internal specialist in evaluating the actuary's report, appropriateness of the valuation methodology and key assumptions used for consistency with IAS 19. • Tested completeness and accuracy of numerical inputs used in estimating the pension obligation.

Other information

Management is responsible for the other information. The other information comprises the information to be included in the Group's annual report (but does not include the consolidated financial statements and our auditors' report thereon).

Our opinion on the consolidated financial statements does not cover 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 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, 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 IFRS, 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.

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 skepticism 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.

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 John Lopez.

KPMG

Nassau, Bahamas
March 22, 2019

OLIVER WYMAN

Certification

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.

I have examined the financial position, and valued the policy liabilities for its balance sheet as at December 31, 2018, and the corresponding change in the policy liabilities in the income statement for the year then ended.

In my opinion

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

Leslie P. Rehbeli
Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries
Member of American Academy of Actuaries
January 31, 2019

COMMONWEALTH BANK LIMITED

CONSOLIDATED STATEMENT OF **FINANCIAL POSITION**

Year Ended December 31, 2018, with corresponding figures as of December 31, 2017 and January 1, 2017 *(Expressed in Bahamian $'000s)*

		2018		2017 (Restated)		January 1, 2017 (Restated)
ASSETS						
Cash and deposits with banks (Notes 5 and 7)	$	34,010	$	30,611	$	31,764
Balances with The Central Bank of The Bahamas (Notes 5 and 7)		147,772		98,288		93,558
Investments (Notes 5, 8 and 25)		457,572		404,841		309,702
Loans and advances to customers (Notes 5, 9 and 21)		992,418		1,053,969		1,122,589
Other assets (Note 10)		15,961		18,011		7,316
Premises and equipment (Notes 6 and 11)		47,494		44,818		46,014
TOTAL ASSETS (Note 6)	$	1,695,227	$	1,650,538	$	1,610,943
LIABILITIES AND EQUITY						
LIABILITIES:						
Deposits from customers (Notes 5, 12 and 21)	$	1,311,244	$	1,274,262	$	1,240,505
Life insurance fund liability (Note 13)		2,951		5,599		13,268
Other liabilities (Notes 14 and 21)		15,513		14,991		22,118
Total liabilities (Note 6)		1,329,708		1,294,852		1,275,891
EQUITY:						
Share capital (Note 15)		83,441		83,444		83,445
Share premium (Note 15)		17,198		19,195		19,516
General reserve (Note 17)		10,500		10,500		10,500
Retained earnings		254,380		242,547		221,591
Total equity		365,519		355,686		335,052
TOTAL LIABILITIES & EQUITY	$	1,695,227	$	1,650,538$		1,610,943

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

These consolidated financial statements were approved by the Directors on March 22, 2019, and are signed on its behalf by:

Executive Chairman

President

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year Ended December 31, 2018, with corresponding figures for 2017 *(Expressed in Bahamian $'000s)*

	2018	2017 (Restated)
INCOME		
Interest income, effective interest rate method (Notes 5 and 21)	$ 153,978	$ 166,760
Interest expense (Notes 5,6 and 21)	(19,505)	(24,837)
Net interest income	134,473	141,923
Credit life insurance premiums, net	2,423	(3,007)
Fees and other income (Notes 5 and 19)	15,865	14,200
Unrealised gains on equity investment (Notes 5 and 25)	820	1,058
Total income (Note 6)	153,581	154,174
NON-INTEREST EXPENSE		
General and administrative (Notes 20, 21 and 22)	71,078	68,881
Impairment losses (Note 9)	27,693	36,613
Insurance claims incurred (Note 13)	2,089	1,615
Change in insurance reserves (Note 13)	(2,648)	(7,669)
Depreciation and amortization (Notes 6 and 11)	3,157	3,339
Directors' fees	273	261
Total non-interest expense	101,642	103,040
TOTAL PROFIT (Note 6 and 16)	51,939	51,134
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement (loss) gain of defined benefit obligation (Note 22)	(299)	9,548
TOTAL COMPREHENSIVE INCOME	$ 51,640	$ 60,682
BASIC AND DILUTED EARNINGS PER COMMON SHARE (expressed in dollars) (Note 16)	$ 0.16	$ 0.16

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

COMMONWEALTH BANK LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2018, with corresponding figures for 2017 *(Expressed in Bahamian $'000s)*

	2018					
	Share Capital (Common)	Share Capital (Preference)	Share Premium	General Reserve	Retained Earnings	Total
As at December 31, 2017 - Restated (Note 25)	$ 1,946	$ 81,498	$ 19,195	$ 10,500	$ 242,547	$ 355,686
IFRS 9 transition adjustment (Notes 2 and 9)	-	-	-	-	(115)	(115)
As at January 1, 2018 - Restated	$ 1,946	$ 81,498	$ 19,195	$ 10,500	$ 242,432	$ 355,571
Comprehensive Income						
Total profit					51,939	51,939
Remeasurement gain of defined benefit obligation	-	-	-	-	(299)	(299)
	-	-	-	-	51,640	51,640
Transaction with owners						
Repurchase of common shares	(3)		(1,997)			(2,000)
Dividends - common shares (Note 15)					(35,000)	(35,000)
Dividends - preference shares (Note 16)	-	-	-	-	(4,692)	(4,692)
	(3)	-	(1,997)	-	(39,692)	(41,692)
As at December 31, 2018	$ 1,943	$ 81,498	$ 17,198	$ 10,500	$ 254,380	$ 365,519
Dividends per common share (expressed in dollars)	**$ 0.12**					

	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
Restatement adjustment (Note 25)	-	-	-	-	2,195	2,195
As at January 1, 2017 - Restated	$ 1,947	$ 81,498	$ 19,516	$ 10,500	$ 221,591	$ 335,052
Comprehensive Income						
Total profit - Restated (Note 25)					51,134	51,134
Remeasurement gain of defined benefit obligation	-	-	-	-	9,548	9,548
	-	-	-	-	60,682	60,682
Transaction with owners						
Repurchase of common shares	(1)		(321)			(322)
Dividends - common shares (Note 15)					(35,034)	(35,034)
Dividends - preference shares (Note 16)	-	-	-	-	(4,692)	(4,692)
	(1)	-	(321)	-	(39,726)	(40,048)
As at December 31, 2017 - Restated (Note 25)	$ 1,946	$ 81,498	$ 19,195	$ 10,500	$ 242,547	$ 355,686
Dividends per common share (expressed in dollars)	**$ 0.12**					

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2018, with corresponding figures for 2017 *(Expressed in Bahamian $'000s)*

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	$ 139,100	$ 152,142
Interest payments	(19,003)	(26,518)
Credit life insurance premiums received (refunded), net	2,423	(3,007)
Credit life insurance claims and expenses paid	(2,575)	(1,911)
Fees and other income received	16,238	14,428
Recoveries, loans and advances to customers (Note 9)	12,665	12,362
Cash payments to employees and suppliers	(71,930)	(75,671)
	76,918	71,825
Increase in minimum reserve requirement (Note 7)	(4,510)	(2,351)
Increase in restricted time deposit (Note 7)	(371)	(206)
Decrease in loans and advances to customers	22,057	19,644
Increase in deposits from customers	36,982	33,757
Net cash from operating activities	131,076	122,669
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(297,127)	(167,551)
Interest receipts from investments	16,177	13,733
Redemption of investments	245,317	74,356
Purchase of premises and equipment (Note 11)	(5,933)	(2,190)
Net proceeds from sale of premises and equipment (Note 11)	184	51
Net cash used in investing activities	(41,382)	(81,601)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid (Notes 15 and 16)	(39,692)	(39,726)
Repurchase of common shares (Note 15)	(2,000)	(322)
Net cash used in financing activities	(41,692)	(40,048)
NET INCREASE IN CASH AND CASH EQUIVALENTS	48,002	1,020
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	77,209	76,189
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 7)	$ 125,211	$ 77,209

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

1. INCORPORATION AND ACTIVITIES

Commonwealth Bank Limited (the "Bank") is incorporated in The Commonwealth of The Bahamas and is licensed by The Ministry of Finance to carry out banking business 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). This is the first set of the Group's annual financial statements in which IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have been applied.

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 2018 are discussed in Note 2 (c).

New Standards, Amendments and Interpretations Not Yet Adopted by the Group

With the exception of 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 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) Changes in Significant Accounting Policies

Effective January 1, 2018, the Group adopted IFRS 9 *Financial Instruments* (IFRS 9) and IFRS 15 *Revenue from Contracts with Customers* (IFRS 15). The adoption of IFRS 15 did not have a material impact on the Group's financial statements. Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these statements has not been restated.

i. IFRS 9 Financial Instruments

The Group has adopted IFRS 9 as issued by the International Accounting Standards Board (IASB) in July 2014 with a transition date of January 1, 2018. IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

The adoption of IFRS 9 has resulted in changes in the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

Additionally the Group has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures relative to 2018 but have not been generally applied to comparative information.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings.

Consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes repeat those disclosures made in the prior year.

The impact of the transition to IFRS 9 on retained earnings and impairment allowances is disclosed in the consolidated statement of changes in equity and Note 9, respectively.

The Group's net change in impairment losses at January 1, 2018 was not material.

Classification and Measurement of Financial Assets and Financial Liabilities

IFRS 9 contains three principal classification categories for financial assets: (i) amortised cost, (ii) fair value through profit or loss ("FVTPL"), or (iii) fair value through other comprehensive income ("FVOCI").

The classification of financial assets under IFRS 9 is generally based on the business model under which the asset is held and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of liabilities.

The table below explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the applicable classes of the Group's financial assets and financial liabilities as at January 1, 2018.

	New Classification Under IFRS 9	New Carrying Amount Under IFRS 9	Original Classification Under IAS 39	Original Carrying Amount Under IAS 39
FINANCIAL ASSETS				
Cash and deposits with banks	Amortised cost	$ 30,611	Loans and receivables	$ 30,611
Balance with The Central Bank	Amortised cost	$ 98,288	Loans and receivables	$ 98,288
Investments	Amortised cost	$ 401,513	Held-to-maturity	$ 401,513
	FVTPL	$ 3,328	FVTPL	$ 3,328
Loans and advances to customers	Amortised cost	$ 1,054,084	Loans and receivables	$ 1,053,969
FINANCIAL LIABILITIES				
Deposits from customers	Other financial liabilities	$ 1,274,262	Other financial liabilities	$ 1,274,262

Reconciliation of Financial Assets and Financial Liabilities from IAS 39 to IFRS 9

The following table reconciles the carrying amounts of financial assets and financial liabilities, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on January 1, 2018.

	IAS 39 Carrying Amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 Carrying Amount January 1, 2018
FINANCIAL ASSETS				
Cash and deposits with banks	$ 30,611	-	-	$ 30,611
Balance with The Central Bank	$ 98,288	-	-	$ 98,288
Investments	$ 404,841	-	-	$ 404,841
Loans and advances to customers	$ 1,053,969	-	$ 115	$ 1,054,084
FINANCIAL LIABILITIES				
Deposits from customers	$ 1,274,262	-	-	$ 1,274,262

The remeasurement relative to loans and advances to customers is the remeasurement associated with expected credit loss ("ECL") allowance.

Reconciliation of Impairment Allowance Balance IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance balance under IAS 39 to IFRS 9 at January 1, 2018.

	IAS 39 Carrying Amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 Carrying Amount January 1, 2018
Residential mortgage	$ 22,035	-	$ (2,535)	$ 19,500
Business	1,728	-	(347)	1,381
Personal	49,845	-	3,564	53,409
Credit card	3,592	-	(567)	3,025
	$ 77,200	$ -	$ 115	$ 77,315

Impairment of Financial Assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an ECL model resulting in credit losses being recognised earlier when compared to IAS 39. The IFRS 9 impairment model applies to various classes of financial assets including those carried at amortised cost.

IFRS 9 recognises impairment in three stages as discussed in Note 2 (n). Because movements between stages are expected to be dynamic, and also considering the application of forward looking information, impairment allowances are expected to be more volatile under IFRS 9 than IAS 39.

Additional information about how the Group measures the allowance for impairment is described in Note 2 (n).

ii. IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The principal objective of IFRS 15 is to establish the principles that should be applied by an entity in order to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers, reflecting the amount of consideration to which the entity expects to be entitled in exchange for those goods and services.

IFRS 15 explicitly excludes from its scope transactions governed by IFRS 9. As it relates to the Group, the following are within the scope of IFRS 15:

- Credit card service and transactions fees;
- Loan fees, excluding commitment and origination fees; and
- Deposit account and transaction fees.

Given that the Group's non-IFRS 9 related contracts with customers are not complex and do not meet the criteria for recognition of revenue over time, the application of IFRS 15 had no material impact on the consolidated financial statements.

(d) Recognition of Income and Expense

Prior to the adoption of IFRS 9, interest income and expense were recognised in the consolidated statement of profit or loss and other comprehensive income for all financial instruments measured at amortised cost using the effective interest method, based on the gross carrying amount of the instrument. From January 1, 2018 the Group recognises interest income and expense in the consolidated statement of profit or loss and other comprehensive income for all financial instruments measured at amortised cost using the method previously described, with the exception of financial assets that have subsequently become credit-impaired ('Stage 3' financial assets). For these financial assets, interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected impairment loss allowance).

Loan origination fees are deferred (together with related direct costs) and recognised 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 amortised 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 recognised on the accrual basis when the service has been provided.

Credit life insurance premium income is recognised at the time a policy comes in force. Premiums are shown net of refunds. 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 recognised as premium income with an associated expense being recognised relative to life insurance 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 recognised on the accrual basis.

(e) 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.

(f) 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.

(g) 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	The shorter of the estimated useful life or the 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 recognised in the consolidated statement of profit or loss and other comprehensive income.

(h) Impairment of Non-financial Assets

At each date of the consolidated statement of financial position, management reviews the carrying amount of non-financial 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 recognised 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.

(i) Earnings Per Common 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 difference between basic earnings per share and fully diluted earnings per share.

(j) Retirement Benefit Costs

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

The Pension Committee is responsible for advising the Board of 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 Board of 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 recognised 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. 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 recognised 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 recognised 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.

(k) 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.

(l) Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group 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).

(m) 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 Group;

iv. A contract that will or may be settled in the Group's own equity instrument and is either a non-derivative for which the Group is or may be obliged to receive a variable number of the Group'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 Group's own equity instruments.

Classification

From January 1, 2018 the Group classifies its financial assets in the following measurement categories:

i. Amortised Cost

A financial asset is measured at amortised cost if both of the following conditions are met: (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets classified at amortised cost are carried at the amount at which the asset was measured upon initial recognition, minus principal repayments, plus or minus the cumulative amortisation of any premium or discount, and minus any write-down for impairment or uncollectibility.

ii. Fair Value Through Other Comprehensive Income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met: (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

iii. Fair Value Through Profit or Loss

A financial asset is measured at fair value through profit or loss if it is does not meet the criteria to be measured at amortised cost or at fair value through other comprehensive income.

The classification of financial assets under IFRS 9 is generally based on the business model under which the asset is held and its contractual cash flow characteristics as described below.

- The business model assessment is performed to determine how a portfolio of financial instruments as a whole is managed in order to classify it as Hold to Collect, Hold to Collect and Sell, or Other Business Model; and
- Contractual cash flow characteristics test is performed to determine whether the financial instruments give rise to cash flows that are solely payments of principal and interest (SPPI).

The Group reclassifies its financial assets when and only when its business model for managing those assets changes.

Recognition and Derecognition

The Group initially recognises loans and advances to customers and deposits from customers on the date on which they are originated. All other financial instruments, (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

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 and advances to customers, 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.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit and loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit and loss.

Subsequent measurement of financial assets depends on the Group's business model for managing the asset and the cash flow characteristic of the asset. The three measurement categories are as noted above.

Modification

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, the contractual rights to cash flows from the original asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of the eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulty, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of quantitative evaluation and means that the derecognition criteria are usually met in such cases.

Accounting Policies Applied Until December 31, 2017

Financial assets were 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 depended on the nature and purpose of the financial assets and was determined at the time of initial recognition.

i. Financial Assets at Fair Value Through Profit or Loss

Financial assets were classified as FVTPL where the financial asset was either held for trading or was designated as FVTPL. A financial asset was classified into the FVTPL category at inception if acquired principally for the purpose of selling in the short term, if it formed part of a portfolio of financial assets in which there was evidence of short-term profit-taking, or if so designated by management. Financial assets designated as FVTPL at inception were those that were managed and whose performance was evaluated on a fair value basis, and were 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 was provided internally on a fair value basis to the Group's Executive Committee. FVTPL assets were stated at fair value, with any resultant gain or loss recognised in the consolidated statement of profit or loss and other comprehensive income.

ii. Available-for-sale Investments

AFS financial assets were those non-derivative financial assets that were either designated as available for sale or were not classified as a) FVTPL, b) held-to-maturity or c) loans and receivables. AFS assets were stated at fair value. Cost was 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 Group had the positive intent and ability to hold to maturity were classified as held-to-maturity investments.

Held-to-maturity investments were non-derivative financial assets which were carried at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis. Investment income was recorded in interest income in the consolidated statement of profit or loss and other comprehensive income.

iv. Loans and Receivables

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

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

(n) Impairment of Financial Assets

Policy Applicable After January 1, 2018

The Group recognises loss allowance for ECL on financial assets measured at amortised cost and measures impairment losses at amount equal to 12-month ECL or lifetime ECL depending on the stage in which the asset is classified.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial asset. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Impairment of financial assets is recognised in three stages:

Stage 1 – When a financial asset is originated, ECLs resulting from default events that are possible within the next 12 months are recognised and a loss allowance is established. On subsequent reporting dates, 12-month ECL also applies to existing financial assets with no significant increase in credit risk since their initial recognition.

Stage 2 – If the credit quality subsequently significantly deteriorates for a particular portfolio or transaction, the Group recognises the full lifetime expected credit losses.

Stage 3 – At a later date, once one or more default events have occurred on the transaction or on a counterparty resulting in an adverse effect on the estimated future cash flows, the Group recognises the full lifetime expected credit losses. At this stage, the financial asset is credit-impaired.

In determining whether a significant increase in credit risk has occurred since initial recognition, and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and forward-looking information.

The assessment of whether an asset is in stage 1 or 2 considers the relative change in the probability of default occurring over the expected life of the instrument, and is not assessed based on the change in the amount of the expected credit losses. This involves setting quantitative tests combined with additional indicators such as credit risk classification and other observable inputs. Assets that are more than 30 days past due, but not credit-impaired, are classed as stage 2.

Changes in credit loss, including the impact of movements between the first stage (12 month expected credit losses) and the second stage (lifetime expected credit losses), are recorded in the consolidated statement of profit or loss.

IFRS 9 requires the use of more forward looking information including reasonable and supportable forecasts of future economic conditions. The requirement to consider a range of economic scenarios and their possible impact on impairment allowances is a subjective feature of the IFRS 9 ECL model. The Group continues to develop its capability to model a number of economic scenarios and capture the impact on credit losses to ensure the overall ECL represents a reasonable distribution of economic outcomes.

The application of IFRS 9 does not alter the current definition of default currently used to determine whether or not there is objective evidence of impairment of a financial asset.

The Group considers a financial asset to be in default when:

– The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group through actions such as realizing security (if any held);
– The financial asset is more than 90 days past due; or
– The borrower is on principal only repayment terms.

Impairment losses for financial assets measured at amortised cost are deducted from the gross carrying amount of assets.

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

Recoveries of principal and/or interest on previously written off loans are recognised in provisions for credit losses, net 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.

Renegotiated Loans

Loans subject to 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.

Policy Applicable Before January 1, 2018

The Group evaluated at each statement of financial position date whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred if, and only if, there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

Impairment allowances were calculated on individual financial assets and on groups of financial assets assessed collectively. Impairment losses were 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 was reduced through the use of impairment allowance accounts. Losses expected from future events were not recognised.

Losses for impaired loans and advances to customers were recognised promptly when there was objective evidence that impairment of a loan or portfolio of loans had occurred. Whenever principal and/or interest was 90 days contractually past due on a loan or whenever a loan was renegotiated, such that payments were applied solely to principal, it was assessed as impaired.

When a loan was classified as impaired, all uncollected interest and fees were provided for in full and the Bank discontinued accruing additional interest and fees while the loan was deemed impaired.

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

Individually Significant Financial Assets

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

For loans where objective evidence of impairment existed, impairment losses were determined considering the following factors:

- the Group'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 were 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 were calculated by discounting the expected future cash flows of a loan (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 reflected the cash flows that might have resulted from foreclosures less costs for obtaining and selling the collateral, whether or not foreclosure was probable.

Collectively Assessed Loans and Advances to Customers

Impairment was assessed on a collective basis in two circumstances:

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

Incurred but Not Yet Identified Impairment

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

The collective impairment allowance was 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 were such that the actual level of inherent losses at the consolidated statement of financial position date was likely to be greater or less than that suggested by historical experience.

Homogeneous Groups of Loans and Advances

Statistical methods were used to determine impairment losses on a collective basis for homogeneous groups of loans that were not considered individually significant because individual loan assessment was impracticable. Losses in these groups of loans were recorded on an individual basis when individual loans were written off, at which point they were removed from the group.

The Group applied a formulaic approach which allocated progressively higher percentage loss rates the longer a customer's loan was overdue. Loss rates were based on historical experience.

In normal circumstances, historical experience provided the most objective and relevant information from which to assess inherent loss within each portfolio. In certain circumstances, historical loss experience provided less relevant information about the inherent loss in a given portfolio at the consolidated statement of financial position date, for example, where there had been changes in economic, regulatory or behavioural conditions, such that the most recent trends in the portfolio risk factors were not fully reflected in the statistical models.

These additional portfolio risk factors may have included 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 could have affected customer payment patterns on outstanding loans, such as natural disasters. These risk factors, where relevant, were 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 were regularly benchmarked against actual outcomes to ensure they remain appropriate.

Write-off of Loans and Advances

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

Recovery of Previously Written-off Loans

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

Reversals of Impairment

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

Renegotiated Loans

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

(o) 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.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of liabilities. As such, the Group's policy for accounting of financial liabilities from the prior period is unchanged.

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 recognised on an effective yield basis.

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

(p) 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.

(q) Related Party

A related party is a person or entity that is related to the Group and includes:

i. A person or close member of that person's family who
   a. has control or joint control of the Group
   b. has significant influence over the Group; or
   c. is a member of the Group's key management personnel, including directors.

ii. An entity that is related to the Group as follows:
   a. An entity that is a member of the same group as the Group;
   b. An entity that is associated with, or is a joint venture partner with the Group;
   c. An entity that is a post-employment benefit plan for the benefit of employees of the Group;
   d. An entity that has the ability to control or exercise significant influence over the Group in making financial or operational decisions; and
   e. An entity that is jointly controlled or significantly influenced by parties described in i) and ii) above.

Transactions with related parties are disclosed in Note 21.

(r) Leases

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

(s) Taxation

Life insurance premium tax is incurred at the rate of 3% of premiums written by the Group's insurance company, and recognised as an expense on an accrual basis in general and administrative expenses.

The Group is required to pay value added tax (VAT) at a rate of 12% on goods and services as prescribed by the Value Added Tax Act. Effective July 1, 2018, VAT was increased from 7.5% to 12%. The Group also pays business licence fees in accordance with the Business Licence Act.

Outside of business licence fees, 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.

(t) Rounding of Amounts

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

(u) Corresponding Figures

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

i. Credit life insurance, net has been disaggregated with income amounts remaining in total income and the expense items being reclassed to noninterest expenses.

ii. Late fees on loans and advances to customers have been reclassed from interest income to other income.

iii. Certain corresponding figures have also been adjusted to account for the correction of the accounting error disclosed in Note 25.

iv. Entities in which certain key management personnel had ownership or for which they were directors were previously disclosed in related party amounts for key management personnel. Such amounts are now disclosed in amounts for other related parties.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Critical Estimates

(a) Loan Impairment Allowances

The allowance for loan impairment represents management's estimate of an asset's expected credit loss ("ECL").

The measurement of the ECL allowance for financial assets is an area that requires the use of complex models and significant assumptions about the future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

ECL is defined as the weighted expected probable value of the discounted credit loss (principal and interest) determined by evaluating a range of possible outcomes and future economic conditions. It represents the present value of the difference between the contractual cash flows and the expected cash flows (including principal and interest).

The process for determining the allowance involves significant quantitative and qualitative assessments. Particularly, a number of significant judgments is also required in applying the accounting requirements for measuring ECL, such as:

i. Determining criteria for significant increase in credit risk;

ii. Choosing appropriate models and assumptions for the measurement of ECL;

iii. Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;

iv. Assessing the risk rating and impaired status of loans;

v. Estimating cash flows and realisable collateral values;

vi. Developing default and loss rates based on historical data;

vii. Estimating the impact on this historical data by changes in policies, processes and credit strategies;

viii. Assessing the current credit quality based on credit quality trends; and

ix. Determining the current position in the economic cycle.

Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 24.

(b) Pension Benefits

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

IFRS 13 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 that the entity can access at the measurement date.

Level 2 Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the 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 Group's financial instruments are not typically exchangeable or exchanged and therefore management applies judgement to determine their fair value.

The following methods and assumptions have been used in determining fair value:

- Investments – The estimated fair value of the Group's investments was determined based on their market values and other observable inputs and are disclosed in Note 8.
- Loans and advances to customers – The estimated fair value of loans and advances to customers, was determined by valuing the receivables based on current market interest rates relative to the Group's interest rates. Fair values relative to loans and advances to customers are disclosed in Note 9.
- Deposits from customers – The estimated fair value of deposits from customers was determined by valuing the deposits based on current market interest rates relative to the Group's interest rates. The fair values of deposit from customers approximate their carrying values.
- Other financial instruments – Due to their short-term maturity, the carrying values of these financial instruments approximate their fair values.

All of the Group's financial assets and liabilities are valued as Level 2 instruments.

No transfers were made during the period for any investments within the hierarchy.

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

Following are the carrying amounts of significant financial assets and financial liabilities as defined by IFRS 9 Financial Instruments for 2018 and IAS 39 Financial Instruments: *Recognition and Measurement* for 2017.

	2018			
	Amortised Cost	Fair Value Through Profit & Loss	Other Financial Liabilities	Total
FINANCIAL ASSETS				
Cash and deposits with banks	$ 34,010	$ -	$ -	$ 34,010
Balances with The Central Bank of The Bahamas	$ 147,772	$ -	$ -	$ 147,772
Investments	$ 453,424	$ 4,148	$ -	$ 457,572
Loans and advances to customers	$ 992,418	$ -	$ -	$ 992,418
FINANCIAL LIABILITIES				
Deposits from customers	$ -	$ -	$ 1,311,244	$ 1,311,244

	2017				
	Loans and Receivables	Held-To-Maturity	Fair Value Through Profit & Loss	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	$ -	$ 401,513	$ 3,328	$ -	$ 404,841
Loans and advances to customers	$ 1,053,969	$ -	$ -	$ -	$ 1,053,969
FINANCIAL LIABILITIES					
Deposits from customers	$ -	$ -	$ -	$ 1,274,262	$ 1,274,262

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

	2018	2017
Interest income, effective interest rate method		
Loans and advances to customers	$ 137,700	$ 152,128
Investments	16,277	14,619
Other	1	13
	$ 153,978	$ 166,760
Interest expense		
Deposits from customers	$ 19,505	$ 24,837
Fees and other income		
Loans and advances to customers	$ 6,818	$ 6,885
Investments	$ 864	$ 1,110
Deposits from customers	$ 8,982	$ 7,261

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 charged 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:

	2018						
	Retail Bank	Credit Life Company	Real Estate Holdings	Investment Holdings	Insurance Agency Operations	Eliminations	Consolidated
Income							
External	$ 149,387	$ 4,174	$ 20	$ -	$ -	$ -	$ 153,581
Internal	3,975	(121)	3,816	(641)	480	(7,509)	-
Total Income	$ 153,362	$ 4,053	$ 3,836	$ (641)	$ 480	$ (7,509)	$ 153,581
Total Profit							
Internal & external	$ 49,231	$ 4,116	$ 1,457	$ (1,055)	$ 269	$ (2,079)	$ 51,939
Assets	$ 1,658,709	$ 44,792	$ 29,403	$ 18,723	$ 2,985	$ (59,385)	$ 1,695,227
Liabilities	$ 1,334,697	$ 3,008	$ 16,518	$ 11,074	$ 5	$ (35,593)	$ 1,329,708
Other Information							
Interest expense	$ 19,884	$ -	$ 691	$ 389	$ -	$ (1,459)	$ 19,505
Capital additions	$ 5,113	$ -	$ 820	$ -	$ -	$ -	$ 5,933
Depreciation and amortization	$ 2,517	$ -	$ 640	$ -	$ -	$ -	$ 3,157

	2017						
	Retail Bank	Credit Life Company	Real Estate Holdings	Investment Holdings	Insurance Agency Operations	Eliminations	Consolidated
Income							
External	$ 155,423	$ (1,254)	$ 5	$ -	$ -	$ -	$ 154,174
Internal	4,092	124	3,979	5,033	359	(13,587)	-
Total Income	$ 159,515	$ (1,130)	$ 3,984	$ 5,033	$ 359	$ (13,587)	$ 154,174
Total Profit							
Internal & external	$ 48,473	$ 4,435	$ 1,351	$ 4,667	$ 181	$ (7,973)	$ 51,134
Assets	$ 1,610,536	$ 46,076	$ 29,746	$ 17,361	$ 2,720	$ (55,901)	$ 1,650,538
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

7. CASH AND CASH EQUIVALENTS

	2018	2017
Cash on hand	$ 17,954	$ 18,511
Deposits with banks	16,056	12,100
Balances with The Central Bank of The Bahamas	147,772	98,288
	181,782	128,899
Minimum reserve requirement	(54,258)	(49,748)
Time deposit securing letter of credit	(2,313)	(1,942)
Cash and cash equivalents	$ 125,211	$ 77,209

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 are as follows:

	2018		
	Amount	Maturity Years	Interest Rates
Bahamas Government	$ 428,898	2019-2037	1.80% - 4.88%
Government related	18,285	2023-2035	4.25% - 7.00%
United States Government	1,000	2023-2024	6.25% - 7.50%
Equity	4,357	-	-
Accrued interest receivable	5,032		
Total investment securities	$ 457,572		

	2017 (Restated)		
	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 - Restated (Note 25)	3,526	-	-
Accrued interest receivable	4,794		
Total investment securities	$ 404,841		

	January 1, 2017 (Restated)		
	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 - Restated (Note 25)	2,452	-	-
Accrued interest receivable	4,615		
Total investment securities	$ 309,702		

Investments categorized by maturity are as follows:

	2018	2017 (Restated)	January 1, 2017 (Restated)
Current (due within one year)	$ 130,149	$ 77,492	$ 37,242
Non-current (due after one year)	327,423	327,349	272,460
	$ 457,572	$ 404,841	$ 309,702

Government and government related investments comprise the majority of the Group's investments. There is not a very active market for these investments. Primary brokers of these types of instruments trade similar instruments at par value. Accordingly, management determined that their fair values approximate their carrying values.

The Group's common share holdings in Mastercard Incorporated account for the majority of its equity investments. These shares are carried at fair value with any resultant gains or losses being recorded in the consolidated statement of profit and loss and other comprehensive income.

9. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers are as follows:

	2018	2017
Residential mortgage	$ 200,756	$ 211,222
Business	29,613	31,283
Personal	777,517	840,370
Credit card	36,847	38,294
Government	22,500	10,000
	1,067,233	1,131,169
Less: Impairment allowances	(74,815)	(77,200)
	$ 992,418	$ 1,053,969

Loans categorized by maturity are as follows:		
Current (due within one year)	$ 53,063	$ 54,724
Non-current (due after one year)	939,355	999,245
	$ 992,418	$ 1,053,969

Included within the carrying amount of gross loans and advances to customers are accrued interest, late fees and VAT receivable amounting to $15.3 million (2017: $16.9 million), and effective interest rate adjustments of $5.9 million (2017: $7.9 million), the latter principally comprising deferred fees and other direct costs incurred to originate loans.

The fair value of loans and advances to customers as determined by management is $1.08 billion (2017: $ 1.1 million).

Movement in Impairment Allowances:

	2018					
	Balance at Beginning of Year	IFRS 9 Transition Adjustment	Loans Written off	Recoveries	Impairment Losses	Balance at End of Year
Residential mortgage	$ 22,035	$ (2,535)	$ (723)	$ 41	$ (814)	$ 18,004
Business	1,728	(347)	(9)	-	(20)	1,352
Personal	49,845	3,564	(40,000)	12,054	28,149	53,612
Credit card	3,592	(567)	(2,126)	570	378	1,847
Total	$ 77,200	$ 115	$ (42,858)	$ 12,665	$ 27,693	$ 74,815

	2017				
	Balance at Beginning of Year	Loans Written off	Recoveries	Impairment 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

10. OTHER ASSETS

The composition of other assets is as follows:

	2018	2017
Pension asset	$ 11,674	$ 11,874
Prepaid expenses	2,920	5,571
Other	1,367	566
	$ 15,961	$ 18,011

The pension asset comprises the surplus amount in the Guaranteed Investment Contract and the pension asset relative to the defined benefit plan.

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, 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
Additions		773	17	5,143	5,933
Disposals	-	-	-	(529)	(529)
December 31, 2018	14,466	36,681	982	35,386	87,515
Accumulated Depreciation and Amortization					
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
Charge for the year	72	874	20	2,191	3,157
Disposals	-	-	-	(429)	(429)
December 31, 2018	633	12,271	876	26,241	40,021
Net Book Value					
December 31, 2018	$ 13,833	$ 24,410	$ 106	$ 9,145	$ 47,494
December 31, 2017	$ 13,905	$ 24,511	$ 109	$ 6,293	$ 44,818

12. DEPOSITS FROM CUSTOMERS

The composition of deposits from customers is as follows:

	2018	2017
Demand deposits	$ 177,085	$ 156,421
Savings accounts	341,573	284,623
Certificates of deposit	792,586	833,218
	$ 1,311,244	$ 1,274,262

Deposits from customers categorized by maturity are as follows:

Current (due within one year)	$ 844,082	$ 877,061
Non-current (due after one year)	467,162	397,201
	$ 1,311,244	$ 1,274,262

Management has determined that the fair value of deposits from customers approximates their carrying values.

Included in deposits from customers is accrued interest payable to customers totaling $22.6 million (2017: $22.2 million).

13. LIFE INSURANCE FUND LIABILITY

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

The life insurance 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 insurance fund liability was conducted as at December 31, 2018 by Oliver Wyman of Toronto, Canada. The valuation included a provision of $339 thousand (2017: $224 thousand) for claims incurred but not yet reported.

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

		2018		2017
Balance at beginning of the year	$	5,599	$	13,268
Change in assumptions		(2)		12
Termination policies		(1,653)		(5,507)
Impact of aging		(1,173)		(2,433)
Change in IBNR		114		120
New business		18		17
Change in unearned premium reserve		48		122
Net change in insurance reserve		(2,648)		(7,669)
Balance at end of the year	$	2,951	$	5,599

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

Current (within one year)	$	1,328	$	3,187
Non-current (after one year)		1,623		2,412
	$	2,951	$	5,599

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:

2018

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 2018	4.5	54%	15.50%	$13.86	3.30%	3.45%	3.25%	2,443		
Lower Interest Rate	4.5	54%	15.50%	$13.86	3.30%	3.11%	2.93%	2,451	8	0.3%
Mortality = 4.95	5.0	54%	15.50%	$13.86	3.30%	3.45%	3.25%	2,532	90	3.7%
Lapse = 59.40%	4.5	59%	15.50%	$13.86	3.30%	3.45%	3.25%	2,446	3	0.1%
Loan Interest = 17.05%	4.5	54%	17.05%	$13.86	3.30%	3.45%	3.25%	2,447	5	0.2%
Expenses = 15.25	4.5	54%	15.50%	$15.25	3.30%	3.45%	3.25%	2,470	27	1.1%
Inflation = 3.63%	4.5	54%	15.50%	$13.86	3.63%	3.45%	3.25%	2,444	2	0.1%

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%

14. OTHER LIABILITIES

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

		2018		2017
Accruals and accounts payable	$	6,249	$	4,990
Cashier's cheques outstanding		3,703		4,172
Employee related		2,641		3,211
Other		2,920		2,618
	$	15,513	$	14,991

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 2018 and 2017.

	OUTSTANDING 2018			
	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 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

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 qualified 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 2018, Bahamian Prime Rate was 4.25% (2017: 4.25%).

Note 26 discloses a subsequent event relative to the Group's preference shares.

Common Shares:

		2018		2017
Authorised:				
675,000,000 (2017: 675,000,000) shares of $0.00667 per share	$	4,500	$	4,500
Issued and fully paid:				
295,268,556 (2017: 295,268,556) shares of $0.00667 per share	$	1,968	$	1,968
Share premium		27,011		27,011
Less: 3,806,184 (2017: 3,306,609) shares held in treasury		(9,838)		(7,838)
Total	$	19,141	$	21,141
Share capital	$	1,943	$	1,946
Share premium		17,198		19,195
	$	19,141	$	21,141

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

Share capital on the statement of financial position is comprised of the following:

		2018		2017
Common shares	$	1,943	$	1,946
Preference shares		81,498		81,498
	$	83,441	$	83,444

During the year the Group repurchased some of its common shares through its subsidiary, C.B. Securities. Details of the purchases are disclosed in Note 21.

During the year the Group paid quarterly common share dividends of $0.02 (2017: $0.02) per share and two (2017: two) extraordinary dividend payments in February and November of $0.02 (2017: $0.02) per share. These payments totaled $35 million (2017: $35 million) in common share dividend payments.

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.

16. EARNINGS PER SHARE

		2018		2017
Total profit	$	51,939	$	51,134
Preference share dividends		(4,692)		(4,692)
Total profit available to common shareholders	$	47,247	$	46,442
Weighted average number of common shares (in thousands)		291,546		292,014
Earnings per share (expressed in dollars)	$	0.16	$	0.16

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 plan are as follows:

a. Options will be granted annually to participants at the prevailing market price on the date of the grant.
b. Options vest on a straight-line basis over a three year period.
c. Vested options expire one year after the date of vesting.

d. Options may only be exercised while in the employment of the Bank or subsidiary or affiliated companies unless otherwise approved by the Board.
e. Exercised options are subject to a six month restriction period before they can be transferred by the participant.
f. Unless otherwise terminated by the Board, the Plan shall continue until the pool of common shares has been exhausted.

The Plan is being funded by CB Securities Ltd. purchasing shares from the market in advance of the options being exercised. The Bank recognised expenses of $Nil (2017: $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 2018 (2017: Nil shares).

There were no shares outstanding to be exercised under the stock option plans as at December 31, 2018 (2017: Nil). Options available to be granted under the plans totaled 14,034,000 (2017: 14,034,000).

19. FEES AND OTHER INCOME

Fees and other income derived from contracts with customers are as follows:

		2018		2017
Loan and credit card fees, excluding commitment and origination fees	$	6,601	$	6,790
Deposit account fees		4,238		3,936
Debit card fees		1,593		637
Foreign exchange		2,293		1,841
Other		1,140		996
	$	15,865	$	14,200

20. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses is as follows:

		2018		2017
Staff costs	$	39,623	$	37,822
Licences and taxes (including premium taxes)		9,662		9,375
Professional and service fees		8,518		7,729
Occupancy		4,252		4,828
Advertising		2,221		2,448
Other		6,802		6,679
	$	71,078	$	68,881

Staff costs include pension costs of $2.0 million (2017: $2.2 million) of which $0.3 million (2017: $0.6 million) relates to the DB Provisions (see Note 22).

21. RELATED PARTIES' BALANCES AND TRANSACTIONS

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

	2018			2017		
	Key Management Personnel $	Other Related Parties $	Total $	Key Management Personnel $	Other Related Parties $	Total $
Loans and advances to customers	3,356	814	4 ,170	3,697	2,302	5 ,999
Deposits from customers	34,991	259,521	294,512	34,243	242,832	277,075
Other liabilities	-	107	107	-	255	255
Interest income	169	53	222	190	163	353
Interest expense	868	6,918	7,786	987	7,404	8,391
General and administrative expense	-	773	773	-	810	810
Commitments under revolving credit lines	1,074	4,717	5,791	882	4,470	5,352

Amounts included in loans and advances to customers that relate to residential mortgages and business loans are secured. Amounts related to personal loans and credit cards are unsecured. Impairment allowances in respect of these balances are not material.

As at December 31, 2018 a total of 83,829,799 (2017: 84,360,141) common shares and 130,654 (2017:120,254) 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:

		2018		2017
Short term benefits	$	7,111	$	6,758
Post employment benefits		863		471
	$	7,974	$	7,229

Purchase of Shares by Subsidiary

During the year, the Bank purchased 499,575 of its common shares for $2 million (2017: 93,654 shares for $0.3 million) through its wholly-owned subsidiary C.B. Securities. At December 31, 2018, 3,806,184 (2017: 3,306,609) shares were held by the subsidiary with a market value of $17.2 million. (2017: $16.3 million).

As at December 31, 2018, C.B. Securities held $110,000 (2017:$110,000) of the Bank's preference shares. The market value of these shares approximate their carrying value. There were no purchases of preference shares during the year (2017: 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 1% (2017: 0.75%) above Bahamian Prime Rate of 4.25% (2017: 4.25%) (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, 2018.

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:

	2018	2017
Change in Fair Value of Plan Assets:		
Fair value of plan assets at beginning of year	$ 29,037	$ 25,901
Interest income	1,447	1,160
Actual return on plan assets	(888)	2,472
Administrative costs	(81)	(80)
Employer contributions	447	511
Participant contributions	79	92
Benefits paid	(749)	(626)
Withdrawals from plan	(459)	(393)
Settlement payments	-	-
Fair value of plan assets at end of year	$ 28,833	$ 29,037
Change in Defined Benefit Obligation:		
Benefit obligation at beginning of year	$ 25,582	$ 26,953
Current employer service costs	433	459
Participant contributions	79	92
Interest cost	1,262	1,197
Withdrawals from plan	(459)	(393)
Benefits paid	(749)	(626)
Experience adjustment	(91)	-
Settlement payments	-	-
Changes in financial assumptions	(1,851)	(2,100)
Benefit obligation at end of year	$ 24,206	$ 25,582
Benefit obligation at end of year	$ 24,206	$ 25,582
Fair value of plan assets at end of year	(28,833)	(29,037)
Net defined benefit (asset) liability	$ (4,627)	$ (3,455)
Net Defined Benefit (Asset) Liability:		
Balance at beginning of year	$ (3,455)	$ 1,052
Defined benefit included in profit or loss	348	646
Remeasurement included in other comprehensive income	(1,073)	(4,642)
Employer contributions	(447)	(511)
Balance at end of year	$ (4,627)	$ (3,455)
Components of Defined Benefit Cost:		
Current employer service costs	$ 433	$ 459
Interest cost on defined benefit obligation	1,262	1,197
Interest income on plan assets	(1,447)	(1,160)
Administrative costs	100	150
Pension benefit expense included in staff costs	$ 348	$ 646
Components of Remeasurements:		
Changes in financial assumptions	$ (1,851)	$ (2,100)
Experience adjustments	(91)	-
Return on plan assets excluding interest income	869	(2,542)
Remeasurements included in other comprehensive income	$ (1,073)	$ (4,642)
Weighted-average Assumptions to Determine Defined Benefit Obligations:		
Discount rate	5.25%	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

Weighted-average Assumptions to Determine Defined Benefit Cost:

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

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:

2018

	Discount Rate	Compensation	Pension
Pension obligation	$ 851	$ 195	$ 604
Pension expense	$ 70	$ 15	$ 43

2017

	Discount Rate	Compensation	Pension
Pension obligation	$ 1,016	$ 353	$ 678
Pension expense	$ 79	$ 27	$ 48

The effect of assuming an increase of 1 year in life expectancy would increase the benefit obligation by $0.5 million (2017: $0.6 million) and pension benefits expense by $37,000 (2017:$41,000).

The weighted average duration of the defined benefit obligation was 14.5 years (2017: 16.3 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 (2017: 1,410,825) common shares and $0.6 million (2017: $0.6 million) preference shares of the Bank. These shares have a market value of $6.9 million (2017: $7.5 million) which represents 23.93% (2017: 25.65%) of the DB Provisions' assets.

The major categories of DB Provisions assets at December 31, 2018 are as follows:

	2018	2017
Balance at banks	$ 1,214	$ 1,560
Equity instruments	10,532	11,570
Government bonds	12,523	11,009
Other debt instruments	1,875	1,882
Preferred equity	2,718	3,085
Liabilities	(29)	(69)
Fair value of plan assets	$ 28,833	$ 29,037

Given that the DB Provisions is currently overfunded, the Bank does not expect to make any contributions in 2019 in respect of the DB Provisions.

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

	2018	2017
Deposits	$ 981	$ 1,177
Interest expense	$ 21	$ 51

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 (the "Guaranteed Investment Contract"). 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% and will expire in 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 recognised as an expense under the DC Provisions are as follows:

		2018		2017
Pension expense included in staff costs	$	1,630	$	1,576

The DC Provisions owns 2,882,980 (2017: 3,382,980) common shares and $1.8 million (2017: $1.8 million) preference shares of the Bank. These shares have a market value of $14.8 million (2017: $18.4 million) which represents 25.9% (2017: 29.0%) of the DC Provisions assets.

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

		2018		2017
Fair value of plan asset	$	51,687	$	53,866
Present value of the funded benefit obligation		(44,640)		(45,447)
Surplus in Guaranteed Investment Contract	$	7,047	$	8,419

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

		2018		2017
DB Provisions	$	1,073	$	4,642
DC Provisions - Guaranteed Investment Contract		(1,372)		4,906
	$	(299)	$	9,548

23. COMMITMENTS AND CONTINGENCIES

Loan Commitments

In the ordinary course of business, the Group had commitments as at December 31, 2018, as follows:

		2018		2017
Mortgage commitments	$	4,308	$	7,357
Revolving credit lines		27,959		30,008
	$	32,267	$	37,365

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, 2018 (2017: Nil).

Lease Commitments

The future minimum rental payments required under non-cancellable operating leases as at December 31, 2018 are as follows:

Year	2018 $	2017 $
2018	-	554
2019	567	534
2020	198	165
2021	13	-
2022	-	-
	$ 778	$ 1,253

Letters of Credit

The Bank has a standby letter of credit with Citibank N.A. for US$2.3 million, which was established to secure settlement transactions with Mastercard and Visa. This standby credit line is secured by time deposits totaling $2.3 million, which are 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 material 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 Executive Committee considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Executive 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% (2017:17%). The Bank's capital ratio for 2018 was 34% (2017: 32%)

Capital regulatory requirements for subsidiary companies are managed through the Bank. The Group's strategy is unchanged from 2017.

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, 2018 Laurentide has $300,300 (2017: $300,300) in share capital and $2,750,000 (2017: $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 (Laurentide Insurance Management) Statutory Reserve Trust was established on December 20, 2011 with assets valued at $2,289,300 as at December 31, 2018 (2017: $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, 2018, the minimum margin of solvency was $3,746,402 (2017: $3,500,000). Laurentide's solvency margin at December 31, 2018 was $36,985,371 (2017: $34,315,489) resulting in a surplus of $33,238,969 (2017: $30,815,489).

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, 2018, Laurentide had $39,993,331 (2017: $39,993,331) in qualifying assets and $39,993,331 (2017: $39,993,331) 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, 2018, 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 $1.1 million (2017:$0.9 million).

	Repricing Date of Interest Sensitive Instruments				Non-interest	
As of December 31, 2018	Within 3 Months	3 - 12 Months	Over 1 - 5 Years	Over 5 Years	Rate Sensitive	Total
Assets						
Cash and deposits with banks	$ 785	$ 1,528	$ -	$ -	$ 31,697	$ 34,010
Balances with The Central Bank of The Bahamas	-	-	-	-	147,772	147,772
Investments	400,112	-	37,657	15,445	4,358	457,572
Loans and advances to customers	42,393	219,845	560,292	169,888	-	992,418
Other assets	-	-	-	-	15	15
Total financial assets	$ 443,290	$ 221,373	$ 597,949	$ 185,333	$ 183,842	$ 1,631,787
Liabilities						
Deposits from customers	$ 682,227	$ 239,536	$ 379,047	$ 10,434	$ -	$ 1,311,244
Other liabilities	-	-	-	-	15,513	15,513
Total financial liabilities	$ 682,227	$ 239,536	$ 379,047	$ 10,434	$ 15,513	$ 1,326,757
Interest Rate Sensitivity Gap	**$ (238,937)**	**$ (18,163)**	**$ 218,902**	**$ 174,899**		

	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	3,598	404,841
Loans and advances to customers	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	$ 130,571	$ 1,587,724
Liabilities						
Deposits from customers	$ 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**		

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 Group 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.

Expected Credit Loss Measurement

ECL is defined as the weighted expected probable value of the discounted credit loss (principal and interest). It represents the present value of the difference between the contractual cash flows and the expected cash flows (including principal and interest).

Expected credit loss is the discounted product of the probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") parameters defined as follows:

- PD – The estimate of the likelihood of default over a given time period.
- LGD – The estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including discounted cash flows from any collateral. LGD is expressed as a percentage of the EAD.
- EAD – The estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

The Group uses a Point-in-Time ("PIT") analysis while having regard to historical loss data and forward looking macro-economic data.

The lifetime PD is developed by applying a maturity profile to the current 12-moth PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loan.

The table below shows the average lifetime PD for financial assets for which ECL amounts are recognised.

	January 1 2018	December 31 2018
Residential mortgage	54%	50%
Business	51%	45%
Personal	35%	35%
Credit card	40%	34%
Government	3%	3%
All portfolios	37%	36%

The estimate of expected cash shortfalls reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms and are not recognised separately by the Bank's (e.g. properties collateralized for mortgage loans are not recognised on the Bank's balance sheet).

Such estimates reflect the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, irrespective of whether foreclosure is probable.

Any cash flows that are expected from the realization of the collateral beyond the contractual maturity of the contract are included in ECL modelling. Where appropriate, the Group considers the time to sell and the cost to sell. Further, "Forced Sale" discounts are also included to account for reductions in value due to forced sales and deterioration of collateral held.

In addition, the cost directly associated with realizing collateral form part of the ECL calculation. In the short term, this is set by the Group's executive management and is based on their understanding of the market, the economic environment and the Group's experience. This is expressed as a discount factor (nominal value). The Group also includes recovery cash flow assumptions in LGD which are discounted back to the point of default at the original effective interest rate.

Internal Risk Ratings

Internal risk ratings are assigned according to the Group's risk management framework. Changes in internal risk ratings are primarily reflected in the PD parameters, which are estimated based on the Group's historical loss experience at the relevant risk segment or risk rating level, adjusted for forward-looking information.

Weighting of Expected Credit Loss

A multiple probability model has been adopted by the Group. The model was developed to allow scenario analysis and management overlay where deemed necessary (this applies to the weighing assigned to the estimates grouping). Three calculations for ECL estimates are generated representing base case, best case and worse case. Once an ECL calculation has been developed for each scenario, a weight is applied to each estimate based on the likelihood of occurrence to arrive at a final weighted ECL.

The weighting assigned to each scenario as at December 31, 2018 and January 1, 2018 was as follows:

	Base	Best	Worse
Residential mortgage	70%	10%	20%
Business	70%	10%	20%
Personal	70%	10%	20%

Maximum Exposure to Credit Risk

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

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

The following table contains an analysis of the credit risk exposure of financial assets for which an ECL allowance is recognised. The gross carrying amount of the financial assets represents the Group's maximum exposure to the credit risk of these assets.

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Gross Carrying Amount					
Residential mortgage	$ 86,796	$ 73,188	$ 40,772	$ 200,756	$ 211,222
Business	18,175	7,243	4,195	29,613	31,283
Personal	652,066	106,373	19,078	777,517	840,370
Credit card	32,115	3,896	836	36,847	38,294
Government	22,500	-	-	22,500	10,000
	811,652	190,700	64,881	1,067,233	1,131,169
Impairment Allowances					
Residential mortgage	314	4,569	13,121	18,004	22,035
Business	399	300	653	1,352	1,728
Personal	16,696	23,510	13,406	53,612	49,845
Credit card	856	583	408	1,847	3,592
Government	-	-	-	-	-
	18,265	28,962	27,588	74,815	77,200
Carrying Amount					
Residential mortgage	86,482	68,619	27,651	182,752	189,187
Business	17,776	6,943	3,542	28,261	29,555
Personal	635,370	82,863	5,672	723,905	790,525
Credit card	31,259	3,313	428	35,000	34,702
Government	22,500	-	-	22,500	10,000
	$ 793,387	$ 161,738	$ 37,293	$ 992,418	$ 1,053,969

Transfers Between Stages

At each reporting date, the Group assesses whether the credit risk on its financial assets has increased significantly since initial recognition. The assessment of whether an asset is in stage 1 or 2 considers the relative change in the probability of default occurring over the expected life of the instrument, and is not assessed based on the change in the amount of the expected credit losses. This involves setting quantitative tests combined with additional indicators such as credit risk classification and other observable inputs.

Transfers between Stages 1 and 2 are based on the assessment of significant increases in credit risk relative to initial recognition. The impact of moving from 12-month expected credit losses to lifetime expected credit losses, or vice versa, varies by portfolio and is dependent on the expected remaining life at the date of the transfer. Stage transfers may result in significant fluctuations in the Group's expected credit losses.

Movement in Impairment Allowances by Stage

The impairment allowance recognised in the period is impacted by a variety of factors, including but not limited to:

- Transfers between Stage 1 and 2 or 3 due to financial assets experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial assets recognised during the period, as well as releases for financials assets de-recognised in the period;

- Impact on the measurement of ECL due to changes in PDs, EADs, and LGDs in the period, arising from regular refreshing of inputs to the model;
- Impacts on the measurement of ECL due to changes made to models and assumptions; and
- Financial assets derecognised during the period and write-offs of allowances related to the assets that were written off during the period.

The following tables explain the changes in the impairment allowance by portfolio between the beginning and the end of the annual period due to these factors.

	Stage 1	Stage 2	Stage 3	Total
Residential Mortgage				
Impairment allowances as at January 1, 2018	$ 554	$ 5,747	$ 13,199	$ 19,500
Transfers:				
Transfers from Stage 1 to Stage 2	(39)	39	-	-
Transfers from Stage 1 to Stage 3	(14)	-	14	-
Transfers from Stage 2 to Stage 1	3	(3)	-	-
Transfers from Stage 2 to Stage 3	-	(579)	579	-
Transfers from Stage 3 to Stage 1	47	-	(47)	-
Transfers from Stage 3 to Stage 2	-	1,217	(1,217)	-
New financial assets originated	28	2	-	30
Changes in PDs/LGDs/EADs	(227)	(1,541)	1,321	(447)
Financials assets derecognised	(38)	(313)	(5)	(356)
Financials assets written-off	-	-	(723)	(723)
Impairment allowances as at December 31, 2018	$ 314	$ 4,569	$ 13,121	$ 18,004

	Stage 1	Stage 2	Stage 3	Total
Business				
Impairment allowances as at January 1, 2018	$ 255	$ 344	$ 782	$ 1,381
Transfers:				
Transfers from Stage 1 to Stage 2	(1)	1	-	-
Transfers from Stage 1 to Stage 3	(2)	-	2	-
Transfers from Stage 2 to Stage 1	4	(4)	-	-
Transfers from Stage 2 to Stage 3	-	(162)	162	-
Transfers from Stage 3 to Stage 1	176	-	(176)	-
Transfers from Stage 3 to Stage 2	-	5	(5)	-
New financial assets originated	178	-	-	178
Changes in PDs/LGDs/EADs	(211)	116	320	225
Financials assets derecognised	-	-	(423)	(423)
Financials assets written-off	-	-	(9)	(9)
Impairment allowances as at December 31, 2018	$ 399	$ 300	$ 653	$ 1,352

	Stage 1	Stage 2	Stage 3	Total
Personal				
Impairment allowances as at January 1, 2018	$ 20,408	$ 19,296	$ 13,705	$ 53,409
Transfers:				
Transfers from Stage 1 to Stage 2	(1,209)	1,209	-	-
Transfers from Stage 1 to Stage 3	(1,587)	-	1,587	-
Transfers from Stage 2 to Stage 1	936	(936)	-	-
Transfers from Stage 2 to Stage 3	-	(4,589)	4,589	-
Transfers from Stage 3 to Stage 1	1,030	-	(1,030)	-
Transfers from Stage 3 to Stage 2	-	2,077	(2,077)	-
New financial assets originated/recoveries	5,494	2,035	1,251	8,780
Changes in PDs/LGDs/EADs	(3,342)	5,561	36,033	38,252
Financials assets derecognised	(5,034)	(1,143)	(652)	(6,829)
Financials assets written-off	-	-	(40,000)	(40,000)
Impairment allowances as at December 31, 2018	$ 16,696	$ 23,510	$ 13,406	$ 53,612

Credit Cards	Stage 1	Stage 2	Stage 3	Total
Impairment allowances as at January 1, 2018	$ 852	$ 915	$ 1,258	$ 3,025
Transfers:				
Transfers from Stage 1 to Stage 2	(59)	59	-	-
Transfers from Stage 1 to Stage 3	(9)	-	9	-
Transfers from Stage 2 to Stage 1	617	(617)	-	-
Transfers from Stage 2 to Stage 3	-	(41)	41	-
Transfers from Stage 3 to Stage 1	477	-	(477)	-
Transfers from Stage 3 to Stage 2	-	135	(135)	-
New financial assets originated/recoveries	59	14	10	83
Changes in PDs/LGDs/EADs	(1,081)	118	1,828	865
Financials assets written-off	-	-	(2,126)	(2,126)
Impairment allowances as at December 31, 2018	$ 856	$ 583	$ 408	$ 1,847

Credit quality

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

	2018			2017		
	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	$ 181,782	$ -	$ 181,782	$ 128,899	$ -	$ 128,899
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	$ 181,782	$ -	$ 181,782	$ 128,899	$ -	$ 128,899
Investments						
Neither past due or impaired	$ 457,572	$ -	$ 457,572	$ 404,841	$ -	$ 404,841
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	$ 457,572	$ -	$ 457,572	$ 404,841	$ -	$ 404,841
Loans and Advances to Customers						
Neither past due or impaired	$ 763,755	$ 93,169	$ 856,924	$ 834,557	$ 68,859	$ 903,416
Past due but not impaired	130,265	15,163	145,428	99,714	47,511	147,225
Impaired	37,929	26,952	64,881	57,772	22,756	80,528
	$ 931,949	$ 135,284	$ 1,067,233	$ 992,043	$ 139,126	$ 1,131,169

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

The average mortgage balance was $108,522 (2017: $111,298) while the average business account balance was $223,909 (2017: $240,677). The average consumer balance was $21,547 (2017: $22,292). The largest exposure to a single customer, other than the Government of The Bahamas (Note 9), was approximately $2 million (2017: $2 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 credit quality of loans and advances to customers is shown in the following table:

	2018			2017		
	Original Contract	Restructured	Total	Original Contract	Restructured	Total
Loans and Advances to Customers						
Residential Mortgage						
Neither past due or impaired	$ 80,676	$ 33,142	$ 113,818	$ 107,053	$ 20,002	$ 127,055
Past due but not impaired	40,137	6,029	46,166	25,200	20,873	46,073
Impaired	23,177	17,595	40,772	21,619	16,475	38,094
	$ 143,990	$ 56,766	$ 200,756	$ 153,872	$ 57,350	$ 211,222

	2018			2017		
	Original Contract	Restructured	Total	Original Contract	Restructured	Total
Business						
Neither past due or impaired	$ 14,525	$ 3,261	$ 17,786	$ 17,397	$ 866	$ 18,263
Past due but not impaired	7,399	233	7,632	7,326	3,062	10,388
Impaired	3,545	650	4,195	2,311	321	2,632
	$ 25,469	$ 4,144	$ 29,613	$ 27,034	$ 4,249	$ 31,283
Personal						
Neither past due or impaired	$ 617,211	$ 56,766	$ 673,977	$ 672,299	$ 47,991	$ 720,290
Past due but not impaired	75,561	8,901	84,462	58,994	23,576	82,570
Impaired	10,371	8,707	19,078	31,550	5,960	37,510
	$ 703,143	$ 74,374	$ 777,517	$ 762,843	$ 77,527	$ 840,370
Credit Card						
Neither past due or impaired	$ 28,843	$ -	$ 28,843	$ 27,808	$ -	$ 27,808
Past due but not impaired	7,168	-	7,168	8,194	-	8,194
Impaired	836	-	836	2,292	-	2,292
	$ 36,847	$ -	$ 36,847	$ 38,294	$ -	$ 38,294
Government						
Neither past due or impaired	$ 22,500	$ -	$ 22,500	$ 10,000	$ -	$ 10,000
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	$ 22,500	$ -	$ 22,500	$ 10,000	$ -	$ 10,000
	$ 931,949	$ 135,284	$ 1,067,233	$ 992,043	$ 139,126	$ 1,131,169

All financial assets outside of loans and advances to customers are neither past due nor impaired.

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

	2018	2017
Satisfactory risk	$ 849,797	$ 895,285
Watch list	7,127	8,131
	$ 856,924	$ 903,416

Watch list accounts are those that are exhibiting signs of distress or accounts that have been in distress in the past. Indications of distress include: consistent arrears reflecting reduced income of the borrower, death of one of the parties to the loan, marital issues or divorce, illness, diminished business cash flow etc.

Conversely, satisfactory accounts are accounts that are generally being serviced as agreed and there are no material indications that the borrower will default.

The analysis of the age of loans and advances to customers that were past due but not impaired is as follows:

2018	Residential Mortgage	Business	Personal	Credit Card	Total
Past due up to 29 days	$ 35,086	$ 7,051	$ 56,157	$ 4,204	$ 102,498
Past due 30 - 59 days	6,304	460	17,015	1,807	25,586
Past due 60 - 89 days	4,776	121	11,290	1,157	17,344
	$ 46,166	$ 7,632	$ 84,462	$ 7,168	$ 145,428

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

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.

In the Group's current IFRS 9 ECL weighted risk rating model, restructured accounts attract a higher risk weighting compared to accounts that have not been restructured.

Prior to January 1, 2018 management 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 were increased to take this into account.

Collateral Relative to Loans and Advances to Customers

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.

The Group closely monitors collateral held for financial assets considered credit-impaired, as it becomes more likely that the Group will take possession of the collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below as at December 31, 2018.

	Gross Exposure	Impairment Allowance	Carrying Amount	Value of Collateral Held
Residential mortgage	$ 40,772	$ 13,121	$ 27,651	$ 33,677
Business	4,195	652	3,543	5,538
Personal	19,078	13,406	5,672	-
Credit card	836	408	428	-
	$ 64,881	$ 27,587	$ 37,294	$ 39,215

The Group's policies regarding obtaining collateral have not changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

ECL sensitivity analysis

Set out below are the impact of changes to the Bank's ECL as at December 31, 2018 that would result from reasonably possible changes to the Bank's key ECL drivers.

	2018	
	Loss Given Default (LGD)	
	5% (-)	5% (+)
Residential mortgage	$ (34)	$ 34
Business	(4)	4
Personal	(3,152)	3,152
Credit cards	(196)	196
	$ (3,386)	$ 3,386

2018				
	ECL Scenario Weighting Best 5% (+)	Best 5% (-)	Worse 5% (+)	Worse 5% (-)
Residential mortgage	$ (211)	$ 211	$ 187	$ (187)
Business	(6)	6	13	(13)
Personal	(1,008)	1,008	2,829	(2,915)
	$ (1,225)	$ 1,225	$ 3,029	$ (3,115)

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 are disclosed in Note 23.

Included in deposits from customers are deposits totaling $235 million from a single customer representing 18% of the total deposits from customers. The amounts are comprised primarily of certificate of deposits and are deposits from a related party.

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, 2018	**Within 3 Months**	**3 - 12 Months**	**Over 1 - 5 Years**	**Over 5 Years**	**Total**
Assets					
Cash and deposits with banks	$ 32,853	$ 1,157	$ -	$ -	$ 34,010
Balances with The Central Bank of The Bahamas	147,772	-	-	-	147,772
Investments	99,408	31,589	96,819	357,527	585,343
Loans and advances to customers	12,800	14,374	326,154	1,557,119	1,910,447
Other assets	15	-	-	-	15
Total financial assets	$ 292,848	$ 47,120	$ 422,973	$ 1,914,646	$ 2,677,587
Liabilities					
Deposits from customers	$ 682,361	$ 241,784	$ 404,387	$ 15,348	$ 1,343,880
Life insurance fund liability	332	996	1,623	-	2,951
Other liabilities	15,513	-	-	-	15,513
Total financial liabilities	$ 698,206	$ 242,780	$ 406,010	$ 15,348	$ 1,362,344
Net Liquidity Gap	**$ (405,358)**	**$ (195,660)**	**$ 16,963**	**$ 1,899,298**	**$ 1,315,243**

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	377,539	546,201
Loans and advances to customers	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	$ 2,119,581	$ 2,753,427
Liabilities					
Deposits from customers	$ 619,924	$ 260,951	$ 417,315	$ 15,743	$ 1,313,933
Life insurance fund liability	$ -	$ -	$ -	$ -	$ -
Other liabilities	14,991	-	-	-	14,991
Total financial liabilities	$ 634,915	$ 260,951	$ 417,315	$ 15,743	$ 1,328,924
Net Liquidity Gap	**$ (427,094)**	**$ (234,016)**	**$ (18,225)**	**$ 2,103,838**	**$ 1,424,503**

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 aged 65 and over. Prior to 2017 no insurance contract was issued to persons aged 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 the Bank
All other loans - Maximum of $20,000 or net indebtedness to the 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 realised 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 recognised 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 recognised, and the Group is in compliance with all regulatory requirements.

25. PRIOR PERIOD ADJUSTMENT

While preparing the consolidated financial statements of the Group for the year ended December 31, 2018 management noted that it had failed to account for its holdings of Class B Common Shares in Mastercard Incorporated International as a financial asset at fair value through profit and loss since being issued the shares in 2006.

The error has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

	Impact of Error		
	As Previously Reported	**Fair Value Adjustment**	**As Restated**
Consolidated Statement of Financial Position			
January 1, 2017	**$**	**$**	**$**
Investments	307,507	2,195	309,702
Retained earnings	219,396	2,195	221,591
Total equity	332,857	2,195	335,052
December 31, 2017			
Investments	401,588	3,253	404,841
Retained earnings	239,294	3,253	242,547
Total equity	352,433	3,253	355,686

	Impact of Error		
	As Previously Reported	Fair Value Adjustment	As Restated
Consolidated Statement of Profit or Loss and Other Comprehensive Income For the Year Ended December 31, 2017	**$**	**$**	**$**
Unrealised gains on equity investment	-	1,058	1,058
Total income	160,785	1,058	161,843
Total profit	50,076	1,058	51,134
Total comprehensive income	59,624	1,058	60,682

26. SUBSEQUENT EVENTS

- On January 14, 2019, 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, 2019 to common shareholders.

- On November 29, 2018 the Board of Directors approved the redemption of the Bank's preference shares classes J, K, L, M and N. The redemption date will be May 1, 2019 and is expected to be $48.9 million.

NOTES

2018 SUMMARY OF BOARD AND COMMITTEE MEETINGS

Board	8
Executive	4
Premises	4
Audit	5
Compensation	6
Nominating	4
Information Technology	4
Pension	3

Board meeting attendance	
Earla J. Bethel	7
Dr. Marcus C. Bethel	7
Vaughn W. Higgs	7
Tracy E. Knowles	8
Rupert W. Roberts Jr, OBE	8
Robert D. L. Sands	7
R. Craig Symonette	7
Larry R. Gibson	6
Ian A. Jennings (retired July 31, 2018)	6
Raymond L. Winder (appointed August 1, 2018)	2
William B. Sands Jr, DM	8

NOMINATING COMMITTEE REPORT

Pictured L to R: **R. Craig Symonette; William B. Sands Jr, DM; Vaughn W. Higgs; Earla J. Bethel; 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 organizations.
- **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, 2018.

Vaughn W. Higgs
Chairman
Nominating Committee

EXECUTIVE COMMITTEE **REPORT**

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 approval for these from the Board.

The Committee is satisfied that it has appropriately fulfilled its mandate for the year ended December 31, 2018.

William B. Sands Jr, DM
Executive Chairman
Executive Committee

Pictured L to R: **Vaughn W. Higgs; Rupert W. Roberts Jr, OBE; William B. Sands Jr, DM; Raymond L. Winder; R. Craig Symonette**

PREMISES COMMITTEE REPORT

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 models and the Bahamas building codes standard, 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, 2018.

Earla J. Bethel
Chairperson
Premises Committee

Pictured L to R: **Raymond L. Winder; Larry R. Gibson; Earla J. Bethel; Robert D. L. Sands; Dr. Marcus R. C. Bethel**

PENSION COMMITTEE **REPORT**

Pictured L to R: **Osvon P. Pratt; Raymond L. Winder; Larry R. Gibson; Robert D. L. Sands; Denise D. Turnquest; William B. Sands Jr, DM**

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** and recommended for approval by the Board Executive Committee Plan Design changes after reviewing proposed design changes and cost impact with the Actuary of the Plan.
- **Reviewed** 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 to the best of its ability for the year ended December 31, 2018.

Raymond L. Winder

Raymond L. Winder
Chairperson
Pension Committee

INFORMATION TECHNOLOGY COMMITTEE REPORT

Pictured L to R: **Vaughn W. Higgs; R. Craig Symonette; Raymond L. Winder; 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 appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2018.

R. Craig Symonette
Chairman
IT Committee

COMPENSATION COMMITTEE **REPORT**

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, 2018.

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**

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

YEAR IN REVIEW

The 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 and emerging best practices in response to changes in regulatory guidelines.
- **Reviewed** with management and the Bank's Auditors: the appropriateness of the Bank's accounting and financial reporting, the impact of adopting new accounting standards, the accounting treatment of significant risks and uncertainties, the key estimates and judgments of management that were material to the Bank's financial reporting, and the disclosure of critical accounting policies.
- **Reviewed** Management's risk measurement measures for their appropriateness in relation to risk exposures and specifically the adequacy of the loan impairment allowance.
- **Reviewed** and recommended for approval by the Board: the annual Audited Consolidated Financial Statements, Management's Discussion and Analysis and quarterly unaudited financial releases. Also reviewed and recommended for approval by their respective Boards the Annual Financial Statements and quarterly unaudited financial reports 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 and Credit Inspection 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.
- **Met** regularly with the Vice President, Internal Audit and Credit Inspection as necessary without management present.
- **Reviewed** existing and proposed Guidelines issued by regulators and discussed with management to ensure compliance.
- **Reviewed** recommendations of the Bank's Auditors and External Regulators, as well as recommendations from the Internal Audit and Credit Inspection functions and management's responses.

Bank's Auditors

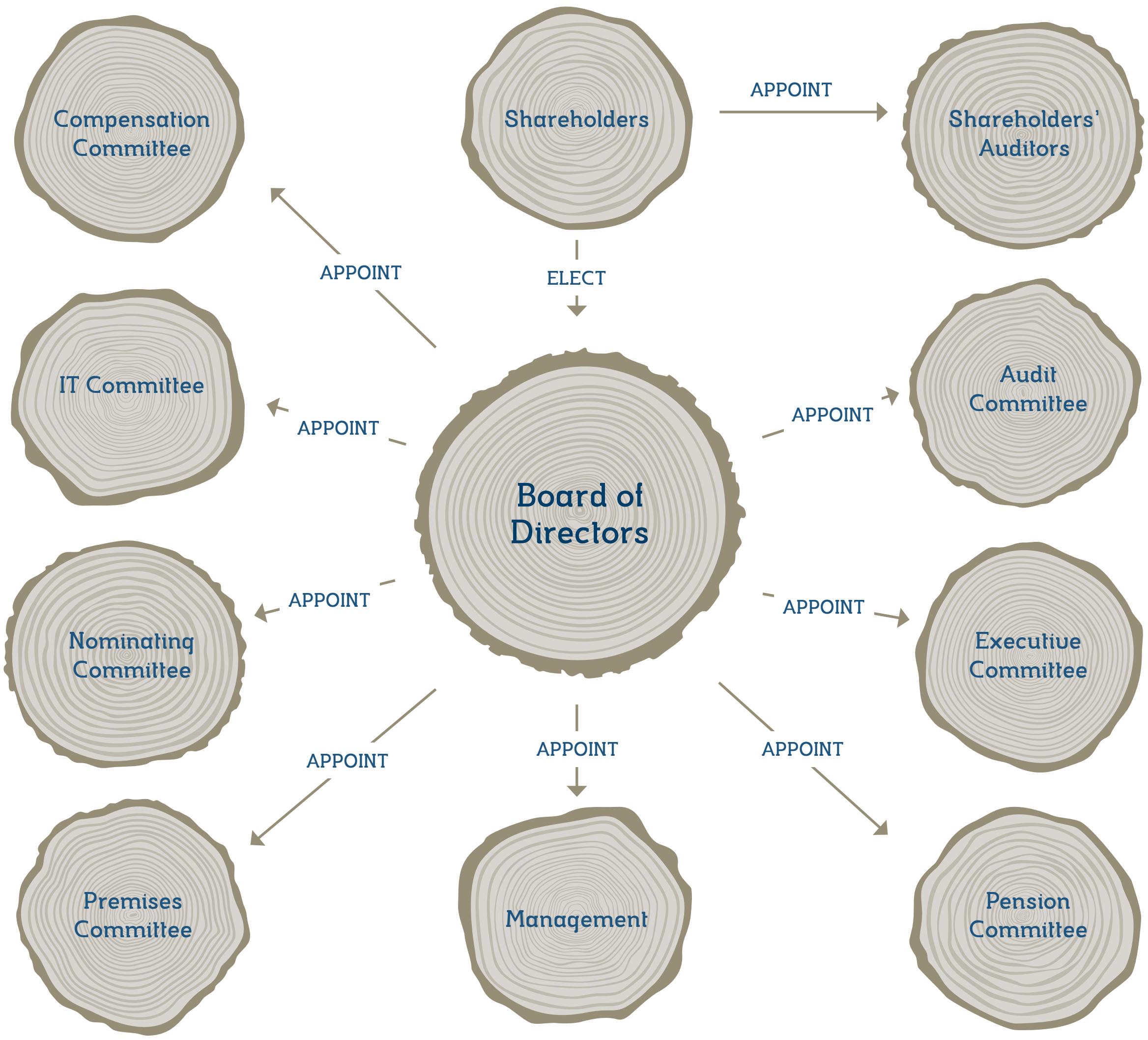
- **Recommended** the incumbent auditor, PricewaterhouseCoopers (PwC) be reappointed to perform the 2018 external audit. However, on delayed completion of the 2017 audit it was mutually agreed that PwC would not put themselves forward for reappointment as auditors of the Bank's December 31, 2018 financial statements. The Audit Committee recommended the appointment of KPMG to act as auditors of the Bank for the year 2018.
- **Confirmed** that appropriate practices are being followed to safeguard the independence of the Bank's Auditors.
- **Reviewed** the performance of the Bank's Auditors, including the scope and results of the external audit conducted by the Bank's Auditors, and communications to the Committee that are required under International Standards on Auditing.
- **Met** as necessary with the Bank's Auditors.

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2018.

Tracy E. Knowles
Chairman
Audit Committee

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

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.

SHAREHOLDER INFORMATION

Board of Directors

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

Raymond L. Winder
President
Commonwealth Bank Ltd.

Earla J. Bethel
President
DanBrad Ltd.

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

Tracy E. Knowles
Businessman

Larry R. Gibson
Vice President
Colonial Pension Services (Bah) Ltd.

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.

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
KPMG Bahamas
5th Floor,
Montague Sterling Centre,
13 East Bay Street
P.O. Box N-123
Nassau, Bahamas
Tel: (242) 393-2007
Fax: (242) 393-1772
www.kpmg.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 Shareholder 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

LOCATIONS & SERVICES

SERVICES

- SATURDAY BANKING
- AUTO FINANCING
- PERSONAL FINANCING
- 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

- MOBILE BANKING
- AUTOMATED BANKING MACHINES
- FOREIGN EXCHANGE SERVICES
- PERSONAL CHEQUING ACCOUNTS
- BUSINESS CHEQUING ACCOUNTS
- SAFE DEPOSIT BOXES
- WIRE TRANSFERS
- CERTIFICATES OF DEPOSIT
- LOANS BY PHONE

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
Mortgage Centre	397-4940

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

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