

# **COMMONWEALTH BANK LIMITED**

**Consolidated Financial Statements**  
**December 31, 2017**

## **Commonwealth Bank Limited**

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## *Independent auditors' report*

To the Shareholders of Commonwealth Bank Limited

### *Report on the audit of the consolidated financial statements*

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#### *Our opinion*

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

#### **What we have audited**

Commonwealth Bank Limited's consolidated financial statements comprise:

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

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#### *Basis for opinion*

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

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

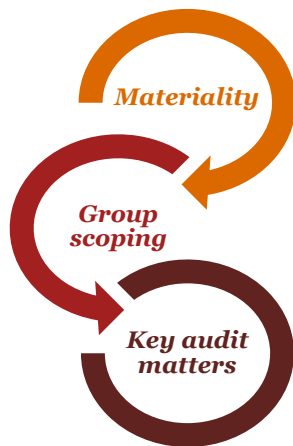
#### **Independence**

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

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## Our audit approach

### Overview



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

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

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

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

### How we tailored our group audit scope

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

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

### Materiality

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

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



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

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

### Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
<p><i>Assumptions used in the impairment of loans receivable</i></p> <p><i>See notes 2(m), 3(a), and 9 of the consolidated financial statements for disclosures of related accounting policies, judgments and estimates.</i></p> <p>Impairment allowances recorded against loans receivable at December 31, 2017 totalled \$77.2 million. The allowances are calculated on individual loans and on groups of loans assessed collectively.</p> <p>Our audit focused on the following areas because the amounts estimated by management are material and make use of assumptions which require significant judgments, including:</p> <ul style="list-style-type: none"> <li>the completeness of loans included in both the collective and specific impairment assessments, particularly the proper identification of loans within the portfolio which may have indicators of impairment;</li> </ul> <p><i>Collectively assessed loans</i></p> <ul style="list-style-type: none"> <li>the estimated losses for loans within the collectively assessed and incurred but not yet identified provisions;</li> </ul>	<p>We tested the aging of loans receivable by selecting a sample of loans and recalculating the period of delinquency based on the borrower's repayment history and tested the report used by management to extract the aging information.</p> <p>We tested a sample of loans that had not been classified by management as potentially impaired and formed our own judgement as to whether that was appropriate based on the underlying audit evidence.</p> <p><i>Collectively assessed loans</i></p> <ul style="list-style-type: none"> <li>We tested the estimated loss rates used in the collective impairment calculation by back-testing the Group's historical loss trends and evaluating the results against current macroeconomic data from publicly available sources.</li> </ul> <p><i>Specifically assessed loans</i></p> <ul style="list-style-type: none"> <li>We evaluated the competence and objectivity of the management appointed real estate</li> </ul>

Key audit matter	How our audit addressed the Key audit matter
<p><i>Specifically assessed loans</i></p> <ul style="list-style-type: none"> <li>the value of real estate properties held as collateral, the determination of which is impacted by subjective judgments about market trends as well as the circumstances of a specific property for which management engages the assistance of a number of independent real estate appraisers; and</li> <li>the estimated costs and time to sell collateral held.</li> </ul>	<p>appraisers, confirming that they are suitably qualified, competent and independent of the Group.</p> <ul style="list-style-type: none"> <li>We tested the reasonableness of the collateral values used in the impairment calculation by comparing, on a sample basis, the results of recent collateral valuation reports, recent sales of collateral by the Group as well as available external data on comparable properties.</li> <li>We tested estimated costs and time to sell of the underlying real estate collateral by comparing estimates to historical data collected from actual sales of foreclosed properties, including history of real estate agency fees, legal fees and other costs incurred and the average number of months to foreclose the property.</li> </ul> <p>We reperformed, on a sample basis, management's calculations of the collective and specific impairment allowances to test the mathematical accuracy.</p> <p>No material adjustments to the carrying value of loans receivable at December 31, 2017 were noted as a result of the procedures we performed.</p>
<p><i>Assumptions made in the measurement of the pension obligation</i></p> <p><i>See notes 2(i), 3(b), and 22 of the consolidated financial statements for disclosures of related accounting policies, judgments and estimates.</i></p> <p>Within 'Other assets' as presented on the face of the consolidated statement of financial position and in the notes to the consolidated financial statements, a net defined benefit asset amounting to \$3.5 million pertaining to the Defined Benefit Provisions has been reported, consisting of the excess of the fair value of plan assets over the present value of the obligation.</p> <p>The obligation from defined benefit pension plans are measured in accordance with the projected unit credit method as required by IAS 19. The related key assumptions are:</p> <ul style="list-style-type: none"> <li>long-term salary growth rates;</li> <li>rate of pension pay increases;</li> </ul>	<p>As part of our audit, we assessed the independence and competence of the actuary used by management to calculate the benefit obligation.</p> <p>We evaluated the actuary's report and evaluated, with input from our own actuarial experts, the appropriateness of the methodology and reasonableness of each of the key assumptions based on the accounting policy of the Group and our own industry knowledge and experience.</p> <p>We evaluated and tested management's assumptions made in relation to salary and pension increases and mortality rates by reference to historical experience, taking into account current economic trends.</p>

Key audit matter	How our audit addressed the Key audit matter
<ul style="list-style-type: none"> <li>average life expectancy; and</li> <li>discount rates.</li> </ul> <p>We focused on this area as the recognition and measurement of the defined benefit obligation is, to a large extent, based on management's subjective assumptions. Reasonably small changes in these assumptions may result in material differences in the reported defined benefit obligation and, consequently, the net defined benefit asset or liability.</p>	<p>We evaluated the discount rate used in the valuation of the pension obligation by reference to externally available sources.</p> <p>We tested the completeness and accuracy of the numerical data inputs.</p> <p>No material adjustments to the obligation at December 31, 2017 were noted as a result of the procedures we performed.</p>

### *Other matter*

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

### *Other information*

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

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

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

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

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

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

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



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### *Auditors' responsibilities for the audit of the consolidated financial statements*

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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





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

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

*PricewaterhouseCoopers*  
**Chartered Accountants**  
**Nassau, Bahamas**

**April 30, 2018**

## Certification of Actuary

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

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

In my opinion:

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



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

# Commonwealth Bank Limited

(Incorporated under the laws of the Commonwealth of The Bahamas)


## Consolidated Statement of Financial Position


As at December 31, 2017

(Expressed in thousands of Bahamian dollars)

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

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

  
\_\_\_\_\_  
Executive Chairman

  
\_\_\_\_\_  
President

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

# Commonwealth Bank Limited

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended December 31, 2017

(Expressed in thousands of Bahamian dollars)

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

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

# Commonwealth Bank Limited

## Consolidated Statement of Changes in Equity

For the Year Ended December 31, 2017

(Expressed in thousands of Bahamian dollars)

	Share Capital (Common) \$	Share Capital (Preference) \$	Share Premium \$	General Reserve \$	Retained Earnings \$	Total \$
<b>As at January 1, 2017</b>	<u>1,947</u>	<u>81,498</u>	<u>19,516</u>	<u>10,500</u>	<u>219,396</u>	<u>332,857</u>
<b>Comprehensive income</b>						
Total profit	-	-	-	-	50,076	50,076
<i>Other comprehensive income</i>						
Remeasurement gain of defined benefit obligation	-	-	-	-	9,548	9,548
Total comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,624</u>	<u>59,624</u>
<b>Transactions with owners</b>						
Repurchase of common shares	(1)	-	(321)	-	-	(322)
Dividends – common shares	-	-	-	-	(35,034)	(35,034)
Dividends – preference shares	-	-	-	-	(4,692)	(4,692)
Total transactions with owners	<u>(1)</u>	<u>-</u>	<u>(321)</u>	<u>-</u>	<u>(39,726)</u>	<u>(40,048)</u>
<b>As at December 31, 2017</b>	<u><b>1,946</b></u>	<u><b>81,498</b></u>	<u><b>19,195</b></u>	<u><b>10,500</b></u>	<u><b>239,294</b></u>	<u><b>352,433</b></u>
<b>Dividends per share</b> <b>(expressed in dollars)</b>	<u><b>0.12</b></u>					
<b>As at January 1, 2016</b>	<u>1,949</u>	<u>81,498</u>	<u>20,352</u>	<u>10,500</u>	<u>199,696</u>	<u>313,995</u>
<b>Comprehensive income</b>						
Total profit	-	-	-	-	57,350	57,350
<i>Other comprehensive income</i>						
Remeasurement gain of defined benefit obligation	-	-	-	-	2,508	2,508
Total comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,858</u>	<u>59,858</u>
<b>Transactions with owners</b>						
Repurchase of common shares	(2)	-	(836)	-	-	(838)
Dividends – common shares	-	-	-	-	(35,057)	(35,057)
Dividends – preference shares	-	-	-	-	(5,101)	(5,101)
Total transactions with owners	<u>(2)</u>	<u>-</u>	<u>(836)</u>	<u>-</u>	<u>(40,158)</u>	<u>(40,996)</u>
<b>As at December 31, 2016</b>	<u><b>1,947</b></u>	<u><b>81,498</b></u>	<u><b>19,516</b></u>	<u><b>10,500</b></u>	<u><b>219,396</b></u>	<u><b>332,857</b></u>
<b>Dividends per share</b> <b>(expressed in dollars)</b>	<u><b>0.12</b></u>					

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

# Commonwealth Bank Limited

## Consolidated Statement of Cash Flows

For the Year Ended December 31, 2017

(Expressed in thousands of Bahamian dollars)

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

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

### 1. General Information

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

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

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

### 2. Summary of Significant Accounting Policies

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

#### (a) Basis of preparation

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

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

#### *New standards, amendments and interpretations adopted by the Group*

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (a) Basis of preparation (continued)

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

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

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



# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (a) Basis of preparation (continued)

*New standards, amendments and interpretations not yet adopted by the Group (continued)*

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

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

# **Commonwealth Bank Limited**

## **Notes to the Consolidated Financial Statements**

**December 31, 2017**

**(Continued)**

### **2. Summary of Significant Accounting Policies (Continued)**

#### **(b) Principles of consolidation (continued)**

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

#### **(c) Recognition of income and expense**

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

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

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

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (c) Recognition of income and expense (continued)

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

Other income and expenses are recognized on the accrual basis.

#### (d) Cash and Cash equivalents

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

#### (e) Foreign currency translation

##### *Functional and presentation currency*

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

##### *Transactions and balances*

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (f) Premises and equipment

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

Land is not depreciated. Depreciation and amortization on other assets are computed on a straight-line basis, net of residual values, and are charged to non-interest expense over their estimated useful lives as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the consolidated statement of financial position.

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

#### (g) Impairment of assets

At each date of the consolidated statement of financial position, management reviews the carrying amount of tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss. Recoverable amount is the higher of fair value less costs to sell and value in use. An impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent that there is revaluation surplus.

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (h) Earnings per share

Earnings per share is computed by dividing total profit, after deducting dividends declared on preference shares, by the weighted average number of common shares outstanding during the year and not held by group companies. There is no material difference between basic earnings per share and fully diluted earnings per share.

#### (i) Retirement benefit costs

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

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

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

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

The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method, with actuarial valuations being carried out at each statement of financial position date. The defined benefit obligation is calculated annually by independent actuaries. The asset or liability amount recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation and the current service cost at the end of the reporting period less the fair value of plan assets.

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (i) Retirement benefit costs (continued)

Pension costs under the DB provisions charged to general and administrative expenses include the present value of the current year service cost based on estimated final salaries, interest on obligations less interest on assets, and estimated administrative costs. Current service cost and net interest on the net defined benefit asset or liability of the GIC are charged to general and administrative expenses.

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

#### (j) Share-based payments

The Bank issues equity-settled share-based payments to certain management staff. The Bank determines the fair value of stock options on their grant date using the Black Scholes Model and records this amount as compensation expense. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period. When the stock options are exercised the proceeds are recorded in share capital and share premium.

#### *Other Stock Based Compensation Plan*

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

#### (k) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs. Ordinary shares, and preference shares whose terms do not create contractual obligations, are classified as equity (Note 15).

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (I) Financial assets

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

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

Financial assets are classified into the following categories: "fair value through profit or loss" (FVTPL); "held-to-maturity"; "available-for-sale" (AFS); and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### i. Financial assets at fair value through profit or loss

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (I) Financial assets (continued)

##### ii. Available-for-sale investments

AFS financial assets are those non-derivative financial assets that are either designated as available for sale or are not classified as a) FVTPL, b) held-to-maturity or c) loans and receivables. AFS assets are stated at fair value. Cost is used to approximate the fair value of AFS assets.

##### iii. Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity investments.

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

##### iv. Loans and receivables

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

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

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



# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (l) Financial assets (continued)

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

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

#### (m) Impairment of financial assets

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

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

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

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (m) Impairment of financial assets (continued)

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

##### *Individually significant financial assets*

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

For loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

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

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

##### *Collectively assessed loans receivable*

Impairment is assessed on a collective basis in two circumstances:

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (m) Impairment of financial assets (continued)

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

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

The collective impairment allowance is determined after taking into account:

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

##### *Homogeneous groups of loans and advances*

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

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (m) Impairment of financial assets (continued)

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

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

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

#### *Write-off of loans and advances*

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

#### *Recovery of previously written-off loans*

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (m) Impairment of financial assets (continued)

##### *Reversals of impairment*

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

##### *Renegotiated loans*

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

#### (n) Financial liabilities

Financial liabilities are any liabilities that are:

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

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

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (n) Financial liabilities

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

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

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

#### (o) Offsetting financial instruments

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

#### (p) Leases

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

#### (q) Taxation

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

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

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (r) Rounding of amounts

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

#### (s) Corresponding figures

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

##### *Consolidated Statement of Financial Position*

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

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

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

##### *Consolidated Statement of Cash Flows*

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

##### *Notes to the Consolidated Financial Statements*

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

### 3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

#### *Critical estimates*

#### (a) Loan impairment allowances

The allowance for loan impairment represents management's estimate of identified credit related losses in the credit portfolios, as well as losses incurred but not yet identified at statement of financial position date.

The impairment allowance for credit losses is comprised of an individual impairment allowance and a collective impairment allowance. The process for determining the allowance involves quantitative and qualitative assessments using current and historical credit information. The process requires assumptions, judgments and estimates relating to i) assessing the risk rating and impaired status of loans; ii) estimating cash flows and realizable collateral values; iii) developing default and loss rates based on historical data; iv) estimating the changes on this historical data by changes in policies, processes and credit strategies; v) assessing the current credit quality based on credit quality trends and vi) determining the current position in the economic cycle. The methods used to calculate collective impairment allowances on homogenous groups of loans that are not considered individually significant are disclosed in Note 2(m). They are subject to estimation uncertainty, in part because it is not practicable to identify losses on an individual loan basis because of the large number of individually insignificant loans in the portfolio.

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

#### (b) Pension benefits

The Bank maintains a defined benefit plan as outlined in Note 2 (i). Due to the long term nature of pension plans, the calculation of benefit expenses and obligations depends on various assumptions such as discount rates, expected rates of return on assets, projected salary increases, retirement age, mortality, and termination rates. Any difference between the actual experiences and actuarial assumptions will affect the benefit obligation and expense.



# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

#### *Critical estimates (continued)*

#### (c) Life assurance fund liability

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

#### *Key judgments*

#### (d) Fair value of financial instruments

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

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

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

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from the prices).

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

#### *Key judgments (continued)*

#### (d) Fair value of financial instruments (continued)

Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

### 4. Subsidiaries

The Group has interests in the following entities:

<u>Name</u>	<u>Country of Incorporation</u>	<u>Shareholding</u>
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%

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 5. Financial Instruments

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

#### December 31, 2017

	Loans and Receivables \$	Held-to- Maturity \$	Other Financial Liabilities \$	Total \$
<b>Financial assets</b>				
Cash and deposits with banks	30,611	-	-	30,611
Balances with The Central Bank of The Bahamas	98,288	-	-	98,288
Investments	-	401,588	-	401,588
Loans receivable	1,053,969	-	-	1,053,969
<b>Financial liabilities</b>				
Deposits	-	-	1,274,262	1,274,262

#### December 31, 2016

	Loans and Receivables \$	Held-to- Maturity \$	Other Financial Liabilities \$	Total \$
<b>Financial assets</b>				
Cash and deposits with banks	31,764	-	-	31,764
Balances with The Central Bank of The Bahamas	93,558	-	-	93,558
Investments	-	307,507	-	307,507
Loans receivable	1,122,589	-	-	1,122,589
<b>Financial liabilities</b>				
Deposits	-	-	1,240,505	1,240,505

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 5. Financial Instruments (Continued)

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

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

	2017 \$	2016 \$
<b>Interest income</b>		
Loans and Receivables	156,966	157,268
Held-to-Maturity	14,194	14,689
	<u>171,160</u>	<u>171,957</u>
<b>Interest expense</b>		
Deposits	<u>24,837</u>	<u>27,243</u>
<b>Fees and other income</b>		
Loans and Receivables	<u>1,764</u>	<u>2,187</u>
Deposits	<u>3,936</u>	<u>4,086</u>

### 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.

## **Commonwealth Bank Limited**

### **Notes to the Consolidated Financial Statements**

**December 31, 2017**

**(Continued)**

#### **6. Business Segments (Continued)**

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

The entities within the Group operate within the same geographical area. Non-Bahamian dollar assets and liabilities are not material and are therefore not divided out into a separate segment. Inter-segment revenues are accounted for at competitive market prices. Inter-segment expenses are transferred at cost. All transactions between segments are eliminated on consolidation.

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

## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

#### 6. Business Segments (Continued)

The following table shows financial information by business segment:

	<b>Retail Bank</b> \$	<b>Credit Life Insurance</b> \$	<b>Real Estate Holdings</b> \$	<b>Investment Holdings</b> \$	<b>Insurance Agency Operations</b> \$	<b>Eliminations</b> \$	<b>Consolidated</b> \$
<b>December 31, 2017</b>							
<b>Income</b>							
External	154,365	4,731	5	-	-	-	159,101
Internal	4,092	124	3,979	5,033	359	(13,587)	-
<b>Total income</b>	<b>158,457</b>	<b>4,855</b>	<b>3,984</b>	<b>5,033</b>	<b>359</b>	<b>(13,587)</b>	<b>159,101</b>
<b>Total profit</b>							
Internal & external	47,415	4,435	1,351	4,667	181	(7,973)	50,076
<b>Assets</b>	<b>1,607,283</b>	<b>46,076</b>	<b>29,746</b>	<b>17,361</b>	<b>2,720</b>	<b>(55,901)</b>	<b>1,647,285</b>
<b>Liabilities</b>	<b>1,298,156</b>	<b>5,678</b>	<b>18,317</b>	<b>8,656</b>	<b>9</b>	<b>(35,964)</b>	<b>1,294,852</b>
<b>Other information</b>							
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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 6. Business Segments (Continued)

	<b>Retail Bank \$</b>	<b>Credit Life Insurance \$</b>	<b>Real Estate Holdings \$</b>	<b>Investment Holdings \$</b>	<b>Insurance Agency Operations \$</b>	<b>Eliminations \$</b>	<b>Consolidated \$</b>
<b>December 31, 2016</b>							
<b>Income</b>							
External	152,188	8,215	23	-	-	-	160,426
Internal	6,873	(1,056)	3,796	3,053	1,759	(14,425)	-
<b>Total income</b>	<b>159,061</b>	<b>7,159</b>	<b>3,819</b>	<b>3,053</b>	<b>1,759</b>	<b>(14,425)</b>	<b>160,426</b>
<b>Total profit</b>							
Internal & external	54,219	6,781	1,262	2,701	855	(8,468)	57,350
<b>Assets</b>	<b>1,572,046</b>	<b>52,316</b>	<b>29,789</b>	<b>11,996</b>	<b>2,536</b>	<b>(59,935)</b>	<b>1,608,748</b>
<b>Liabilities</b>	<b>1,276,741</b>	<b>13,413</b>	<b>19,711</b>	<b>7,959</b>	<b>6</b>	<b>(41,939)</b>	<b>1,275,891</b>
<b>Other information</b>							
Interest expense	27,946	-	939	337	-	(1,979)	27,243
Capital additions	2,861	-	1,236	-	-	-	4,097
Depreciation and amortization	2,478	-	583	-	-	-	3,061

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 7. Cash and Cash Equivalents

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

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

### 8. Investments

Investments held to maturity are as follows:

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



# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 8. Investments (Continued)

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

Investments categorized by maturity are as follows:

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Current (due within one year)	77,492	37,242
Non-current (due after one year)	<u>324,096</u>	<u>270,265</u>
	<u>401,588</u>	<u>307,507</u>

### 9. Loans Receivable

Loans receivable is as follows:

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 9. Loans Receivable (Continued)

Loans categorized by maturity are as follows:

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

	2017 \$	2016 \$
Individually assessed impaired loans	<u>13,738</u>	<u>14,031</u>
Collectively assessed impaired loans	66,790	56,730
Collectively assessed incurred but not yet identified loans	<u>1,050,641</u>	<u>1,124,992</u>
	<u>1,117,431</u>	<u>1,181,722</u>
Gross loans and advances	<u>1,131,169</u>	<u>1,195,753</u>
Individually assessed allowances as % of individually assessed impaired loans receivable	50.94%	62.85%
Collectively assessed allowances as % of collectively assessed loans receivable	6.28%	5.45%
Total allowances as % of total loans receivable	6.82%	6.12%

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 9. Loans Receivable (Continued)

Movement in Impairment Allowances:

	Balance at Beginning of year \$	Loans Written off \$	Recoveries \$	Provision for Credit Losses \$	Balance at End of year \$
<b>December 31, 2017</b>					
<b>Individually assessed</b>					
Residential mortgage	8,358	(538)	-	(1,520)	6,300
Business	460	-	-	238	698
	<u>460</u>	<u>-</u>	<u>-</u>	<u>238</u>	<u>698</u>
Total individually assessed	<u>8,818</u>	<u>(538)</u>	<u>-</u>	<u>(1,282)</u>	<u>6,998</u>
<b>Collectively assessed</b>					
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
	<u>1,908</u>	<u>(1,192)</u>	<u>349</u>	<u>2,527</u>	<u>3,592</u>
Total collectively assessed	<u>64,346</u>	<u>(44,401)</u>	<u>12,362</u>	<u>37,895</u>	<u>70,202</u>
<b>Total impairment allowances</b>	<u>73,164</u>	<u>(44,939)</u>	<u>12,362</u>	<u>36,613</u>	<u>77,200</u>
<b>Impairment allowance</b>					
Individually assessed	8,818	(538)	-	(1,282)	6,998
Collectively assessed	36,595	(44,401)	12,362	40,794	45,350
	<u>45,413</u>	<u>(44,939)</u>	<u>12,362</u>	<u>39,512</u>	<u>52,348</u>
Incurred but not yet identified	<u>27,751</u>	<u>-</u>	<u>-</u>	<u>(2,899)</u>	<u>24,852</u>
<b>Total allowances</b>	<u>73,164</u>	<u>(44,939)</u>	<u>12,362</u>	<u>36,613</u>	<u>77,200</u>

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 9. Loans Receivable (Continued)

	Balance at Beginning of year \$	Loans Written off \$	Recoveries \$	Provision for Credit Losses \$	Balance at End of year \$
<b>December 31, 2016</b>					
<b>Individually assessed</b>					
Residential mortgage	5,708	-	-	2,650	8,358
Business	<u>715</u>	<u>-</u>	<u>-</u>	<u>(255)</u>	<u>460</u>
Total individually assessed	<u>6,423</u>	<u>-</u>	<u>-</u>	<u>2,395</u>	<u>8,818</u>
<b>Collectively assessed</b>					
Residential mortgage	14,745	(462)	18	1,191	15,492
Business	743	(320)	-	339	762
Personal	38,470	(32,021)	12,111	27,624	46,184
Credit card	<u>1,392</u>	<u>(891)</u>	<u>514</u>	<u>893</u>	<u>1,908</u>
Total collectively assessed	<u>55,350</u>	<u>(33,694)</u>	<u>12,643</u>	<u>30,047</u>	<u>64,346</u>
<b>Total impairment allowances</b>	<u>61,773</u>	<u>(33,694)</u>	<u>12,643</u>	<u>32,442</u>	<u>73,164</u>
<b>Impairment allowance</b>					
Individually assessed	6,423	-	-	2,395	8,818
Collectively assessed	<u>33,386</u>	<u>(33,694)</u>	<u>12,643</u>	<u>24,260</u>	<u>36,595</u>
	39,809	(33,694)	12,643	26,655	45,413
Incurred but not yet identified	<u>21,964</u>	<u>-</u>	<u>-</u>	<u>5,787</u>	<u>27,751</u>
<b>Total allowances</b>	<u>61,773</u>	<u>(33,694)</u>	<u>12,643</u>	<u>32,442</u>	<u>73,164</u>

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 9. Loans Receivable (Continued)

Impaired loans receivable is as follows:

	Individually Assessed \$	Collectively Assessed \$	Total \$	Individually Assessed Allowance \$	Collectively Assessed Allowance \$	Total Allowances \$	Net Individually Assessed \$	Net Collectively Assessed \$	Total Net \$
<b>December 31, 2017</b>									
Residential mortgage	12,718	25,376	38,094	6,300	15,133	21,433	6,418	10,243	16,661
Business	1,020	1,612	2,632	698	765	1,463	322	847	1,169
Personal	-	37,510	37,510	-	27,160	27,160	-	10,350	10,350
Credit card	-	2,292	2,292	-	2,292	2,292	-	-	-
	<u>13,738</u>	<u>66,790</u>	<u>80,528</u>	<u>6,998</u>	<u>45,350</u>	<u>52,348</u>	<u>6,740</u>	<u>21,440</u>	<u>28,180</u>
Percentage of loan portfolio			7.12 %						
Percentage of total assets			4.89 %						
Percentage of impaired allowance to impaired loans						65.01 %			

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 9. Loans Receivable (Continued)

	Individually Assessed \$	Collectively Assessed \$	Total \$	Individually Assessed Allowance \$	Collectively Assessed Allowance \$	Total Allowance \$	Net Individually Assessed \$	Net Collectively Assessed \$	Total Net \$
<b>December 31, 2016</b>									
Residential mortgage	13,012	26,610	39,622	8,358	14,891	23,249	4,654	11,719	16,373
Business	1,019	1,194	2,213	460	550	1,010	559	644	1,203
Personal	-	27,748	27,748	-	19,977	19,977	-	7,771	7,771
Credit card	-	1,178	1,178	-	1,177	1,177	-	1	1
	<u>14,031</u>	<u>56,730</u>	<u>70,761</u>	<u>8,818</u>	<u>36,595</u>	<u>45,413</u>	<u>5,213</u>	<u>20,135</u>	<u>25,348</u>
Percentage of loan portfolio			5.92 %						
Percentage of total assets			4.40 %						
Percentage of impaired allowance to impaired loans						64.18 %			

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

## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

#### 10. Other Assets

The composition of other assets is as follows:

	2017 \$	2016 \$
Pension asset (Note 22)	11,874	3,513
Prepaid expenses	5,571	3,648
Other	<u>566</u>	<u>155</u>
	<u>18,011</u>	<u>7,316</u>

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

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

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



# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 12. Deposits

The composition of deposits is as follows:

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

Deposits categorized by maturity are as follows:

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

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

### 13. Life Assurance Fund Liability

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

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

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

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

## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

#### 13. Life Assurance Fund Liability (Continued)

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

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

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

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Current (due within one year)	3,187	8,280
Non-current (due after one year)	<u>2,412</u>	<u>4,988</u>
	<b><u>5,599</u></b>	<b><u>13,268</u></b>

## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

#### 13. Life Assurance Fund Liability (Continued)

##### *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:

Scenario	2017									
	Mortality per \$1,000	Lapse Rate	Loan Interest Rate	Expense per Policy \$	Inflation Rate	Initial Interest Rate	Ultimate Interest Rate	Total Reserve \$	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 %

## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

#### 13. Life Assurance Fund Liability (Continued)

*Actuarial Assumption Sensitivities (continued)*

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 14. Other Liabilities

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

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

### 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
			<u>135,000</u>

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 15. Share Capital (Continued)

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
	<b>81,498</b>	<b>-</b>	<b>-</b>	<b>81,498</b>

OUTSTANDING				
2016				
	Beginning of year	Redemptions	Conversion	End of year
	\$	\$	\$	\$
Class E	32,614	-	-	32,614
Class J	9,924	-	-	9,924
Class K	9,999	-	-	9,999
Class L	9,987	-	-	9,987
Class M	8,974	-	-	8,974
Class N	10,000	-	-	10,000
	<b>81,498</b>	<b>-</b>	<b>-</b>	<b>81,498</b>

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

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 15. Share Capital (Continued)

#### Common Shares:

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

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

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

## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

#### 16. Earnings Per Share

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

#### 17. General Reserve

The general reserve is non-distributable and was created with a \$10 million allocation from retained earnings in 2003 to allow the Bank to address unusual issues or distress situations should they occur. In 2007, the Bank increased the general reserve by \$0.5 million to further allow for the potential impact of hurricanes.

#### 18. Employee Share Based Payment Plans

##### *Stock Option Plan*

On May 16, 2007, the shareholders approved an employee stock option plan (the "Plan") of 2 million shares for designated officers and management staff. The number of shares included in the plan is amended each time there is a stock split (Note 15). Currently, there are 18 million shares approved under the plan.

The main details of the new plan are as follows:

- a. Options will be granted annually to participants at the prevailing market price on the date of the grant.
- b. Options vest on a straight-line basis over a three year period.
- c. Vested options expire one year after the date of vesting.
- d. Options may only be exercised while in the employment of the Bank or subsidiary or affiliated companies unless otherwise approved by the Board.



# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 18. Employee Share Based Payment Plans (Continued)

#### *Stock Option Plan (continued)*

- 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 recognized expenses of \$Nil (2016: \$Nil) related to this equity settled share based payment plan during the year.

#### *Other share based payment plan*

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

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

### 19. Fees and Other Income

Fees and other income is as follows:

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

## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

#### 20. General and Administrative Expenses

General and administrative expenses is as follows:

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

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

#### 21. Related Party Balances and Transactions

Related parties include:

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

## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

#### 21. Related Party Balances and Transactions (Continued)

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

	<b>2017</b>		
	<b>Key Management Personnel</b>	<b>Other Related Party</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Loans receivable	5,970	29	5,999
Deposits	271,454	5,621	277,075
Other liabilities	108	-	108
Interest income	338	15	353
Interest expense	8,236	155	8,391
General and administrative expenses	1,005	-	1,005
Commitments under revolving credit lines	2,280	3,057	5,337

	<b>2016</b>		
	<b>Key Management Personnel</b>	<b>Other Related Party</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Loans receivable	7,371	16	7,387
Deposits	254,721	6,904	261,625
Other liabilities	255	-	255
Interest income	442	84	526
Interest expense	8,307	373	8,680
General and administrative expenses	810	-	810
Commitments under revolving credit lines	1,176	3,057	4,233

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

## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

#### 21. Related Party Balances and Transactions (Continued)

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

##### *Compensation of Key Management Personnel*

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

	2017	2016
	\$	\$
Short term benefits	6,758	7,309
Post employment benefits	471	442
	<u>7,229</u>	<u>7,751</u>

##### *Purchase of Shares by Subsidiary*

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

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

#### 22. Bank Pension Scheme

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

##### *DB Provisions*

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

## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

#### 22. Bank Pension Scheme (Continued)

##### *DB Provisions (continued)*

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

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

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

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 22. Bank Pension Scheme (Continued)

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:

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	25,901	20,685
Interest income	1,160	1,165
Actual return on plan assets	2,472	1,265
Administrative costs	(80)	(152)
Employer contributions	511	3,829
Participant contributions	92	94
Benefits paid	(626)	(216)
Withdrawals from plan	(393)	(597)
Settlement payments	-	(172)
	<hr/>	<hr/>
<b>Fair value of plan assets at end of year</b>	<b>29,037</b>	<b>25,901</b>
	<hr/>	<hr/>
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Change in defined benefit obligation:		
Benefit obligation at beginning of year	26,953	24,012
Current employer service costs	459	397
Participant contributions	92	94
Interest cost	1,197	1,183
Withdrawals from plan	(393)	(597)
Benefits paid	(626)	(216)
Experience adjustment	-	172
Settlement payments	-	(172)
Changes in financial assumptions	(2,100)	2,080
	<hr/>	<hr/>
<b>Benefit obligation at end of year</b>	<b>25,582</b>	<b>26,953</b>
	<hr/>	<hr/>

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 22. Bank Pension Scheme (Continued)

	2017 \$	2016 \$
Benefit obligation at end of year	25,582	26,953
Fair value of plan assets at end of year	<u>(29,037)</u>	<u>(25,901)</u>
Net defined benefit (asset) liability	<u><b>(3,455)</b></u>	<u><b>1,052</b></u>
Net defined benefit (asset) liability:		
Balance at beginning of year	1,052	3,327
Defined benefit included in profit or loss	646	530
Remeasurement included in other comprehensive income	(4,642)	1,024
Employer contributions	<u>(511)</u>	<u>(3,829)</u>
Balance at end of year	<u><b>(3,455)</b></u>	<u><b>1,052</b></u>
Components of defined benefit costs:		
Current employer service costs	459	397
Interest costs on defined benefit obligation	1,197	1,183
Interest income on plan assets	(1,160)	(1,165)
Administrative costs	<u>150</u>	<u>115</u>
Pension benefit expense included in staff costs	<u><b>646</b></u>	<u><b>530</b></u>
Components of remeasurements:		
Changes in financial assumptions	(2,100)	2,080
Experience adjustments	-	172
Return on plan assets excluding interest income	<u>(2,542)</u>	<u>(1,228)</u>
Remeasurements included in other comprehensive income	<u><b>(4,642)</b></u>	<u><b>1,024</b></u>
Weighted-average assumptions to determine defined benefit obligations:		
Discount rate	5.00 %	4.50 %
Rate of pension increases	1.00 %	1.00 %
Rate of increase in future compensation	3.50 %	3.50 %
Mortality Table	Up 1994 Fully generational	UP 1994 Fully generational

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 22. Bank Pension Scheme (Continued)

Weighted-average assumptions to determine defined benefit cost:

Discount rate	4.50 %	5.00 %
Rate of pension increases	1.00 %	1.00 %
Rate of increase in future compensation	3.50 %	3.50 %
Mortality Table	Up 1994 Fully generational	UP 1994 Fully generational

Actuarial assumption sensitivities:

The discount rate is sensitive to changes in market conditions arising during the reporting period.

The results of a 25 basis points increase or decrease over the financial assumptions used in the measurement of the defined benefit obligation and defined benefit expense are summarized in the table below:

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

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



## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

#### 22. Bank Pension Scheme (Continued)

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

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

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

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

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

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

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Balance at banks	1,560	3,017
Equity instruments	11,570	9,078
Government bonds	11,009	10,622
Other debt instruments	1,882	69
Preferred equity	3,085	3,204
Liabilities	(69)	(89)
<b>Fair value of plan assets</b>	<b><u>29,037</u></b>	<b><u>25,901</u></b>

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 22. Bank Pension Scheme (Continued)

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

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

	2017 \$	2016 \$
Deposits	<u>1,177</u>	<u>2,867</u>
Interest expense	<u>51</u>	<u>91</u>

### DC Provisions

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

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

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

	2017 \$	2016 \$
Pension expense included in staff costs	<u>1,576</u>	<u>1,492</u>

## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

#### 22. Bank Pension Scheme (Continued)

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

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

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

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

	<b>2017</b>	<b>2016</b>
	\$	\$
DB Provisions	4,642	(1,005)
DC Provisions – Guaranteed Investment Contract	<u>4,906</u>	<u>3,513</u>
	<b><u>9,548</u></b>	<b><u>2,508</u></b>

#### 23. Commitments and Contingencies

##### *Loan commitments*

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

	<b>2017</b>	<b>2016</b>
	\$	\$
Mortgage commitments	7,357	9,200
Revolving credit lines	<u>30,008</u>	<u>31,946</u>
	<b><u>37,365</u></b>	<b><u>41,146</u></b>

## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

#### 23. Commitments and Contingencies (Continued)

##### *Loan commitments (continued)*

Revolving credit lines are undrawn lending facilities that have been approved by the Bank to meet the requirements of customers. They are revocable at the Bank's discretion. The amount shown represents the maximum amount of additional credit that the Bank could be obligated to extend.

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

##### *Capital commitments*

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

##### *Lease commitments*

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

Year	2017 \$	2016 \$
2017	-	562
2018	554	413
2019	534	393
2020	165	36
2021	-	-
	<u>1,253</u>	<u>1,404</u>

##### *Lines of Credit*

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 23. Commitments and Contingencies

#### *Letters of Credit*

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

#### *Other contingent liabilities*

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

### 24. Risk Management

#### (a) *Capital management*

The Group manages its capital to ensure that it has a strong capital base to support the development of its business. The capital maintained exceeds regulatory capital requirements. The Group maximizes the return to shareholders through optimization of its debt and equity balance. The Group's risk management structure promotes making sound business decisions by balancing risk and reward. It promotes revenue generating activities that are consistent with the Group's risk appetite, the Bank's policies and the maximization of shareholder return.

The capital structure of the Bank consists of preference shares and equity attributable to the common equity holders of the Bank, comprising issued capital, general reserves, share premium and retained earnings as disclosed in Notes 15 and 17. The Board Executive Committee reviews the capital structure at least annually. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the committee the Bank manages its capital structure through the payment of dividends, new share issues, (common or preference) and the redemption of preference shares.

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

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 24. Risk Management (Continued)

#### (a) *Capital management (continued)*

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

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

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

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

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

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

## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

#### 24. Risk Management (Continued)

##### (b) *Interest rate risk*

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

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

##### *Interest Rate Sensitivity*

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

## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements December 31, 2017 (Continued)

#### 24. Risk Management (Continued)

##### (b) *Interest rate risk (continued)*

##### *Interest Rate Sensitivity (continued)*

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



## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements December 31, 2017 (Continued)

#### 24. Risk Management (Continued)

##### (b) *Interest rate risk (continued)*

##### *Interest Rate Sensitivity (continued)*

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

## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

#### 24. Risk Management (Continued)

##### (c) *Credit risk*

Credit and counterparty risk is the potential for loss due to the failure of a borrower, endorser, guarantor or counterparty to repay a loan or honour a financial obligation. This is the most significant measurable risk the Bank faces.

The Bank's credit policies are designed to maximize the risk/return trade off. The Bank's credit policies including authorized lending limits are based on a segregation of authority and centralized management approval with periodic independent review by the Bank's Internal Audit department. Consumer credit is assessed and authorized in branches within credit policies established by the Bank. Credit scoring systems are used to ensure these policies are consistently applied across the Bank. A key factor in the Bank managing and constraining its credit risk exposure is the close review and follow up of its credit portfolios to quickly identify indications of potential failure to perform according to the terms of the contract and to take the appropriate steps to maintain or restore these accounts to performing according to the terms of the contracts.

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

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

##### *Maximum Exposure to Credit Risk*

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

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 24. Risk Management (Continued)

#### (c) Credit risk (continued)

#### *Maximum Exposure to Credit Risk (continued)*

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

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

	2017		
	Original contract \$	Restructured \$	Total \$
<b>Cash and deposit with banks &amp; Balances with The Central Bank of The Bahamas</b>			
Neither past due or impaired	128,899	-	128,899
Past due but not impaired	-	-	-
Impaired	-	-	-
	<b>128,899</b>	<b>-</b>	<b>128,899</b>
<b>Investments</b>			
Neither past due or impaired	401,588	-	401,588
Past due but not impaired	-	-	-
Impaired	-	-	-
	<b>401,588</b>	<b>-</b>	<b>401,588</b>
<b>Loans receivable</b>			
Neither past due or impaired	834,557	68,859	903,416
Past due but not impaired	99,714	47,511	147,225
Impaired	57,772	22,756	80,528
	<b>992,043</b>	<b>139,126</b>	<b>1,131,169</b>

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 24. Risk Management (Continued)

#### (c) Credit risk (continued)

#### *Maximum Exposure to Credit Risk (continued)*

	2016		
	Original contract \$	Restructured \$	Total \$
<b>Cash and deposit with banks &amp; Balances with The Central Bank of The Bahamas</b>			
Neither past due or impaired	125,322	-	125,322
Past due but not impaired	-	-	-
Impaired	-	-	-
	<u>125,322</u>	<u>-</u>	<u>125,322</u>
<b>Investments</b>			
Neither past due or impaired	307,507	-	307,507
Past due but not impaired	-	-	-
Impaired	-	-	-
	<u>307,507</u>	<u>-</u>	<u>307,507</u>
<b>Loans receivable</b>			
Neither past due or impaired	928,588	76,370	1,004,958
Past due but not impaired	86,014	34,020	120,034
Impaired	51,237	19,524	70,761
	<u>1,065,839</u>	<u>129,914</u>	<u>1,195,753</u>

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

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 24. Risk Management (Continued)

#### (c) Credit risk (continued)

#### *Maximum Exposure to Credit Risk (continued)*

The credit quality of loans receivable is shown in the following table:

	2017		
	Original contract \$	Restructured \$	Total \$
<b>Loans receivable</b>			
<b>Residential mortgage</b>			
Neither past due or impaired	107,053	20,002	127,055
Past due but not impaired	25,200	20,873	46,073
Impaired	21,619	16,475	38,094
	<u>153,872</u>	<u>57,350</u>	<u>211,222</u>
<b>Business</b>			
Neither past due or impaired	17,397	866	18,263
Past due but not impaired	7,326	3,062	10,388
Impaired	2,311	321	2,632
	<u>27,034</u>	<u>4,249</u>	<u>31,283</u>
<b>Personal</b>			
Neither past due or impaired	672,299	47,991	720,290
Past due but not impaired	58,994	23,576	82,570
Impaired	31,550	5,960	37,510
	<u>762,843</u>	<u>77,527</u>	<u>840,370</u>
<b>Credit card</b>			
Neither past due or impaired	27,808	-	27,808
Past due but not impaired	8,194	-	8,194
Impaired	2,292	-	2,292
	<u>38,294</u>	<u>-</u>	<u>38,294</u>
<b>Government</b>			
Neither past due or impaired	10,000	-	10,000
Past due but not impaired	-	-	-
Impaired	-	-	-
	<u>10,000</u>	<u>-</u>	<u>10,000</u>
	<u>992,043</u>	<u>139,126</u>	<u>1,131,169</u>

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 24. Risk Management (Continued)

#### (c) Credit risk (continued)

#### *Maximum Exposure to Credit Risk (continued)*

The credit quality of loans receivable is shown in the following table:

	2016		
	Original contract \$	Restructured \$	Total \$
<b>Loans receivable</b>			
<b>Residential mortgage</b>			
Neither past due or impaired	120,021	24,537	144,558
Past due but not impaired	27,492	16,743	44,235
Impaired	24,491	15,131	39,622
	<u><b>172,004</b></u>	<u><b>56,411</b></u>	<u><b>228,415</b></u>
<b>Business</b>			
Neither past due or impaired	23,541	2,792	26,333
Past due but not impaired	4,862	1,036	5,898
Impaired	1,782	431	2,213
	<u><b>30,185</b></u>	<u><b>4,259</b></u>	<u><b>34,444</b></u>
<b>Personal</b>			
Neither past due or impaired	740,608	49,041	789,649
Past due but not impaired	47,767	16,241	64,008
Impaired	23,786	3,962	27,748
	<u><b>812,161</b></u>	<u><b>69,244</b></u>	<u><b>881,405</b></u>
<b>Credit card</b>			
Neither past due or impaired	29,418	-	29,418
Past due but not impaired	5,893	-	5,893
Impaired	1,178	-	1,178
	<u><b>36,489</b></u>	<u><b>-</b></u>	<u><b>36,489</b></u>
<b>Government</b>			
Neither past due or impaired	15,000	-	15,000
Past due but not impaired	-	-	-
Impaired	-	-	-
	<u><b>15,000</b></u>	<u><b>-</b></u>	<u><b>15,000</b></u>
	<u><b>1,065,839</b></u>	<u><b>129,914</b></u>	<u><b>1,195,753</b></u>

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 24. Risk Management (Continued)

#### (c) Credit risk (continued)

##### *Maximum Exposure to Credit Risk (continued)*

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

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

	2017 \$	2016 \$
Satisfactory risk	895,285	998,878
Watch list	<u>8,131</u>	<u>6,080</u>
	<u><b>903,416</b></u>	<u><b>1,004,958</b></u>

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

December 31, 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	<u>2,534</u>	<u>3,032</u>	<u>10,253</u>	<u>1,040</u>	<u>16,859</u>
	<u><b>46,073</b></u>	<u><b>10,388</b></u>	<u><b>82,570</b></u>	<u><b>8,194</b></u>	<u><b>147,225</b></u>

December 31, 2016	Residential mortgage \$	Business \$	Personal \$	Credit card \$	Total \$
Past due up to 29 days	34,697	4,785	47,150	4,526	91,158
Past due 30 – 59 days	4,727	399	10,524	881	16,531
Past due 60 – 89 days	<u>4,811</u>	<u>714</u>	<u>6,334</u>	<u>486</u>	<u>12,345</u>
	<u><b>44,235</b></u>	<u><b>5,898</b></u>	<u><b>64,008</b></u>	<u><b>5,893</b></u>	<u><b>120,034</b></u>

# Commonwealth Bank Limited

## Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

### 24. Risk Management (Continued)

#### (c) *Credit risk (continued)*

##### *Restructured loans*

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

##### *Loans receivable collateral*

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

The principal collateral types are as follows:

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



## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

#### 24. Risk Management (Continued)

##### (d) *Liquidity risk*

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

The Group manages liquidity and funding risk by ensuring that sufficient liquid assets and funding capacity are available to meet financial commitments, even in times of stress. The Directors' Executive Committee oversees the Group's liquidity and funding risk management framework which includes operating within clearly defined Board limits, regulatory liquidity requirements and strong effective processes to monitor and manage risk, including contingency plans to facilitate managing through a distress situation. Standby lines of credit which are a part of the contingency plan and are disclosed in Note 23.

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

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

## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

#### 24. Risk Management (Continued)

##### (d) *Liquidity risk (continued)*

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

## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

#### 24. Risk Management (Continued)

##### (d) *Liquidity risk (continued)*

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

## Commonwealth Bank Limited

### Notes to the Consolidated Financial Statements

December 31, 2017

(Continued)

#### 24. Risk Management (Continued)

##### (e) *Insurance risk*

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

*Policies written up to 2016:*

Auto loans - Maximum of \$10,000 or net indebtedness to Bank

All other loans - Maximum of \$20,000 or net indebtedness to Bank

*Policies written after 2016:*

All loans - Maximum of \$70,000 or net indebtedness to Bank

##### (f) *Currency risk*

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

## **Commonwealth Bank Limited**

### **Notes to the Consolidated Financial Statements**

**December 31, 2017**

**(Continued)**

#### **24. Risk Management (Continued)**

##### **(g) *Operational risk***

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

#### **25. Subsequent Event**

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