

INDEPENDENT AUDITORS' REPORT



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

Telephone +1 242 393 2007  
Fax: +1 242 393 1772  
kpmg.com.bs

To the Shareholders of Commonwealth Bank Limited

Report on the Audit of the Consolidated Financial Statements

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

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

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of Matter - comparative information**

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

**Other Matter relating to comparative information**

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

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

**Key Audit Matters**

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

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

The Risk	Our Response
<p>On January 1, 2018 a new accounting standard for financial instruments ("IFRS 9") became effective, which requires impairment to be calculated based on expected credit losses ("ECLs"), rather than the incurred loss model previously applied under IAS 39.</p> <p>As at December 31, 2018, Loans comprise a major portion of the Group's assets, with total gross Loans amounting to \$1.067 billion and the related impairment allowance amounting to \$74.8 million.</p> <p>Impairment of Loans was considered to be a key audit area primarily for the following reasons:</p> <ul style="list-style-type: none"> <li>IFRS 9 is a new and complex accounting standard which requires significant judgment to determine both the timing and measurement of impairment losses.</li> <li>The determination of expected credit loss allowances is highly subjective and judgemental. Small changes in key assumptions may result in material differences in the Group's consolidated financial statements. Key judgments and estimates in respect of the timing and measurement of ECLs include:                     <ul style="list-style-type: none"> <li>The interpretation of the requirements to determine impairment under IFRS 9, which are reflected in the Group's ECL model;</li> <li>The identification of exposures with a significant deterioration in credit quality;</li> <li>The allocation of Loans to stages 1, 2 and 3 using criteria in accordance with IFRS 9;</li> <li>Modelling assumptions used to build the ECL model;</li> <li>Completeness and accuracy of data used to calculate the ECL; and</li> <li>Accuracy and adequacy of related financial statement disclosures.</li> </ul> </li> </ul>	<p>In assessing the impairment losses on Loans, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>Obtained an overall understanding of the Group's methodology to determine the impairment allowance under the newly implemented IFRS 9.</li> <li>Obtained an understanding of the Group's key credit processes and related controls, including granting, recording, monitoring and ECL provisioning.</li> <li>Assessed and tested key modelling assumptions used in the ECL model used by management to calculate the impairment allowance;</li> <li>Involved our internal specialists in testing the assumptions, inputs and formulas used in the ECL model. This included assessing the model's arithmetic accuracy and consistency with the requirements of IFRS 9.</li> <li>Tested the completeness and accuracy of key data inputs sourced from underlying systems that are applied in the calculation of the impairment allowance. We tested the reconciliation of Loans between the underlying source systems and the ECL models.</li> <li>Recalculated the risk ratings for a sample of Loans to assess if they were appropriately allocated to the relevant stage, (i.e. stages 1, 2 and 3).</li> <li>As IFRS 9 was adopted at the start of the 2018 fiscal year, we evaluated related opening balances to gain assurance on the transition to IFRS 9. This included testing related adjustments and disclosures made on the transition in compliance with IFRSs.</li> </ul>

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

The Risk	Our Response
<p>Other assets in the consolidated statement of financial position as at December 31, 2018, includes a net defined benefit asset of \$4.627 million, pertaining to the Defined Benefit Provision relating to the pension plan operated by the Group, consisting of the excess of the fair value of the plan assets over the present value of the related obligation.</p> <p>The obligation from the defined benefit pension plan is measured in accordance with the projected credit unit method as required by IAS 19 with related key assumptions including long term salary growths, discount rates, increase in pensionable earnings, increase in employee contributions, post retirement pension increases, mortality rate and withdrawal rate.</p> <p>This is considered to be a key audit area because the pension obligation is based on management's subjective assumptions. Small changes in the key assumptions may result in material differences in the pension obligation and consequently, the net defined benefit asset or liability.</p>	<p>In assessing this key audit area, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>Obtained an understanding of the defined benefit plan by reviewing related contractual documents.</li> <li>On a sample basis, tested existence of members and the accuracy of attributes of those members in the pension plan.</li> <li>Assessed and evaluated the independence and competency of the actuary used by management to calculate the defined benefit obligation.</li> <li>Involved our internal specialist in evaluating the actuary's report, appropriateness of the valuation methodology and key assumptions used for consistency with IAS 19.</li> <li>Tested completeness and accuracy of numerical inputs used in estimating the pension obligation.</li> </ul>

**Other information**

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

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

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

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

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

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

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

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is John Lopez.

KPMG  
Nassau, Bahamas  
March 22, 2019

COMMONWEALTH BANK LIMITED  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2018, with corresponding figures as of December 31, 2017 and January 1, 2017  
(Expressed in Bahamian \$'000s)

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

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

  
Executive Chairman

  
President

COMMONWEALTH BANK LIMITED  
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME

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

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

**Basis of preparation**

The accompanying consolidated financial information is an extract from the consolidated financial statements of Commonwealth Bank Limited as at December 31, 2018 and for the year then ended, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and is used to submit to the Group's regulators.

COMMONWEALTH BANK LIMITED  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	2018					
	Share Capital (Common)	Share Capital (Preference)	Share Premium	General Reserve	Retained Earnings	Total
<b>As at December 31, 2017 - Restated</b>	\$ 1,946	\$ 81,498	\$ 19,195	\$ 10,500	\$ 242,547	\$ 355,686
IFRS 9 transition adjustment	-	-	-	-	(115)	(115)
<b>As at January 1, 2018 - Restated</b>	\$ 1,946	\$ 81,498	\$ 19,195	\$ 10,500	\$ 242,432	\$ 355,571
<b>Comprehensive Income</b>						
Total profit					51,939	51,939
Remeasurement gain of defined benefit obligation	-	-	-	-	(299)	(299)
<b>Transaction with owners</b>					51,640	51,640
Repurchase of common shares	(3)		(1,997)			(2,000)
Dividends - common shares					(35,000)	(35,000)
Dividends - preference shares					(4,692)	(4,692)
	(3)		(1,997)		(39,692)	(41,692)
<b>As at December 31, 2018</b>	<b>\$ 1,943</b>	<b>\$ 81,498</b>	<b>\$ 17,198</b>	<b>\$ 10,500</b>	<b>\$ 254,380</b>	<b>\$ 365,519</b>
Dividends per common share (expressed in dollars)	\$ 0.12					
<b>2017</b>						
<b>As at January 1, 2017</b>	\$ 1,947	\$ 81,498	\$ 19,516	\$ 10,500	\$ 219,396	\$ 332,857
Restatement adjustment	-	-	-	-	2,195	2,195
<b>As at January 1, 2017 - Restated</b>	<b>\$ 1,947</b>	<b>\$ 81,498</b>	<b>\$ 19,516</b>	<b>\$ 10,500</b>	<b>\$ 221,591</b>	<b>\$ 335,052</b>
<b>Comprehensive Income</b>						
Total profit - Restated					51,134	51,134
Remeasurement gain of defined benefit obligation	-	-	-	-	9,548	9,548
	-	-	-	-	60,682	60,682
<b>Transaction with owners</b>						
Repurchase of common shares	(1)		(321)			(322)
Dividends - common shares					(35,034)	(35,034)
Dividends - preference shares					(4,692)	(4,692)
	(1)		(321)		(39,726)	(40,048)
<b>As at December 31, 2017 - Restated</b>	<b>\$ 1,946</b>	<b>\$ 81,498</b>	<b>\$ 19,195</b>	<b>\$ 10,500</b>	<b>\$ 242,547</b>	<b>\$ 355,686</b>
Dividends per common share (expressed in dollars)	\$ 0.12					

COMMONWEALTH BANK LIMITED  
CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

The auditors' report included herewith should be read in conjunction with the full set of consolidated financial statements, which can be obtained from Commonwealth Bank Limited's website [www.combankttd.com](http://www.combankttd.com).

